International Human Resource Management

edited by
Anne-Wil Harzing &
Joris Van Ruysseveldt

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second edition

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Contents

Acknowledgements

So much has changed since the 1st edition. We cannot even begin to encompass the changes which have occurred in our now 'globalized' world. However, the nature of academic work has also changed considerably since the 1st edition of this book was published in 1995. Internet access and email have transformed our daily working lives. Internet access means having information at our fingertips. However, it also means an increasing challenge in assessing the relevance of all this information. The contributors of this book have done an excellent job in sifting the wheat from the chaff. The use of email has made it much easier to communicate with authors. While for the 1st edition, much of our editorial work was done via fax or even personal meetings with the chapter authors, the current edition was based on email contact alone (a lot of it!). This has made it possible to involve authors from a far wider range of countries than before.

Much has stayed the same as well. First, our philosophy that the book be developed as a research-based textbook has remained constant. The book reflects the characteristics of the transnational MNC in that we think it combines the benefits of knowledge transfer (authors who are experts in their field), integration (a coherent textbook) and local responsiveness (authors from many different countries as well as chapters specific to Asia, Europe and Africa).

What never changes is the fact that for such an undertaking many people deserve acknowledgements. First of all we would like to thank Arndt Sorge for encouraging us to embark on a 2nd edition. If he had not spoken so convincingly about our duty to the field, this 2nd edition may never have materialized. Second, we owe a big vote of thanks to our authors. Given the scale of the task of coordinating the editing of 18 chapters from around the globe, Anne-Wil would particularly like to acknowledge their wonderful responsiveness to the repeated requests for text revision. Their cooperation in working within the deadlines made the job so much easier. Anne-Wil's research assistant, Sheila Gowans, performed her job as proofreader with a perfect blend of commitment and conscientiousness.

At Sage, Kiren Shoman was the first to believe in the book and convinced the Sage board of the need for a 2nd edition. She was later joined by Keith Von Tersch and together they made a perfect team. Seth Edwards then ensured that the book moved through the production process smoothly, while Ben Sherwood took care of the all important promotion of the book.

Anne-Wil Harzing
Joris Van Ruysseveldt

Foreword by Nancy J. Adler[1]

> Which is farther, the sun at sunrise or the sun at noon? The first sage argued, 'At sunrise, of course, the sun is closest when it is largest.' The second sage vehemently disagreed, 'No, at noon, of course! The sun is closest when it's warmest.' Unable to resolve the dilemma, the two sages turned to Confucius.com for help. Feeling the sun's fading warmth as it lowered itself into a blazing sunset, Confucius remained silent.[2]

Myth, misinformation, and silence have pervaded the field of international human resource management (HRM) since its inception.[3] Understanding the dynamics of people in organizations has always been challenging. However, never prior to the twenty-first century has the intensity of globalization interacted so profoundly with organizations and the people who lead them and work in them. To understand the challenges of twenty-first century organizational efficacy is to address the myriad of dilemmas facing people who constantly work outside their native country with people from wider and wider ranges of the world's cultures.

Can we allow ourselves to continue to be guided by myth, misinformation, and silence? No. Do we, as scholars, researchers, and executives, know how to resolve the human dilemmas posed by extremely high levels of global interaction? No, not yet. Do we need to know? Yes. In *International Human Resource Management,* the editors have brought together an eminent group of scholars from around the world to report on state-of-the-art international HRM research. Unlike Confucius, they have chosen not to remain silent in the face of dilemmas that were heretofore unresolvable. They offer research results and recommendations that can and should guide our scholarly and executive appreciation of global diversity and its impact on human system functioning. The book includes macro strategic perspectives along with micro individual-level

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[1]Nancy J. Adler is a professor of international management at McGill University, Montreal, Canada.

[2]Based on an ancient Chinese wisdom story as edited by Nancy J. Adler and Lew Yung-Chien while artists in residence at the Banff Centre for the Arts, 2002.

[3]For an in-depth discussion of the patterns of myths and errors undermining the field, see A.W.K. Harzing's 'The Role of Culture in Entry Mode Studies: From Negligence to Myopia?' in *Advances in International Management*, Vol. 15, 2003, pp. 75–127; A.W.K. Harzing's 'Are Our Referencing Errors Undermining our Scholarship and Credibility? The Case of Expatriate Failure Rates,' *Journal of Organizational Behavior*, Vol. 23, February, 2002, pp. 127–148; and A.W.K Harzing's 'The Persistent Myth of High Expatriate Failure Rates,' *The International Journal of Human Resource Management*, May 1995, pp. 457–475.

perspectives. It encompasses perspectives from Asia, Europe, and the Americas. It takes in the point-of-view of management and labour. Whereas neither this book nor any book can answer all our questions about people working globally, *International Human Resource Management* goes a long way in separating myth and misinformation from research-based fact. It fills some of the field's silence with perceptive dialogue. It is a book well worth reading.

Contributor Biographies

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Professor of International Human Resource Management at Henley Management College, UK. He had substantial experience in trade unions, Government, specialist journals, personnel management in construction and air transport, and consultancy, before becoming an academic. Chris has consulted and taught on management programmes throughout the world and is a frequent international conference speaker. He has conducted extensive research in the field of international and comparative HRM; written some dozen books and over a hundred articles. In 2002 Chris Brewster was awarded the Georges Petitpas Memorial Award by the practitioner body, the World Federation of Personnel Management Associations, in recognition of his outstanding contribution to international human resource management.

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Lecturer in International Management, Cranfield University, School of Management, UK. Christine has the ability to enthuse people with her passion for supporting individuals and organizations in the process of internationalization. She has developed a unique approach to personal, managerial and organizational development, with a strong focus on intercultural awareness. Her early work experience was in France and Germany and encompassed various industry sectors (petro-chemicals, mobile telephony and electricity distribution). She then moved to the UK to complete a Doctorate examining the impact of national culture on managerial behaviour. Christine built on her doctoral specialization to become the youngest Faculty member at Cranfield School of Management, teaching on the MBA, Doctorate and Executive programmes.

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Lecturer in Comparative Management at King's College, London. His research is in the area of employment relations in MNCs. One of the themes of this research is the diffusion of employment practices across borders within MNCs, with a specific focus on the process of 'reverse diffusion' in which practices are diffused from foreign subsidiaries back to the domestic operations of MNCs. Currently he is working on two projects, one of which is concerned with the 'country of origin' effect in American MNCs in the UK, while the other is concerned with the management of employment relations following a cross-border merger or acquisition.

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Senior Lecturer in the Department of Management at Monash University. She was awarded her PhD on expatriate performance management by the University of Melbourne. She has published journal articles and book chapters in the areas of international human resource management and international management. Marilyn convenes a special interest group in International HRM for the Australian Human Resources Institute in Victoria. Her research interests concern: non-standard and virtual international assignments; human resources development and performance management in multinationals; strategic HRM in international inter-organizational networks and international non-profit organizations.

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Anne-Wil Harzing
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Recently joined the International Management Department of the Faculty of Business Administration at Simon Fraser University in Canada. Mila's primary research interests are in the area of international human resource management and, more specifically, management of global assignees. Her recent research has been focused on issues related to retention upon repatriation and the changing notions of international careers. She has also done research on other related topics such as cross-cultural adjustment and the expatriate experience of female assignees. Mila has published in the *Journal of International Human Resource Management* and the *Journal of World Business* and her work has been presented at conferences in North America and Europe.

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Professor of Industrial Relations and Director of the Industrial Relations Research Unit at Warwick Business School, University of Warwick. He has

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Mark E. Mendenhall
Holds the J. Burton Frierson Chair of Excellence in Business Leadership at the University of Tennessee, Chattanooga. He is past president of the International Division of the Academy of Management, and has authored numerous journal articles in international human resource management. His most recent book is *Developing Global Business Leaders: Policies, Processes, and Innovations* (Quorum Books).

Jaap Paauwe
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Keith Sisson
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Abbreviations

APEC	Asia Pacific Economic Cooperation
CCC	Chinese Culture Connection
CCP	Chinese Communist Party
CCT	Cross-Cultural Training
CEE	Central and Eastern Europe
CFL	Chinese Federation of Labour (Taiwan)
COEs	Collective-owned Enterprises
CSAs	Country-specific Advantages
DPEs	Domestic Private Enterprises
ECB	European Central Bank
EEA	European Economic Area
EEC	European Economic Community
EMU	Economic and Monetary Union
ETUC	European Trade Union Confederation
EU	European Union
EWC	European Works Council
FDI	Foreign Direct Investment
FOEs	Foreign-owned Enterprises
FSAs	Firm-specific Advantages
HCN	Host Country National
HQ	Headquarters
HR	Human Resources
HRD	Human Resource Development
HRM	Human Resource Management
IHRM	International Human Resource Management
IR	Industrial Relations
JVs	Joint Ventures
KMT	Kumintang (Nationalist Party in Taiwan)
LDCs	Less Developed Countries
LEs	Large-sized Enterprises
M&A	Mergers and Acquisitions
MNCs	Multinational Corporations
MOL	Ministry of Labour (Japan)
NAFTA	North American Free Trade Agreement
OJT	on the job training
PCN	Parent Country National
PRC	People's Republic of China
QCC	Quality Control Circles

SHRM	Strategic Human Resource Management
SIRHM	Strategic International Human Resource Management
SMEs	Small- and Medium-sized Enterprises
SOEs	State-owned Enterprises
TCN	Third Country National
TQM	Total Quality Management
UNICE	Union of Industrial and Employers' Confederations of Europe
VFTU	Vietnam Federation of Trade Unions
WTO	World Trade Organization

Introduction

WHAT MAKES THIS BOOK DIFFERENT?

This book provides a comprehensive, research-based, integrated and international perspective of the consequences of internationalization for the management of people across borders. The book's *comprehensiveness* is evidenced by its wide coverage. Although we will pay due attention to expatriate management in this book, we will also look at the role of HRM in internationalization, the link between strategy, structure and HRM in multinational companies (MNCs) and the role of HRM in mergers and acquisitions. In addition, a discussion of comparative HRM, which focuses on the extent to which HRM differs between countries and the underlying reasons for these differences, will form a major part of this book. Finally, the book offers a detailed treatment of the collective aspects of the employment relation by looking at industrial relations from an international and comparative perspective.

A second distinctive feature of this book is its *solid research base*. All chapters have been specifically commissioned for this book and all authors are experts and active researchers in their respective fields. Rather than having a final chapter with 'recent developments and challenges in IHRM', we have given all authors the clear brief to supplement classic theories and models with cutting-edge research and developments. The chapter on cross-cultural training for instance includes a discussion on recent development in electronic CCT and in many chapters over two thirds of the references are less than five years old.

Although the book consists of 18 chapters written by a total of 23 authors, it has been very carefully edited to provide an *integrated perspective*. Even though the book is research-based, it is *not* a disparate collection of research essays. All chapters are part of a carefully constructed framework and together provide a coherent picture of the field of International HRM.

A fourth and final distinctive characteristic of this book is that it is truly international, both in its outlook and in its author base. Authors use examples from all over the world and their research base extends beyond the traditional American research literature. Although many authors are currently working at American or British universities, virtually all have extensive international experience and their countries of origin include: the Netherlands (2 authors), France (2 authors), Germany (2 authors), Bulgaria, Slovakia, Pakistan, Australia and China.

WHO IS THIS BOOK FOR?

As a textbook this book will appeal to advanced undergraduate students and Master's students wanting a comprehensive and integrated treatment of International HRM that includes the most recent theoretical developments. As a research book, it provides PhD students and other researchers with a very good introduction to the field and an extensive list of references that will allow them to get an up-to-date overview of the area. Finally, practitioners looking for solutions to their international HR problems might find some useful frameworks in Parts 1 and 3, while the chapters in Parts 2 and 4 will allow them to get a better understanding of country differences in managing people.

WHAT IS NEW IN THE 2ND EDITION?

The underlying philosophy of this book – presenting a comprehensive, research-based, integrated and international perspective on managing people across borders – has not changed. However, the 2nd edition has reinforced these four characteristics in the following ways:

- Since several reviewers commented that the comparative aspect of the 1st edition left room for improvement, Part 2 of the book has been completely revised and the current edition includes three new chapters on comparative HRM, covering Europe, Asia and developing countries. Two new chapters on the role of HRM in mergers and acquisitions in Part 1 and on repatriation in Part 3 reflect the increasing importance of these phenomena. Part 4 features a new chapter on transfer of employment practices across borders, as well as a revised treatment of the most important aspects of industrial relations.
- The research base has been further reinforced by attracting new authors who are experts and active researchers in their field. This means that

most chapters have been written from scratch, while the remaining chapters (Chapters 1, 5 and 14) have been updated. In doing so, the authors have focused even more strongly on theoretical models and frameworks, cutting down on factual information that can easily be retrieved from other sources, including other textbooks.

- The integrated perspective has been strengthened by even more careful editing. Most authors went through three versions of their chapters and many read chapters of other authors in order to avoid overlap and conflicting evidence. Links have been provided between chapters to further clarify the overall structure of the book, and in order to help instructors, discussion questions and suggestions for further reading are now provided with each chapter.
- The book has moved from a predominantly Dutch author base in the 1st edition to a truly international group of authors, coming from or working in more than ten different countries, in this edition. The book has maintained its distinctive European focus (especially in Part 4), but with new chapters on Asia and developing countries and new authors from the US, China and Australia, it has now reached out to other areas of the world as well.

WHAT IS INCLUDED IN THIS BOOK?

This book consists of four clearly delineated parts. Each part can be studied as an independent unit, so that readers may choose to study the parts most interesting to them, if they so desire. Taken together, however, the four parts present a consistent picture of the way in which international HRM can be approached as a discipline.

In Part 1 (Internationalization: Context, Strategy, Structure and Processes) we first place International HRM in a wider context. Chapter 1 touches upon recent developments in the field of internationalization and offers various theoretical models which explain the existence of international trade and multinational companies. We also look at the social consequences of the increasing internationalization of the global economy. Chapter 2 then discusses the different options that MNCs have in terms of strategy and structure in some detail and shows that these can be combined into a typology of MNCs that stands up to empirical verification. We also provide a preview of the link between strategy, structure and HRM, an issue that is further explored in Chapter 3. That chapter also traces the development of IHRM as a research field and examines the role of the corporate HR function in the international firm, global management development and the roles and responsibilities of transnational managers.

Finally, Chapter 4 focuses on integration processes in cross-border mergers and acquisitions (M&A), examining the potentially critical role that cultural differences and human resources play in the M&A process. It also systematically reviews the key HRM challenges at different stages in the M&A process.

Part 2 (HRM from a Comparative Perspective) starts with two chapters offering two different approaches – institutionalist and culturalist – to explain differences in human resource management across borders. Chapter 5 introduces these two approaches and explains the way in which comparative research differs between them. The chapter then reviews the institutionalist approach in some detail before proposing a framework – termed societal analysis – to integrate the two approaches. Chapter 6 then focuses on the study of cultural differences across countries that influence people in a work environment. It presents the achieved knowledge on cultural dimensions which helps understanding and managing people from different cultural backgrounds and reviews three major and distinctive contributions to this debate. Subsequently, Chapters 7 to 9 discuss how HRM practices differ across countries by focusing respectively on Europe, Asia and developing countries. All three chapters come to the conclusion that there are no 'one-size-fits-all best HRM practices' and that Anglo-American HRM models need to be adapted to be effective in other countries. The focus in these chapters is on acquiring an analytical understanding of cross-national differences, since any factual description of such differences would soon be out of date.

In Part 3 (Managing an International Staff) we return to the perspective of the MNC and discuss the issues that an international HR manager encounters in managing people across borders. Although this part of the book has a clear focus on the management of expatriates, many chapters explicitly broaden their scope to include all managerial personnel. First, Chapter 10 discusses the challenges associated with building an international workforce. It reviews different staffing policies and the factors influencing the choice between host country and parent country nationals as well as the underlying motives for international transfers. It also covers recruitment and selection issues and expatriate adjustment and failure. Chapter 11 looks at the preparation of expatriates for their international assignments and proposes a systematic five-phase process for designing effective cross-cultural training programmes. Chapter 12 then deals with the compensation and performance management of staff in MNCs. It reviews the variables influencing international compensation strategy; options for compensating staff on international transfer within MNCs; and problems and enduring issues associated with international compensation and integrated performance management. Chapter 13 then closes the international transfer cycle with a look at the challenges associated with repatriation following global assignments from both an individual and an organizational point of view. Finally, Chapter 14 looks at the role of women in international management, taking into account individual, organizational and socio-cultural perspectives.

The fourth and final part of this book (Industrial Relations: a Comparative and International Perspective) looks at the collective aspects of the employment relationship. First, Chapter 15 links back to Chapters 2 and 3 by discussing the transfer of HR practices – or more generally employment practices as they are called in this chapter – within MNCs. It provides explanations for variations between MNCs in terms of the extent of transfer and a discussion of the likely nature of the relations between different groups within MNCs in the transfer process. Chapter 16 then draws on the recent literature on 'varieties of capitalism' to show that national economies can be structured in many different ways, and that these differences are associated with different industrial relations systems. It also disentangles the challenges inherent in globalization, and considers whether they imply convergence towards a more market-driven model, or whether distinctive forms of social regulation are likely to persist. In Chapter 17, we take this analysis of convergence and divergence one step further by moving to the regional level of analysis and reflecting about the prospects for the 'Europeanization' of industrial relations. In the final chapter of this book – Chapter 18 – we take our analysis back to the company level by examining the relevance of the concept of the Eurocompany and the role of European Works Councils within European industrial relations.

PART 1

Internationalization: Context, Strategy, Structure and Processes

1 Internationalization and the International Division of Labour

Anne-Wil Harzing

CHAPTER CONTENTS

1 INTRODUCTION

In this chapter, which will set the background for the remainder of this book, we will discuss a number of important issues with regard to internationalization and the international division of labour. We will begin in Section 2 by offering some statistical data which demonstrate the importance not only of international trade but also of foreign direct investment (FDI). Sections 3 and 4 will next discuss a number of theories which explain these phenomena. In Section 5, we will explore product specialization across countries. We will do this using Porter's analysis, which explains the competitive advantage of nations. We will then go one step further to the global level, when, in Section 6, we will look at the (new) international division of labour and the economic and social consequences thereof. Finally, in the last section we will discuss the sources of competitive advantage for multinationals.

2 STATISTICS ON INTERNATIONALIZATION TRENDS

International trade

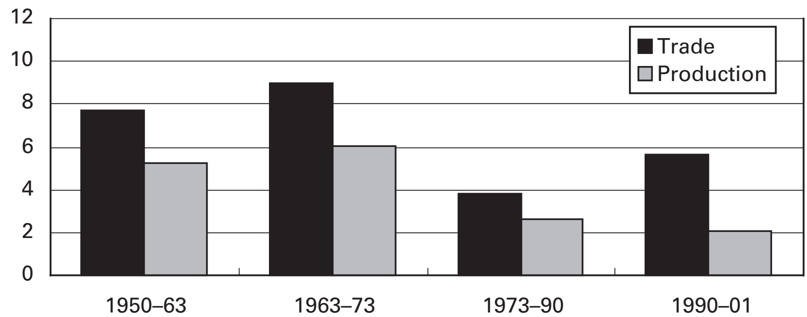
The year 2001 saw the first decline in the volume of world trade since 1982, mostly due to a decline of economic activity in the three major developed markets (the USA, Japan and the European Union), the bursting of the global IT bubble and the aftermath of the tragic events of September 11 (WTO, 2002). However as Figure 1.1 indicates, historical data show that international trade has become much more important in the last 50 years. The growth in international trade has consistently surpassed the growth in production. While the world production in 2001 is seven times as high as in 1950, international trade is more than 20 times as high.

It is important to note, however, that a lot of international trade could more properly be called regional trade, covered by major regional trade agreements such as NAFTA (North American Free Trade Agreement), the EU (European Union) and APEC (Asia Pacific Economic Cooperation): 43% of the exports within NAFTA, 65% of the exports within the EU and 68% of the exports within APEC do not leave the region (WTO, 2002). In Section 3 we will discuss a number of theories which explain the existence of international trade.

Foreign direct investment

Foreign investments of multinational firms are even more important than international trade for the growth of the world economy. In 2001 the sales of foreign subsidiaries of multinational companies (MNCs) were nearly twice as high as world exports, while in 1990 the two were roughly equal. Although, just like international trade flows, FDI flows have suffered a substantial decline in 2001, the longer term prospects remain promising, with major MNCs likely to continue their international expansion (UNCTAD, 2002). The influence of MNCs is reflected in the increase in the stock of foreign direct investment (FDI) and the growth in the number of multinationals and their foreign subsidiaries. As shown in Table 1.1, the total stock of foreign investment has reached almost $7 trillion. More than 850,000 foreign subsidiaries of about 65,000 parent firms

FIGURE 1.1



Growth of world production and world trade (% change in volume terms) (WTO, 2002)

contributed approximately $18.5 trillion to world sales in 2001, while the number of employees in foreign affiliates has more than doubled in the last decade. In Section 4 we will discuss a number of theories which explain the existence of foreign direct investment.

3 DETERMINANTS OF INTERNATIONAL TRADE

In this section we will briefly consider a number of theories which explain why countries trade with one another. We will therefore be emphasizing the country level. In the following section we will shift our discussion to theories focusing on the multinational organization. These theories explain why *multinationals* exist.

First, we will consider two 'classic' theories of trade, which are based on the idea that country-specific factors (also known as location-specific factors) are decisive for international trade. Such country-specific factors may offer absolute or relative comparative cost advantages. A third theory explains why international trade may arise even in the absence of such cost advantages. The key term here is *economies of scale*. Later, in Section 5, we will explore Porter's analysis, the latest in a long line of international trade theories reaching back more than two centuries.

TABLE 1.1

Selected indicators of FDI and international production, 1982–2001

	Value at current prices (billions of dollars)			Annual growth rate (%)		
	1982	1990	2001	1986–1990	1991–1995	1996–2000
FDI inward stock	734	1874	6846	15.6	9.1	17.9
FDI outward stock	552	1721	6582	19.8	10.4	17.8
Sales of foreign affiliates	2541	5479	18517	16.9	10.5	14.5
Employment of foreign affiliates (thousands)	17987	23858	53581	6.8	5.1	11.7

***Source*: adapted from UNCTAD, 2002**

Absolute and relative comparative cost advantages

This theory takes us back to the founding father of modern economics: Adam Smith. In his book *An Inquiry into the Nature and Causes of the Wealth of Nations* (1776), Smith explains that the division of labour can lead to increased productivity, because each person does what he or she is best at or can produce most efficiently. This applies at every level, for example within families or within a country as a whole. An efficient division of labour *between* countries is present whenever location-specific advantages, such as the presence of certain natural resources, make it possible for one country to produce a certain product more cheaply than another.

> *It is the maxim of every prudent master of a family, never to attempt to make at home what it will cost him more to make than to buy. The tailor does not attempt to make his own shoes, but buys them from the shoemaker…What is prudence in the conduct of every private family, can scarce be folly in that of a great kingdom. If a foreign country can supply us with a commodity cheaper than we ourselves can make it, better buy it of them with some part of the produce of our own industry, employed in a way in which we have some advantage. (Adam Smith, 1776: 424–425)*

There was one problem with this theory, however. What if a country has no location-specific advantages and therefore no cost advantages? Will it still be in a position to trade with other countries? And even if it is, would it not end up importing far more than it exports, so that an ever increasing amount of money would leave the country?

David Ricardo (1772–1823) showed that even if a country had no absolute cost advantages, it would still be able to grow more wealthy through international trade. We can demonstrate this by using a simple model involving two countries (A and B) and two commodities (x and y). Country A produces both Commodity x and Commodity y against the lowest possible costs.

	Country A	Country B
Commodity x costs	5	12.5
Commodity y costs	20	25

The difference between Country A and Country B is larger for Commodity x, however, than it is for Commodity y. If we consider the terms of exchange (the number of units of Commodity x exchanged for one unit of Commodity y and vice versa), we can construct the following table.

Country A	Country B
$1x = \frac{1}{4}y$	$1x = \frac{1}{2}y$
$1y = 4x$	$1y = 2x$

We see that the inhabitants of Country A can profit by buying Commodity y in Country B. In Country B they only have to pay 2x, while in their own country they have to pay 4x. Inhabitants of Country B would do well to buy their Commodity x in Country A. In doing so they only have to pay $\frac{1}{4}$y, while in their own country it would cost them $\frac{1}{2}$y. We can say that Country A has a relative comparative cost advantage in producing Commodity x, while Country B has a relative comparative cost advantage in producing Commodity y. Inhabitants of Country A will therefore try to exchange their Commodity x for the Commodity y of Country B. The inhabitants of Country B would be very willing to do so because this exchange is also to their benefit. This is how international trade was born. To comply with the extra foreign demand, Country A would have to specialize in producing Commodity x and Country B in producing Commodity y. According to Smith and Ricardo, international trade arose because of the existence of comparative cost advantages, whether absolute or relative.

The Heckscher–Ohlin theorem

This brings us to the question: where do such cost differences come from? One answer, known as the Heckscher–Ohlin (H–O) theorem, was introduced by the Swedish economists Heckscher and Ohlin. Comparative cost differences are the result of differences in factor endowments (labour, land and capital). Some countries, for example, have a relatively large quantity of capital and relatively small labour force (for example, Western nations). Other countries have relatively little capital and a large labour force (for example, most of the developing nations). Note that it is the relative position of these production factors with respect to one another that counts. We would not, for example, say that Zaire has more labour than the US (which is untrue) or that it has more labour than capital (how would one go about measuring that?). We can, however, say that Zaire has more labour available per quantity of capital than the United States does.

Production factors available in relatively large quantities will be inexpensive, and vice versa. (For the time being we will not consider the demand conditions. A country may, for example, have absolutely no demand for a domestic good produced with scarce production factors, resulting in a low price.) In a country that possesses a relatively large amount of capital and very little labour, capital-intensive products will be cheap and labour-intensive products expensive. The reverse will be true for a country with a relatively small amount of capital and a large labour force. The same arguments can be offered for the production factor 'land'. The impact on international trade is that

> *commodities requiring for their production much of [abundant factors of production] and little of [scarce factors] are exported in exchange for goods that call for factors in the opposite proportions. Thus indirectly, factors in abundant supply are exported and factors in scant supply are imported. (Ohlin, 1933: 92)*

In global terms, we can explain international trade flows rather well using this theorem. Japan, a country with a relatively limited amount of land, imports many of its primary products. Third World countries with a relatively large body of (unskilled) labour export labour-intensive products such as textiles and shoes.

There are, however, two postwar trends that have presented a considerable challenge to the H–O theorem. Firstly, there is the fact that a large and increasing share of international trade takes place between countries with similarly large incomes. Secondly, a large and increasing share of international trade consists of two-way trade involving similar manufactured products (known as intra-industry trade). As a result, new theories of trade have been introduced which reject country-specific factors to a certain extent and which turn instead to sector- or company-specific factors that might lead to a strong competitive position. The key term in such new theories is 'economies of scale'.

Economies of scale

We have not yet mentioned an important assumption underlying the classic trade theories: yield remains constant regardless of the scale of production. In other words, the average cost per product will remain the same. In actual practice, however, we see economies of scale in many branches of industry – as the scale of production increases, the average cost per product decreases. These economies of scale might appear in production, in R&D, in purchasing, in marketing or in distribution. A very simple case of economies of scale are the discounts offered on quantity purchases (which are in turn based on the supplier's economies of scale). Economies of scale in production may be the result of a division of labour and specialization or of cost-cutting measures (for example, robots in auto manufacturing) which only become profitable at a certain minimum production level. After all, it would hardly pay to set up a robot assembly line if you are only going to produce three cars.

In addition to these economies of scale, which are known as internal economies of scale (in other words, within one company), there are also external economies of scale. These are closely related to the size of an industry and not to the size of the individual company. A concentration of companies in a particular region, for example semiconductor manufacturers in Silicon Valley in California, may give rise to a good infrastructure, a specialist labour force and a network of suppliers (see also Porter's analysis in Section 5). This means that individual companies within this industry can achieve economies of scale, despite the fact that large companies produce no more efficiently in the sector than small companies.

How do such economies of scale affect international trade? We noted previously that international trade depends on absolute or relative comparative cost advantages, which are the result of differences in factor endowments. According to the classic theories of trade, countries with comparable factor proportions will not trade with one another because they will not be able to gain absolute or relative comparative cost advantages. However, when economies of scale are applied, a system in which one country produces one product and a second country produces another can nevertheless offer advantages. Because production can take place on a larger scale, the average costs of both products will drop. Both countries can therefore gain through specialization and international trade.

How can we predict which country will produce which product if neither country can gain a cost advantage? The answer is: we can't. It is frequently a combination of serendipitous factors which leads to a certain industry setting up first in a certain country. Through internal and/or external economies of scale, this country will be able to build up such an advantage that it becomes very difficult for anyone else to catch up.

4 THE REASON FOR MULTINATIONAL COMPANIES

The theories discussed in the previous section explain how international trade – the conveying of goods across borders – arises and what constitutes it. A second assumption – the first being constant returns to scale (see Section 3) – which the classic theories make, is that the production factors present in a particular country will move about within the country itself, but not across the national borders. According to the H–O theorem, international trade will gradually eliminate differences between production factor rewards in the various countries. In this way, exporting labour-intensive goods to a country with a relatively small labour force may have the same effect as actually relocating labour as a production factor to this country.

In reality, however, production factors do move across borders. Cash capital and to a lesser extent labour are becoming increasingly mobile. A large proportion of the international flow of cash is motivated by a desire to simply invest money to get a return on investment, just as one would do by putting money in a savings account. British investors, for example, may purchase shares on the stock market in a Japanese company in order to gain an income from their investment (dividends and/or gains made by stock fluctuations), either in the short term or in the long term. However, a portion of this cash flow consists of Foreign Direct Investment (FDI). These are investments made in foreign countries with the explicit goal of maintaining control over the investment. By making use of FDI, a company may, for example, be able to set up production facilities in a foreign country, thereby joining the ranks of multinational companies.

The question, however, is why a company would choose direct investment when it can simply export the goods produced in its own country and import the raw materials or semi-manufactures required, or even license the relevant know-how. Initially the answer to this question consisted of partial explanations. Firstly, companies in highly protectionist countries made use of direct investment to get around import restrictions and tariff walls. Secondly, FDI made it possible for companies whose production relied heavily on certain raw materials to secure the supply of such materials. A third explanation was that the high cost of transport made exporting more expensive than establishing foreign production facilities. Sometimes FDI can also be viewed as a strategic market tactic. For example, American companies may invest in the Japanese market simply to make life so difficult there for Japanese firms that they in turn no longer have the resources left to enter the American market. None of these arguments, however, offered a systematic explanation for the rise of the multinational in general. In the following sections we will discuss two theories that do offer such an explanation: Vernon's product life cycle theory and Dunning's eclectic theory of direct investment.

Product life cycle

Vernon's product life cycle (PLC) theory (Vernon, 1995) takes its name from the product life cycle familiar to students of marketing theory. In the first phase, the introductory or start-up phase, the new product is introduced. It is innovative, it has not yet been standardized and it is relatively expensive. Because the product will evolve further throughout this phase, the producer and the consumer must be in direct contact. Production and sales can only take place in the country where the product is being developed, for example in the United States (in principle the PLC theory pertains to high-tech products which, at the time this theory was introduced – the 1950s – came largely from the US). In the expansion phase, the product becomes more standardized and the price falls a bit. Turnover increases sharply and production costs begin to drop. To extend this phase, a company will attempt to export its product. Because the price is still rather steep, exports will largely go to countries which have a similar income level, for example Europe.

At the end of the expansion phase and the beginning of the maturity phase, the company will begin to manufacture the product in Europe. Turnover there will have increased to such an extent that it pays to set up foreign production, particularly in view of import tariffs and transport costs. By this time however, the product will have become so standardized that European companies will be jumping on the bandwagon. By setting up its own subsidiaries in Europe then, the American company is applying a defensive strategy designed to protect its market position.

In the end the production process will be completely standardized, making economies of scale and mass production possible. The quality (level of skill) of the workforce in the production process becomes less important than how much it costs. Production will therefore increasingly take place in labour-abundant countries. This refers to elements of the classic theories of trade.

The product life cycle model made an important contribution to explaining the enormous scope of direct investment by American companies in the 1950s and 1960s (see Chapter 2). However, the model fails to answer two important questions. Firstly, why does one company in a country become a multinational while another does not? Secondly, why would a company choose to maintain control of the production process by setting up subsidiaries? It would be much simpler to license the know-how required to manufacture the product to a foreign company. Both of these questions are answered by Dunning's eclectic theory, which also incorporates the location-specific advantages proposed in the classic theories of trade.

Dunning's eclectic theory

Dunning's eclectic theory (Dunning & McQueen, 1982), also called the transaction cost theory of international production, is able to explain why firms produce abroad, how they are able to compete successfully with domestic firms and where they are going to produce. In doing so, the theory selectively combines elements of various other theories (hence the name 'eclectic'). According to Dunning, a company that wishes to set up production in a foreign country and operate as a multinational must simultaneously meet three conditions: it must have ownership advantages, location advantages and internalization advantages.

Ownership advantages, also known as firm-specific advantages, are specific advantages in the production of a good or service which are unique to a particular company. The range of advantages, which can be both tangible and intangible, can be very wide. According to Rugman (1987) they can be summarized as follows:

- proprietary technology due to research and development activities;
- managerial, marketing, or other skills specific to the organizational function of the firm;
- product differentiation, trademarks, or brand names;
- large size, reflecting scale economies;
- large capital requirements for plants of the minimum efficient size.

The presence of ownership advantages, however, in no way fully explains the existence of the multinational company. For example, if a company gains an ownership advantage over other companies for a certain foreign market, it could simply export its products to that market. That is why the second condition must also be present: location advantages.

Location advantages include all of the factors which we discussed with respect to the classic theories of trade and which we will discuss in Section 5 with respect to Porter's analysis, ranging from an abundance of fertile land and cheap labour to a liberal capital market and a sound infrastructure. To that we can also add the favourable investment conditions offered by some countries in order to attract foreign investors. These may be in the form of subsidies, tax exemptions, or cheap housing. The benefits for the firm come from the combination of ownership advantages and location advantages. However, even if this is the case, it will not necessarily lead to FDI and, therefore, to the establishment of a multinational company. After all, the company can also sell its ownership advantages or license them out to another company in the foreign market. That is why the third condition must be met: internalization advantages.

A company possesses internalization advantages if it is more profitable to exploit its ownership advantages itself in another country than to sell or license them. There are countless arguments in favour of internalization. To a large extent these arguments have their origin in Coase's and Williamson's transaction cost approach (1937 and 1975 respectively). In the first place, if the ownership advantage is a combination of highly specific company factors, it might be difficult to sell or license it. And even if it were possible, the advantages and the contract for these advantages would be so complex that setting up and exploiting them would be extremely costly. This applies to a lesser degree if the advantage being sold is a specific, easily isolated invention. The problem in this situation, however, is that it would be difficult for the buyer/licensee to get a good idea of what he is purchasing or acquiring a licence for. After all, if the licensor releases too much information before concluding the contract, he will have very little left to sell or license. Finally, the company may be afraid that by licensing certain company-specific knowledge, this knowledge will either leak out, making further licences difficult, or be used in such a way that it damages the good name of the licensor. In each case there are internalization advantages, so that a company will decide to carry out the relevant activity itself in the foreign country.

Like rival theories, Dunning's approach is not seen as the be-all and end-all explanation for the existence of multinationals. It does, however, succeed in bringing together, in an elegant manner, what were until then a number of relatively separate schools of thought.

By now we have discussed a number of reasons for international trade and FDI. However, we cannot as yet explain why a particular nation is able to achieve international success in a particular industry. In other words: why are certain products successful in one country while other products are produced in another country?

As we mentioned earlier, the theory of absolute and relative comparative cost advantages (Section 3) offers a reasonable explanation for general trends in international trade flows. Usually, however, these advantages cannot explain why a certain country imports or exports specific industrial goods. As we will discover in Section 7, economies of scale (Section 3) are an important source of competitive advantage in many sectors of industry. We have already seen, however, that this theory does not really answer the question as to which country will produce which product. The product life cycle theory (Section 4) has certainly made an important contribution to explaining the distribution of some high-tech products, but it raises almost as many questions as it answers. Why is it that one particular country leads the rest in a new industry? Why are some industries seemingly immune to the loss of competitive advantage suggested by Vernon? And why is it that in many sectors of industry, innovation is now seen as an on-going process and not a one-off event, after which an invention quickly becomes standardized and production is taken over by low-wage countries? Finally, Dunning's eclectic theory (Section 4) provides us with a very interesting and more or less comprehensive explanation of the existence of multinational companies. It does not, however, explain why some countries gain particular ownership advantages while others do not.

5 THE COMPARATIVE AND COMPETITIVE ADVANTAGE OF NATIONS

Criteria for a theory of national comparative and competitive advantage

In this section we will discuss Porter's analysis, in which he attempts to provide an explicit answer to the questions listed above. Porter maintains that a theory of national comparative and competitive advantage must meet the following criteria:

- It must explain why firms from some nations choose better strategies than those from other nations for competing in particular industries.
- It must explain why a nation is home base for successful global competitors in a particular industry that engages in both trade and FDI.
- It must explain why a firm in a particular nation realizes competitive advantage in all its forms, not only the limited types of factor-based advantage included in the traditional theory of comparative advantage as discussed above.
- It must recognize that competition is dynamic and evolving, rather than taking a static view focusing on cost efficiency due to factor or scale advantages. Technological change should be seen as an integral part of the theory.
- It must allow a central place for improvement and innovation in methods and technology and should be able to explain the role of the nation in the innovation process. Why do some nations invest more in research, physical capital, and human resources than others?
- It must make the behaviour of firms an integral part of the theory as traditional trade theory is too general to be of much relevance for managers. (Porter, 1990: 19–21)

Porter naturally attempts to satisfy these conditions in his own analysis. After conducting a four-year study involving ten countries (Denmark, Germany, Italy, Japan, Korea, Singapore, Sweden, Switzerland, the UK and the US), he was convinced that national competitive advantage depends on four determinants, represented as a diamond (Porter's diamond, see Figure 1.2). (The complete model also includes the factors government and chance, which make their influence felt through the four determinants.)

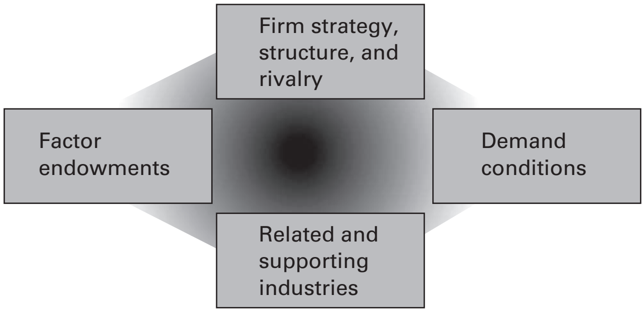
The four determinants of national comparative and competitive advantage

We will discuss these four determinants below, paying particular attention to factor conditions and to firm strategy and structure, which have the greatest bearing on this book.

Factor conditions

The first determinant, factor conditions, shows traces of the classic international trade theories proposed by Smith, Ricardo and Heckscher/Ohlin. However, whereas these theories concentrated on the traditional production

FIGURE 1.2



Porter's diamond (adapted from Porter, 1990)

factors such as land and, specifically, labour and capital, Porter goes much further. He agrees with them with respect to labour (which he calls human resources), land (physical resources) and capital (capital resources), but in his view these categories are much broader than the classic theories would suggest. For example, while Ricardo principally saw labour as a large, undefined mass of cheap workers, Porter emphasizes quality as well as quantity and divides human resources 'into a myriad of categories, such as toolmakers, electrical engineers with PhDs, applications programmers, and so on'. Physical resources also cover the location of a country with respect to its customers and suppliers, while capital resources can be divided into 'unsecured debt, secured debt, "junk" bonds, equity and venture capital'. In addition to these 'traditional' production factors, Porter also identifies knowledge resources and infrastructure as factors which can be decisive for the competitive advantage of a country. He sees knowledge resources as 'the nation's stock of scientific, technical and market knowledge bearing on goods and services', while infrastructure includes transport and communications systems, the housing stock and cultural institutions. The differences described in Parts 2 and 4 of this book with respect to education, training, skills, industrial relations and motivation can all be seen as factor conditions which influence a country's competitive advantage.

Demand conditions

The second determinant consists of demand conditions. Traditional trade theories tended to neglect the demand side. According to Porter, demand in the home market can be highly important for a country's national competitive advantage. In addition to the size of the demand (which can lead to economies of scale), the quality of the demand is equally significant. For example, if consumers in a company's own country are the most progressive and demanding in the world, then it will have to do its very best to deliver product quality, innovation and service. In this way, the company and/or the country gains a competitive advantage on the world market.

Related and supporting industries

The third determinant, related and supporting industries, exercises a similar type of influence. The presence of related and supporting industries which can compete at international level will force a company to meet the same high international standard.

Firm strategy, structure and rivalry

The fourth broad determinant of national competitive advantage is firm strategy, structure and rivalry. The goals and strategies of firms can differ sharply between nations. There are also huge differences in the way firms in the same industry are organized in different countries, as we will see in the second part of this book. According to Porter, a good match between these choices and the sources of competitive advantage in a particular industry will result in national competitive advantage. If for instance the computer industry demands flexible, non-bureaucratic organizational structures, and firms in a particular country tend to favour this kind of organizational structure, they will – all other things being equal – have a good chance of succeeding in this industry.

The important question then is: why do firms in particular countries favour particular strategies and structures? The answer is that there are many national characteristics that influence the ways in which firms are organized and managed. According to Porter, some of the most important aspects are attitudes towards authority, norms of interpersonal interaction, labour–management relationships, social norms of individual or group behaviour, and professional standards. Porter places special emphasis on labour–management relationships because he believes they are central to the ability of firms to improve and innovate. All these aspects in turn find their basis in a nation's educational system, its social and religious history, its family structures, and many other often intangible but unique national characteristics.

Finally, domestic rivalry is also a very important factor, in that companies force one another to lower their prices, improve quality and introduce a constant stream of innovations, all of which also benefits the international competitive position of the country in which they operate.

Societal effect

We see many of these same factors in social science research as well. In the first place, a number of them, such as attitudes towards authority, are considered part of a country's national culture. We will return to this topic in Chapter 6. In addition, authors such as Streeck, Maurice, Sorge, Warner and Lane have pointed out national differences in the area of organizational structuring, differentiation and integration mechanisms, qualifications and industrial relations. Such factors influence one another, and although this reciprocal effect can be found in every society, it is highly specific to the society in which it is taking place. This approach, which is known as the societal effect theory, will be discussed in Chapter 5 of this book. For now, however, bear in mind that the authors mentioned above suggest that through a particular constellation of factors, certain countries will be successful in certain industrial sectors. We will borrow an example from Lane by way of illustration:

> The strengths of German manufacturing enterprises are widely seen to emanate from two core institutional complexes – the system of vocational education and training and the system of industrial relations. The first not only creates high levels of technical skill throughout the industrial enterprise but also engenders a homogeneity of skills at all levels of the hierarchy, as well as fostering certain orientations to the work task and the work community. These characteristics, in turn, structure organizational relations, influence communication and cooperation along both horizontal and vertical lines and encourage labour deployment in accordance with the principle of responsible autonomy. The craft ethos permeates the whole of the organization and creates a common focus and identity for management and production workers, although not necessarily a community of interest. The cooperative works culture, fostered by the training system, is further reinforced by the system of industrial relations, particularly by the work council. The autonomy and responsibility encouraged by the organization of work is paralleled and enhanced by the participative industrial relations style, flowing from the system of co-determination. (Lane, 1989: 398)

Japan as an example of Porter's analysis

Porter uses his analysis to explain why certain countries are successful in certain industries. For example, Japan's prominent position in consumer electronics, electronic components and computing equipment, office machines, motorcycles, ships and sewing machines can be attributed in the first place to the country's rapid and continual upgrading of human resources, in which in-company training predominates. Research focuses on applications and process optimization rather than basic technological innovation, resulting in high-quality products which are nevertheless competitively priced. Demand conditions have also favoured competitive advantage in these industries. In the 1950s and 1960s, while Japan's home market was growing rapidly in sectors such as sewing machines, ships and motorcycles, these same markets had begun to level off in other countries. As a result, Japanese firms invested aggressively in large, efficient facilities with the latest technology. US and European competitors, on the other hand, simply added on to existing, less efficient older plants. The result was higher productivity for Japanese firms. The rapid growth of Japan's industrial economy also aided supporting industries such as robotics, copiers and semiconductors. Even more important than the size of the home demand is the pressure from demanding and sophisticated buyers. Japanese consumers insist on quality and superior service and will readily switch brands if a quality difference is noticeable. Needless to say, this forces firms to continually upgrade their products. As to the third determinant, Japan has a strong position in semiconductors, machine tools and robotics, which are essential supporting industries to many other sectors. Regarding the fourth determinant, firm strategy, structure and domestic rivalry, the strategy of Japanese firms is geared largely towards standardization and mass production combined with high quality. This approach has made it the leader in industries such as consumer electronics and office machines. The commitment of both workers and managers to their firm, and the firm's investment in upgrading skills and norms of cooperation have led to an unusual rate of success in industries in which a cumulative learning effect is essential (consumer electronics, semiconductors, office machines). Finally, in almost every industry in which Japan is internationally competitive, there are several and often a dozen or more competitors; in shipbuilding and semiconductors there are as many as 33 and 34 respectively. (Porter, 1990: 384–421)

Now that we have provided a tool for answering why certain products are produced in some nations and not in others, we will extend our analysis further. In the next section we will take a look at the international division of labour.

6 TRENDS IN THE INTERNATIONAL DIVISION OF LABOUR

The logical consequence of the theories discussed above is that a country would do well to concentrate on the production of those goods and services in which it has a competitive advantage. It can then export these goods and import goods and services to those industries where it is less productive. In this way, international competition helps to upgrade productivity over time. The process implies, however, that market positions in some segments and industries must necessarily fall by the wayside if a national economy is to progress.

This is certainly true in a macro-economic sense, but on a micro-level it may mean the loss of thousands of jobs in less productive industries, causing serious personal anxiety and social problems. No wonder then that many governments have tried to maintain such industries by means of subsidies, protective tariffs or other forms of intervention. But in these days of trade liberalization, globalization of the world economy and economic integration in many regions of the world, such policies are increasingly difficult to sustain. The world is moving towards a new international division of labour, a process in which multinational companies are playing a leading role. In this section we will take a look at the economic and social consequences of this development.

Reich's new world order

In his book *The Work of Nations. Preparing Ourselves for 21st-century Capitalism*, Reich (1991) prophesies a new world order. The most important objectives for companies, including multinationals, are to satisfy the market demand and to make profits. They can potentially save money by moving production processes elsewhere. This matters very little to the companies themselves, but it does have an impact on the social structure and prosperity of the individual countries involved. Those countries that have nothing to offer in international competition are doomed to lose out badly. First World countries that do not have a supply of cheap labour will have to concentrate on the production of other, more specialized products with a high knowledge and capital content. This will result in an increasing demand for highly educated and creative people. A problematic social consequence is that Western nations will be confronted with a large surplus of unskilled production workers who cannot compete against low-cost labour in (ex-)Second and Third World countries. A proper education for all citizens (and not only the top 25%) is therefore an absolute prerequisite for future prosperity in any country.

Professional categories in the new world order

Reich distinguishes three professional categories which in global terms cover three-quarters of the labour force (the remaining part mainly consists of employees working in agriculture and in the public sector):

1 *Routine production services*. The traditional example in this category is the employee who works on the assembly line performing short-cycle, repetitive tasks. However, according to Reich this category also includes the 'routine supervisory jobs performed by low- and mid-level managers – foremen, line managers, clerical supervisors, and section chiefs – involving repetitive checks on subordinates' work and the enforcement of standard operating procedures'. It has often been said that in the present and future information age, this type of work will become far less important. Cynics, however, remind us that many information-processing jobs fit perfectly into this category. The raw material of

the industrial era has simply been replaced by the raw data of the information age. Entering and processing such data is essentially just as routine and monotonous a task as working on an assembly line in an automobile plant. These routine production services are not associated with a particular country; they can be performed anywhere and everywhere. Wage costs are therefore the only criterion for deciding where to locate them.

2 *In-person services*. Like the previous category, this one also covers basically simple and repetitive tasks requiring relatively little training. Examples of jobs in this category are: salespeople, hair stylists, waiters and waitresses, cleaning staff and receptionists. The major difference between this category and routine production work is that in-person servers provide their services directly to the consumer and that their work must therefore be performed at the location where the consumer is present. Consequently, they have nothing to fear from lower wage costs in other countries. They are, however, under greater threat from the increasing computerization of the many jobs they perform. Consider, for example, the cash dispensers which have become an indispensable part of life for so many people. And as many of these jobs require no special training, in-person servers are finding themselves competing more and more with unemployed routine production workers. Finally, this category of employee depends very heavily on the affluence of its customers. If a country is unable to attract enough economic activity, then it will not have the financial resources to cover in-person services.

3 *Symbolic-analytic services*. The most important feature of the jobs in this group is they require skills in problem-solving and problem-identification. Some examples are research scientists, engineers, consultants and managers, but also architects, musicians, film producers and journalists. These occupations are highly specialized; by definition they entail a proper education. Most of them require a university degree or higher vocational training. This group of employees will benefit the most from prosperity, simply because they bring added value to the production process. Like the work performed by a routine production worker, the activities of symbolic analysts are not bound to a particular location. By using the available communication and information technology, companies can avail themselves of their services anywhere in the world. And since the definitive criterion here is not wages but special skills, these activities are not automatically carried out in low-wage countries.

The number of people who can actually benefit from the new opportunities is therefore quite limited. The future seems particularly bleak for unskilled labourers in Western countries, simply because they will be unable to make a clear-cut contribution – either in the form of specific skills or in the form of low wages – to the global production process. They simply cannot compete against the wage levels of employees in poor countries who perform exactly the same type of work. Even dismantling the social security system – which some regard as the main culprit behind the high cost of labour in Europe – offers no real alternative. After all, wages and terms and conditions of employment will never be cut so drastically that they can compete with low-wage countries. Because a large section of the population in the West remains underqualified (there are, by the way, huge differences between countries: the UK, for example, is much worse off in this respect than Germany), we will ultimately be dealing with increasingly greater differences in income and, possibly, the rise of a social underclass.

Scenarios for the future

In this connection, Reich has sketched three scenarios for the future. He calls the first zero-sum nationalism. The assumption is that there are only two outcomes possible in economic warfare: either we win or they win, so we had better make sure that we win. Countries therefore close their eyes to globalization and try to protect and improve their own position. Government subsidies for deteriorating industries and a renewed interest in protectionism are the hallmarks of this scenario. Obviously it will be the routine production workers and in-person service workers and their representatives (for example trade unions) who will be particularly keen on this option. This course of action will, however, be of very little benefit to companies and investors, meaning that in the long term this scenario will simply not be sustainable.

The second scenario is cosmopolitanism, in which the ideal of free trade is championed. This is not a zero-sum game: the world as a whole can improve through free trade. By making products where they can be made most cheaply, we all benefit in the end. The major advocates of this scenario will often be symbolic analysts. After all, they have nothing to lose in such a world order; in fact, they will be the big winners. According to Reich, this is the attitude that will most likely determine the future.

Neither of the scenarios described above is ideal, but according to Reich there is yet another option: positive economic nationalism. The crux of this idea is that 'each nation's citizens take primary responsibility for enhancing the capacities of their countrymen for full and productive lives, but also work with other nationals to ensure that these improvements do not come at others' expense'. Nationalism as seen by the zero-sum nationalists and individualism as advocated by the cosmopolitans are traded in for globalism. This scenario combines a pious belief in the benefits of free trade with arguments for some form of government intervention. Governments should invest in education and infrastructure, and they should even subsidize companies that offer high value-added production in their own country, regardless of the nationality of the company owners. To prevent a situation in which countries bid against one another to attract certain companies, they should instead negotiate with one another on the appropriate subsidy levels and targets. The result, according to Reich, would be a sort of GATT for FDI establishing guidelines for the way in which countries are allowed to grant such subsidies. Countries with a large unskilled labour force, for example, would be allowed to offer bigger subsidies than countries which already possess high-tech facilities and expertise. Ultimately more people would be able to share in the prosperity.

7 THE COMPETITIVE ADVANTAGE OF MULTINATIONAL COMPANIES

After discussing the competitive advantage of nations and its impact on the international division of labour, we will now return to the level of the company. What can we say about the competitive advantage of multinationals? According to Ghoshal (1987), there are three fundamental ways of building global competitive advantage: to exploit differences in input and output markets in different countries; to exploit economies of scale; and to exploit economies of scope.

Differences in input and output markets

Porter's analysis, discussed in Section 5, is highly relevant when considering the first source of competitive advantage, i.e. differences in input market. Multinational companies have a unique advantage in that they can transfer activities from one country to another. A multinational company must have a clear home base for each product line, and that home base should be located in the country with the most favourable diamond.

> ***Nestlé has shifted the world headquarters for its confectionery business to Britain. That is because Nestlé believes that in this business the British home base is a more dynamic one because of the advertising agencies, marketing environment, and a very high per capita consumption of confectionery products in the UK…In pasta, Nestlé, has made its Italian company, Buitoni, the world centre of their pasta operations. (Porter, 1991)***

According to Porter, companies will make increasing use of this mode of operation. It is almost impossible to coordinate facilities for production, R&D, marketing and product development when they are distributed among equivalent subsidiaries in different countries. A company with a clear home base in a dynamic location will be able to innovate faster than a company which is trying to coordinate its dispersed activities. To use a popular term, companies are creating 'centres of excellence' for each activity. It is important to realize that this concept upsets the traditional notion of having one headquarters and many dependent subsidiaries. The company becomes a kind of network with different centres for different activities. We will see in later chapters that this approach is particularly compatible with what is called the transnational company.

But national differences do not exist in input markets alone; they are important in output markets as well. For one thing, consumer tastes and preferences may differ from one country to the next. Each country is likely to have a unique distribution system, unique technical requirements and unique government regulations. And even a simple difference such as climate can influence the sort of product a company will be able to sell. For example, certain materials might be sensitive to large temperature swings. A firm can turn these differences into a competitive advantage by tailoring its products to fit the unique requirements of different national markets. This is known as a strategy of national differentiation, and multidomestic companies (see later chapters) know how to apply this strategy to their advantage.

Economies of scale

A second source of competitive advantage is economies of scale (see Section 3). A firm can achieve scale economies by doing nothing more than expand the volume of its output. In scale-sensitive industries, a firm may even be forced to do this to retain its competitive viability. Otherwise, competitors will undercut its market prices by building up their own cost advantages. The nice thing about scale economies is that they can also lead to what is called the experience or learning effect. By producing the same product a large number of times, the producer will probably invent ways to make the production process more efficient. As the scale of production increases, this will lead to progressive cost reductions. While the concept of scale economies is not unique to multinational companies, the sheer size of such concerns often makes it easier to exploit them.

Economies of scope

The last source of competitive advantage is economies of scope, also called synergy effects. The basic notion here is that it can be less expensive to produce two (or more) products within the same firm than to produce them separately. Ghoshal distinguishes three important sources of economies of scope.

- The first is that the corporation must be diversified, that is produce several different products, and share not only production equipment but also cash or brand names across different companies and markets. Flexible manufacturing systems using robots to produce different items are an example of the first; cross-subsidization of markets and exploitation of a global brand name are examples of the second and third.
- A second important source of economies of scope is shared external relations. This applies to customers, suppliers, distributors, governments and other institutions. It is often easier to sell new products through existing distribution channels to existing customers.
- Finally, shared knowledge is the third important component of economies of scope. The fact that NEC can share R&D in computers *and* communications makes it possible for the company to create new products which give it a competitive advantage over competitors who are technologically strong in only one of

these areas. Again, the concept of economies of scope is not unique to multinational concerns, but they are more likely to have a diversified portfolio of companies, thereby increasing the opportunity to apply economies of scope.

In the next chapter, we will discuss how MNCs with different strategic goals use these three sources of competitive advantage.

8 SUMMARY AND CONCLUSIONS

This chapter has set the background for the remainder of this book. In the first section of the chapter, we used statistical material to demonstrate that both international trade and FDI have increased sharply in the past few decades. In the subsequent sections we discussed a number of theories which might help to explain why international trade and foreign direct investment, or multinationals, exist. We then tried to discover why certain products are produced in certain countries and described current changes in the international division of labour. This led us to two important conclusions. First: the competitiveness of nations is determined by many more factors than simply (an over-abundance of) labour, land and capital. And second: increasing globalization has had a tremendous impact on the competitive position of various countries and may lead to far-reaching social changes. Finally, in the last section we dealt with the sources of competitive advantage for multinationals.

This chapter started its analysis at the level of the country, proceeded to the multinational level, returned to the country level, progressed yet another step to the global level and finally returned to the multinational. For the time being we will remain at this level; the next three chapters will discuss the strategy and structure of MNCs, recent developments in International HRM and the role of HRM in mergers and acquisitions.

9 DISCUSSION QUESTIONS

1 Porter's diamond analyses the competitive advantage of *nations*. Show how his analysis about the role of location in international competition can be useful for multinational *companies* in two distinct ways.

2 What do you think of the future scenarios mentioned by Reich? Which scenario seems most likely to you, and why? Would your answer differ for different

industrial sectors or countries? How does Reich's work relate to the current debates about the disadvantages of globalization?

3 Find a recent example of an MNC either establishing or closing down a subsidiary in a particular country. Can you explain this decision based on either Porter's diamond or Reich's prediction of a new world order?

10 FURTHER READING

- **Dunning, J.H. (2000) 'The Eclectic Paradigm as an Envelope for Economic and Business Theories of MNE Acitivity', *International Business Review*, vol. 9, pp. 163–190.**

This paper provides an update of Dunning's thinking with regard to the eclectic paradigm, taking into account four significant developments in the 1980s and 1990s: maturation of the knowledge-based economy, integration of economic and financial activity, liberalization of markets and the emergence of several new countries as important players on the global stage.

- **Porter, M.E. (1990) *The Competitive Advantage of Nations*, London and Basingstoke: Macmillan Press.**

After his influential work on competitive advantage and competitive strategy, this book moves Porter's analysis to the country level. Although, like Dunning's eclectic theory, Porter's analysis is by no means completely novel, it shares with Dunning's theory the advantage of integrating previous work and some new insights into a comprehensive and coherent framework. The diamond framework has joined Porter's five-forces and value-chain frameworks as one of the key analytical tools in analysing competitive advantage. In particular Porter's concept of 'clusters', or groups of interconnected firms, suppliers, related industries and institutions that arise in particular locations, has been highly influential in setting public policy.

- **UNCTAD: *World Investment Report.***

UNCTAD's annual world investment reports are a treasure trove of statistical information on FDI. In addition, each annual report offers a detailed analysis of a specialized topic in international business. The past years have for instance seen reports on the role of MNCs in promoting export competitiveness (2002), linkages between foreign affiliates of MNCs and local companies in developing countries (2001), cross-border mergers and acquisitions (2000) and the impact of FDI on economic development (1999).

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2 Strategy and Structure of Multinational Companies

Anne-Wil Harzing

CHAPTER CONTENTS

1 INTRODUCTION

The main topic of this book is international and comparative human resource management. We cannot, however, look at these topics in isolation. In the previous chapter we explained the reasons for internationalization and discussed the (future) international division of labour. Human resources were shown to play an important role in several of the theories relating to internationalization. Although we did pay some attention to the multinational firm, the most important level of analysis was the country or region. In this chapter we will focus on the strategy and structure of multinational firms, where human resource management is both an input and an output factor.

In Section 3 we will combine the sources of competitive advantage for MNCs as discussed in Chapter 1 with three different strategic objectives and define four different types of competitive strategy. These strategies will subsequently be linked to the transaction cost theory of international production which was also discussed in Chapter 1. Section 4 then reviews both classical and more recent approaches to structuring MNCs and discusses Bartlett and Ghoshal's typology of MNCs in some detail. Subsequently, Section 5 provides an empirical test and extension of this popular typology. In Section 6, we then link MNC strategy and structure to HRM. In the next section, however, we will first distinguish what are considered to be the key differences between domestic and multinational firms.

2 DIFFERENCES BETWEEN DOMESTIC AND MULTINATIONAL FIRMS

Multiculturalism and geographic dispersion

Adler (1983) tried to identify the major differences between domestic and multinational firms by asking a selected group of experts in this field. Two factors were considered to be of primary importance in differentiating between domestic and multinational firms: multiculturalism and geographic dispersion. Multiculturalism is defined as 'the presence of people from two or more cultural backgrounds within an organization'. Geographic dispersion is defined as 'the location of various subunits of the parent firm in different countries'.

According to Adler the combination of *both* multiculturalism and geographic dispersion is of fundamental importance. So far, most international business studies have focused on the consequences of geographic dispersion and tended to give little attention to the consequences of multiculturalism. Most comparative management studies reversed the emphasis. They tended to focus on cultural differences, while more or less neglecting the geographic dispersion aspect of multinational firms. To get a complete picture of multinational firms, both perspectives are equally important. As the subjects in this chapter fall mainly in the realm of international business, multiculturalism will occupy only a modest role. Other chapters in this book, however, will compensate for this shortfall.

Complexity

Multiculturalism and geographic dispersion lead to greater complexity. When asked to describe this complexity more concretely by completing the statement:

'In comparison with domestic organizations, complexity is greater in multinational organizations because of…' the experts predominantly agreed with the following (the figure in parenthesis represents the percentage of experts that agreed with the statement):

- the need for multinational corporations to be more sensitive to government, labour, and public opinion concerns (91.7%) and regulations (62.5%);
- home-country philosophies and practices that are inapplicable in foreign locales (83.3%);
- the impossibility of implementing uniform personnel practices (83.3%) and performance standards (70.8%) (Adler, 1983: 15).

These different factors will be dealt with extensively in this and subsequent chapters.

Potential benefits of multiculturalism and geographic dispersion

Multiculturalism and geographic dispersion can be accompanied by both advantages and disadvantages. Regarding multiculturalism, the panel of experts made a distinction between current and future benefits. According to the panel the most important *future* benefits of multiculturalism would be:

- increasing creativity and innovation (83.3%);
- demonstrating more sensitivity in dealing with foreign customers (75%);
- being able to get the best personnel from everywhere (i.e. not being 'stuck' with just local talent (66.7%);
- taking a global perspective (e.g. the MNC choosing the best opportunities globally) (62.5%);
- creating a 'superorganizational culture', using the best of all cultures (based on the need for a unifying, transcending culture) (62.4%);
- greater flexibility within the organization both to adapt to a wider range of environments and to change within those environments (62.5%) (Adler, 1983: 21).

When the future benefits were compared with the benefits that were currently realized, the only major decrease in importance was that financial risks could be spread over a wider range of economies (–41.6%) and that more successful product-development and marketing strategies could be created in terms of both locally tailored and worldwide products (–25%). A general conclusion might therefore be that current benefits are related more to the functional areas of marketing and finance, while potential future benefits are related more to human resource management. In the next chapters we will see that human resource management is of fundamental importance in realizing an efficient and effective multinational company. In the remainder of this chapter, we will discuss the strategy and structure of multinational companies.

3 SOURCES OF COMPETITIVE ADVANTAGE AND STRATEGIC OBJECTIVES

In the previous chapter we discussed how Ghoshal (1987) identified three fundamental ways of building global competitive advantage for multinational companies. In later work these *means* for achieving worldwide competitiveness were linked to the different *ends* in terms of strategic objectives. In this section we will discuss the three major strategic objectives of multinational companies and will show how MNCs following different competitive strategies use different combinations of means and ends. In a final subsection, we will discuss work by Rugman and Verbeke that links the transactions cost theory of international production as discussed in Chapter 1 to the competitive strategies identified by Bartlett and Ghoshal.

Strategic objectives

Bartlett and Ghoshal (2000) discuss three different strategic objectives for multinational companies. They argue that multinational companies need to meet the challenges of global efficiency, multinational flexibility and worldwide learning. It is important to realize that *global efficiency* can be enhanced both by increasing revenues *and* by lowering costs. Global integration of activities allows firms to realize economies of scale and scope and hence leads to lower cost. Most authors have focused on this part of global efficiency. However, firms can also increase their revenues by differentiating their products to respond to national differences in tastes, industry structures, distribution systems and government regulations (Bartlett and Ghoshal, 2000: 242).

Multinational flexibility is defined as 'the ability of a company to manage the risks and exploit the opportunities that arise from the diversity and volatility of the global environment' (Bartlett and Ghoshal, 2000: 243). Bartlett and Ghoshal identify four sources of diversity and volatility that can offer both risks and opportunities:

- macro-economic factors, such as wars, interest and wage rates, exchange rates;
- policy actions of national governments, such as expropriation and changes in exchange rates;

- responses of competitors in the host market;
- resources, including natural, financial and human resources.

The very presence of multinational companies in diverse national environments creates opportunities for *worldwide learning*. MNCs are exposed to a wide range of different stimuli and this allows them to develop the diverse resources and capabilities that give them the ability to innovate and exploit these innovations worldwide (Bartlett and Ghoshal, 2000: 246). It is important though that the MNC creates the mechanisms and systems to facilitate learning. The existence of diversity alone does not guarantee learning.

Linking means and ends: four different strategies for multinational companies

Table 2.1 combines the sources of competitive advantage we discussed in Chapter 1 with the strategic objectives summarized above. Bartlett and Ghoshal (2000) distinguish four different strategic approaches that focus on different combinations of the sources of competitive advantage (the means) and strategic objectives (the ends).

Companies that follow a *multidomestic*[1] strategy will give prime importance to one of the *means* – national differences – to achieve the different strategic objectives. Global efficiency is realized mainly by increasing revenues, which these companies achieve through differentiating their products and services to respond to differences in consumers' tastes and preferences and government regulations. Through this responsiveness to national differences they also realize the opportunities associated with multinational flexibility. Although companies following this strategy do learn from local differences, most of this learning remains within country borders: subsidiaries identify local needs, but also use their own local resources to meet these needs. Bartlett and Ghoshal call this local-for-local innovation.

Companies that follow an *international* strategy focus primarily on one of the *ends* – worldwide learning – and use the three different means available to achieve this end. However, as Bartlett and Ghoshal indicate, most companies following this approach limited it primarily to exploitation and transfer of technologies developed at home to less-advanced overseas markets. They were in fact following Vernon's product life cycle theory as discussed in Chapter 1. The drawback of this strategy is that although it is very efficient at transferring knowledge across borders, it does not do a very good job in achieving either global efficiency or flexibility.

For companies that follow a *global* strategy, meeting the objective of global efficiency takes pride of place and all means are used to achieve this objective. With regard to the means of national differences, however, global companies focus on exploiting differences in factor costs, by locating production in low

TABLE 2.1

The means and ends of creating worldwide advantage

Strategic objectives	**Sources of competitive advantage** National differences	Scale economies	Scope economies
Global efficiency	Exploiting differences in factor costs (wages, cost of capital) and national preferences	Expanding and exploiting potential scale economies in each activity	Sharing of investments and costs across markets and businesses
Multinational flexibility	Managing risks and opportunities arising from national differences	Balancing scale with strategic and operational flexibility	Portfolio diversification of risk and creation of options and side bets
Worldwide learning	Learning from societal differences in organizational and managerial processes and systems	Benefiting from experience – cost reduction and innovation	Shared learning across organizational components in different products, markets or businesses

***Source*: adapted from Bartlett and Ghoshal, 2000: 251**

cost countries. This contrasts with multidomestic companies who, as we have seen above, focus on differences in national preferences. The concentration and centralization of production and R&D activities associated with a global strategy limits flexibility and leaves companies following this strategy vulnerable to political and currency risks. It also limits their ability to learn from foreign markets.

Companies following a *transnational* strategy acknowledge that all of these different combinations of means and ends have their own merits and might be very suitable in specific industries. However, they realize that in today's competitive environment in many industries it might be necessary to achieve all three strategic objectives *at the same time* (see also Section 4). And in contrast to companies following a multidomestic strategy, companies following this strategy use all the means available to achieve this end. However, as we will see in Section 4, this is not an easy task and requires a very different organizational structure.

Confusion of terms

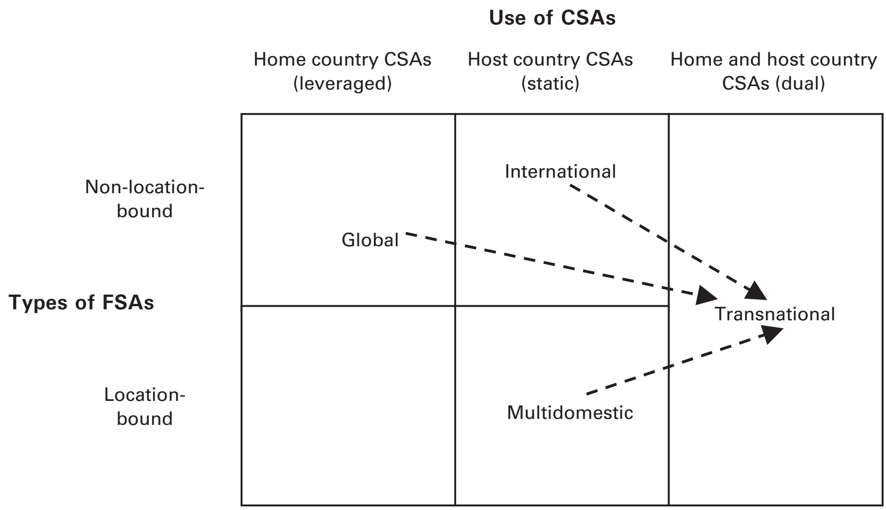
In this chapter and in the rest of this book we consistently use the terms **multidomestic, international, global** and **transnational** to describe industries, strategies and structures. In terms of strategy, there are a number of other terms in use: country-centred, simple global and complex global (Porter, 1986) and nationally responsive, worldwide integration and multifocal (Prahalad and Doz, 1987). Although the specific emphasis sometimes differs, generally speaking these terms can be compared to our terms: multidomestic, global and transnational respectively. In the marketing literature the term global is often used to describe characteristics of what we would call a transnational environment, industry, strategy or structure, while in the international economics literature, the term transnational corporation is used simply as an alternative to the generic term multinational corporation. The best advice we can give is to compare characteristics and not labels.

Competitive strategies and ownership, location and internalization advantages

Rugman and Verbeke (1992) link the transaction cost theory of international production, as discussed in the previous chapter, to the competitive strategies distinguished by Bartlett and Ghoshal. Their analysis is rather complex. However, it is probably the first attempt which successfully managed to incorporate both the economic perspective on multinationals as discussed in Chapter 1 and the managerial perspective we take in the remainder of this book. Rugman and Verbeke's analysis takes as its starting point the position that foreign direct investment has been chosen as a more efficient mode of entry than export, licensing or a joint venture. In terms of Dunning's eclectic theory: there are advantages to internalization.

Rugman and Verbeke then go on to distinguish two types of ownership-specific advantages – which they call firm-specific advantages (FSAs) – namely location-bound firm-specific advantages and non-location-bound firm-specific advantages. The benefits of location-bound firm-specific advantages depend on their being used in one particular location (or a set of locations). They cannot easily be transferred and cannot be used in other locations without significant adaptation. An example would be a firm's expertise in dealing with the idiosyncrasies of the Japanese distribution system. Transferring this specific expertise to other locations would be useless. Non-location-bound firm-specific advantages do not depend on their being used in one particular location. They can be used on a global scale, because transferring them to other locations can be done at low cost and without substantial adaptation. Best known in this respect is proprietary technology resulting from research and development

FIGURE 2.1



Sources of international competitive advantage and competitive strategies (adapted from Rugman and Verbeke, 1992: 764)

activities, but specific marketing skills and managerial capabilities can also form non-location-bound firm-specific advantages.

With regard to location advantages – or country-specific advantages (CSAs) as Rugman and Verbeke call them – they distinguish two sources: home and host country and two ways of using them: 'static' and 'leveraged'. Home country country-specific advantages, for example a highly skilled technical workforce, may be used in a 'static' way, that is to support current firm-specific advantages. However, they can also be used in a 'leveraged' way, that is to develop new firm-specific advantages, for instance a new type of technology. The same goes for host country country-specific advantages. For examples of home and host country country-specific advantages we refer to Chapter 1.

In Figure 2.1 Rugman and Verbeke distinguish the two types of firm-specfic advantages discussed above, location-bound and non-location-bound, and three different combinations of country-specific advantages:

- home country country-specific advantages, used in a leveraged way;
- host country country-specific advantages, used in a static way;
- a combination of home and host country country-specific advantages, used in either a static or a leveraged way.

The four types of competitive strategies distinguished by Bartlett and Ghoshal (1989, 2000) have been situated in this figure. The type of strategy that is captured best by the original theory on multinational firms (Dunning's eclectic theory) is the international company. The original framework assumes that firm-specific advantages are non-location bound, that is that they can be used anywhere in the world. The actual choice for the optimum location for subsidiaries in this type of company is based on static host country country-specific advantages (such as a cheap labour force). The product life cycle theory described in Chapter 1 also describes the characteristics of this type of strategy.

In the case of a multidomestic strategy, differences between countries with regard to customer preferences, market conditions and government regulation force companies to develop location-bound firm-specific advantages. These location-bound firm-specific advantages will often complement the country-specific advantages of the countries involved, such as the local marketing infrastructure or protected government markets.

A global strategy would obviously be based on non-location-bound firm-specific advantages that can be exploited on a global scale. Home country country-specific advantages are more important than host country country-specific advantages, because production operations are often concentrated in the home country.

The transnational strategy is based on a combination of location-bound and non-location-bound firm-specific advantages. Location-bound firm-specific advantages would be necessary in countries with a need for national responsiveness. Non-location-bound firm-specific advantages would permit global exploitation. With regard to country-specific advantages, the transnational strategy draws on advantages from both home and host countries. And in contrast to the situation in international and multidomestic strategies, host country country-specific advantages can also be used in a leveraged way. In Chapter 1 we already referred to the fact that the transnational company would choose the country with the most favourable domestic diamond to locate its home base for each particular Strategic Business Unit (SBU). Porter's emphasis on innovation and the constant upgrading of competitive advantages is highly compatible with the leveraged use of country-specific advantages.

4 STRUCTURING MULTINATIONAL COMPANIES

Although the choice of a company's competitive strategy is a very important decision, a successful implementation of this strategy depends to a large extent on the structure and processes of the company in question. This section therefore looks at the structuring of MNCs. We will first discuss the early studies with regard to MNC structure, focusing on Stopford and Wells's now classic stages model. However, we will see that these early studies have now been replaced by a more integrated approach which recognizes that organizational processes are as important as organizational structure. In line with our discussion in Section 3, we will focus on Bartlett and Ghoshal's four models of MNCs as a key representative of this new approach. In a final subsection, we'll discuss what has become the most influential model in the international management literature: the integration–responsive grid.

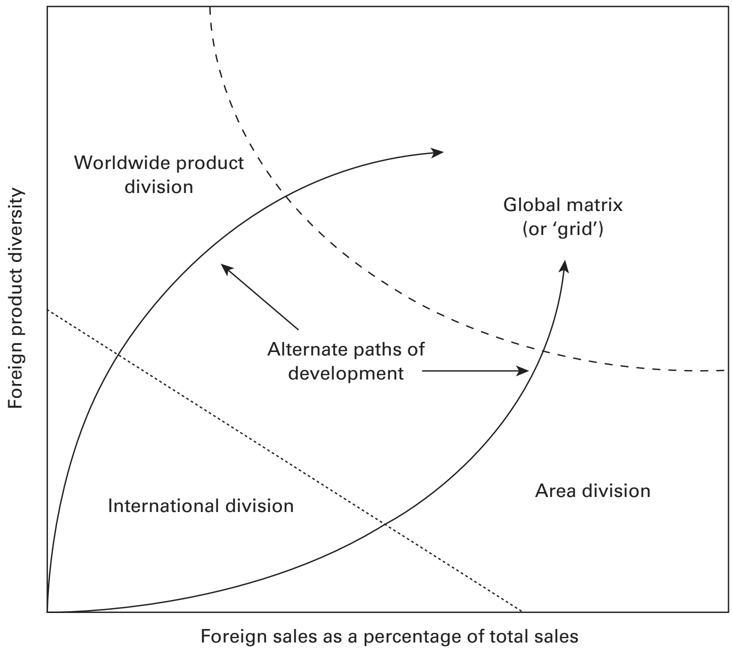
Strategy and structure: the early studies

Early studies on the structure of MNCs were usually based on the work of Chandler (1962) who proclaimed a deterministic relationship between strategy and structure. Chandler distinguished four growth strategies: expansion of volume, geographic dispersion, vertical integration, and product diversification. These strategies called for different structures, hence his adage 'structure follows strategy'. Stopford and Wells's (1972) classic study investigated this relationship in an international context. In an empirical investigation of 187 large American multinational companies, they identified two strategic variables that were able to 'predict' organizational structure: foreign product diversity and percentage of foreign sales. A model was constructed (see Figure 2.2) that showed how MNCs adopt different organizational structures at different stages of international expansion.

When firms start to internationalize and both their foreign sales and foreign product diversity are limited, the preferred organizational structure is usually an international division. The domestic organizational structure is left untouched and all international activities are simply concentrated in one international division. This might be an advantage if international presence is still very limited. It does not require a complete overhaul of the organization and the structure is simple and understandable. In addition, it creates a central pool of international experience and expertise. The international division structure does create a number of problems, however. First, it tends to underplay the importance of international activities, since the international division is only one of the many divisions of the company. It also underestimates the diversity that might be inherent in international operations: the head of the international division is assumed to represent the interest of all countries in which the company operates. In addition, the isolation of domestic and international activities may create duplication of efforts and limits the transfer of knowledge in the company. Because of the structural separation, there is a complete lack of coordination between domestic and foreign operations, which might hinder both the company's effectiveness and efficiency.

Therefore, once companies expand their international operations, they usually choose one of two worldwide structures: the area division structure or the product division structure. The choice is again dependent on the two

FIGURE 2.2



Stopford and Wells's international structural stages model (adapted from Stopford and Wells, 1972)

variables identified by Stopford and Wells. For companies that increase their foreign sales without significantly increasing product diversity, the most likely choice is a worldwide area division. In this type of structure, the world is divided into separate areas, which might be either a country or a group of countries, depending on the size of the market. In this case, the country in which the headquarters is located is simply one of the areas. Each area division usually operates in a rather autonomous way and oversees its own production, R&D, marketing, etc. This approach might work well if the company has a narrow product line (low level of foreign product diversity), which needs to be adapted to different local tastes and values. Local responsiveness is usually a key competitive advantage of these structures. Even more so than for the international division structure, however, this type of structure suffers from a lack of coordination. Activities will be duplicated and because each unit functions independently, essential information and experience may not be transferred from one unit to another. Area structures are therefore usually complemented with staff specialists for specific product categories. These staff specialists facilitate information transfer and strive to limit duplication.

Companies that are reasonably diversified (high level of foreign product diversity) usually adopt a worldwide product structure. In this type of structure, divisions are created for each major product or product group. Again divisions are relatively independent and autonomous and are responsible for their own value-creating activities (production, R&D, marketing, etc.). A major advantage of this approach is that it improves efficiency, because activities can be easily coordinated and rationalized within the product group. Transfer of core competences and knowledge is also much easier than in the area division structure. This structure works well for industries in which cost-efficiency and coordination are of paramount importance. In contrast to the area structure, however, this structure makes attention to local differences far more difficult, sometimes resulting in a lack of local responsiveness.

According to Stopford and Wells, yet another structure may be necessary if the company enters a subsequent stage, one in which both foreign sales and product diversity are high. They see the global matrix as the ideal structure for this stage of international development. This structure should combine the advantages of the area and product structure: local responsiveness and global efficiency. In the matrix structure, responsibility for a particular product is shared by both product and area managers. Many managers will have to report to two bosses: one in the product division and one in the area division. The advantage of the matrix is that it should enable a company to balance product and area requirements and achieve both efficiency and responsiveness. The reality is often different. Many matrix structures are associated with conflict, bureaucracy and slowness of decision-making. Because of shared decision-making, it is difficult to assign individual responsibility and the result may be chaos, lack of direction and inflexibility. Both in academic literature and in practice, attention has therefore shifted from matrix structures to matrix cultures and in general to the 'softer' aspects of the organization, such as people, processes and control mechanisms.

The soft side of the organization

In this chapter, we are concentrating on theories and developments related to multinational organizations. In general management literature, however, we also see a move away from the focus on structural variables and a tendency to bring 'the soft side of the organization' into the picture, combined with an emphasis on flexibility. Mintzberg, for instance, sees the adhocracy (one of his organizational configurations, the others being the simple structure, the divisionalized form, the machine bureaucracy and the professional bureaucracy) as the organization of the future (Mintzberg, 1983: 275). The adhocracy is a highly organic organization, flexible and decentralized to cope with dynamic and complex environments, with mutual adjustment as a rather informal coordination mechanism. Mintzberg indicates that diversified markets formerly led multinationals to using the divisionalized form, grouping their major divisions either by area or by product line. However, 'those multinational firms with interdependencies among their different product lines, and facing increasing complexity as well as dynamism in their environment will feel drawn toward the divisionalised adhocracy hybrid.' (Mintzberg, 1983: 269). More than 40 years ago Burns and Stalker (1961) had already identified the organic organization – with characteristics such as continual adjustment, lateral communication and commitment – as opposed to the mechanic organization. And finally, in Peters and Waterman's best-seller *In Search of Excellence* (1982) the 'soft' aspects of organizing – skills, shared values, style (of management) and staff – are at least as important as the formal aspects of structure, strategy and systems.

Strategy and structure: recent developments

In the previous section we discussed the early approaches to the structuring of MNCs, based on Stopford and Wells's seminal work. We also indicated that nowadays more sophisticated approaches have developed. These approaches take a more integrated approach by looking at the interaction between environment, strategy, structure and processes. Table 2.2 summarizes these ideas. It is based on the environment–strategy–structure paradigm, which suggests that superior company performance comes from a good fit between strategy and environmental demands, and between organizational structure (and processes) and strategy.

A prime example of this more integrated type of approach described above, is Bartlett and Ghoshal's (1989, 2000) typology of international firms that includes a discussion of the changing international and industry environment as well as the company's strategy, structure and processes. Bartlett and Ghoshal distinguish four types of MNCs: multidomestic, international, global and transnational.

Multidomestic organizational model

The period between the two world wars was characterized by a rise in nationalistic feelings. Countries became more and more protectionist and erected high tariff barriers. There were large national differences in consumer preferences and communication and logistical barriers remained high. These circumstances favoured national companies. For *multinational* companies, the strategy of centralized production in order to capture economies of scale, combined with exports to various countries, was made impossible by high tariff and logistical barriers. In order to be able to compete with national companies, multinational firms had to set up a larger number of foreign manufacturing

TABLE 2.2

Environment, strategy, structure, systems and processes in MNCs

Environment: Historical	Environment: Industry	Strategy	Structure	Systems and processes
Changes in international environment	Pattern of international competition	Company's strategic response	Company's organizational structure	Company's control mechanisms

Source: **adapted from Martinez and Jarillo, 1989**

subsidiaries. Differences in consumer preferences and high communication barriers led to a decentralization of decision-making, so that the foreign subsidiaries were relatively independent of their headquarters. Even now, many industries have multidomestic characteristics. A prime example of a multidomestic industry is the branded packaged products industry (e.g. food and laundry detergents). Companies in these industries preferably follow a multidomestic strategy, which gives primary importance to national responsiveness. Products or services are differentiated to meet differing local demands. Responsiveness to the differences that distinguished national markets led multidomestic companies to decentralize organizational assets and decision-making. This resulted in a configuration that can be described as a decentralized federation. The decentralized federation is organized by area, that is by geographical region. This kind of structure – which is comparable to the area division structure of Stopford and Wells – was particularly compatible with the management norms of the mainly European companies that sought international presence in this particular era. Family ownership had been the dominant tradition and therefore organizational processes were built on personal relationships and informal contacts rather than formal structures and systems. Operational decisions were simply delegated to trusted parent company nationals who were assigned abroad. The main approach to controlling and coordinating foreign subsidiaries was a rather informal one: direct personal contact between headquarters and subsidiary managers. Some simple financial control systems often supplemented this informal coordination.

International organizational model

The post-war years were characterized by a worldwide boom in demand. Consumers were making up for the years of scarcity and soberness. The United States was in a predominant economic position during this period. Most European companies were preoccupied with the reconstruction of their domestic operations, while American companies were almost untouched by the war.

US companies developed new technologies and products. They were almost forced into the international market by spontaneous export orders and opportunities for licensing. Later they started making their products in manufacturing facilities in Western Europe and in developing countries. The adjective 'international' refers to the international product life cycle, which describes the internationalization process in this type of industry. The critical success factor in these industries is the ability to transfer knowledge (particularly technology) to units abroad. It involves sequential diffusion of innovations that were originally developed in the home market. A classic example of an international industry is telecommunications switching. In the international organizational structure, transfer of knowledge and expertise to countries that were less advanced in technology or market development is the essential task. Local subsidiaries do still have some freedom to adopt new products or strategies, but coordination and control by headquarters is more important than in the multidomestic type. Subsidiaries are dependent on the parent company for new products, processes or ideas. A coordinated federation, often structured by function, is the name for the structural configuration of this organizational model. The managerial culture of these companies provided a good fit with this structure. This culture was based on professional management, which implied a certain willingness to delegate responsibility. At the same time, however, these companies used sophisticated management systems and specialist corporate staff to retain overall control.

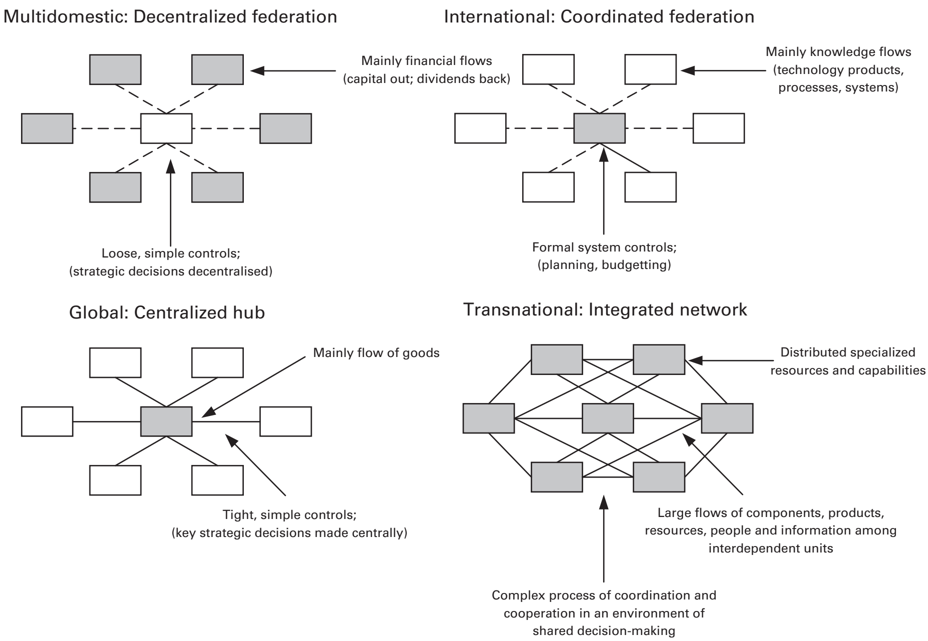
Global organizational model

In the 1960s and 1970s the successive reductions in tariff barriers began to have their full impact. This was accompanied by declining international transport costs and communication barriers. Furthermore, new electronic technologies increased the minimum efficient scale in many industries. Finally, consumer preferences became more homogeneous because of increased international travel and communication. All these developments made centralized and relatively standardized production with exports to various countries profitable again. In a global industry, standardized consumer needs and scale efficiencies make centralization and integration profitable. In this kind of industry, a firm's competitive position in one country is significantly influenced by its position in other countries, and rivals compete against each other on a truly worldwide basis. A classic example of a global industry is consumer electronics. The preferred strategy in these industries is one that gives primary importance to efficiency. Global companies integrate and rationalize their production to produce standardized products in a very cost-efficient manner. This is the strategy traditionally followed by Japanese MNCs, which mainly internationalized in the 1970s. In a global organizational configuration, assets, resources and responsibilities are centralized. The role of subsidiaries is often limited to sales and service. Compared with subsidiaries in multidomestic or international organizations, they have much less freedom of action. The structural configuration of this organization is called a centralized hub – comparable to Stopford and Wells's product-division structure. This configuration was particularly compatible with the managerial norms and processes in Japanese companies. Centralized decision-making and control allowed these companies to retain their complex management system requiring intensive communication and personal commitment.

Transnational organizational model

By the late 1970s, there was a rising concern on the part of host countries about the impact of MNCs on their balance of trade, national employment levels, and on the international competitiveness of their economies. Consequently, they gradually started to exercise their sovereign powers. Trade barriers were erected again to limit exports and foreign direct investments were regulated by industrial policies. In addition, other forces counteracted the previous globalization process. Flexible manufacturing reduced the minimum efficient scale by employing robotics and CAD/CAM technologies. The use of software became important in a growing number of industries (from telecommunications to computers and consumer electronics). This development facilitated responding to consumers who were again asking for products tailored to their local needs. The problem is that we do not see a complete reversal to the multidomestic era again. The worldwide innovation of the international era and the global efficiency of the global era remain important competitive factors and companies should pay attention to global efficiency, national responsiveness and worldwide learning at the same time. In order to be able to do this, their strategy must be very flexible. The strategy (literally) is to have no set strategy, but to let each strategic decision depend on specific developments. Strategy becomes unclear and it may dissolve into a set of incremental decisions with a pattern that may only make sense after the fact. Issues are shaped, defined, attended to and resolved one at a time in a 'muddling through' process. A transnational strategy would be a deliberately planned strategy to have an 'adaptive' (Mintzberg, 1988a), 'incremental' (Quinn, 1988), 'muddling through' (Lindblom, 1987) or 'emergent' (Mintzberg, 1988b) strategy. The type of organization structure that fits a transnational strategy is very flexible. Bartlett and Ghoshal refer to an integrated network structure that links major sub-units of the company together. Assets, resources and capabilities are neither centralized nor completely decentralized. Expertise is spread throughout the organization and subsidiaries can serve as a strategic centre for a particular product–market combination. To use a popular term, companies are creating 'centres of excellence' for each activity. It is important to realize that this concept upsets the traditional notion of having one headquarters and many dependent subsidiaries. The company becomes a kind of network with different centres for different activities. Each centre can have a strategic role for a particular area. The main characteristics of these four organizational models are summarized in Figure 2.3.

FIGURE 2.3

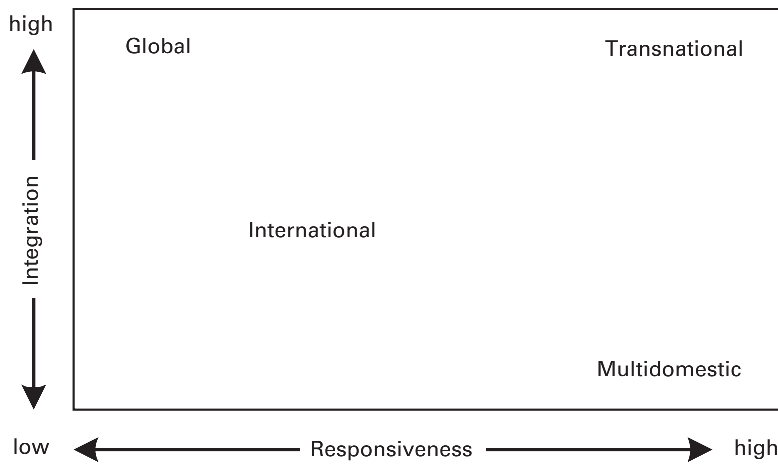


Characteristics of the four organizational models (adapted from Bartlett and Ghoshal, 2000: 508, 514)

The integration–responsiveness framework

In a recent discussion about the international management research community Bartlett and Ghoshal (2002: 7) identify the integration-responsiveness (I–R) framework (see Figure 2.4) as the 'almost universally adopted lens for viewing both the strategic content and the organizational processes that defined the operations of the MNC'. Its origins are generally seen to lie in the doctoral dissertations of C.K. Prahalad and Yves Doz in the mid-1970s, although the influence of the contingency framework of Lawrence and Lorsch (1967) is universally acknowledged. Rugman (2002) indicates that the framework might even have earlier roots in Fayerweather's (1960, 1969) textbooks that present a model of 'unification vs. fragmentation'. Regardless of its exact origins, however, the integration–responsiveness framework remains an excellent tool to diagnose the conflicting demands on MNCs, both in terms of strategy

FIGURE 2.4

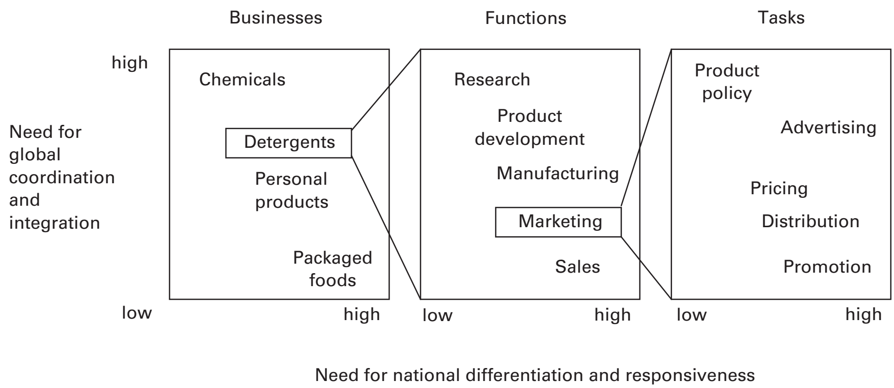


The integration–responsiveness framework

and in terms of organization structure. The vertical axis represents the level of global integration, and hence of central coordination by headquarters; the horizontal axis represents the extent of national responsiveness or differentiation, and consequently of the desired influence of subsidiaries in strategic and operational decisions. For a detailed discussion of the framework we refer to Prahalad and Doz (1987). The four organizational models presented by Bartlett and Ghoshal can be positioned on the I–R grid as portraying different levels of integration and responsiveness.

Although this framework is very convenient to summarize the different organizational models, there are some additional issues that should be emphasized. First, the place of the transnational in the upper right-hand corner does not mean that it is always high on both integration and responsiveness. The transnational approach is to decide whether to emphasize integration or responsiveness for each particular situation. The accent can be different for each business, function, task or country. Figure 2.5 shows the varying needs for global integration and national responsiveness in Unilever's business strategies, functional strategies and tasks. Second, the aspect of worldwide learning and innovation, dominant for international companies and also very important for transnational companies, is not adequately captured in the framework. This is not surprising because the constructors of the framework did not distinguish international companies. This makes it difficult to position the international

FIGURE 2.5



Integration and differentiation needs at Unilever (adapted from Bartlett and Ghosal, 1989: 97)

organizational model in the framework. Some authors (Sundaram and Black, 1992) simply equate it with the transnational configuration, while other authors (Ghoshal and Nohria, 1993; Welge, 1996) place it in the lower left corner. As we indicated above, an international strategy assumes *some* concern with both integration and responsiveness. We therefore argue that the actual position would lie in between, leaning somewhat more to the lower left corner.

5 AN EMPIRICAL TEST OF TYPOLOGIES OF MULTINATIONAL COMPANIES

Bartlett and Ghoshal's typology, as described in the previous section, is probably the most popular typology of MNCs in both academic and professional circles. However it was based on an in-depth study of just nine multinational companies in three different industries and includes few specifics about structural elements and the use of different control mechanisms. This section therefore describes the results of a large-scale empirical test and extension of their typology in over 100 MNCs from nine different countries (USA, Japan, Germany, France, UK, Sweden, Switzerland, Finland and the Netherlands), operating in eight different industries: consumer electronics, computers, automobile, petroleum, food & beverages, pharmaceuticals, chemicals and paper.

Subsidiaries in 22 different countries were included in the study (for a more detailed description of the results see Harzing, 1999, 2000).

Based on Bartlett and Ghoshal's typology, ideal profiles of three different types of MNCs were constructed: multidomestic, global and transnational. The international model was not included since previous studies had shown that this differed little from the other models. Following Bartlett and Ghoshal, the strategic orientation of global firms was defined as building global efficiency, while the main strategic thrust of multidomestic firms was defined as responding to national differences. Transnational companies would have to cope with both strategic demands at the same time. Competition was expected to take place at a global level for both global and transnational companies, while multidomestic firms would be more oriented towards domestic competition, since national product markets are too different to make competition at a global level possible. These four aspects of competitive strategy were used as input for a cluster analysis. As predicted, three clear clusters emerged. A first group, which was labelled multidomestic, combined a high score on national responsiveness with a high score on domestic competition and scored lowest on both global competition and global efficiency. The second group – termed global – had an opposite profile, high global and low domestic competition, a low level of national responsiveness and a high level of global efficiency. Firms in the transnational cluster combined a focus on national responsiveness and global efficiency with a high level of global and a low level of domestic competition. Subsequently, we compared these three clusters of MNCs on a large number of characteristics related to organization design, interdependence, local responsiveness and the level and type of control. Table 2.3 gives a summary of the characteristics that were found to be significantly different between the three models.

Typology elements

Organizational design

The organizational structure of the global company is centralized and globally scaled and the main role of subsidiaries is to implement parent company strategies, that is: act as pipelines of products and strategies. The multidomestic firm is characterized by a decentralized and loosely coupled organizational structure. With regard to strategy, the transnational has characteristics of both multidomestic and global firms. In organizational design terms, the transnational shows some unique features as well: it functions as an integrated and interdependent network, subsidiaries can have strategic roles and act as centres of excellence and we find a large flow of products, people and information *between* subsidiaries. In global companies, flows transfer mostly from headquarters to subsidiaries, while multidomestic companies are characterized by a lower overall flow of products, people and information.

TABLE 2.3

Typologies of multinational companies

Organizational Strategy	Multidomestic	Global	Transnational
Organizational design & subsidiary role			
• Decentralized federation	High	Low	Low
• Network structure	Low	Low	High
• Inter-subsidiary flows	Low	Low	High
• HQ's pipeline	Low	High	Low/medium
• Centres of excellence	Low	Low	High
Interdependence			
• Total level of interdependence	Low	High	High
• Level of HQ dependence (*de*pendence)	Low	High	Medium
• Level of subsidiary dependence (*inter*dependence)	Low	Low	High
Local responsiveness			
• Local production	High	Low	Medium
• Local R&D	High	Low	Medium
• Product modification	High	Low	High
• Adaptation of marketing	High	Low/ Medium	High
Level and type of control			
• Total level of control	Low	High	Medium
• Level of personal centralized control	Low	High	Low
• Level of bureaucratic formalized control	Low	High	Medium
• Level of output control	Medium	Medium	Medium
• Level of control by socialization and networks	Medium	Medium	High

Interdependence

Interdependence indicates the extent to which various units of a MNC are dependent on each other and hence gives an impression of the level of integration within the MNC as a whole. It is therefore an important element of MNC structure. We distinguish three different levels of interdependence. First *in*dependence, that is the subsidiary is not or hardly dependent on headquarters or other subsidiaries and is operating very much as a stand-alone company. Second *de*pendence, that is the subsidiary is mainly dependent on headquarters. Finally, *inter*dependence: the subsidiary, headquarters and other subsidiaries form part of an interdependent network, they are all dependent on each other.

The majority of subsidiaries in multidomestic companies are relatively *in*dependent from both headquarters and subsidiaries. Since this relationship may seem almost tautological with our description of a decentralized organization, interdependence was measured in a very objective way: the percentage of intra-company sales and purchases in relation to total sales and purchases. Subsidiaries in multidomestic companies buy/sell a low proportion of their purchases/sales from/to both headquarters and other subsidiaries. In global companies many subsidiaries have a sales function only, simply transferring products from headquarters to the local market. Therefore the level of interdependence between individual subsidiaries and headquarters is greater than the level of interdependence between different subsidiaries. Thus in subsidiaries of global companies *de*pendence is more important than *inter*dependence. In transnational companies, we also see a relatively high level of intra-company sales and purchases. However, since strategic functions such as production may be assumed by specialized subsidiaries, the level of interdependence between different subsidiaries is higher than the level of interdependence between individual subsidiaries and headquarters. In other words, in subsidiaries of transnational companies *inter*dependence is more important than *de*pendence.

Local responsiveness

Local responsiveness is defined as the extent to which subsidiaries respond to local differences in customer preferences. There are several ways in which responsiveness to local differences can be conceptualized. First of all, products can be actively adapted to differences in local tastes and preferences. Since being locally responsive is a key strategic requirement for both multidomestic companies and transnational companies, a relatively large proportion of products that are sold by their subsidiaries are adapted or modified to the local market. In many industries that are traditionally characterized as multidomestic, such as for instance the food industry (Bartlett and Ghoshal, 1989; Kobrin, 1994; Porter, 1986; Rall, 1989), adaptation of products is also easier and less costly than for global products such as computers. As the key strategic requirement for global companies is to manufacture standardized products in a cost-efficient way, their subsidiaries do not sell a high proportion of products modified for the local market.

In a more limited sense, local responsiveness might involve adaptation of marketing to local circumstances to make products more appealing to a variety of customers. Because both multidomestic companies and transnational companies place a high emphasis on local responsiveness, for products sold by subsidiaries of these companies a high percentage of marketing is consciously adapted to local circumstances. In subsidiaries of global companies, which try to sell relatively standardized products worldwide, a lower extent of marketing adaptation takes place. However, since adaptation of marketing is a rather easy and not too expensive way to be responsive to local markets, the difference for this measure is lower than for product modification.

Although local production and local R&D are not absolutely essential for a company to be locally responsive, a local presence in this respect does make it easier. Having production and R&D close to the end customer makes it easier to pick up and perform the adaptations that are required to successfully sell the product in a country. Global companies are less likely to locate these parts of the value chain close to the customer, since they will feel less need to access this type of market information. Products sold by subsidiaries of both multidomestic and transnational companies therefore have a higher local production and R&D content than products sold by subsidiaries of global companies. However, since transnational companies also have to respond to the demand for cost efficiency by focusing on economies of scale, they are not as prone as multidomestic companies to duplicate value chain activities. Subsidiaries of transnational companies are therefore less likely to perform local production and R&D and hence products sold by subsidiaries of transnational companies have a lower local production and R&D content than products sold by subsidiaries of multidomestic companies.

Control mechanisms

Control mechanisms can be defined as the instruments that are used to make sure that all units of the organization strive towards common organizational goals. Numerous control mechanisms have been identified. However, an extensive literature review (Harzing, 1999), resulted in a synthesis of four major types of control mechanisms, as summarized in Table 2.4.

Personal centralized control. This control mechanism denotes the idea of some kind of hierarchy, of decisions being taken at the top level of the organization and personal surveillance of their execution. The terms used by various authors to describe this control mechanism are: centralization, hierarchy and a direct personal kind of control.

Bureaucratic formalized control. The control mechanisms in this category are impersonal (also called bureaucratic) and indirect. They aim at pre-specifying, mostly in a written form, the behaviour that is expected from employees. In this way, control can be impersonal because employees can and should refer to the 'manual' instead of directly being told what to do. The terms used by various authors to describe this type of control are: bureaucratic control, formalization, rules, regulations, paper system and programmes.

Output control. The main characteristic of this category is that it focuses on the outputs realized instead of on behaviour (as the other three control mechanisms do). These outputs are usually generated by the use of reporting or monitoring systems and can take any form from rather general aggregated financial data to detailed figures regarding sales, production levels, productivity, investments, etc. Thus, the key element that distinguishes this control mechanism from the two previous ones is that instead of particular courses of

TABLE 2.4

Classification of control mechanisms on two dimensions

	Personal/cultural (founded on social interaction)	**Impersonal/bureaucratic/ technocratic (founded on instrumental artefacts)**
Direct/explicit	Category 1: Personal centralized control	Category 2: Bureaucratic formalized control
Indirect/implicit	Category 4: Control by socialization and networks	Category 3: Output control

action, certain goals/results/outputs are specified and monitored by reporting systems. The terms used by various authors to describe this type of control are: result control, plans, output control, goal setting.

Control by socialization and networks. Compared to the other categories this control mechanism is rather informal, subtle and sophisticated. We can distinguish three main sub-categories in this broad category. The first is *socialization*, which can be defined as ensuring that employees share organizational values and goals, that is, are socialized into a common organization culture. Another frequently used term is, cultural control. The second, *informal, lateral or horizontal exchange of information* uses non-hierarchical communication as a control mechanism. Terms often used are: mutual adjustment, direct (managerial) contact, informal communication and coordination by feedback. The third, *formalized lateral or cross-departmental relations*, has the same objectives as the second, increasing the amount of (non-hierarchical) information processing, with the difference that in this case the relationships are (temporarily) formalized within the organizational structure. Examples are task forces, cross-functional teams, integrative departments.

Headquarters in multidomestic MNCs, in which subsidiaries are relatively independent, operate as stand-alone companies and are very responsive to the local market, exercising a lower level of control over their subsidiaries than headquarters in global or transnational MNCs. If any control is exercised over subsidiaries in multidomestic companies, headquarters chooses one of the more indirect ways of control: output control or control by socialization and networks.

Since subsidiaries in global and transnational companies show a higher level of interdependence, they also show a higher level of total control. They do differ in their preferred control mechanisms, though. Personal centralized control is rather high for global companies as they are characterized by a centralized hub structure in which headquarters takes the most important decisions. In the integrated network type of structure that characterizes the transnational, subsidiaries can have a more strategic role, which makes centralization of decision-making less feasible. Bureaucratic control is high for global companies as well. Since global companies try to sell standardized products, a high level of standardization is a logical choice. Transnationals are much more differentiated and have to act in very flexible ways. This makes standardization and formal procedures less feasible. Output control, operationalized in our study as financial reporting and planning and budgeting systems, is used by all MNCs to some extent, while the complexity and uncertainty of the transnational environment has led many transnational firms to adopt what Martinez and Jarillo call 'more informal and subtle coordination mechanisms' in the form of control by socialization and networks.

In summary: three ideal-type multinational companies

In summary, our empirical study was able to clearly distinguish three types of MNCs which differed systematically on a number of important characteristics. *Global companies* operate in industries with rather standardized consumer needs that make the realization of economies of scale very important. Many industries have turned global during the last decades, but the consumer electronics, computer and automobile industries remain prime examples. Since price competition is very important, the dominant strategic requirement is efficiency, and these companies therefore integrate and rationalize their production to produce standardized products in a very cost-efficient manner. Subsidiaries in global companies typically fulfil a 'pipeline' role for headquarters. They are usually very dependent on headquarters for their sales and purchases and are not expected to respond actively to the local market demands in terms of – for example – product adaptation. A relatively low percentage of subsidiaries have 'strategic' functions such as production or R&D. The total level of control exercised by headquarters over these subsidiaries is rather high, mainly caused by a high level of the two direct control mechanisms: personal centralized control and bureaucratic formalized control. The global configuration is most typical of German and Japanese MNCs.

Multidomestic companies are the complete reverse of global companies. Products or services are differentiated to meet differing local demands, and policies are differentiated to conform to differing governmental and market demands. Local demand is determined by cultural, social and political differences between countries. The food and beverages industry is a classical example of a multidomestic type of industry, but many firms in the paper industry also score high on multidomestic characteristics. The multidomestic firm is characterized by a decentralized and loosely coupled organizational structure. Subsidiaries operate relatively independently from headquarters: they buy/sell a very low proportion of their input/output from/to headquarters. They are responsive to the local market, and adapt both products and marketing to local circumstances. This is made easier by the fact that products are often produced locally, which is reflected in a relatively high percentage of subsidiaries that have a production function. Not surprisingly, the total level of control exercised by headquarters over these subsidiaries is rather low, especially the two direct control mechanisms: personal centralized control and bureaucratic formalized control, which are used to a very low extent. The multidomestic configuration is most typical of French and British and to a lesser extent Finnish and Swedish MNCs.

In a sense, a *transnational company* combines characteristics of both global and multidomestic companies, in that it tries to respond simultaneously to the sometimes conflicting strategic needs of global efficiency and national responsiveness. In addition, the transfer of knowledge is very important for these companies. Expertise is spread throughout the organization, and subsidiaries can serve as a strategic centre for a particular product–market combination. Although we cannot yet identify 'typical' transnational industries, the pharmaceutical industry comes close and many MNCs in the food industry are also moving towards a more transnational type of company. Subsidiaries in this type of company are more dependent on other subsidiaries for their in- and outputs than on headquarters, which confirms the network type of organizational structure which is said to be typical of transnational companies. Subsidiaries are usually very responsive to the local market, and are more likely to have a strategic role such as production or R&D. The level of control exercised over subsidiaries in transnational companies is nearly as high as for global companies. This is mainly due, however, to a high level of control by socialization and networks. The transnational configuration is most typical of American, Dutch and Swiss MNCs.

6 HUMAN RESOURCE MANAGEMENT IN MNCs

Now that we have discussed the strategy and structure of MNCs in some detail, it is time to link this discussion with the main focus of this book: human resource management. We will look at recent developments in IHRM theory in more detail in the next chapter. However, there are two aspects of HRM in MNCs that we would like to briefly introduce here. First, we will look at the link between international mindsets on the one hand and MNC strategy, structure and HRM on the other, focusing on Perlmutter's (1969) seminal study. Secondly, we will links these mindsets to the notion of transfer of HRM practices within MNCs, a subject which will be discussed in much more detail in Chapter 15.

Perlmutter's international states of mind

Perlmutter (1969) distinguished three states of mind or attitudes of international executives: ethnocentric (or home-country oriented), polycentric (or host-country oriented) and geocentric (or world-oriented). Table 2.5 summarizes the implications of these three types of headquarters orientation. These attitudes should be regarded as ideal types. Every firm will probably have some degree of ethnocentrism, polycentrism and geocentrism, but usually one can distinguish a dominant state of mind. The ethnocentric attitude implies that management style, knowledge, evaluation criteria, and managers from the home country are thought to be superior to those of the host country. A logical consequence is that only parent-country nationals are considered to be suitable for top management positions, both at headquarters and in the subsidiaries. The polycentric attitude takes a completely different point of view. It explicitly recognizes differences between countries and believes that local nationals are in the best position to understand and deal with these country-specific factors. A local manager, however, will never be offered a position at headquarters, because parent-country nationals are considered to be more suitable for these positions. Geocentrism is world oriented. A geocentric company draws from a worldwide pool of managers. Managers can be appointed at headquarters or subsidiaries regardless of their nationality.

The three different attitudes are easily linked to Bartlett and Ghoshal's organizational models as discussed in previous sections. Global (and to a lesser extent international) companies will tend to be characterized by an ethnocentric attitude, multidomestic companies by a polycentric attitude, while the geocentric attitude will be most typical of transnational companies.

In later literature Perlmutter's headquarters orientations became equated with international HRM strategies, especially staffing policies, and it has become common practice to talk about ethnocentric, polycentric and geocentric staffing policies (see also Chapter 10). However, Perlmutter's model should not be seen as a prescriptive model as it certainly does not guide a HRM practitioner in making specific choices about task design, training programmes, compensation packages, etc. In the next chapter and in Part 3 of this book, we will look at these various aspects of International HRM in more detail.

The transfer of HRM practices across borders

One of the central questions in MNC literature is the extent to which subsidiaries adapt their practices to local circumstances and behave as local firms (local isomorphism) versus the extent to which their practices resemble those of their parent company (internal consistency). Since the HR function deals with human resources and hence is confronted with differences in culture and local regulations to a larger extent than for instance the finance or production

TABLE 2.5

Three types of HQ orientation

Organization design	Headquarters orientation: Ethnocentric	Polycentric	Geocentric
Complexity of organization	Complex in home country, simple in subsidiaries	Varied and independent	Increasingly complex and interdependent
Authority, decision-making	High in headquarters	Relatively low in headquarters	Aim for a collaborative approach between headquarters and subsidiaries
Communication, information flow	High volume to subsidiaries (orders, commands, advice)	Little to and from headquarters; little between subsidiaries	Both ways and between subsidiaries; heads of subsidiaries part of management team
Identification	Nationality of owner	Nationality of host country	Truly international company but identifying with national interests
Perpetuation (recruiting, staffing, development)	Recruit and develop people of home country for key positions everywhere in the world	Develop people of local nationality for key positions in their own country	Develop best people everywhere in the world for key positions everywhere in the world

Source: **adapted from Perlmutter, 1969: 12**

function, it will tend to be more localized than most other functional areas. However, MNCs *do* differ in the extent to which they transfer their HR practices to their overseas subsidiaries. Taylor et al. (1996) distinguish three orientations that reflect the general philosophy underlying the MNC's international HRM system: adaptive, exportive and integrative. MNCs with an *adaptive* orientation design HRM systems for their subsidiaries that are reflective of the local environment (high local isomorphism, low internal consistency). This is consistent with Perlmutter's polycentric orientation. An *exportive* orientation leads MNCs to transfer their parent company HRM system to their subsidiaries (low local isomorphism, high internal consistency) and is consistent with Perlmutter's ethnocentric approach. Finally, an *integrative* approach combines internal consistency with allowance for some local isomorphism and attempts to use the 'best practices' which can originate from both the parent company and the subsidiaries. It is of course linked to Perlmutter's geocentric approach.

Although this is a convenient typology, few MNCs will neatly fit any of these three ideal types. The extent of transfer will depend on the restrictiveness of employment regulations in the host environment, the level of cultural and institutional differences between home and host country and the role and function of individual subsidiaries. MNCs can follow an exportive approach for some subsidiaries and an adapative or integrated approach for others. Moreover, different HRM practices might be subject to different levels of local adaptation. Rosenzweig and Nohria (1994) for instance found that the extent of annual paid time off, which is usually determined by local legislation, was far more likely to resemble local practices than the extent to which bonuses are used in executive compensation or the extent of participation in executive decision-making, both of which tended to show a higher level of internal consistency (see Myloni, 2002 and Myloni, Harzing and Mirza, 2003 for a more extensive discussion).

We refer to Chapter 15 for a further analysis of the reasons for transfer of HR practices, or more generally employment practices as they are called in that chapter; explanations for variations between MNCs in the extent of transfer; an answer to the question, 'In which countries within MNCs are practices that are transferred likely to originate?'; and a discussion of the likely nature of the relations between different groups within MNCs in the transfer process.

7 SUMMARY AND CONCLUSIONS

This chapter provided the second and final background chapter for the remainder of this book. We started with a general discussion of the key differences between domestic and international companies. We then discussed the different options that MNCs have in terms of strategy and structure in some detail and showed that these can be combined into a typology of MNCs that stands up to empirical verification. We also provided a preview of the link between strategy, structure and HRM, an issue that will be further explored in the next chapter.

8 DISCUSSION QUESTIONS

1 Describe the major types of multinational organizational structures according to the Stopford and Wells stages model. What are their respective advantages and disadvantages?

2 Describe the key characteristics of multidomestic, international, global and transnational companies. Would you agree that it would be best for most companies to follow the transnational model?

3 Take a multinational company of your choice and describe its organizational model. Do you feel this model is effective, given the company's product/market?

4 How can you link Perlmutter's international orientations and Taylor et al.'s IHRM orientations to Bartlett and Ghoshal's MNC models? What are the limitations of these models?

9 FURTHER READING

- **Bartlett, C.A., Ghoshal, S. (1989) *Managing across Borders. The Transnational Solution*, Boston, MA: Harvard Business School Press.**

The now classic book that introduced the concept of the transnational company and the focus on systems and processes as opposed to formal structures.

- **Harzing, A.W.K. (1999) *Managing the Multinationals: An International Study of Control Mechanisms in Multinational Companies*, Cheltenham: Edward Elgar.**

This book describes a large-scale empirical study into the strategy, structure and control mechanisms of 289 subsidiaries of MNCs headquartered in nine different countries.

- **Nohria, N., Ghoshal, S. (1997) *The Differentiated Network: Organizing Multinational Corporations for Value Creation*, San Francisco: Jossey-Bass.**

This book gives an excellent summary and integration of Nohria and Ghoshal's body of work on MNC structure since the mid-1980s.

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NOTE

1 Because we prefer to use the term *multinational* as a general term describing companies operating in more than one country, we have consistently substituted for Bartlett and Ghoshal's term multinational the comparable term *multidomestic*.

3 International Human Resource Management: Recent Developments in Theory and Empirical Research

Hugh Scullion and Jaap Paauwe

CHAPTER CONTENTS

1 INTRODUCTION

Nearly two decades ago, international human resource management (IHRM) was described as a field in the infancy stage of development (Laurent, 1986). The majority of research on multinational companies focused on highly visible activities such as international production and international marketing (Ondrack, 1985) and IHRM was one of the least studied areas in international business (Scullion, 1995). Also, the bulk of research in this field had been conducted by US researchers from an American rather than an international perspective (Boyacigiller and Adler, 1991). A further critique suggested that the IHRM literature suffered from the conceptual and normative limitations characteristic of much domestic personnel management research, and was not very useful in identifying the actual HR practices of MNCs (Kochan et al., 1992). Pucik (1992) argued that the rapid pace of globalization has led to a more strategic role for HRM as well as leading to changes in the content of HRM, and suggested that the need for a systematic approach to studying international HRM is increasingly being recognized. There has been a rapid development of the field of international HRM over the past decade (Black et al., 1999; Dowling et al., 1999), including the development of more sophisticated theoretical work in the area. One significant indicator of the growing importance of IHRM is the rapidly growing body of research on the IHRM strategies and practices of MNCs taking place outside North America (Brewster and Harris, 1999).

The main reasons for the growth of interest in international HRM over the last decade have been outlined by Scullion (2001):

1 The rapid growth of internationalization and global competition has increased the number and significance of MNCs in recent years (D'Aveni, 1995; Segal-Horn and Faulkner, 1999) and resulted in the increased mobility of human resources (Brewster and Scullion, 1997).
2 The effective management of human resources is increasingly being recognized as a major determinant of success or failure in international business (Black et al., 1999) and it has been argued that the success of global business depends most importantly on the quality of management in the MNC (Stroh and Caligiuri, 1998).
3 Underperformance or failure in international assignments continues to be costly, both in human and financial terms, and research suggests that the indirect costs of poor performance in international assignments such as damage to foreign customer relations may be particularly costly (Dowling et al., 1999).
4 The implementation of global strategies is frequently constrained by shortages of international management talent (Caligiuri and Cascio, 1998), which constrain corporate efforts to expand abroad (Scullion, 1992).
5 International HRM issues are becoming increasingly important in a wider range of organizations partly due to the rapid growth of small and medium sized enterprise (SME) internationalization in recent years (Mulhern, 1995; Scullion, 1999). Research suggests that theories of internationalization that have been developed from research in larger MNCs do not adequately explain the approaches used in smaller firms (Forster, 1999; Monks and Scullion, 2001).
6 The movement away from more traditional hierarchical organizational structures towards the network MNC organization has been facilitated

by the development of networks of personal relationships and horizontal communication channels (Bartlett and Ghoshal, 1990; Forsgren, 1989, 1990), and it has been argued that HR plays a more significant role in network organizations (Marschan et al., 1997).

7 Finally, there is growing evidence that HR strategy plays a more significant role in implementation and control in the international firm (Scullion and Starkey, 2000). It has been suggested that in a rapidly globalizing environment, many MNCs have less difficulty determining which strategies to pursue than how to implement them and it has been argued that the success of any global or transnational strategy has less to do with structural innovations than with developing often radically different organizational cultures (Bartlett and Ghoshal, 1998).

This chapter aims to critically assess some important theoretical and empirical developments in the area of international HRM research which have emerged over the last decade. In contrast to Part 3 of the book, which deals with the more operational dimensions of expatriate management, this chapter will focus on the more strategic aspects of international HRM. There are six sections in the chapter. Following this introduction which outlines the reasons for the growing importance of IHRM, Section 2 examines the links between strategy and international HRM and reviews some important models of strategic international HRM. Section 3 examines the role of the corporate HR function in the international firm. The fourth section examines issues in global management development and Section 5 examines the roles and responsibilities of transnational managers in relation to Bartlett and Ghoshal's transnational organization. Section 6 concludes and summarizes the chapter.

2 STRATEGY AND INTERNATIONAL HRM

While the majority of international HRM research continues to focus on aspects of expatriation (Kochan et al., 1992), there is a growing literature which seeks to contribute to a better understanding of the relationship between international strategy and HRM (Welch, 1994; De Cieri and Dowling, 1999; Schuler et al., 1993; Dowling et al., 1999; Kobrin, 1994; Hendry, 1994). It has been argued that the fundamental strategic problem for top managers in international firms is balancing the economic need for integration with the pressures for local responsiveness (Bartlett and Ghoshal, 1989, 1998; Doz and Prahalad, 1986), while recent research suggests that at the international level the firm's strategic choices impose constraints or limits on the range of international HRM options (De Cieri and Dowling, 1999). The argument is that there should be distinct differences in international HRM policy and practice in multidomestic and transnational or globally integrated firms (Kobrin, 1992). Other researchers link international HRM staffing policy and practice to strategy (Edstrom and Galbraith, 1977; Scullion, 1996) while yet others suggest linkages between the product life cycle stage/international strategy and HRM policy and practice (Adler and Ghadar, 1990; Milliman et al., 1991). Increasingly the central issue for MNCs is not to identify the best IHRM policy per se but rather to find the best fit for the firm's strategy, structure and HRM approach. While global strategy is a significant determinant of IHRM policy and practice, it has been argued that international human resources are a strategic resource, which should affect strategy formulation as well as its implementation (Harvey, 1997). In this section we will examine two classic models of strategic international human resource management: Adler and Ghadar's phases of internationalization and the De Cieri and Dowling integrative framework of strategic HRM in MNCs.

Adler and Ghadar's phases of internationalization

Adler and Ghadar's model (1990) is based on Vernon's life cycle theory (1966). Vernon distinguishes three phases in the international product life cycle. The first phase ('high tech') focuses on the product, research and development (R&D) playing an important role as a functional area. The second phase ('growth and internationalization') concentrates on developing and penetrating markets, not only at home but also abroad. The focus therefore shifts from R&D to marketing and management control. In the third and final phase ('maturity'), intense efforts are made to lower prices by implementing cost control measures.

According to Adler and Ghadar (1990: 239), the average length of the product life cycle shortly after the Second World War was 15–20 years. Nowadays this is 3–5 years; for some products it is as short as 5 months. An important implication is that the various areas of emphasis in Vernon's life cycle must increasingly be dealt with simultaneously. Adler and Ghadar saw this as sufficient reason to suggest a fourth phase (incidentally following in the footsteps of Prahalad and Doz and Bartlett and Ghoshal as discussed in Chapter 2), in which the company must achieve differentiation (as a way to develop and penetrate markets) and integration (as a way to achieve cost control). Having introduced a fourth phase, the authors then proceed to develop a model in which cultural aspects and human resource management form the main focus of attention. In short, they link Vernon's phases, which concentrate largely on strategic and structural issues, to culture and human resource management.

The influence of culture

According to Adler and Ghadar (1990), the impact of the cultural background of a country or region differs from one phase to the next. They identify these phases as:

- domestic: focus on home market and export;
- international: focus on local responsiveness and transfer of learning;
- multinational: focus on global strategy, low cost and price competition;
- global: focus on both local responsiveness and global integration.

(Please note that Adler and Ghadar use the same terms as Bartlett and Ghoshal, but attach them to different phases, which could be confusing.)

The cultural component hardly plays a role in the first phase (domestic). Management operates from an ethnocentric perspective and can afford to ignore the influence of foreign cultures. The attitude towards foreign buyers – which is a somewhat arrogant one – is the following: 'We allow you to buy our product' (Adler and Ghadar, 1990: 242). By contrast, in the second phase (international) the cultural differences of each foreign market are highly important when entering into external relations. From the polycentric perspective, product design, marketing and production will concentrate on finding a good match between the product and the preferences and style of the relevant foreign market segment. That is why production is often transferred to the relevant country and/or region.

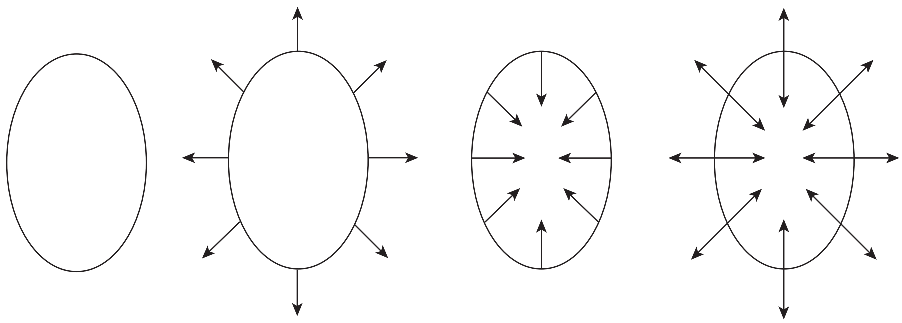
During the third phase (multinational) the product must be globalized to such an extent that competition with other 'global players' emphasizes a lower cost price as a way of keeping up with price competition. This has less to do with emphasizing cultural sensitivity than with the exploitation of cost advantages arising from price differences between production factors in each country and/or region, and with the exploitation of economies of scale. It is, however, important that a certain internal sensitivity or awareness develops of the various cultural differences (cultural diversity) within the global concern.

Finally there is the fourth phase (global). In addition to cost advantages and low prices on the world markets, the products and services must at the same time meet standards of high quality. This quality is expressed in the adaptation of the product to the tastes, preferences and/or specifications of the individual markets and market niches. Adler and Ghadar (1990: 243) describe this as follows:

> **Successful corporations understand their potential clients' needs, quickly translate them into products and services, produce those products and services on a least-possible-cost basis, and deliver them back to the client in a culturally appropriate and timely fashion.**

Cultural sensitivity becomes crucial, not only internally but externally as well. Figure 3.1 illustrates the relative importance of the cultural component and the direction of the interaction between organization and environment in the various phases.

FIGURE 3.1



Location of cross-cultural interaction (Adler and Ghadar, 1990: 244)

Phases and areas of focus in HRM

Starting from the idea of a link between the phases of internationalization, the (market) environment and the influence of culture, Adler and Ghadar go on to sketch the appropriate HRM policies/instruments and the skills required of the managers involved for the various different phases. Table 3.1 illustrates their theory. For clarity's sake, we have added the terms used by Bartlett and Ghoshal to the table.

Phase I. In this phase we can scarcely speak of international human resource management in any real sense. There may be incidental brief visits to foreign agents/sales offices or a short assignment on a project basis, in which product and technical competence of the manager in question are the most important factors.

Phase II. International human resource management becomes manifest in this phase as managers are assigned to posts in foreign markets to provide general management, technical expertise and financial control. The various markets require a differentiated approach and adaptation of the product and business methods to local circumstances. In addition to technical competence, then, selection criteria such as language skills, cross-cultural adaptability and sensitivity are also important. Since understanding of local circumstances is a requirement, host-country nationals are frequently recruited for management positions in the area of sales, marketing and personnel.

Phase III. As it is highly important that integration and cost advantages are exploited world wide, the selection in this phase focuses on recruiting the best managers for international positions, regardless of their country of origin. Developing a management corps in which all the members share the same

TABLE 3.1

Globalization and human resource management

	Phase I Domestic	Phase II International	Phase III Multinational	Phase IV Global
Primary orientation	Product/service	Market	Price	Strategy
Strategy	Domestic	Multidomestic	Multinational	Global
Worldwide strategy	Allow foreign clients to buy products/service	Increase market internationally transfer technology abroad	Source, produce and market internationally	Gain global, strategic, competitive advantage
Staffing				
Expatriates	None- (few)	Many	Some	Many
Why sent	Junket	To sell, control or transfer technology	Control	Coordination and integration
Who sent		OK performers, sales people	Very good performers	High-potential managers and top executives
Purpose	Reward	Project 'To get job done'	Project and career development	Career and organizational development
Career impact	Negative	Bad for domestic career	Important for global career	Essential for executive suite
Professional re-entry	Somewhat difficult	Extremely difficult	Less difficult	Professionally easy
Training and development (language and cross-cultural management)	None	Limited (one week)	Longer	Continuous throughout career
For whom	No one	Expatriates	Expatriates	Managers
Performance appraisal	Corporate bottom line	Subsidiary bottom line	Corporate bottom line	Global strategic positioning
Motivation assumption	Money motivates	Money and adventure	Challenge and opportunity	Challenge opportunity, advancement
Rewarding	Extra money to compensate for foreign hardships	Extra money to compensate for foreign hardships	Less generous, global packages	Less generous, global packages
Career 'fast track'	Domestic	Domestic	Token international	Global
Executive passport	Home country	Home country	Home country; token foreigners	Multinational
Necessary skills	Technical and managerial	Plus cultural adaptation	Plus recognizing cultural differences	Plus cross-cultural interaction, influence and synergy
Bartlett/ Ghoshal	Domestic	Multidomestic/ International	Global	Transnational

Source: **Adler and Ghadar, 1990: 246**

organizational values and norms is one of human resource management's most important tasks. After all, this will contribute to achieving the goal of integration, regardless of the fact that the company is operating in different geographical markets and its managers come from different countries. Management development, careers counselling and periodic transfer to a different assignment (every 3–5 years) are the spearheads of phase III human resource management.

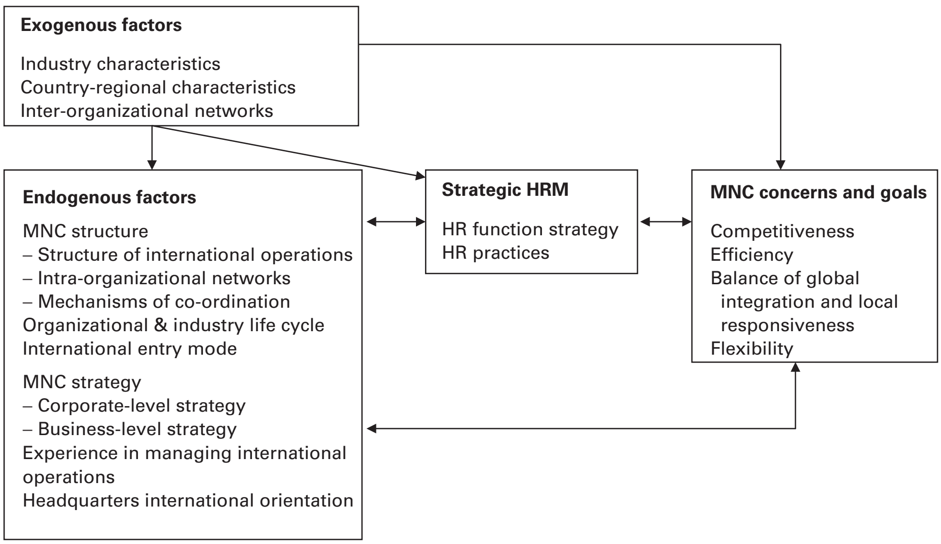
Phase IV. A major issue for international HRM in this phase is how the company is to satisfy the requirements of global integration and national responsiveness. We can find traces of both phase II and phase III here. The large measure of cultural diversity becomes manifest both in the markets to be covered and in the organization itself. The real art is to view this cultural diversity as an opportunity rather than as a problem, which has to be solved. One example is to increase creativity and flexibility by being able to maintain a variety of perspectives, an important approach for solving problems and encouraging innovation. International HRM focuses on offering promising managers the opportunity to grow so that an environment for continuous learning will be created throughout the entire organization. The degree to which such human resource management can be given concrete expression determines the success or failure of the (phase IV) corporation (Adler and Ghadar, 1990: 245–254).

De Cieri and Dowling model

Schuler et al. (1993) presented an integrative framework of strategic international HRM which highlighted the fact that for MNCs there is a fundamental tension between the needs for global co-ordination (integration) and local responsiveness (differentiation) utilizing the work of Prahalad and Doz (1987) and Bartlett and Ghoshal (1989). In addition to the strategic MNC components, the framework showed endogenous factors (e.g. MNC structure, MNC strategy, international entry mode) and exogenous factors (e.g. industry characteristics, country-regional characteristics, inter-organizational relationships). De Cieri and Dowling (1999) draw on developments in theory and research since the Schuler et al. (1993) study to develop a revised framework (see Figure 3.2). Their recent review of international HRM research trends identifies a relatively new research area, 'Strategic International Human Resource Management' (SIHRM). It considers the HRM issues and activities that result from, and impact on, the strategic activities and international concerns of multinationals (De Cieri and Dowling, 1999).

In their revised framework De Cieri and Dowling (1999) highlight the fact that IHRM activities in MNCs are influenced by both endogeneous and exogenous factors. As shown in Figure 3.2, MNCs operate in the context of worldwide conditions, including the exogenous contexts of industry, nation, region and inter-organizational networks and alliances. An example is the removal of

FIGURE 3.2



Integrative framework of strategic HRM in multinational enterprises (De Cieri and Dowling, 1999)

internal trade barriers and integration of national barriers in the EU which have led to a new range of inter-organizational relationships. Exogenous factors exert direct influence on endogenous factors, Strategic Human Resource Management (SHRM) strategy and practices as well as on multinational concerns and goals.

As indicated in Figure 3.2, endogenous factors are shown in the order of most 'tangible' to most 'intangible'. Multinational structure refers to both the structure of international operations and to intra-organizational networks and mechanisms of co-ordination. The life cycle stage of the firm and the industry in which it operates are important influences for SHRM in multinationals as are international entry modes and levels of firm strategy. The most intangible endogeneous factors are experience in international business and headquarters' international orientation. Following developments in the literature and the integration of resource-based perspectives (e.g. Taylor et al., 1996), the model suggests that there are reciprocal relationships between endogeneous factors, SHRM and multinational concerns and goals as indicated in Figure 3.2. Effective SHRM is expected to assist the firm to achieve its goals and objectives. This position is supported by the emerging body of SHRM literature that examines the relationships between endogeneous characteristics, SHRM strategy and practices and competitive advantage or firm performance (Becker and Gerhart, 1996; Paauwe and Richardson, 1997). However, while some research has suggested that MNCs will gain by utilizing and integrating appropriate SHRM strategy and practices to enhance firm performance,(e.g. Kobrin, 1994) there remain inconclusive evidence and important questions about the nature of this relationship (Caligiuri and Stroh, 1995; Harzing, 1999).

The revised framework developed by De Cieri and Dowling seeks to assist in the cross-fertilization of ideas to further develop theory and empirical research in strategic HRM in multinational firms. One of the main strengths of the framework is that it is based on an expanded multidisciplinary base drawing on new theoretical developments in HRM, strategic management (including institutional theory and the resource-based view of the firm: Paauwe and Boselie, 2002) in international business. As a result it has been argued that theory building in IHRM has advanced to a second phase (Dowling et al., 1999). Amidst all these strategic issues we encounter the corporate HR function, which is the topic of our next section.

3 THE ROLE OF THE CORPORATE HR FUNCTION IN THE INTERNATIONAL FIRM

Despite the considerable research on the roles and functions of the corporate headquarters (Goold and Campbell, 1987), little attention has been paid to the role of the corporate HR function, particularly in the context of the international firm. Earlier research on the issue of board level representation by personnel directors in the UK and Europe indicated a relatively weak position of personnel directors in the corporate office (Winkler, 1974). British evidence suggested that HR involvement in strategic decisions is patchy and mostly concerned with implementation rather than formulation of strategy (Marginson et al., 1988, 1993). However, a survey of European companies reported that around half of HR managers across Europe felt they were proactively engaged in the development of corporate strategy and that considerable variation existed across Europe on this issue (Brewster, 1994). Some US studies suggest a more influential role for top HR executives (Tsui and Gomez-Mejia, 1988) while others highlight the limited influence of HR managers on corporate strategy (Lengnick-Hall and Lengnick-Hall, 1988; Swiercz and Spencer, 1992). Similarly while some US studies suggest that the HR function remains low in influence relative to other major functions (Kochan et al., 1992), it has also been argued that the status of HR managers has increased due to the perception that HR's contribution to business performance has increased (Ferris et al., 1991). Few, however, would argue with the view of Hunt and Boxall (1998: 770) 'While there is some divergence of opinion, the dominant view in the international literature is that HR specialists, senior or otherwise, are not typically key players in the development of corporate strategy'.

In the mid-1980s one study, based on case study evidence, concluded that the corporate personnel department was being downgraded largely due to the trend towards decentralization (Purcell, 1985) whereas a larger study by Sisson and Scullion (1985) indicated that the tendency for corporate personnel departments to be downgraded was far from universal and demonstrated considerable variation in the size and activities of corporate personnel departments. However, case study research by Paauwe (1996) on internationally operating Dutch companies highlighted the fact that the corporate HR function was itself being downsized and some HR functions such as recruitment were increasingly being outsourced. Purcell and Ahlstrand (1994) argued that the overall shift to decentralization of activities has meant that corporate HR managers were playing more of a monitoring and control function and the *raison d' être* of the corporate HR function was called into question.

Many studies of the corporate HR role largely ignored the links between the growing internationalization of the companies and the new corporate HR roles (e.g Purcell and Ahlstrand, 1994). In the UK context this is particularly surprising for two main reasons: First, British capital is more globally oriented than that of any other major advanced economy (Marginson, 1994). Second, since the early 1990s there has been a significant increase in the pace of internationalization of UK companies (Dicken, 1998). However, a recent empirical study examined the role of the corporate HR function specifically in the international firm and identified an emerging agenda for corporate HR, which focuses on senior management development and developing a cadre of international managers. This was conceptualized as a strategic concern with developing the core competences of the organization (Scullion and Starkey, 2000). They identified three distinctive groups of companies: centralized HR companies, decentralized HR companies and transition HR companies.

Centralized HR companies

This group comprised ten centralized HR companies (six global companies and four international financial service companies) all of which had large corporate HR departments which exercised centralized control over the careers and mobility of senior management positions world-wide. Group-wide appraisal and job evaluation and rewards system for senior managers which increasingly aligned rewards with longer term global business strategy (Tilghman, 1994; Pennings, 1993; Bradley et al., 1998) further reinforced centralized control in the global firms. International assignments were increasingly linked to the organizational and career development process; the management development function role of the corporate HR function became increasingly important not just for parent country nationals (PCNs), but also for developing high potential local managers and third country nationals (TCNs) (Scullion and Starkey, 2000). In particular, the practice of impatriation, i.e. developing host country nationals (HCNs) and TCNs through developmental transfers to corporate HQ (Harvey et al., 1999a) was increasingly important in global firms, reflecting the growing importance placed on the identification and development of high potential staff worldwide (Stroh and Caligiuri, 1998). Scullion and Starkey (2000) argue that in the global firms the greater degree of central support for international management development reflected an increasingly strategic role for the corporate HR function.

Decentralized HR Companies

The second group comprised 16 companies including 5 service MNCs and 11 manufacturing MNCs. These companies tended to have a smaller number of corporate HR executives (often only one or two) who undertook a more limited range of activities than their counterparts in the first group. However, a key finding of the research was that two-thirds of the decentralized companies reported an *increased* influence of corporate HR over the management of top management and senior expatriates in the previous five years. However, the co-ordination of international transfers of managers in the highly decentralized businesses was more problematic due to greater tensions between the short term needs of the operating companies and the long term strategic management development needs of the business. Scullion and Starkey (2000) highlight the increasing use of informal and subtle management processes by corporate HR to introduce a degree of corporate integration into the decentralized firm. Similarly, central control over expatriates had been established relatively recently in a number of the firms, reflecting a shift away from the highly decentralized approach which was common in the late 1980s (Storey et al., 1997) and highlighting the need for co-ordination and integration associated with globalization.

Transition HR companies

The final group comprised four well established, highly international companies, all of which had a relatively small group of corporate HR executives. Management development and the management of the careers and mobility of expatriates and senior managers were under stronger centralized control than in the decentralized companies. The centre could use subtle and informal methods, which achieved a higher degree of central control than that suggested by the formal structures without compromising the internal consistency of their decentralized control system. The findings of recent research which suggests that re-centralization may be a new trend (Arkin, 1999) is supported by the empirical work of Scullion and Starkey (2000), who suggest that the influence of the corporate HR function over the management of senior expatriates and the development of high potential managers in the subsidiary companies had grown considerably in these companies, reflecting the switch towards a less decentralized approach in the mid-1990s.

In summary, this discussion suggests that the role of the corporate HR function varies considerably in different types of international firms and needs to be understood in relation to the integration–differentiation dilemma (Prahalad and Doz, 1987). Many MNCs operate with a global and centralized HRM strategy for top managers and high potential HCNs and a polycentric/decentralized approach for other staff. In this dual system corporate HR manages a core of senior staff and key personnel while the rest of lower level management and staff are managed at the subsidiary level (Scullion, 2002). Firms which are able to achieve this balance constitute a new organizational form: the transnational, a more refined variant of the global firm (Bartlett and Ghoshal, 1989). This topic will be examined in Section 5. However, before doing so we will face one of the main challenges of the corporate HR function: how to develop global managers.

4 GLOBAL MANAGEMENT DEVELOPMENT

Shortages of 'international managers' are becoming an increasing problem for many international firms and often constrain the implementation of global strategies (Gregerson et al., 1998). This section will discuss some of the major challenges and constraints faced by international firms who seek to develop an adequate pool of global managers. It will highlight the strategic importance of these constraints in relation to the implementation of global strategies. In this context, we consider issues regarding the internationalization of local managers, the under-representation of women in international management, and constraints on the supply of international managers due to repatriation problems and barriers to international mobility.

Despite the shortages of international managers, failure to effectively recruit, retain and develop HCN managers remains a major problem for many international firms (Black and Gregerson, 1999). Many MNCs have focused most of their management development efforts on their PCN managers and have tended to neglect the development of their HCN managers (Scullion, 1994). However, researchers have identified a number of important lessons for MNCs which do seek to develop HCN managers. First is the need to avoid the mistake of simply exporting parent country training and development programmes to other countries (Dowling et al., 1999; see also Chapter 11). Second, the management development programmes needs to be linked to the strategic situation in each country as well as the overall strategy of the firm (Scullion and

Brewster, 2001). Third, and most important, is the need to utilize much further the practice of impatriation – which has been defined as the selective process of transferring HCNs and/or TCNs into the domestic organization of the MNC on a permanent or semi-permanent basis. Harvey et al. (1999b) argue that this type of international transfer exposes host country nationals to the headquarters' corporate culture and facilitates both the development of a corporate perspective and global teams.

As global competition intensifies, competition for global leaders to manage overseas operations will steadily intensify and MNCs must develop new ways to identify, attract and retain international executive talent (Gregerson et al., 1998). The creativity and resourcefulness of finding an ample number of qualified managers who can manage across cultures effectively becomes a key strategic international HRM challenge. Yet the evidence suggests that the number of female global assignees is disproportionately low in relation to the overall size of the qualified labour pool (Linehan and Scullion, 2001a; see also Chapter 14). Recent research has confirmed that while organizations may be prepared to promote women through their domestic management hierarchy, few women are given opportunities to expand their career horizons through access to international careers (Caligiuri and Tung, 1999; Linehan, 1999). The lack of willingness to recruit and develop women as international managers is worrying as recent research conducted on the outcome of women's global assignments has indicated that female expatriates are generally successful in their global assignments (Caliguiri et al., 1999; Linehan and Scullion, 2001b) and that important formal and informal barriers remain to increasing women's participation in international management (Mayrhofer and Scullion, 2002).

The third area, which impacts on the supply of international managers, is the failure by many companies to adequately address repatriation problems. The repatriation of managers has been identified as a major IHRM problem for multinational companies in Europe and North America (Black and Gregerson, 1999; Harvey, 1989; Linehan and Scullion, 2002a; see also Chapter 13). For many European MNCs this problem was becoming more acute in recent years because expansion of foreign operations had often taken place at the same time as the rationalization of domestic operations, thereby reducing the opportunities for repatriates (Scullion, 1992; Forster, 1999). There is growing recognition that where companies are seen to deal unsympathetically with the problems faced by expatriates on re-entry, especially concerns about losing out on opportunities at home, managers will be more reluctant to accept the offer of international assignments (Scullion, 1994). Research in North America indicates that retention of expatriate managers is a growing problem for many MNCs (Black et al., 1999), yet few firms have developed formal repatriation policies and programmes (Stroh et al., 1998). Recent research suggests the need for MNCs to develop a more strategic approach to repatriation and expatriate career planning; however in practice many firms continue to adopt an ad hoc 'sink or swim' attitude towards both employees and their families and many expatriate managers continue to experience the repatriation process as falling far short of expectations (Stroh et al., 1998; Linehan and Scullion, 2002b; see also Chapter 13).

A further constraint on the ability of MNCs to implement their internationalization strategies are the growing barriers to international mobility. The number of expatriates MNCs are sending on international assignments is increasing steadily and will increase further in the future; however the availability of people who are willing to accept global assignments is not increasing at the same rate (Caligiuri and Cascio, 1998) and research shows that finding enough of the right people with the requisite skills for global assignments is one of the greatest IHRM concerns of MNCs (Stroh and Caligiuri, 1998). Recent studies have indicated that international mobility is becoming more problematic in many firms due to several factors, including uncertainties associated with re-entry; the growing unwillingness to disrupt the education of children, the growing importance of quality of life considerations and, finally, continued uncertainty regarding international terrorism and political unrest (Scullion, 2001). Dual career problems and disruption to children's education are seen as major barriers to future international mobility in many different countries (Harvey, 1998). Increasingly international mobility is limited by the dual career factor, which poses restrictions on the career development plans of multinationals. Second, there is some evidence to suggest that families are less willing to disrupt personal and social lives than was the case in the past (Forster, 2000).

5 ROLES AND RESPONSIBILITIES OF TRANSNATIONAL MANAGERS

In this and the previous chapters we discussed how the changing international environment forced most companies to develop multidimensional and heterogeneous strategies and structures. Bartlett and Ghoshal (2000) refer to the transnational as the ultimate organizational form for operating successfully in an international context. This development poses considerable challenges for the managers who have to carry out these strategies and construct these structures. In this section we will discuss the roles and responsibilities of transnational managers. Given the heterogeneity and multidimensionality of the transnational organization, it is virtually impossible for one person to possess all the skills necessary to be an effective transnational manager in each and every part of the company. The roles and responsibilities of transnational managers will be different for different parts of the organization. We will therefore distinguish three different management forms: global business management, worldwide functional management and geographic subsidiary management (based on Bartlett and Ghoshal, 2000). In a final subsection we will also discuss the necessary capabilities for top management.

Global business management

Effective global business management complies with the demands of global efficiency and competitiveness. Capturing scale and scope economies and co-ordinating and integrating activities across national and functional barriers are the fundamental tasks of the global business manager. In order to perform these tasks a global business manager has three core roles and responsibilities: as worldwide business strategist, architect of a worldwide asset and resource configuration, and cross-border co-ordinator and controller. In his/her role as worldwide business strategist, the global business manager tries to reconcile the different perspectives of geographic, functional and business management in order to provide an integrated competitive strategy for his/her particular business. As architect of an asset and resource configuration he/she subsequently co-ordinates the distribution of key assets and resources to support the competitive strategy chosen. In this role, however, he/she also has to take the other perspectives into account and will furthermore be guided by the company's administrative heritage (see Chapter 2) of existing assets and resources. This distribution of assets and resources leads to a flow of materials, components and finished products that has to be co-ordinated by the global business manager in his/her role as cross-border co-ordinator. As transnational companies mostly rely on distributed sourcing this is a very complex task.

Worldwide functional management

Effective worldwide functional management responds to the challenge of developing and diffusing innovations on a worldwide basis. Knowledge is transferred by links between functional experts around the world. Most worldwide functional managers play three basic roles: as worldwide scanner of specialized information and knowledge, cross-pollinator of 'best practices' and champion of transnational innovation. As worldwide intelligence scanner the worldwide functional manager scans the whole world for opportunities and threats, which may be in the form of a technological breakthrough or an emerging consumer trend. Functional managers are linked by informal networks, so that information is transmitted rapidly. In a transnational company subsidiaries can be an important source of capabilities, expertise and innovations, which can be transferred to other parts of the organization. It is the worldwide functional manager in his/her role as cross-pollinator of 'best practices' who spots these opportunities and transfers them in a way that breaks down the 'not invented here' syndrome. Transnational innovations are the focus of this role as champion of transnational innovation. The first form of transnational innovation, which is called 'locally leveraged', follows from the 'best-practices' approach – local innovations that have applications everywhere. A more sophisticated form of transnational innovation is termed 'globally linked' innovation. 'This type of innovation fully exploits the company's access to worldwide information and expertise by linking and leveraging intelligence sources with internal centres of excellence wherever they may be located' (Bartlett and Ghoshal, 2000: 710).

Geographic subsidiary management

Effective geographic subsidiary management involves first and foremost multinational responsiveness, responding to the needs of national customers and satisfying the demands of host country governments. However, it also demands the defence of a company's position against global competitors and the leveraging of local resources and capabilities. The geographic subsidiary manager's very complex task can be divided into three main roles: as bicultural interpreter, national defender and advocate, and frontline implementer of corporate strategy. In the first role, bicultural interpreter, the geographic subsidiary (or country) manager must not only understand the demands of the local customers, competitors and government, but also interpret this information and communicate it effectively to managers at headquarters who might not understand its importance. The country manager must also act in the opposite direction, interpreting the company's overall goals, strategies and values in such a way that they become meaningful to local employees and do not compromise local cultural norms. As a national defender and advocate, the country manager should try to counterbalance excessive centralizing pressures from global business managers and make sure that the interests of the local subsidiary are taken into consideration. The country manager's role as a frontline implementer of corporate strategy is an especially difficult one. He or she is pressured by local governments, unions and customers on the one hand and constrained by a global strategy that often leaves little room for manoeuvre on the other. This manager's actions 'must be sensitive enough to respect the limits of the diverse local constituencies, pragmatic enough to achieve the expected corporate outcome, and creative enough to balance the diverse internal and external demands and constraints' (Bartlett and Ghoshal, 2000: 713).

Top-level corporate management

Top-level corporate management has to take all the transnational challenges (efficiency, learning and responsiveness) into account. This means not only creating different management groups and giving them specific roles and responsibilities, but also continuously striving to maintain the 'organizational legitimacy' of each group. Balancing and integrating diverse and often conflicting interests is the key challenge for top-level corporate management. In doing so, there are three basic roles to fulfil: those of providing direction and purpose, leveraging corporate performance and ensuring continual renewal. A multidimensional and heterogeneous company runs the risk of falling apart if there is no common vision or shared set of values to lead it towards common goals. It is the task of top-level corporate management in its role as provider of direction and purpose to create this common vision. This is, however, a rather long term strategy. Top management's role of leveraging corporate performance makes sure that the company survives in the short run. To do so, top management balances the different co–ordination devices (formalization, centralization and socialization) to achieve the mix that maximizes corporate performance. A focus both on the long term mission and on short-term performance, however, can lead to a loss of flexibility if taken to the extreme. Therefore, the third role of top management is to ensure continual renewal. Goals and values have to be adaptive; they are continually questioned and challenged to achieve the flexibility that is vital in a transnational environment.

6 CONCLUSION

In Section 1 we argued that international HRM has moved beyond the infancy stage of development and outlined a number of key reasons for the emergence and growing significance of international HRM. In Section 2 we examined the links between strategy and international HRM and reviewed some influential models of international HRM outlining progress towards developing theoretical models of IHRM (De Cieri and Dowling, 1999). The trend over recent years has been to extend the linkage of HRM with business strategy from the domestic into the international arena and we argue that international HRM must be linked to the strategic evolution of the firm. The international HRM models suggest that MNCs will gain competitive advantage by using strategic HRM practices to support business objectives; however, we noted the need for more empirical research in this area (Harzing, 1999). In Section 3 we examined the role of the corporate HR function in the international firm and highlighted the fact that the role and activities of the HR function at the centre varies in different types of international firm. This analysis suggests that international HRM strategy should vary considerably in different types of international firms and needs to be understood in relation to the tensions between integration and differentiation (Pralahad and Doz, 1987). In Section 4 we identified global management development as a critical area for international human resource management. The challenge of internationalizing local managers was identified as a key issue, and we also considered the various constraints on the supply of international managers which are leading to shortages of international managers and constraining the internationalization strategies of firms. Finally, Section 5 considered what we term the main challenge for international HRM – developing truly transnational managers. The roles and responsibilities of transnational managers were identified and shown to vary for different parts of the organization. Using the work of Bartlett and Ghoshal (2000) we distinguished three different management forms: global business management, worldwide functional management and geographic subsidiary management. In summary, this chapter has suggested that international HRM must increasingly be linked to the international strategy of the firm and that developing global leaders is a first priority in the management of international human resources in the global firm. The next chapter will investigate the role of human resources in (international) mergers and acquisitions, which have become an increasingly popular strategy for achieving corporate growth and diversification.

7 DISCUSSION QUESTIONS

1 Discuss the reasons for the rapid growth in significance of international HRM over the last decade.

2 Examine the changing role of the corporate human resource function in international firms.

3 Discuss the major human resource management problems facing international firms regarding the supply of international managers.

4 Discuss the main challenges associated with the development of transnational managers.

8 FURTHER READING

- **De Cieri, H. and P.J. Dowling (1999) ' Strategic human resource management in multinational enterprises: theoretical and empirical developments', in P.M. Wright et al. (eds) *Research in Personnel and Human Resources Management*, Stamford, CT: JAI Press, pp. 305–327.**

A comprehensive and critical review of recent models of strategic HRM in the international firm. A new framework of strategic HRM is presented.

- **Scullion, H. and C. Brewster, (2001) 'Managing expatriates: messages from Europe', *Journal of World Business*, 36(4), pp. 346–365.**

A good review of expatriation in the European context. The changing pattern of expatriation in Europe is examined and the implications for organizations and expatriates are considered.

- **Scullion, H. and K. Starkey (2000) ' The changing role of the corporate human resource function in the international firm', *International Journal of Human Resource Management*, 11(6), pp.1061–1081.**

A significant article which examines the strategic human resource challenges and issues facing the corporate human resource function in different types of international firm.

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4 Human Resource Management in Cross-Border Mergers and Acquisitions

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CHAPTER CONTENTS

1 INTRODUCTION

Mergers and acquisitions (M&A) have become an increasingly popular strategy for achieving corporate growth and diversification. The total value of worldwide deals involving US firms increased more than tenfold between 1991 and 2000, from about US$140 billion to over US$1,700 billion. A similar growth of M&A could be observed in Europe and other parts of the world (*M&A Almanac*, 2001). Even if this unprecedented wave of M&A is subsiding as the global economy cools off, more deals can be expected in the long run (Evans, Pucik and Barsoux, 2002).

In spite of their popularity and strategic importance, the performance of most M&A has been disappointing. Research findings indicate that, irrespective of the performance measures utilized, the time period covered, and whether the study has been conducted by academics or a consulting firm, more than half of M&A are not successful (Hall and Norburn, 1987; Hunt, 1990; KPMG, 1999; Porter, 1987). For example, a study of 107 of the largest cross-border M&A completed between 1996 and 1998 found that 83% were not successful in producing any business benefit in terms of shareholder value (KPMG, 1999). At the same time, many companies (such as BP, or GE) have been very good in managing acquisitions, and for every troubled mega-deal there may be many small acquisitions which are substantially more successful.

M&A failures are often due to problems in integrating the different cultures and workforces of the combining firms (Marks and Mirvis, 2001; Schweiger and Walsh, 1990; Shrivastava, 1986). Sociocultural integration of different organizational cultures, HR systems, managerial viewpoints, and other aspects of organizational life can lead to sharp inter-organizational conflict (Buono and Bowditch, 1989; Cartwright and Cooper, 1996; Stahl and Sitkin, 2001). In a survey of more than 200 chief executives of European companies conducted by Booz, Allen and Hamilton (cited in Cartwright and Cooper, 1996: 28), respondents ranked the ability to integrate culturally as more important to merger success than financial or strategic factors. Problems are often exacerbated when M&A occur between companies based in different countries. It has been argued that different political and legal systems, culture and language barriers, and other differences between countries can be major obstacles to achieving integration benefits (Malekzadeh and Nahavandi, 1998; Olie, 1990; Very and Schweiger, 2001).

Despite anecdotal evidence suggesting that cross-border M&A are riskier than domestic ones, the empirical evidence is mixed. As we will see, the findings suggest that the probability of success of cross-border M&A is not necessarily lower than that of domestic transactions, though they may be more difficult to manage.

This chapter begins with a review of prior research dealing with integration processes in cross-border M&A, examining the potentially critical role that cultural differences play in the M&A process. The second part of the chapter focuses on how the meaning of cultural integration depends on the strategic logic behind the merger or acquisition. The third part discusses the key HRM challenges at different stages in the M&A process. The chapter concludes with a discussion of the implications for M&A research and practice.

2 CULTURAL DIFFERENCES AND CROSS-BORDER MERGER AND ACQUISITION PERFORMANCE

It has often been argued that cross-border M&A are less successful than domestic transactions. For example, a survey of top managers in large European acquirers showed that 61% of them believed that cross-border acquisitions are riskier than domestic ones (Angwin and Savill, 1997). The logic is that cultural and communication barriers can be major obstacles to achieving integration benefits. The 'cultural distance hypothesis', in its most general form, suggests that the difficulties, costs, or risks associated with cross-cultural contact increase with growing cultural differences between two individuals, groups, or organizations (Hofstede, 1980; Kogut and Singh, 1988).

Consistent with the cultural distance hypothesis, extant theory on M&A integration indicates that the organizational and/or national cultures of merging firms have to be similar, or at least complementary, in order to integrate successfully (see the models of Cartwright and Cooper, 1993; Nahavandi and Malekzadeh, 1988; Sales and Mirvis, 1984). For example, Cartwright and Cooper's cultural fit model proposes that, in mergers of equals, the corporate cultures of the combining firms should be similar or adjoining types because both organizations have to adapt to the other culture and create a kind of 'third culture'. International M&A seem to be particularly difficult to integrate because they require 'double layered acculturation' (Barkema, Bell and Pennings, 1996), whereby not only different corporate cultures, but different national cultures also have to be combined.

However, contrary to accepted wisdom, cross-border M&A are not necessarily less successful than domestic transactions (for reviews, see Schweiger and Goulet, 2000; Stahl, 2001). One source of evidence comes from studies that examined the impact of cultural distance on M&A performance. While some studies found that cultural differences had a negative effect on M&A performance (e.g., Chatterjee et al., 1992; Datta, 1991; Weber, 1996), others found a positive effect (e.g., Larsson and Risberg, 1998; Morosini, Shane and Singh, 1998; Very, Lubatkin and Calori, 1996). For example, Larsson and Risberg (1998) found higher degrees of acculturation (defined as the development of jointly shared meanings fostering cooperation between the combining firms), lower levels of employee resistance, and a higher extent of synergy realization in cross-border M&A. Acculturation and synergy realization were particularly high in cross-border M&A that were also characterized by strong organizational culture differences, that is, M&A characterized by dual culture clash – a finding that directly contradicts the cultural distance hypothesis. Larsson and Risberg (1998) argue that, in contrast to domestic M&A, where organizational cultural differences tend to be neglected, the presence of more obvious national cultural differences may have increased the awareness of the significance of cultural factors in the integration process. They conclude that 'cross-border M&A may not only be "cursed" with additional culture clashes but also be "blessed" with a higher propensity for culturally aware selection and integration management' (p. 40).

Other authors have offered additional explanations of why cultural differences in M&A can, under some circumstances, be an asset rather than a liability. Morosini et al. (1998), in a study of cross-border acquisitions, found that national cultural distance enhanced post-acquisition performance by providing access to the target's and/or the acquirer's diverse set of routines and repertoires embedded in national culture. Very et al. (1996), in a study of acculturative stress in European cross-border M&A, found that cultural differences elicited perceptions of attraction rather than stress, depending on the nationalities of the buying and acquiring firms. Consistent with the findings of Morosini et al. (1998) and Larsson and Risberg (1998), they concluded that the cultural problems associated with integrating M&A may be more amplified in domestic, rather than cross-national settings. 'Acculturative stress is a complex phenomenon, sometimes influenced by cultural differences, but not necessarily in the expected direction' (p. 103).

Thus, the cultural distance hypothesis provides too simplified a view of the cultural processes involved in integrating merging firms. Whether cultural differences have a positive or negative impact on M&A performance will probably depend on the nature and extent of the cultural differences, the interventions chosen to manage these differences, and the integration approach taken. This conclusion is also supported by studies that found evidence that the success rate of cross-border M&A may be higher than for domestic transactions (Bleeke et al., 1993; Bühner, 1991; KPMG, 1999). According to Evans et al. (2002), the main reason is that cross-border acquirers buy companies in familiar businesses to which they can add value. They also execute multiple acquisitions, not one-of-a-kind deals, learning from mistakes and accumulating experience, putting in place processes that enable them to execute cross-border deals more and more effectively. Further, cross-border acquirers tend to pay greater attention to the 'softer', less tangible but critical cultural issues and HR aspects of M&A management. Finally, Evans et al. (2002) have observed that cross-border M&A promote some convergence in HRM policies and practices towards accepted 'best practice', such as performance-related compensation and team-based work organization.

In summary, there is evidence that cross-border M&A, under some circumstances at least, can be more successful than domestic combinations, and that the inherent cultural differences in cross-border M&A can be an asset rather than a liability. Consistent with a 'process perspective' on acquisitions (Haspeslagh and Jemison, 1991; Hunt, 1990; Jemison and Sitkin, 1986), the literature review suggests that M&A outcomes depend heavily on the strategic logic behind the merger and the management of the integration process, as discussed in the next two sections.

3 WHAT DOES INTEGRATION MEAN?

The concept of 'integration' has different meanings in a merger or acquisition, and a fundamental issue is to understand what is the strategic logic behind a specific merger. Most companies use the term 'integration' to describe the post-merger activities designed to bind the acquiring and acquired companies, just as the vast majority of so-called mergers are in fact acquisitions. But what happens is actually assimilation, a process that is fundamentally different from true integration.

The logic of assimilation is simple: make the acquired company just like the purchaser. However, companies are sensitive to public perceptions of being a foreign bully, and they are often hesitant to proclaim their objective of assimilating the acquired firm, fearing that it may compromise the deal. This often creates confusion and mistrust that will make the assimilation process more difficult. In contrast, GE Capital, the financial services arm of General Electric, offers blunt advice to the management of firms that were acquired around the world: 'If you do not want to change, don't put yourself for sale.' GE makes it very clear to the acquired company that it now has to play by GE's rules, and it provides a framework in which to do so.

In the case of true integration, the emphasis is on capturing hidden synergies by swapping and leveraging capabilities. At times, the companies may decide to establish a new identity as with Novartis, which was formed through the merger of Ciba-Geigy and Sandoz in 1996 to create a global life sciences giant. Both approaches to M&A implementation have their merits. The choice of either assimilation or integration depends on the strategic intent behind the acquisition and the desired cultural characteristics in the new organization. Choosing an approach that does not match with the strategy or the desired cultural outcome can significantly reduce the value created by the acquisition.

A useful way of formulating the acquisition logic, as shown in Figure 4.1, is to focus on the cultural 'end-state' and the path to reach this (Marks and Mirvis, 1998). What kind of culture is desired for the new entity, and how much change will be required within both acquiring and acquired companies in order to get there?

When no cultural change in the acquired company is desired, then it can be considered as a *stand-alone acquisition*. When a large amount of change in the acquired company is expected but with relatively little change for the acquirer, then *absorption* is the most likely path. An expectation of major cultural change in both entities results in a *cultural transformation*, while the selective combination of the most appealing features of the two cultures is often described as a *'best-of-both' acquisition*. In rare cases, the culture of the acquirer is blended into that of the acquired firm in a *reverse merger*.

Stand-alone acquisitions

When a deal is announced, it often contains a reference saying that the acquired company will preserve its independence and cultural autonomy. This often occurs when one of the rationales behind the merger is to get hold of

FIGURE 4.1

Degree of change in acquired company	Low (degree of change in acquiring company)		High (degree of change in acquiring company)
High	**Absorption** Acquired company conforms to acquirer— Cultural assimilation		**Transformation** Both companies find new ways of operating— Cultural transformation
		Best of both Additive from both sides— Cultural integration	
Low	**Preservation** Acquired company retains its independence— Cultural autonomy		**Reverse merger** Unusual case of acquired company dictating terms— Cultural assimilation

Degree of change in acquiring company

Strategies for Post-Merger Outcomes (Marks, M.L. and Mirvis, P.H., 1998). Copyright © 1998, Jossey-Bass. This material is used by permission of John Wiley & Sons Inc.

talented management or other soft skills (such as speed of product development) and retain them, or when conformance to the acquiring company rules and systems could be detrimental to the acquired company's competitive advantage.

The key to success here is to protect the boundary of the new subsidiary from unwarranted and disruptive intrusions from the parent, though this can be hard to ensure. Even with the best of intentions, there can be a form of creeping assimilation as the acquiring company encourages the acquired one to begin to work in the same way and to develop systems and processes which match those of the parent organization.

Because of operational pressures, most stand-alone acquisitions do not last. While the acquired company may appear independent to the outside world, some functions at least are merged with the rest of the organization. Or else 'stand-alone' is a temporary phenomenon, until other aspects of the strategy are realized, such as further acquisitions. If the potential for strategic integration is not addressed, the two organizations can over time begin to work against each other, competing with each other in the same markets and for the same customers, operating without coordination and respect for the good of the company that they, in fact, constitute.

Absorption acquisitions

This kind of acquisition is fairly straightforward, and it is probably most common when there are differences in size and sophistication between the two partners involved in the deal. The acquired company conforms to the acquirer's way of working, with a focus on full cultural assimilation. Such deals are particularly common when the acquired company is performing poorly, or when the market conditions force consolidation.

Most of the synergies may be related to cost cutting, most likely on the side of the acquired company, although some may come from improvements in systems and processes brought in by the acquiring firm. The key to success is to choose the target well, to move fast so as to eliminate uncertainty, and to capture the available synergies.

The terms, absorption or assimilation, carry a pejorative meaning in the minds of many; and at times assimilation may be an ugly process that generates poor results. However, if managed well, it can be of benefit to the employees of the acquired firm. This is especially true when these employees are afraid of losing their jobs and see the dominant company as being a savior; unhappy with the management culture of their company, and see the acquiring company as having a more enlightened culture; or see a variety of positive outcomes in being associated with the acquisition (better benefits, better pay, more prestige, etc.). Cisco, for example, buys companies for their technology and R&D talent and then assimilates them into the Cisco culture, but it attempts to retain most of the employees, including top management. Here, the emphasis is on finding targets that will match Cisco's way of managing the business, increasing the likelihood of cultural compatibility.

Reverse merger

This is the mirror opposite of assimilation, although it does not happen very often. Usually the organization that buys hopes to gain capabilities from the one it bought. The acquired company becomes a business unit that absorbs the parallel unit in the acquiring firm. When Nokia, for instance, bought a high tech firm in California for its R&D knowledge, it gave the new unit global responsibilities, which meant that part of the business in Finland now reports to California.

Sometimes, the reverse merger is unintended. A few years ago, a French metal product company acquired its smaller British competitor. Today, to the surprise of many, the management style and systems of the new company resemble the culture of the acquired firm. What happened? When the two companies merged, it was easier for everyone to adopt the explicit and transparent systems of the British firm which are more suitable for cross-border business, than to emulate the more ambiguous and subtle rules embedded in the French organization. If the practices of the company that has been acquired are more clear and transparent, it is quite possible that they will prevail.

Best of both

The intriguing option is the 'best of both', often described as a 'merger of equals'. This holds out the promise of no pain since in theory it takes the best practices from both sides and integrates them. There are, however, very few examples of such mergers that have succeeded since it is very difficult to do. The strength of a culture comes from the internal consistency of the practices, which may not be there when the 'best' parts are put together. Another danger in the 'best of both' integration process is that it may become too political and time consuming. Who decides what is 'best'?

The process of making the decisions can be very complex. If both companies declare that the merger is one of equals, does that mean that top management is split 50/50, even if in terms of excellence the real split is 80/20? The controversy surrounding the Daimler/Chrysler merger is a visible example of this frequent dilemma. Without strong mutual respect for the knowledge and skills of each company, this kind of strategy will not work.

The key to success is the fairness of the process. The test of the 'best of both' approach may be the ability to retain the people who do not get the top jobs. Having similar cultures helps. The AstraZeneca and Exxon/Mobil mergers have proceeded relatively smoothly because the similarities were more pronounced than the differences. The new groups have been relatively successful at identifying the best practices from each side, as well as having a balance of top management from the two firms.

Transformation

In contrast with 'best of both' acquisitions that take the existing cultures as they are, both companies in a transformation merger are hoping to use the merger to break sharply with the past. Merger or acquisition can be the catalyst for trying to do things differently, to reinvent oneself. This can involve the way in which the company is run, what business it is in, or both. When Novartis was created by the merger of two Swiss-based pharmaceutical firms, the proposed management style for the new company reflected the desired transformation: 'We will listen more than Sandoz, but decide more than Ciba.'

This kind of merger is obviously the most complex and most difficult to implement. It requires full commitment, with focus and strong leadership at the top so as to avoid getting trapped in endless debates while the ongoing business suffers (Percy Barnevik's transformation of Asea and Brown Boveri is one positive cross-border example).

Finally, a complicating factor in international acquisitions is that there will often be parts of the organization where a particular approach to the merger makes sense and others where it does not. There are few M&A that fit neatly into the assimilation, integration or other categories. For some countries or regions, or for some parts of the business, a full assimilation may be the best approach; in other parts of the firm, a reverse merger could be a more appropriate strategy.

4 MANAGING CROSS-BORDER INTEGRATION: THE HRM IMPLICATIONS

There is no shortage of evidence that attention to people and cultural issues is one of the most critical elements in making the cross-border acquisition strategy work. In a recent McKinsey study of international M&A, the four top ranked factors identified by responding firms as contributing to acquisitions success are all people related: retention of key talent (identified by 76% of responding firms); effective communication (71%); executive retention (67%); cultural integration (51%) (Kay and Shelton, 2000).

A similar conclusion can be drawn from the Conference Board study (Conference Board, 1997). At the top of the list of HR concerns in mergers and acquisitions is the retention of critical talent, identified as a very important or important factor by 86% of the respondents. Second on the list is 'blending culture', listed by 83% of the respondents, closely followed by retention of key executives (82%). Differences in approaches to compensation/benefits were ranked fourth (73%). Perhaps surprisingly, impact on the workforce size (37%), downsizing (35%), and redeployment of employees (25%) are at the bottom of the list.

Finally, in another recent survey sponsored by KPMG, the three 'keys to success' were selecting the management team, resolving cultural issues, and communication (KPMG, 1999). For example, companies that prioritized the selection of the management team in the planning stage were 26% more likely to execute a successful acquisition. An early focus on identifying and resolving the organizational culture issues had a similar impact on success.

In fact, it is hard to find an acquisition where people issues do not matter. When the objective is to establish a new geographic presence, then managing cross-cultural, language, and communication issues tops the list of priorities. When the aim is to acquire new technology or to buy market share or competencies, retaining key technical staff or account managers is the principal challenge. When the objective of the deal is consolidation, dealing effectively with redundancies at all levels is the dominant concern.

Based on these observations, it may be seen as natural that the HR function should play a significant role in all phases of the acquisition. The acquisition process is typically divided into stages – the *initial planning stage*, including due diligence; the *closing of the deal*; and the *post-merger integration stage*. Yet while human resource management issues tend to get attention during the last – implementation – phase, the overall influence that HR has during the whole acquisition process is patchy, even though many of the problems of merger integration stem from failure to consider these issues early on. In addition, many companies have neither the resources nor the know-how to give this HR area the priority it merits (KPMG, 1999, p. 15).

As suggested earlier, one of the reasons why cross-border mergers may be successful, despite their complexity, is that the people and integration challenges are more obvious, leading management to pay close attention to them at all stages in the acquisition process. There are instances where such cultural differences lead the management of the acquiring company to be excessively cautious. When Japan's Bridgestone purchased US-based Firestone, it refrained from making significant changes in the organization, even though the acquired company was losing money. Bridgestone did not want to be seen as 'ugly Japanese' taking over a venerable local institution. In reality, many local middle managers were looking forward to the takeover, expecting that their new owners would tackle both the unions and the entrenched old-style top management – but when nothing happened, they left in droves. Faced with growing losses, Tokyo finally moved in several years later to 'clean up the mess'. But it was too late, the company was too thin on talent by then. Firestone never fully recovered, and today the once powerful brand is on the verge of extinction.

We focus here on the following cultural and people issues that seem to be particularly critical to the success or failure of M&A (see Evans et al., 2002, for an extended discussion of the issues in this section):

- Assessing culture
- Undertaking a human capital audit and selecting the management team
- Effective communication
- Retaining talent
- Creating the new culture
- Managing the transition

Assessing culture in the due diligence phase

The purpose of cultural assessment is to evaluate factors that may influence the organizational fit, to understand the future cultural dynamics as the two organizations merge, and to prepare a plan of how the cultural issues should be addressed if the deal goes forward. Before a valid cultural integration strategy can be developed on the part of the acquiring company, or between the two merger partners, a clear understanding of the nature of both companies' cultures must be fleshed out. This crucial step is often neglected – and sometimes totally ignored – in most M&A planning processes.

One common mistake that is often made in the cultural due diligence process is that measures used to delineate the culture are superficial in nature (such as the number of levels in the organizational structure, the type of employee benefit programs, level of detail in policy manuals) and do not adequately plumb its depths (Mendenhall, Caligiuri and Tarique, 2001).

Metaphorically, cultural understanding has often been likened to an iceberg (Black et al., 1999; Schein, 1987). The tip of the iceberg, visible to the observer, does not reflect the way in which it is connected to a much larger mass beneath the ocean's surface. Similarly, the external manifestation of cultural dynamics – artifacts and behaviors – do not reflect the behind the scenes dynamics that create them and sustain them. Nor is the meaning that the artifacts and behavior have for the members of the culture easily comprehended by the naïve observer. Thus, fleshing out an understanding of the external terrain of organizational structures, amount of work done by teams, human resource policies, etc., does not give a true understanding of the entire culture of the company. Unless the cultural due diligence team strives to understand the normative structure that creates micro-level behavior and artifact manifestation, and the core values that in turn create the normative structure, and the foundational assumptions regarding elementary issues around the very existence of the organization itself, any cultural integration strategy will be flawed. Superficial cultural analysis may isolate behavioral predispositions of the company, but it does not answer the question of 'why' the behavior occurs and continues to occur. Understanding why a company operates the way it does makes all the difference in creating useful post-merger cultural integration strategies.

Evans et al. (2002) suggest that cultural due diligence teams must focus their efforts on data collection that would extract 'deep knowledge' of the culture. Cultural due diligence teams need to ask questions, and find answers to questions such as (p. 270):

- What are their core beliefs about what it takes to win?
- What drives their business strategy? Tradition or innovation?
- Is the company short-term or long-term in its outlook and execution of initiatives?
- How much risk is the company used to accepting?
- Is the company result-oriented or process-oriented?
- How is power distributed throughout the company?

- How are decisions made: consultation, consensus, or authority?
- How is information viewed and managed?
- What is the typology of a valued employee?

Questions of this nature require the due diligence team to probe into the normative structure, core values and assumptions, and the core philosophy of the company itself in order to understand the company from a holistic cultural perspective.

In addition, the culture of a company does not exist in a vacuum. It is embedded in an industry, regional, professional, and national culture as well (Schneider and Barsoux, 1997). In order to comprehend a company culture, one must be able to understand the cultural strands that reach out and attach themselves to values, assumptions, norms, and philosophies in the environment in which it exists. Thus, the cultural due diligence team must assess the wider context in which the company exists as well as the company itself. The national cultural frameworks discussed in Chapter 6 could be a useful starting point in this respect.

Finally, the due diligence team must not only pay attention to the target's or potential partner's culture, but to the culture of the company that it represents as well. Cultural assessment is not just a question of assessing the other company's culture; it is also a matter of both having a clear culture oneself and understanding it. The 'know thyself' adage applies as much to companies as it does to people. Only after an executive team has a clear, sophisticated understanding of both their own culture and that of the target/partner, can cultural integration planning be conducted.

Undertaking a human capital audit and selecting the management team

There are two dimensions to the human capital audit. One dimension is preventive, focused on liabilities such as pension plan obligations, outstanding grievances, and employee litigation. It also includes comparing the compensation policies, benefits, and labor contracts of both firms. The other dimension is focused on talent identification, and in the long run it is probably more critical to the success of the acquisition. A number of facets on this are important – ensuring that the target company has the talent necessary to execute the acquisition strategy, identifying which individuals are pivotal to sustaining the value of the deal, and assessing any potential weaknesses in the management cadre. It is also important to understand the motivation and incentive structure, and to highlight any differences that may impact retention. Finally, understanding the structure of the organization means not just reporting lines but clarifying who is who.

Here are some examples of questions to consider (Chaudhuri and Tabrizi, 1999; Evans et al., 2002):

- What unique skills do the employees have?
- How does the target's talent compare to the quality of our own?
- What is the background of the management team?
- What will happen if some of the management team leave?
- What is the compensation philosophy?
- How much pay is at risk at various levels of the firm?
- What are the reporting relationships?
- How are decisions made?

Getting access to talent data may take some effort, and many companies ignore the talent question in the early stages of the M&A process. They do not take the time to define the type of skills embedded in people who are critical to the success of the deal, relying instead on financial performance data as a proxy. However, without early assessment, companies may acquire targets with weaker than expected skills or talent that has a high likelihood of departure. A consequence is delays after the merger announcement in deciding on the structure and management team in the acquired company, which fuels post-merger anxiety and confusion, leading the most valuable contributors to leave.

At the same time, the audit may also uncover significant weaknesses that may call for replacement candidates (external local hires or expatriates) to be ready to step in immediately after closing the deal. Without advance planning, this may not be possible. And with each replacement there is a potential termination, which again has to be carefully prepared, based on local rules and practice.

Effective communication

Communication is always a vital part of any process of change, but it is critical in cross-border acquisitions where cultural differences may intensify tensions due to misunderstanding and distance. Furthermore, in the design of the communication process there are two additional objectives that are particularly important in acquisitions. On the one hand, an aim of communication is to alleviate the anxiety and stress that accompany every acquisition, and on the other hand it provides feedback to top management about the progress of the integration process and any potential roadblocks.

While some M&A are public knowledge during their pre-merger/acquisition phases, many are not, and their public announcement triggers shock and anxiety in the workforces of the companies involved. Even if the deal is known to be in the works, rumor mills of possible layoffs, reassignments, etc., drain energy and productivity. Feelings of superiority, victory, or power may be generated among employees of the acquiring or dominant partner; conversely, feelings of fear, betrayal, and anger are not uncommon among employees in the acquired or less dominant company.

In the first 100 days of a merger, Mirvis and Marks (1994) argue that the following must occur in order to counter the 'merger syndrome' in employees. First, employees must come to see that it is perfectly normal to feel a wide variety of emotions because of the merger or acquisition. They should be trained in developing coping skills to *deal with the stress* that comes with such massive organizational change. Second, *information must be transparent*, and freely communicated to employees. When executives sit on decisions and announce them abruptly 'as needed' it simply fuels the problem discussed above: heightened levels of stress and anxiety. It also fuels an emergent distrust of management's motives, ethics, and decision-making effectiveness on the part of employees (Stahl and Sitkin, 2001). Information can be shared in a wide variety of forums: lunch gatherings, company intra-nets, e-mails, etc. Third, senior management must *communicate a vision throughout the company*, one that is positive and guides the employees from both previous companies towards a new and better future. Combined with symbolic acts that show a positive regard for all employees, infusing the new culture with a positive image of the new company as it moves ahead is a critical aspect of initial post-merger management. Finally, it is critical to *involve people at all levels from the previously separate companies* with each other in some kind of role quickly; that is, the formation of teams to share knowledge, break down stereotypes, in training workshops, etc. has the effect of dissipating the power of ethnocentric 'us vs. them' factions. Developing systems that allow for interaction amongst people from the two companies, in settings that are positive, is an important process to undertake quickly after a merger or acquisition is announced.

Retaining talent

Many acquired businesses lose key employees soon after the acquisition, and this is a major contributing factor to the failure of acquisitions. Research evidence from US acquisitions indicates that the probability of executives leaving increases significantly when their firm is acquired by a foreign multinational (Krug and Hegarty, 1997). When insufficient attention is paid to retaining talent, and especially if staff cuts are expected, employees will leave – headhunters inevitably move in and the best will exit first since they have other choices. Retention of talent is particularly important for firms where the value of the deal lies in the acquisition of intangible assets – the knowledge and skills of the people inside the acquired firm – as with many such deals in the high technology sector where companies use acquisitions to plug holes in their R&D portfolio or to rapidly build up new capabilities (Chaudhuri and Tabrizi, 1999).

This means knowing exactly who are the talented people and why they are essential to the new organization, including those lower down in the acquired firm, though getting this information as part of the human capital audit may not be a simple task – local managers may be protective of their people, there may be cultural differences in what performance means, and many companies do not know who their high performers are. Whenever possible, multiple sources of assessment should be used – feedback from direct superiors, peers and subordinates; past performance reviews; personal interviews; and formal skill assessments.

Effective and open communication is a first element for success in retaining talent, while financial incentives are also important (stock options, retention bonuses or other incentives given to employees who stay through the integration or until a specific merger-related project is completed). But to retain long-term talent, financial incentives cannot substitute for a one-on-one relationship with executives of the acquiring firm. Senior management involvement is critical to successful retention. High-potential employees in most companies are used to senior-level attention. Without the same treatment from the acquiring company, they question their future and will be more likely to depart. Distance may be an obstacle to be overcome, but it cannot be used as an excuse. When BP-Amoco acquired Arco, another international oil major, it quickly organized Key Talent Workshops – two-day events to network senior BP executives with Arco's high-potential employees.

Talent retention efforts should not stop with the completion of the first 100 days of integration. Junior employees may find the initial impact of the acquisition to be quite positive, offering them opportunities for responsibility and higher pay (especially if their seniors leave *en masse*). But many of them depart later because they are not integrated into the leadership development of the new parent company (Krug and Hegarty, 2001).

Creating the new culture

Creation of a new culture is difficult unless there is some explicit management philosophy with values and norms that guide practice and behavior. To create the new culture of ABB after the cross-border merger of Asea and Brown Boveri in the late 1980s, the then CEO Percy Barnevik spent three months with the new senior management team defining a policy bible to guide the intended new organization. This was a manual of 'soft' principles such as speed in decision making ('better to be quick and roughly right than slow and completely right') and for conflict management ('you can only kick a conflict upstairs once for arbitration'), as well as 'hard' practices such as the Abacus measurement system that would apply across all units of the newly merged enterprise.

Companies with strong and successful cultures such as GE and BP impose their culture on the companies they acquire, as BP did when it bought Amoco. Indeed they see their success as originating from their culture and the practices built on it. Therefore GE will bring to an acquired company its meaning of performance commitment anchored in stretch goals, the underlying business planning process, and the way it goes about managing people. On the other hand, as illustrated by Evans et al. (2002), acquiring a 'culture' may be part of the reason behind an acquisition, such as in one takeover of an Anglo-Saxon competitor by a French multinational that is the global leader in its industry. Top management in the French corporation had known for some time that its own culture had to change, but it was unable to do so organically. The most attractive feature of acquiring its competitor was not the expanded market share but the opportunity to accelerate change in the mother company. Senior management recognized that the whole integration process would have to be managed with this aim in mind.

In the process of culture building or cultural assimilation after an acquisition, values and norms have to be translated into action. One model of change implementation argues that it is a four-step process (Beer, Eisenstat and Spector, 1990). It starts with establishing the *new roles and responsibilities* after the restructuring, ensuring that skilled champions of the desired culture are in place to drive the culture change process. The second step is *coaching and training*, helping people to develop the desired competencies and behaviors. Meanwhile, the third step is being prepared, focusing on *recruitment, succession planning, and rewards*. People who do not respond well to the coaching will be replaced, and those who respond very well will be given broader responsibilities. The fourth and last step in the implementation and culture change process is the *fine-tuning and formalization of the new system* into a coherent, consistent, and transparent whole.

The quality of coaching is particularly important for the effectiveness of culture change. Take AXA as an example, another French company that in the space of a decade has grown via acquisitions from being a local player in the French insurance industry to becoming a top global financial services institution. Just like BP and GE, it makes no pretensions that its acquisitions are mergers, acting quickly to AXA-ize the cultures of the firms it acquires. Managers from companies brought into AXA commented that one of the most helpful tools for them to assimilate quickly into the company is its 360° feedback process. The AXA values are encoded in this instrument, and to accelerate the process of cultural integration, all managers and professionals in the acquired company go through feedback workshops. It makes the desired culture and values concrete, identifying personal needs for improvement and leading to follow-up coaching in the AXA way.

Managing the transition

Integration manager and transition teams

The post-merger integration is always a delicate and complicated process. Who should be responsible for making it happen? After closing, the due diligence team with its deep knowledge of the acquired company disbands or goes on to another deal. Meanwhile, the new management team is not yet fully in place.

To avoid the vacuum, companies are increasingly turning to dedicated integration managers supported by transition teams.

The role of the integration manager is to guide the integration process, making sure that timelines are followed and that key decisions are taken according to the agreed schedule. The first task is to spell out the logic of the new business model and translate this into operational targets. This is important in international acquisitions where 'big picture' statements from the corporate center may not mean much in a different national and business context. They should also champion norms and behaviors consistent with new standards, communicate key messages across the new organization, and identify new value-adding opportunities (Ashkenas, et al., 1998; Ashkenas and Francis, 2000).

An important aspect of the job is helping the acquired company to understand how the new owner operates and what it can offer in terms of capabilities. The integration manager can help the new company take advantage of the owner's existing capabilities and resources, forge social connections, and help with essential but intangible aspects such as interpreting a new language and way of doing things. Acquired companies typically do not know how things work in the corporation that now owns them, and the integration manager can also help the parent to understand the acquired business and what it can contribute.

A major source of frustration in many of the deals is not so much what the parent wants the newly acquired unit to do, but what it wants to know. Therefore, another role for the integration manager is that of an information 'gatekeeper' between the two sides, protecting the acquired business from the eager embrace of an owner who unintentionally could undermine what makes the business work. When Nokia acquires small high tech venture companies, one of the rules is that all requests for information from the parent go to the integration manager. He or she will decide if and how the unit should comply with the request.

In most acquisitions, the integration manager is supported by integration teams and task forces. These teams should have a clear mandate, with targets and accountability for a specific area where integration is required. Since many of these teams are expected to start work on the first day after the acquisition is closed, the identification of potential members should ideally be an outcome of the due diligence process. HR professionals are often key members of the team because many of the team's activities will have implications for human resource policies and practices.

Who else should be appointed to the transition team? It may be attractive to leverage functional and business unit managers by adding this transition project role to their responsibilities. However, the mixing of line responsibility with transition task force roles often means that neither is done well. Customers do not like to wait until the transition team reaches consensus. On the other hand, integration teams should not be staffed by second-tier managers or by 'losers' in the race for line business jobs – they would not have the credibility to get the job done. So probably the best staffing approach is to appoint 'up-and-coming' managers, leaving the daily business under the original leadership until the new organization can be put in place.

Transition teams are most effective when members come from both the acquired and acquiring companies and by facilitating personnel exchange, members of one transition team can help to develop a better understanding of each other's capabilities. People who are suited for a transition team usually have a mix of functional and interpersonal competencies (including cross-cultural skills), backed up by strong analytical skills. Having an ability to accept responsibility without full authority and being effective in mobilizing resources across organizational boundaries are two competencies that are especially important, and consequently such roles are good development opportunities for those with high potential.

The effective transition team serves as a role model for how the new organization should act. It disseminates the shared vision and makes sure that practices are appropriately aligned with the vision. However, too many task forces and teams slow things down, creating coordination problems, conflict, and confusion. The integration projects should focus on those with high potential savings at low risk, leaving those with greater risk or lower benefits until later. In the process of transition, prioritization is critical.

Moving with speed

Evans et al. (2002) observe that most companies with experience in acquisitions recommend moving fast. Creeping changes, uncertainty, and anxiety that last for months are debilitating and immediately start to drain value from an acquisition (Ashkenas et al., 1998). While this may seem counterintuitive to some, 'a problem jeopardizing the success of many acquisitions has been a tendency to restructure slowly, motivated by the best of intentions. While time and resources are being spent on giving people time to adjust and not upsetting the old culture, competitors come along and take away the business' (Evans et al., 2002, p. 278).

The desire to move fast may come from the firm that has been bought up. A survey of European acquisitions of US high-technology firms in the Silicon Valley reported that speed in integration was one of the key drivers of successful post-merger integration – but also one of the most problematic (Inkpen et al., 2000). The understanding of what is 'quick' or 'fast' among most of the European acquirers (usually large, established companies with entrenched routines and procedures) was very different from the norms of the Valley. This created confusion, frustration, and ultimately the loss of market opportunities.

Research also shows differences in the speed of the integration process according to the national origins of the acquiring firm. Japanese and Northern European acquirers tend to move cautiously, conscious of the potential cultural conflicts (Child et al., 2001). This works well if the approach is one of preservation, but it may exacerbate the stress of the transition when expected decisions are not forthcoming.

Another aspect associated with speed is the need for management to demonstrate to the employees that the merger/acquisition is showing signs of success quickly, and to communicate the accomplishments to the whole organization. One of the fundamental principles of successful change is that of celebrating small wins (Kotter, 1996; Kouzes and Posner, 1987). This has the salutary effect of reinforcing in the minds of people that the decision to merge was a good one, diminishing the influence of those who are critical of the merger, and increasing morale in the new organization.

The optimal speed depends on the strategic intent behind the acquisition and the desired end-state for the culture of the new organization. Absorption or transformation strategies generally require more urgency than those oriented to preservation. When the objective of the acquisition is to acquire knowledge and intellectual capital, the pace of change must be especially carefully calibrated to minimize the risk of alienating talent.

Obviously, speed can be increased proportionately to the degree to which a comprehensive integration plan has been formulated in the pre-merger phase. The old adage 'speed kills' is still true if decisions are being made without a context of a carefully crafted plan. Alternatively, a slow pace due to the lack of a credible plan also has a negative impact, as it reinforces in the minds of many subordinates that no one amongst the executives knows what they are doing, that no progress is being made, and that the entire merger or acquisition was a folly to begin with. This argues, of course, that good preparation during the pre-merger/acquisition phase is vital if the post-merger phase is to be successful.

5 CONCLUSION AND IMPLICATIONS FOR MERGER AND ACQUISITION PRACTICE

In M&A special emphasis is usually placed on the strategic and financial goals of the transaction while the psychological, social, and cultural implications do not receive much attention. The purpose of this chapter has been to delineate the dynamics of people issues and cultural processes inherent in M&A, and to discuss their implications for the management, in particular the human resource management, of M&A.

Whether a merger or an acquisition fails or succeeds depends primarily on the management of the post-combination integration process (Haspeslagh and Jemison, 1991; Jemison and Sitkin, 1986). While the conditioning factors in a M&A, such as buyer strategy, prior acquisition experience, or initial cultural fit between the combining organizations, form the upper limit on the degree of success that a M&A can achieve, the management of the post-combination integration process will probably determine the degree to which that potential is realized (Pablo et al., 1996). The research evidence presented in this chapter indicates that, if adequately managed, the inherent cultural differences in cross-border M&A can be an asset rather than a liability.

What constitutes 'adequate' management in a particular M&A depends on the strategic logic behind the deal and the integration approach taken. Each of the various integration approaches discussed in this chapter has different managerial implications. For example, in absorption acquisitions, one of the key managerial challenges is to ease the transition from separate to joint operations and to allay target firm members' fears through clear communication, whereas preservation acquisitions require arm's-length status and managers must be willing to protect the target's autonomy and learn from the target firm. In general, attention to cultural and people issues is most critical to M&A which require high degrees of integration (Haspeslagh and Jemison, 1991; Stahl and Sitkin, 2001).

Although most M&A failures are linked to problems in post-combination integration, our discussion of the key HRM challenges in M&A suggests that cultural and people issues have to be considered at an early stage in the M&A process – as early as during the evaluation and selection of a suitable target and the planning of the post-combination integration phase. In the due diligence process, the assessment of the organization structure, corporate culture, and HR system in the company to be acquired is just as important as financial analysis and strategic fit considerations. Undertaking a human capital audit to ensure that the target company has the talent necessary to execute the acquisition strategy, identifying which individuals are key to sustaining the value of the deal, and assessing any potential weaknesses in the management cadre are essential to the long-term success of the acquisition (Evans et al., 2002).

No matter how well the M&A has been prepared, one can neither anticipate nor avoid all problems in the post-combination integration phase. In this chapter, we have identified various paths for executives to follow in their efforts to better manage the challenges of post-merger integration. Most of the critical management tasks are in the area of human resource management and organization development, including various aspects such as enhancing the quality and quantity of communication, choosing the right management team, retaining key executives and leadership talent, facilitating the cultural integration process, and managing the transition process. The interventions suggested to deal with these key HRM challenges can go a long way toward reducing dysfunctional culture clashes in cross-border M&A, and increasing the chances for successful integration.

The cultural and human resource management implications of M&A discussed in this chapter provide a rich field for further research. Although the psychological, social, and cultural issues involved in integrating merging or acquired firms have received considerable research attention in recent years (for reviews see Cartwright and Cooper, 1996; Evans et al., 2002; Schweiger and Goulet, 2000; Stahl and Sitkin, 2001), several important issues related to the post-combination integration process have been left unexplored. For example, few systematic attempts have been made to examine, either conceptually or empirically, the role that processes related to trust building, employee sense making, and leadership may play in the M&A process. Other aspects of the post-combination integration process, such as the consequences of cultural fit or misfit, have received more research attention, but empirical findings are mixed. Clearly, our current understanding of the sociocultural dynamics in cross-border M&A is limited.

One reason – and challenge – is that research in this complex area needs to be interdisciplinary or broad in its disciplinary orientation – linking the strategic, cross-cultural, and human resource management perspectives. Each of these perspectives has something to contribute, but none can contribute significantly independent of the others. For example, as has been discussed earlier in this chapter, frameworks that focus exclusively on the cultural issues involved in integrating merging or acquired firms, such as the 'cultural distance' hypothesis, cannot explain why some cross-border M&A succeed and others fail. Whether cultural differences have a positive or negative impact on M&A performance is likely to depend on a variety of factors, including the nature of the cultural differences, the interventions chosen to manage these differences, and the strategic intent behind the M&A. Interdisciplinary research is needed to find out how these dimensions interactively influence M&A performance and to provide fresh insights into the sociocultural processes and human resource management issues involved in cross-border M&A.

This chapter concludes the first part of this book. In Part 2, we will discuss national differences in HRM policies in Europe, Asia and developing countries, as well as two theoretical models that account for these differences.

6 DISCUSSION QUESTIONS

1 What are the various post-merger/-acquisition strategies that one can pursue and what are the factors to consider in determining the appropriate strategy?

2 What are the cultural and people issues HR should focus on to ensure the success of a merger or an acquisition?

3 What is the role of the integration manager and the transition team? What professional and personal qualities should these incumbents possess?

7 FURTHER READING

- **Cartwright, S. and Cooper, C.L. (1996). *Managing mergers, acquisitions, and strategic alliances*: *Integrating people and cultures* (2nd ed.). Oxford: Butterworth and Heinemann.**

Written by two psychologists, this is one of the best books on the cultural and human resource management aspects of M&A. It covers a wide range of M&A issues such as cultural compatibility, partner selection, integration approaches, and sources of employee stress following M&A.

- **Child, J., Faulkner, D. and Pitkethly, R. (2001). *The management of international acquisitions*. Oxford: Oxford University Press.**

Excellent summary of the M&A issues, targeted both towards academics and managers based on research on acquisition by foreign companies in the UK. Three areas explored in detail are a review of key management challenges, which post-acquisition practices lead to better performance, and whether national management style can survive an international acquisition.

- **Haspeslagh, P.C. and Jemison, D.B. (1991). *Managing acquisitions: Creating value through corporate renewal*. New York: The Free Press.**

Written for academics as well as executives, this book introduces a well-known model of the post-acquisition integration process. Although the primary focus is on the business aspects of determining M&A value drivers, the book is highly relevant to those interested in the human resource management aspects of M&A. Perhaps the most influential book on M&A management.

- **Marks, M.L. and Mirvis, P.H. (1998). *Joining forces: Making one plus one equal three in mergers, acquisitions, and alliances*. San Francisco: Jossey-Bass.**

Popular and useful book on human resource management aspects of M&A. Targeted more towards practitioners than academics (both authors have extensive consulting experience), this book contains numerous mini-cases and best practice examples.

- **Morosini, P. (1998). *Managing cultural differences: Effective strategy and execution across cultures in global corporate alliances*. New York: Pergamon.**

Well-written book on mergers, acquisitions, and alliances. It describes the results of a study conducted to test the link between national cultural distance and cross-border acquisition performance. The study results demonstrate how 'execution orientation' – a combination of strategic vision, leadership, communication, and overall execution, is at the heart of successful M&A management.

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PART 2

HRM From a Comparative Perspective

5 Cross-National Differences in Human Resources and Organization

Arndt Sorge

CHAPTER CONTENTS

1 INTRODUCTION

Cross-national comparative research on organization and human resources usually follows one of two major approaches: institutionalist or culturalist. In Section 2 we explain in which way comparative research differs between these two approaches. At the same time, we point out that these two different strands are complementary rather than opposed. In the third section we describe and explain differences between organization and human resource structures in different countries, with an emphasis on more institutionalist comparisons. The more culturalist comparisons are left for the next chapter. The institutionalist treatment starts with differences observed within enterprises before moving over to wider, more 'macro' differences characterizing societal business systems. To integrate culturalist and institutionalist approaches, a framework called societal analysis is then proposed in the fourth section. In the last section, we discuss consequences of this framework within the more recent discussion of trends such as globalization and European integration.

2 AN ORGANIZATION THEORY FOUNDATION OF CROSS-NATIONAL COMPARISON

Although it may sound a bit heretical compared to the organization and management literature, which is usually obsessed with effectiveness, organizational life is very much governed by factors that have very little to do with organizational goals, or which may distort organizational goals. They affect organizational and human resource structures and processes either directly, or via the modification of organizational goals or other contextual properties. Let us focus on one set of influences here, which is due to the simple but important fact that organizations are embedded in larger and wider societal collectivities. They may even be embedded in more than one collectivity, particularly when they are multinational companies, notably when these follow a transnational strategy (see Chapter 2). It is easy to imagine what these factors are: work and leisure rhythms (national or regional holidays), accounting systems, technical standards and norms, education and training systems, systems of conducting industrial relations between employers or management and employees and even organizational practices themselves are to a large extent shaped by laws, collective agreements, other formalized norms, or strongly rooted habits and preferences.

Two major entries into cross-national differences

What is the best way of pinpointing, locating and explaining such influences? We can tackle the problem in two ways: we can either assume that differences are located in the psyche of people, in the way they think and in the values and preferences to which they adhere; or, we can focus on normative or strongly rooted customs as constructs which are situated above the purely individual level. The first option leads to a culturalist approach to researching and explaining differences in organizations and human resources; they are rooted in strong values and beliefs – a practice is sustained because people find it repulsive, unethical or unappealing to do otherwise. The second option leads to an institutionalist approach; people comply with norms because a wider formal system of laws, agreements, standards and codes exists. Sometimes people are coerced, directly or subtly, to follow such standards, sometimes they are not.

Integrating culturalism and institutionalism

Can these distinct approaches be separated from each other? Not really, if we look closely at them. Pacifists with a sense of humor used to say: Think what would happen if a war were to break out and nobody went. Putting the issue of pacifism or belligerence aside, this leads us to the following claim: Collectively instituted traditions depend on legitimacy (people complying because of ethical or utilitarian reasons), and they may evolve as a function of this. Vice versa, people adjust their values and preferences to a collective framework of norms. From a more academically rigorous perspective, Giddens (1986: ch. 4) has made the point that individual behavior and social structure are reciprocally constituted; it is impossible to imagine a normative custom, instituted to be more or less binding, as not being kept in place by acting individuals. Likewise, individuals do not make behavioral choices without regard for norms. Even if they make a habit of breaking them, this tends to be for specific reasons, a reaction more or less typical of each individual in a specific situation. Indeed, this very challenging of existing norms and values may in itself become institutionalized as an accepted tradition of dissidence.

The comparative researcher interested in theory complex enough to integrate culturalist and institutionalist approaches into one conceptual body (like the present author) will persevere with this argument. Such an approach will then consider the construction of actors (people with values, preferences, knowledge) and the construction of social and societal systems as reciprocally related, to such an extent that they cannot be separated one from the other. This is what constitutes 'societal analysis'. Let us unravel it step by step and continue, for the time being, along a more restricted and less sophisticated track of reasoning. Let us decouple culturalist approaches (focused on the mind of the individual as the place where differences reside) from institutionalist approaches (focused on wider norms and standards supported or enforced by institutional machineries). In this chapter we will focus mainly on institutional approaches. In the next chapter, the culturalist approach will get the attention it deserves. But do remember that when we are getting down to the nitty-gritty of explaining why organizational and HRM practices differ in a specific instance, it is fatuous to consider such approaches as competitors. Meaningful differences require a combination of both.

Consider a simple example. Why is it that in all kinds of comparisons, Germany always comes out (without presuming that this would be different from Austria or Switzerland) as a society in which vocational education and training is more than anywhere else provided in apprenticeship-type education and training arrangements, linking training at work and at college in a generally ordained and sanctioned way? The institutionalists say that this is because employers' associations have always been singularly strong, and linked with government, so that this fundamental pattern is enshrined as a public institution. Some of them will observe that a training focus on skills from the bottom up allowed German companies to follow a strategy of 'differentiated quality production', combining rational industrial manufacture with quality and customization of products and services. The trade unions then joined the bandwagon, seeing that this produced lots of skilled workers, and this gave them a more secure membership clientele than a system bringing forth greater numbers of less skilled workers and white collar staff. On the other hand, the culturalists will say that German culture places high esteem on well-trained specialists with transferable skills, as indispensable elements in a 'well-oiled machine', which can even go on working smoothly when managers and engineers neglect its maintenance. From this perspective, it is the combination of the Hofstedian dimensions of 'Uncertainty Avoidance' (doing things systematically to prevent accidents, defects and confusion) 'low Power Distance' (technicians and engineers respecting workers' experience and having shared it as far as possible) and 'Masculinity' (work, getting stuck into it and comradeship as central interests in life) that explains this phenomenon. Chapter 6 discusses the position of Germany in the mapping of Hofstede's work-related values.

Is it culture or institutions that determine what goes on? First, do not look at any explanation as being deterministic. The conflict between institutionalism and culturalism, and related claims that one of them or the other is at the root of things, is nothing but an academic job creation program. Second, link differentiated theoretical perspectives. Only this will lead to a satisfactory analysis. Happily, this is where the theoretically sophisticated scholar and the down-to-earth management or business student or practitioner meet.

A brief primer on culturalism

For the moment, though, let us separate the institutionalist and culturalist approaches for the purpose of discussion, but do keep their eventual unification in mind. First, what does it imply to focus on the actor? Actors are human individuals or a whole collection of individuals. They can be defined either by common characteristics (quasi-groups) or by integrated social interaction. Individual and collective actors typically feature what may be called a 'programming of the mind' (including everything from articulate or tacit knowledge to emotions, gut reactions, moral standards and rules-of-thumb). All these characteristics arise from socialization processes which are similar for members of the same group. Individuals may react in different ways to these processes, but even when they do, they share a common perspective which provides guidelines for acceptable responses. There are various possible commonalities that can be imagined: early childhood socialization may have a distinctive pattern in a society; education and school experiences differ from one country to the next; working careers are also different, exerting a socializing influence on the human mind even though they are not necessarily labeled as education or training. In every example, a socialization process of a specific form and with a specific content contributes to the formation of an individual identity that is typified by the way the individual mind works. This approach is found in exemplary fashion in the work of Hofstede (1980; 2001), which will be covered in greater detail in the next chapter.

This approach is called culturalist because culture is taken to represent a specific programming of the mind. According to Hofstede, the effect of culture extends from the level of the individual mind to characteristics of organization systems and other structures. Individual mental programming has an influence on the selection of system characteristics; it makes the individual choose between alternative system characteristics, in conformity with his/her own values and preferences. Such system characteristics will, in turn, stabilize or reinforce a specific programming of the individual mind. A universal management principle, for instance Management by Objectives, will be adapted to existing mental programs and related system characteristics, thereby acquiring a specific application – or even non-application – within the actor-and-systems constellation of the society in which it resides.

Further examples can be mentioned and have been demonstrated by Hofstede. Whether it be in the case of delegation or centralization of authority, individual versus group work, number of levels in the hierarchy of authority, the strength of the position of superiors, methods of motivation to work, communication patterns or other organizational practices, in each situation a plausible link between mental programs and system characteristics can be demonstrated by cross-national comparisons. But note that mental programs are definitely open to change. Hofstede has documented instances of what he called *value changes* in great detail. The evolution of mental programs appears to escape rational control by whichever actor. But this does not mean that actors behave without rational reflection. They are shown to confront obstacles, restrictions and opportunities; in so doing, they adapt the selection of system characteristics to match mental programs. The social theorist Max Weber called this *value rationality*: consciously weighing and selecting courses of action according to compatibility with values.

Now Hofstede would be the last to claim that mental programs defy adaptation to other influences as these change. Yet the conceptual focus is on the actor, the preferred research method is one of value surveys targeting individuals, and this has slanted the approach somewhat towards methodological individualism. It is continuously on the look-out for individual mental programs to match system characteristics, explaining systemic characteristics by social values.

The empirical justification of the opposite: institutionalism

The opposite point of view would be that the mental program does not always matter, but system characteristics do, and when they are reasonably stable and compelling, they can be addressed as institutions. Whether these would or would not have given rise to the adaptation of mental programs is a secondary consideration. The main point is that different rules of the game make individuals move in different directions, even if their mental programming is the same. It may well be that different rules provoke the adaptation of individual mental programs through a process of learning about context-specific factors associated with success (such as physical well-being, social recognition, professional and social advances, and personal development).

Faced, for example, with organizational outcomes in Japan, compared with other societies, such an approach would play down the role of Japanese culture to the extent that this refers to individual mental programs and general socialization processes. Proponents would argue that the specificity of Japanese practices resides in a different construction of professional careers, labor markets (lifelong employment), payment systems, industrial relations, etc. They would argue that, if Europeans and Americans were to be transplanted into a Japanese type context, they would reproduce or generate the same organizational patterns. The outcome would have to be traced back to the institutionalized rules of the game. Such proponents would also point to instances where Japanese-type management and organization practices have been transplanted successfully to other countries.

This institutionalist approach is very much in evidence in industrial sociology or more narrowly sociological cross-national comparisons. It is forever on the look-out for system characteristics to explain organizational outcomes, whether mental programs are adapted in due course or not. The evidence in favor of institutionalism is by no means weaker than that in favor of culturalism. In their study comparing attitudes and social rules in similar US and Japanese enterprises, Lincoln and Kalleberg (1990) came to the conclusion – surprising to many but methodologically well substantiated – that work commitment is not greater in Japanese workers, if measured as an individual mental program. Differences in organizational commitment in practice are explained by different rules of the game, rather than by ascertainable individual mental programs. The authors do show how enterprises have to some extent adapted towards congruence with cultural predilections, as they call it; but the main factor is the design of system characteristics, and the role of culture is considered to be indirect and additive. This should warn us against assuming that culture is the fundamental determinant of international differences in management, organization and human resources. Too many textbooks commit that fault.

But the gap between culturalism and institutionalism can be bridged in the manner indicated by Crozier and Friedberg (1977) and Giddens (1986), through what the latter called s*tructuration theory*. This is an erudite explanation of how actors and systems constitute each other reciprocally. They are simply two sides of the same coin. To examine an actor means discovering systems (s)he has in mind and takes for granted; to examine a system means to discover the precise meaning that actors give it.

3 AN INSTITUTIONALIST INTERPRETATION OF ORGANIZATIONAL STRUCTURES AND HRM

Let us consider the institutionalist empirical fundamental concept that emerges from cross-national comparisons, and let us begin by the organization of production units. First, only those comparisons are pertinent here which highlight differences that cannot be attributed to different goals, contexts, environments or strategies of enterprises. Our interest is focused on differences that cannot be attributed to common explanatory variables in organization theory, such as technology, firm size, products made, innovation rates, variability of products made, ownership, etc. Intriguing differences are those which arise despite similarities in the factors just mentioned. In which ways do actors and systems differ, even when the organizations are of the same size and make the same product, with the same technology, for similar types of clients?

Primary and secondary production processes compared

The following emerged when the administrative structures of manufacturing sites that are similar regarding size, technology etc. were compared in three countries – France, the UK and Germany. Table 5.1 summarizes a number of quantitative measures describing the shape of organizations. The data were first published by Maurice et al. (1980), reformulated by Lane (1989: 51), and reformulated again by the present author. Interestingly enough, although the material is far from recent, subsequent comparative studies controlling for size, technology, strategy and other task environment or contextual properties, have not changed the picture (Maurice and Sorge, 2000). Whilst organizational change has of course occurred, differences between countries have proven rather robust.

Most of the variables are expressed as percentages, ratios or index values. The differences between the countries were usually in the order of 10–20 percentage points, which is quite a lot, bearing in mind that we are dealing with organizations that do basically the same thing. German sites came across as having laterally 'lean' and structurally simple designs, the hierarchy being strong but flat. There was a tendency to restrict the growth of any component that is separate from direct production and the line of authority. French organizations tended to have tall hierarchies with large numbers of people in managerial, supervisory, administrative and specialist positions. British firms tended to have medium-sized components on most counts, except that they had the smallest numbers of people specifically classified as having line authority.

Such differences went hand in hand with striking contrasts in labor control, management control, payment systems, industrial relations, work careers,

TABLE 5.1

Overall view of administrative structures of production plants in the UK, Germany and France

	Low	Medium	High
Tallness of hierarchy	D	UK	F
Functional differentiation	D	UK	F
Share of white-collar employees	D	UK	F
Supervisory span of control	D	UK	F
Administrative and commercial personnel/workers	D	UK	F
Authority positions/workers	UK	D	F
Authority positions/white-collar workers	UK	F	D

D, Germany; F, France; UK, United Kingdom.

HRM policy, competence requirements for jobs and vocational education and training. German organizations put the emphasis on extensive vocational training for most of the employees and positions, continuous development of vertically differentiated qualifications (further education courses building on more basic ones and occupational practice), and stability and autonomy of people in their jobs, within a fairly tight and coherent overall scheme. French organizations emphasized learning by hierarchical advancement, qualification and career distinctions, upward mobility and restriction of autonomy, all within a complex and centralized scheme. British organizations were more loosely coupled amalgamations of components, each with its own identity and displaying a number of status, career and qualification differences between them, but held together by generalist management.

Similar and related differences have tended to crop up time and again, whenever organizations in similar situations were compared in the three countries (Lane, 1989). These attest to sizeable contrasts in the way European countries train people, organize units, pay employees, set up work careers and labor markets, and so on, although the nature of the task in hand is fairly similar. Such comparisons also showed that people working in organizations had different ideas about what kind of arrangement was 'natural', self-evident or ideal. Germans seemed to appreciate professional autonomy in a well-oiled, productive machine. British employees appeared to strive for individual and group prerogatives, and the possibility of negotiated compromise between different interests. The French invariably seemed to go for detailed and complex schemes that permitted sizeable inequalities while allowing extensive upward mobility and fixed individual rights while buttressing the exercise of authority.

Such differences are even more striking when European and Asian organizational and HRM policies and practices are compared. A case in point is the classic study by Dore (1973) on highly similar British and Japanese electrical engineering enterprises. The major conclusion of this study was confirmed time and again by subsequent research. All of this shows that there are a multitude of ways to achieve the same industrial, or service production, task. The multiplicity is rooted in institutions of vocational and general education and training, standard organizing practice, industrial relations, labor markets, social stratification and mobility, occupational profiles, relations between men and women. Structures and people's expectations differ a great deal from one country to another. What is more, differences along such lines are systematically interrelated. This is institutionalism in a nutshell: stable and interrelated patterns prevail over time; any educational or training arrangement will be interdependent with a corresponding organizing, industrial relations, occupational structure, social stratification etc. arrangement. They tend to come together.

Structural interrelationships as foci of institutionalism

Let us now discuss a number of findings in the light of institutional theory, to continue the analysis of Table 5.1. We tried to sum up the institutional interrelationships of France, Germany and the United Kingdom in a set of three law-like statements focusing on the interdependence of the organizational and the human resources dimension (Maurice et al., 1980: 80ff.). These focus on in-plant organization and human resources structures:

1 *The higher the practical professionalization of workers, technical employees and supervisors and managers, the less technical and authoritative tasks are split off from shop-floor roles and organized into differentiated jobs, and the less such activities are differentiated internally in the white-collar area*. This relationship explains how different measures for job specialization, organizational differentiation and professionalization in the three countries are obtained. France exhibits the greatest amount of specialization and differentiation, and the smallest amount of practical professionalization; Germany has the smallest amount of specialization and differentiation, and the greatest amount of practical professionalization; the UK is somewhere in between. The professional autonomy of shop-floor production workers is most highly developed in Germany, and production management is therefore more technical than command-centered.

2 *The larger the discrepancy in training and competence between production and maintenance components of the shop-floor, the greater the separation between production and maintenance activities and careers*. This combined organizational and human resources effect is strongest in the UK. This society has brought forth a characteristic difference between the

autonomous maintenance craftsman and the production worker as a more restricted and less responsible worker. This effect lays the basis for functional, human resources and career differentiation 'higher up' in the pyramid of the enterprise, between line and staff personnel, job categories and careers. Hence:

3 *The greater the human resources and career differences between managers and technical experts, the greater the differences between line management and specialist functions*. This 'lateral' differentiation is very strong in the United Kingdom, intermediate in France and smallest in Germany. As a result, managerial authority is most isolated from technical responsibility in the UK, whereas the two are most intimately linked in Germany. The British manager is more of a pure, or general, manager, whereas the German manager is more of a technical (or commercial, or administrative) leader. Leadership implies joint involvement in similar tasks, whereas management means a separation of operative and managerial tasks.

Differences between societies, as summarized in the three hypotheses above, are re-created even in the midst of technical and economic change. Post-1977, all three countries introduced computer numerically controlled (CNC) machine-tools in factories on an increasing scale. This made it easier to combine automation with productive flexibility, and to let shop-floor workers share in work planning and programming tasks, more than under previous forms of automated metal-cutting. Yet the precise impact of such new machines depended less on the potential of the technology itself and more on the continuation of previously existing characteristics of the various dimensions. German companies accordingly exploited the potential for 'shop-floor programming' of machine tools more purposefully than British companies (Sorge and Warner, 1986), and French companies continued earlier patterns of hierarchically more differentiated human resource generation, work organization and internal labor markets (Maurice et al., 1986). This illustrates the non-identical reproduction of actor/systems constellations put forward. There were changes, to be sure. French companies adopted a policy of recruiting and training a higher caliber of metal worker, but they were taken on in addition to workers with less training, so that the received hierarchical differentiation patterns were preserved. Similarly, although British companies invested more in skilling direct production workers, the investment mainly targeted more restricted 'company skills' rather than the broader apprenticeship skills linked to maintenance craftsman status.

Institutionalism and technological innovation

The relevance of such institutions in the midst of dynamic change has also been shown. A case in point is the differential evolution of the French and the

German machine-tools industries. Actor-systems constellations better prepared German industry for developing and manufacturing universal, flexible CNC machines and control systems, giving them a better position in the machine-tool market and leading to better outcomes in terms of market share and employment. The French machine-tool industry entered a severe crisis and shed employment on a larger scale after a series of redundancies, bankruptcies and take-overs by competitors from abroad. Interestingly, the French manufacturers that survived or did better were those which produced more single-purpose CNC machines. French industry had already possessed more manufacturers of single-purpose machines, whereas German industry had previously been stronger in universal machines.

In Germany, success was attained through the manufacture of universal machines, while France achieved it by manufacturing single-purpose machines of a more specialized kind. And this was valid both for the period preceding and for the period after the rise of CNC as a major metal-cutting innovation. All this attests to the reproduction of institutional patterns, even when the up-and-coming innovation is basically the same everywhere, and even when a large number of technical, industry structure, human resource and organizational changes are in evidence. The simple fact is that such changes are not quite the same in every society, even when they are technical. International state-of-the-art technology, management practice or other novelties are adapted and internalized into the existing institutional patterns. They therefore exhibit change to the same extent as continuity (see Maurice et al., 1988).

The importance of institutionalized settings has also been documented for the patterns which specifically apply to R&D departments in the electronics industry. Multi-specialization in Japan favors applied market and production research and development. Conversely, the fragmentation of organizations and careers and the generalist approach to engineering in France favors a high caliber of basic research and development which is more decoupled from production implications and marketing concepts. Hence, the internationalization of competition and the advent of a similar basic technology may imply that enterprises in different countries develop different strengths and weaknesses, focus on different market segments and localize different functions in different countries. Although there is 'institutional learning', whereby firms in one society try to emulate 'best practice' from another country, this does not mean that the practices they arrive at remain the same. Even when firms and societies do learn from each other, internationally, they will usually achieve comparable performance outcomes in ways which are institutionally different. This is illustrated by the contrast in the institutionalized methods employed by the Japanese and German firms to 'mechatronize'. In the Japanese case, the internal labor market and interprofessional job chains are central; in Germany, professionalized multi-specialization and an inter-firm labor market remain important.

What kinds of outcomes firms achieve, how successful they are in which market segment or activity, can then be explained by the society in which they are embedded. The same point was made for the evolution of the automobile industry in the major manufacturing countries. There has been a further segmentation of market segments; and which kinds of manufacturers did well in which kinds of segments is explained by the societal setting which they already inhabited. Of particular importance, again, are the above-mentioned dimensions of organization, human resources, labor market and industrial structures (Streeck, 1992: ch. 6).

Broadening institutionalism across levels in the socio-economic order

The examples show how we can extend an analysis initially focused on the more 'micro' setting of relations within plants and within enterprises to take account of more 'macro' settings. To recapitulate how this works, let us take a simple example from the intra-European differences mentioned above, in Table 5.1. French job and managerial hierarchies are more finely graded than German ones; this goes with a more detailed subdivision of labor and therefore narrower job content; this is the corollary of lesser job enrichment by apprenticeship training; the greater gap between vocational education at school or college and the world of work gives rise to the necessity to develop practical competence gradually, and this is done precisely by slotting people into more specific jobs when they come from school or college; hierarchies are accordingly flatter and heavier at the bottom in Germany, whereas they are taller and heavier around the middle range in France. This set-up in France also means that upward socio-occupational mobility is higher throughout France. This is clearly inevitable if we think through the differences already identified: where the point of gravity is higher in the hierarchy, there is greater space for climbers! We can see that a detailed comparison along a multitude of dimensions then makes specific results 'fall into place'. They do this because differences across different dimensions 'hang together', i.e. they cohere. On this basis, we can more or less predict what happens if, say, Germany were to reduce the practical orientation of occupational training and its embeddedness in or close to work settings; it would move closer to a French institutional profile – if nothing changes in France.

In research, such differences have been attributed to government law, collective agreements, custom and practice, financial incentives and restrictions, ideologies, symbols, preferences and social values. In the case of the chemical production units discussed above (Maurice et al., 1980), it emerged that they themselves had already investigated the extent to which their structures differed and could be assimilated. The managers of the sites had been baffled by the number of differences that were impossible to overcome. They had also concluded that there was no real need to assimilate structures and practices, since they were able to achieve comparable performances in strikingly different

TABLE 5.2

Characteristics of business systems

A *Ownership relations*
1 Primary means of owner control (direct, alliance and market contracting)
2 Extent of ownership integration of production chains
3 Extent of ownership integration across sectors

B *Non-ownership coordination*
1 Extent of alliance coordination of production chains
2 Extent of collaboration between competitors
3 Extent of alliance coordination across sectors

C *Employment relations and work management*
1 Employer–employee interdependence
2 Delegation to, and trust of, employees (Taylorism, task performance discretion, task organization discretion)

***Source*: Whitley, 2002: 179**

ways. Let us see how the 'macro' end of institutionalism can be formulated, as an attempt to systematize institutional differences between socio-economic settings.

Conceptually most comprehensive are the typologies provided by Richard Whitley (2002) who follows an institutionalist approach to map differences between societies. Everything hinges on the term *business systems*, and a business system is that collection of institutions in an economy and society that serve to shape economic transactions, cooperation and control inside and between business organizations, including associations, trade unions, governmental agencies and other non-enterprise organizations. The primary characteristics of business systems are shown in Table 5.2, following Whitley (2002: 179).

Business systems are therefore not only characterized by typical ways of organizing and generating human resources in enterprises. They include market structures, property and industrial relations, at lower and higher levels of aggregation. In this respect, the business system literature overlaps with the 'varieties of capitalism' literature, and it is notably important for human resources through the link with industrial relations (cf. Chapter 16). The business systems concept allows us to extend comparisons to levels above and beyond the primary cores of organizations, into governance and industrial, political and wider social structures. The following typology puts forward linkages between different institutional dimensions.

- *Fragmented* business systems are dominated by small owner controlled firms engaged in adversarial competition. Short-term results orientation abounds, and along with this a pronounced flexibility to convert the firm from one product or service to another. The exemplary instance is Hong Kong.

- *Coordinated industrial district* business systems exhibit greater links between competing firms and/or in the industrial chain, and across sectors. Economic coordination is more geared to long-term perspectives, and cooperation, commitment and flexibility are emphasized in the sphere of work relations and management. But economic coordination is not necessarily achieved via trade unions. Examples are Italian industrial districts or other regional districts in European countries.
- *Compartmentalized* business systems feature large enterprises which integrate activities between sectors and in the industrial chain, also through shareholdings, but there is little cooperation between firms, and in both commodity and labor markets, more adversarial competition or confrontation abounds. Owner control is exercised at arm's length, through financial markets and shareholding. Firms are islands of authoritative control in a sea of market competition. This mainly occurs in Anglophone economies and societies, i.e. countries which have been part, colonies or dependent territories of the UK and populated more extensively by European immigrants.
- *State organized* business systems may be more or less socialist, but they are in both cases dependent on state coordination and support, to integrate across and within production chains and arrange corporate governance. Where state organization occurs in a capitalist order, it may even entrench family ownership of firms, through the support it extends. Prominent examples are France in Europe and Korea in Asia.
- *Collaborative* business systems depend on substantial associative coordination (through industrial, employer and employee association and quasi-government of the economic order by semi-private organizations such as chambers). In such societies, credit financing of enterprises, alliances of share ownership rather than dispersed ownership, long-term interests, and generation of relative trust between actors of different types tend to reinforce each other. Prominent examples are to be found in Western Continental Europe, in both German-speaking countries and Scandinavia.
- *Highly coordinated* business systems have alliance forms of owner control and, in addition, extensive alliances between large companies, which usually are conglomerates, and a differentiated chain of suppliers. Employer–employee interdependence is high, and a great part of the workforce is integrated into the enterprise in a more stable way. Japan is the model example for this.

Such a typology leads to further explanations of interaction between the dimensions of business systems (see Whitley 2002 and other literature quoted therein, by the same author and others). Our comparison of France and Germany can be extended in business system terms. In France, more of a state organized business system, corporate governance and social relations in the enterprise were to a greater extent influenced by templates taken from the public sector into the rest of the economy. Hence, vocational education and training became public domains. Corporatist economic governance in Germany, however, in a collaborative business system, resulted in the establishment of basic vocational education and training as both a private enterprise and public education matter, governed by employers and trade unions in conjunction with the government and executed within enterprises according to generally applicable schemes.

In order to properly analyse and explain any given country's profiles, the types presented usually have to be combined. Societies are usually mixtures of differently weighted types applying to a greater or lesser extent in specific sectors or regions. It is not the only typology that we have, either. Just as Hofstede's culture dimensions have competitors presented by other scholars, so are there other typologies of business systems. In organization studies, however, Whitley's is the most frequently used and most differentiated one. We have to realize however that such typologies are very crude. They explain in what way Korea is different from Japan, or France from Germany, or many societies from Britain and the USA. But countries and business systems change over time, and there are more specific differences, say between Sweden and Germany, France and Belgium, or Singapore and Hong Kong, which the interested observer or practitioner will find hard to derive from such a typological scheme.

In the last instance, any such typology, or map of cultural dimensions for that matter, is a bit like a Swiss knife: a fairly universal and supposedly all-purpose tool, which allows you to do many essential (cutting, filing, screwing etc.) jobs in an elementary way. It fails on more demanding jobs, but it does point the way to more specific tools and you are best advised not to leave home without it. There are no limits to refining business system typologies. Their value lies in forcing us to state linkages between different institutional domains which have the effect of tying dynamics in one institutional domain to those in others. That institutions in different domains evolve in their inter-relationships is fairly indisputable. But how this happens is still a rather tricky issue.

4 SOCIETAL ANALYSIS BEYOND THE INSTITUTIONALISM–CULTURALISM SPLIT

After discussing examples of the institutionalist approach in some detail, this section presents a simplified summary of societal analysis as a way of integrating institutionalism with culturalism. It is proposed that this framework will be useful when tackling more demanding problems of comparing and explaining organizational and HRM practices between countries, as well as between different subsidiaries of MNCs. The classic example of the approach can be found in Maurice, Sellier and Silvestre (1982), which analysed a Franco-German comparison reported in greater detail by the same authors in 1977. This comparison focused on four dimensions of the wider social, economic and political spheres of society:

- organization of work and of the enterprise;
- human resources, education, training and socialization;
- industrial and sectoral structures, and relations between such industries and sectors;
- labor markets, as the sum total of events and arrangements which constitute the exchange of labor power for an equivalent, such as intrinsic satisfaction, social affiliation or (last but not least) money.

As we can see, Whitley presented a different set of salient dimensions, which is more detailed on aspects pertaining to coordination of economic activities beyond and above firms, and the structure of interests within and behind this coordination. But no set of dimensions should be taken as set in stone. The main thing is to start with a refined set of functions which can be separated analytically. The more comprehensive and detailed this set is, the better.

Central tenets of societal analysis

The intention is not to define a rigid decomposition of society and the economy into subsystems. The precise structure of the subdivision is not central; it has been derived in a fairly pragmatic way. The important thing is to grasp the relationships between arrangements across any classification scheme. This means that it is important to explore the *societal* aspect of any social, economic and political phenomenon we are concerned with. This definition of society does *not set society apart* from the economy, or the polity, or what have you. Societal analysis is concerned with lateral, reciprocal, relations between any of the aforementioned dimensions. In a nutshell, this means that what happens in a specific sphere, be it technology, social stratification, labor markets, enterprise organization etc., has to be explained with reference to a set of cross-relations with as many other spheres or dimensions as possible. This is also what Whitley proposed in his typology. In addition to such functional cross-relations between different functional spheres of human life in society, there are two other types of cross-relations: between actors and systems; and between actor-systems' constellations at different points in time. Let us look at each of these three cross-relations in more detail.

Reciprocal interdependence between dimensions

The first central tenet of the approach is that characteristics of any of the four dimensions mentioned above are related to specific, parallel characteristics of every other dimension. This means that specific patterns of work organization and enterprise structures are linked with specific patterns of human resource generation, of industrial and sectoral structures, and of industrial relations. What happens in one dimension has implications for what happens in the others. If a society, for instance, shows a tendency to deepen the hierarchical differentiation of enterprises, there will be a related differentiation with regard to human resources and in industrial relations structures, and it will also be related to the importance of concentrated industries in that society. The implication is that such characteristics are specific to a society, and the identity of the society is constituted through stable couplings of characteristics across the dimensions mentioned.

This is the more static aspect of the approach, or the 'comparative statics' as Whitley would call them, meaning that any feature and change on one dimension will be linked with those features and changes on other dimensions that the typology and its inherent statements about association predicts. Such comparative statics summarize features and associations that are relatively stable over time. If work is organized in a particular way, this will be interdependent with related human resources, industrial-sectoral and industrial relations patterns. Note that it is not a one-way determination or causality which is implied, but rather a *reciprocal interdependence between dimensions of social, economic and political life*. It has been suggested that, for instance, vocational education and training patterns 'explain' organizational characteristics. But this is not the way the approach should be understood. Its proponents insist on interdependence rather than dependence.

Complementarity of opposites

The second basic tenet deals with the actor–systems interdependency mentioned above: actors reproduce characteristics on any dimension of society, and the interrelations between such dimensions. This happens because structural properties and rules of the game, that is, the 'systems' properties, tend to load the individual 'choices' that actors make in a specific way. It also happens because the actors learn to see particular 'choices' as generally favorable, and develop a specific 'programming of the mind'. The emphasis is on the interactive relationship between systems characteristics and mental programming. As we can see, this establishes a link with culture. We now see institutions created, modified or held in place through the mental programming of actors; and we also see the latter as emerging through the confrontation of actors with fairly stable and robust patterns.

Note that the interactive relationship between actors and systems may be marked by both correspondence and opposition: faced with hierarchical organization patterns, the actors may learn to internalize corresponding assumptions and find them legitimate. But they may also develop a dislike for them, and attempt to evade them while trying at the same time to comply with them. This means that expressed value preferences and manifest behaviors may converge and diverge. Under this tenet, the emphasis is on the *complementarity,* or *mutual affinity, of opposites*. Here, we see dialectical theory-building at work. This is something that business system theorists such as Whitley do not favor. But it is inevitable once we appreciate the role of human actors.

Dialectics in actor–systems relations

The example of Japanese workers given by Lincoln and Kalleberg (1990), and mentioned above, illustrates the point about complementary opposites: the Japanese do not view the company more favorably than the Americans, but the social rules of the game load their behavioral 'choices' towards manifest company loyalty, even if they hate it. Similarly, surveys tend to show that German workers in no way attribute greater importance to the work ethic, work discipline and the centrality of work in life; the reverse is usually true. Yet it is a well-known cliché that Germans work hard and maintain work discipline. Is this all nonsense? Germans work comparatively few hours per year, on average, and have fewer working years per lifetime than workers in most other countries; this would make us believe that at least part of the cliché is nonsense. On the other hand, company studies do show work discipline in operation. However, its persistence is due to the construction of social relations in the workplace and the employment sphere, which is also reflected in the 'mental map' of the individual of legitimate and advantageous expectations, forms of behavior and outcomes. The simple fact is that Germans tend to hate work and yet comply with the ground rules of the workplace because they appear legitimate. This may culminate in a love–hate relationship as a common phenomenon. Anyone who has seen Germans work will find the interpretation entirely plausible.

Not the mental maps of individuals, nor their values, nor the system characteristics to which they attach themselves, nor the relations between them can ever be free of conflict or contradictions. Conflicts and contradictions, between values and between institutional arrangements, and between values and institutions, exemplify the necessity to use a dialectical perspective. Social systems at every level are simultaneously closed, naturally evolving and open. Similarly, complete societies are even more strongly marked by closure, natural evolution and openness, all at the same time. A dialectical perspective emphasizes that openness goes with conflict. Together, these account for the ever-present tendency to change and modify in ways that go beyond the relatively stable patterns put forward in the first two tenets of societal analysis. This transcendence (meaning going beyond the present state and characteristics of a system) has an uncomfortable habit of blurring unequivocal statements about stable linkages, such as expressed in Whitley's types and the earlier statements about relations between organization, human resources and other factors.

Non-identical reproduction of comparative characteristics

Once we have acknowledged the dialectic tension between culture and institutions, actors and systems, we go beyond the 'comparative statics' inherent in business system thinking. This brings us to the third tenet, which is concerned with the dynamics inherent in business systems. Comparative statics presume an equilibrium which systemic arrangements strive towards. Dynamics however imply disequilibrium, i.e. the unsettling and decoupling of associations inherent to business system types. In such a dynamic perspective, a new equilibrium emerges. But dynamics do not boil down to everything changing in a haphazard, totally unpredictable fashion. Next to change there is always continuity, and the two are ingeniously intertwined. Continuity means that previous characteristics are reproduced in novel forms. This leads us to define the *reproduction* of characteristics on every dimension mentioned, and their interrelations, as *non-identical*. Let us take a simple example. Until the mid-1960s, the prevalence of greater numbers of skilled workers in German factories went hand in hand with much more restrictive access to selective secondary education; more young people went into apprenticeships, rather than going to selective secondary schools. In France, access to selective general education was more generous, but fewer people went into apprenticeships or vocational education.

The example may be taken to imply that, if selective secondary education in Germany is expanded, this will mean greater convergence with French patterns, and a concomitant reduction of apprenticeship as a major socializing arrangement. That would have been change, but comparatively static change and not dynamic change. But things do not only work in a comparatively static way, which is evidenced by the fact that what happened in Germany was different. What Germany got was an increase in secondary education *before* apprenticeship, such that growing numbers of ex-grammar school and secondary modern or secondary technical school *(Realschule)* graduates took up apprenticeships. The change was that the sharpness of the 'choice' between selective education and apprenticeship training had been reduced, but earlier patterns had been reasserted, since apprenticeship continued to be an attractive education and training choice. Change and continuity are thus united in the non-identical reproduction of previous patterns. And this is what we tend to find in other instances of change in other settings too.

Let us consider parallel developments in France. It has greatly increased the status and quantity of vocational education, but mainly by upgrading vocational schools and diplomas. It has made vocational education more attractive by giving it *baccalauréat* (exam and diploma to certify successful termination of selective secondary education) status, and other measures. But training by apprenticeship has continued to dwindle. Thus, France has also changed significantly. But it has asserted the particularity of its own education and training arrangements in a way which is parallel to Germany and nevertheless different.

Note that convergence between France and Germany is tricky. Of course, there was technical and educational upgrading in both countries. And yes, the time pupils or trainees spent at school or college to undergo education or training increased. Furthermore, there was an emphasis on obtaining more versatile human resources in both countries. But institutionally, the new education and training regimes are still rather different. On this count, convergence did not occur. From this outcome, we learn something very important: novel education and training arrangements, and conceivably just about any other new arrangement, are distinctive for their creative combination of old and new patterns. This is evolutionary dialectics within dynamic change; the novelty of a new arrangement lies in the re-combination of received patterns with new elements. This insight can be generalized and leads to the notion that full 'convergence' hardly ever takes place; since any change tends to consist of non-identical reproduction, convergence can only be partial and will be balanced by divergent developments.

5 GLOBALIZATION, EUROPEAN INTEGRATION AND INSTITUTIONAL DIFFERENTIATION

More recently, globalization has been widely discussed. The issue is where, in which respect and to what extent convergence of everything mentioned in this chapter (values, institutions, markets, strategies) is occurring or will occur. It is impossible to deal with the topic reasonably competently and in detail in the final section of this chapter. However, let us suggest what might happen on the basis of societal analysis. It argues, as the end of the last section showed, that internationalization and universal technical change lead to different outcomes in each society. Any convergence will be balanced by divergence.

Convergence and divergence combined

This is what emerges from a societal analysis of actors and systems embedded in contexts which are invariably local, in addition to international. But there is another aspect regarding changes in whole populations of organizations, rather than changes in the behavior of existing organizations and other existing actors. Internationalization of economic exchange also entails an intensification of the international division of labor. Countries have come to specialize in sectors, industries, or their segments, or in product-market combinations. When they do, the implication is that the properties of business systems may become more locally specific, rather than following a more international model. Consider the example of different evolutions in the French and

German machine-tools industries described earlier, as a case in point: the two national industries have come to specialize in different types of machines, and hence the organization and human resource patterns they have come to acquire must be expected to differ more in the current environment than in the more distant past.

How the division of labor between countries develops can only be explained by reference to societal characteristics that are relatively stable, even in the midst of change. This change triggers development of societal specificity, rather than bringing about convergence between societies. That is also the clear message which the approach offers to all those who think that European integration will reduce the differences between separate European countries. Such a message suggests that societal analysis will continue to be relevant to any exploration of the newly emerging sectoral, industrial and functional profiles of different countries.

The approach even forces us to examine the possibility that societies will grow increasingly different in their industrial and activity portfolio, because the institutionalized constructions of their various systems already differed and triggered specialization in the international division of labor. Therefore, institutional and cultural divergence is likely to be associated with growing specialization in the international division of labor. But to the extent that societies do not specialize in different ways and firms try to achieve similar goals, it is more a balance of convergence and divergence that would prevail, as explained above; the international learning which takes place precludes direct one-to-one transfer of practice. Local actors with specific mental repertoires and local institutions will always exert pressure in the selection, absorption and implementation of practices, in the direction of non-identical reproduction, which means a balance of convergence and divergence.

A caution against taking new hype at face value

In contrast to this scenario, there are always statements which claim that now things will be changing, because we are getting: automation/microelectronics/biotechnology/fifth generation computers/artificial intelligence/shareholder value orientation/globally integrated enterprises (delete where inapplicable). Therefore, what we knew about differences between countries previously does not apply any more and is superseded by a new and more universal scheme of things. We must not be fooled by such statements. We have seen an unending flow of innovation, technical, managerial or other, and every time any particular instance of innovation could be examined empirically in a methodologically controlled comparison, guess what the result was! It could usually be summarized as a variant on this theme: the innovation became, in the course of its diffusion and application in different societies, internalized into the working of existing institutional mechanisms and subjected to the impact of actors' values and other predispositions. And if people had absorbed societal analysis properly, they would have known how to form realistic expectations about how and why divergence or convergence were occurring. In conclusion the following didactic statement is intended to encourage reflection and analysis on the concepts developed in this chapter:

The extent to which any novel practice or protocol (technical, social, economic or political) is diffused and applied in a societal (institutional and cultural) context in which it did not originate, is a function of its mutual adaptation with regard to practices that predate its introduction.

This chapter has focused on institutionalist approaches to explain differences in HRM practices across countries. In the next chapter, we will focus on culturalist approaches that attempt to do the same.

6 DISCUSSION QUESTIONS

1 Go back to Chapter 2 and recall combinations of global integration and local responsiveness in multinationals. Discuss how multinationals pursuing different internationalization strategies will or should deal with nationally diverse institutions of organizing and building human resources.

2 A company asks you to provide consultancy on essential points to bear in mind when trying to establish subsidiaries in the different business systems put forward by Whitley. Make a checklist and provide recommendations.

3 Discuss the following statement: To maximize value for shareholders, it pays to impose cutting-edge technology, organization and HRM practices in a uniform way across all subsidiaries in different countries.

7 FURTHER READING

- **Hickson, D.J. and Pugh, D.S. (2001) *Management worldwide: Distinctive styles amid globalization*. London: Penguin.**

An accessible introduction to management and organization in many major countries, their cultural and institutional particularities; also contains useful further references to country monographs and comparisons.

- **Crouch, C. and Streeck, W. (eds.) (1997) *Political economy of modern capitalism*. London, Thousand Oaks and New Delhi: Sage.**

This book provides recent, clear and authoritative accounts of varieties of capitalism or business systems in major European countries and the USA. It is most specific on corporate governance, industrial relations and national policies.

- **Maurice, M., and Sorge, A. (eds.) (2000) *Embedding organization*. Amsterdam: John Benjamins.**

The most up-to-date statement and critique of societal analysis, as a synthesis of culturalist and institutionalist approaches, applied to various themes and countries. Recommended to students seeking theoretical finesse.

- **Warner, M. (ed.) (2002) *International encyclopedia of business and management*, 8 volumes. London: Thomson Learning.**

A major encyclopedia available in good libraries, with many entries on management in a great number of countries, comparative entries such as those on Business Systems and International Management fields.

- **Whitley, R. (ed.) (2002) *Competing capitalisms: Institutions and economies,* 2 volumes. Cheltenham, UK and Northampton, MA: Edward Elgar.**

This is the most complete, recent and authoritative collection of articles explaining how and why business systems vary, and what the implications are. It is highly recommended for intellectually keen students.

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Streeck, W. (1992) *Social institutions and economic performance. Studies of industrial relations in advanced capitalist economies*. London, Newbury Park and New Delhi: Sage.

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6 Culture in Management: the Measurement of Differences

Laurence Romani

CHAPTER CONTENTS

1 INTRODUCTION

In international management, the study of differences across countries has been conducted from two complementary perspectives: cultural and institutional theories. Both consider that diverging management practices are contingent on the environment of the organization. While institutional theories have focused on the institutional environment (e.g., labor laws, regulations), cultural theories have investigated the role played by culture. The last chapter looked at institutional theories, this chapter will focus on cultural theories.

Cultural theories generally adopt a definition of national culture inspired by the everyday language: culture is the way of life of a group of people. There are obvious differences between cultures (such as in dress, behavior and interpersonal interactions) but also implicit differences (such as in values, assumptions about how things should be). These different degrees of explicitness are often called 'levels' of culture. The superficial levels group easily observable differences. The deepest level consists of the most implicit aspects such as assumptions or expectations. Cultural theory studies rest on the hypothesis that implicit differences in national cultural values or assumptions (the deepest levels of culture) are related to diverging managerial beliefs and actions (Child, 2002). They provide tools in the form of cultural dimensions to understand that employees' cultural backgrounds may vary, and how they do vary. These cultural dimensions are but one of the aspects influencing managerial beliefs and behaviors. Other aspects include the type of political system in which individuals were raised (for example a democracy or a dictatorship), their religion, their education, their family's values and their own life experiences. Focusing on cultural dimensions provides the means for evaluating the shared experiences of people who belong to that society. From this shared experience they have acquired similar ways of knowing, thinking, as well as values and assumptions regarding for example, how a manager should behave.

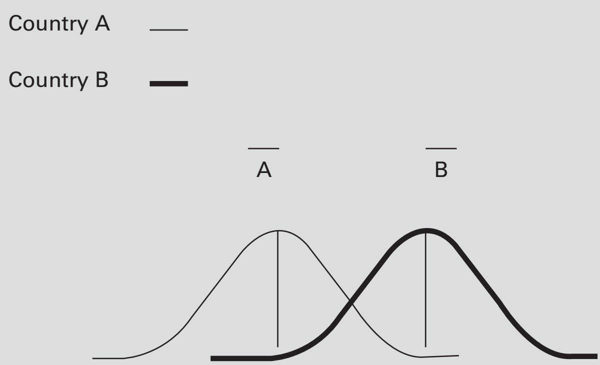
This chapter focuses firstly on the study of cultural differences across countries that influence people in a work environment. It aims at presenting the contemporary thinking about cultural dimensions which aid the understanding and management of people from diverse cultural backgrounds. It will do so by introducing both the current debate within the management literature on the nature of culture and by discussing how cultural differences across countries are identified and their consequences for management.

The three studies reviewed in this chapter offer an example of significant contributions to the positivist debate on the nature of culture. Hofstede presents values as the core of culture; Trompenaars argues that meanings are the essential part of culture and Lane, DiStefano and Maznevski, claim that a culture is best understood if we look at its value orientations. The distinctions between values, meanings and value orientations will be progressively presented.

The second issue in the debate on culture's influence on management deals with the *identification* of cultural differences. Comparing cultures is a way to make cultural differences emerge. This chapter reviews quantitative studies that have chosen this comparative approach. Comparing cultures is a complex task which first requires the identification of a number of universal dimensions that are common to all cultures. Once these dimensions have been identified, a comparison will be made of different cultures and how they vary on these dimensions.

Cultural differences

Cultural differences are significant differences which have been identified across countries based on observed cultural dimensions. Quantitative studies have involved questionnaires, responses for which are analysed at a country level producing a national sample, which is analysed against and compared with the other national samples. As would be expected, given the infinite variety of the human condition, there are always variations within each national sample. The resultant score of each country on each dimension is expressed as the mean of the sample population.



Cultural dimensions display significant differences at the country level: the internal variations within each national sample (for example, differences between generations, or between genders or professions) have been found to be not as significant as the differences between the national samples themselves.

How to interpret country differences? If the USA scores high on individualism, it would be a mistake to conclude that all North Americans are individualists. It means that in this country, compared to other(s), an individualist way of thinking can be expected and/or is accepted in the surveyed population. However it needs to be noted that country scores do not determine an individual's actions; rather they may provide an indication to a foreign observer as to the possible behavior which may be encountered.

This chapter focuses on the presentation of the definitions, the measurements and examples of cultural dimensions that have been identified in three significant cross-national comparative management studies. The conclusion discusses and summarizes the findings in this rapidly expanding field of research.

2 HOFSTEDE

Geert Hofstede's *Culture's Consequences* (1980, 2001) explores the differences 'in thinking and social action' at the country level between members of 50 nations and three regions. Hofstede originally used IBM employees' answers to a company attitude survey conducted twice, around 1968 and 1972. The survey generated more than 116,000 questionnaires, with the number of respondents used in the analysis being approximately 30,000 in 1969 and 41,000 in 1973. Hofstede identified and validated four cultural dimensions from respondents' patterned answers. For each dimension, he presented possible origins as well as predictors and consequences for management behavior.

Hofstede's cultural dimensions

Hofstede's first two dimensions echo the theories of 'Power Distance' (Mulder, 1977) and 'Uncertainty Avoidance' (Cyert and March, 1963). The third and fourth dimensions are 'Individualism versus Collectivism' and 'Masculinity versus Femininity'. The fifth dimension, 'Long-term versus Short-term Orientation' was subsequently developed from research conducted by Michael Bond to accommodate non-Western (Confucian) orientations and has been adopted from the Chinese Culture Connection (1987) study. For each dimension, Hofstede constructed an index that enabled countries to be mapped according to their scores (see Table 6.1 and Figures 6.1 and 6.2).

In the management context, the first dimension *Power Distance* refers to the relationship between supervisors and subordinates. It reflects 'the extent to which the less powerful members of organizations expect and accept that power is distributed unequally'. In organizations, an illustration of a high Power Distance score is generally represented as a highly vertical hierarchical pyramid. Subordinates are often told what to do and do not feel entitled to discuss their superiors' decisions. High Power Distance also means that the higher a person is in the hierarchy, the more difficult this person is to approach. Barriers can be in the form of persons such as secretaries who serve as 'gatekeepers' preventing access to the manager, or symbols such as the executive dining room which is separate from the staff cafeteria. Low Power Distance would be found in organizations with a flatter hierarchical pyramid. Subordinates and superiors are in a more collaborative relationship and hierarchy tends to be perceived as a distinction of task rather than of persons.

Uncertainty Avoidance. From the IBM employees' responses, Hofstede found that some questions provided an indicator of employees' (in)tolerance of ambiguity. Hofstede defined this dimension as 'the extent to which the members of a culture feel threatened by uncertain or unknown situations'. He argued that

TABLE 6.1

Abbreviations for the countries and regions studied by Hofstede

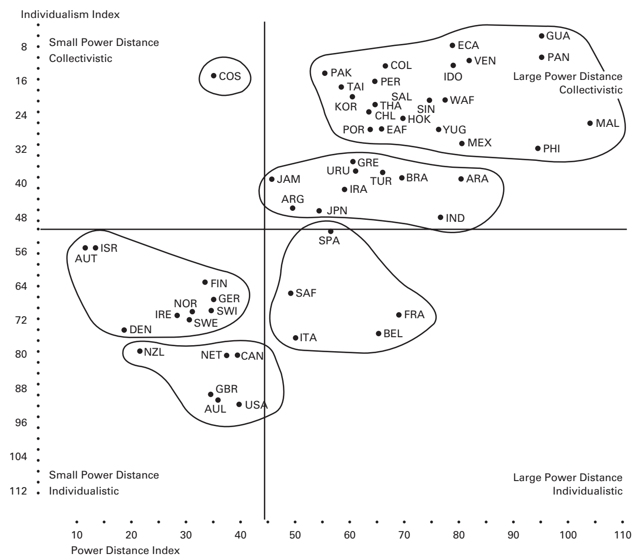
ARA	Arab-speaking countries (Egypt, Iraq, Kuwait, Lebanon, Libya, Saudi Arabia)	ECA	Ecuador	JPN	Japan	SPA	Spain
ARG	Argentina	FIN	Finland	KOR	South Korea	SWE	Sweden
AUL	Australia	FRA	France	MAL	Malaysia	SWI	Switzerland
AUT	Austria	GBR	Great Britain	MEX	Mexico	TAI	Taiwan
BEL	Belgium	GER	Germany F.R.	NET	Netherlands	THA	Thailand
BRA	Brazil	GRE	Greece	NOR	Norway	TUR	Turkey
CAN	Canada	GUA	Guatemala	NZL	New Zealand	URU	Uruguay
CHL	Chile	HOK	Hong Kong	PAK	Pakistan	USA	United States
COL	Colombia	IDO	Indonesia	PAN	Panama	VEN	Venezuela
COS	Costa Rica	IND	India	PER	Peru	WAF	West Africa (Ghana, Nigeria, Sierra Leone)
DEN	Denmark	IRA	Iran	PHI	Philippines	YUG	Yugoslavia
EAF	East Africa (Ethiopia, Kenya, Tanzania, Zambia)	IRE	Ireland (rep. of)	POR	Portugal		
		ISR	Israel	SAF	South Africa		
		ITA	Italy	SAL	Salvador		
		JAM	Jamaica	SIN	Singapore		

Source: **Hofstede, 2001**

a high Uncertainty Avoidance is expressed for example, by a company's need for regulations which endeavour to minimize uncertainties in the behavior of its employees. Company rules are seen as something that 'should not be broken, even when the employee thinks it is in the company's best interest'. In such an environment, work stress is often high. Conversely in a low Uncertainty Avoidance work environment, work stress is lower as employees seem to be less affected by uncertainty such as security of employment.

Individualism versus Collectivism. IBM respondents were asked to grade how important work goals were for choosing an ideal job. In some countries, preferred work goals stress employees' independence from the organization (like 'freedom' in the job, 'work from which you can get a personal sense of accomplishment') while in other countries, preferred work goals stress dependence on the organization (e.g. 'good physical working conditions: good ventilation and lighting, adequate work space, etc.). Independence from the organization was interpreted as an indicator of respondents' individualism and they

FIGURE 6.1



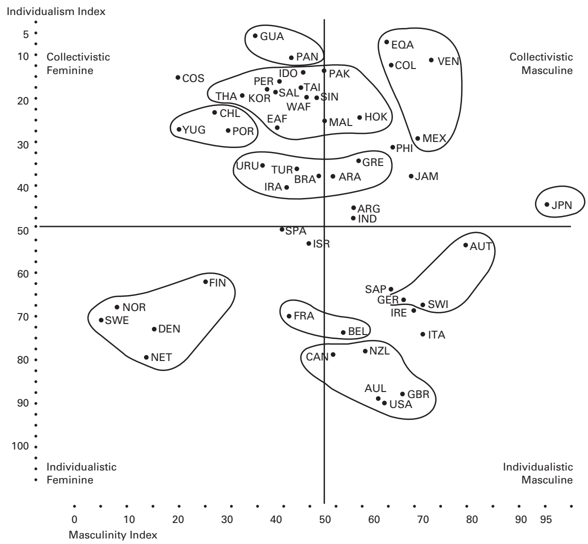
The position of 50 countries and three regions on the Power Distance and Individualism–Collectivism dimensions

Source: **Hofstede, 2001: 217**

preferred to be managed as individuals with acknowledgement of their individual achievements. In contrast, respondents who chose work goals dependent on the organization were seen as expressing collectivist characteristics – a preference for being managed as a member of an in-group (the organization). Illustrations of Individualism in the workplace can be found in employees' preference to be able to work independently and to praise individual decision-making. Collectivism can be seen in the preference for collective organization of work and responsibility.

Masculinity versus Femininity. The second type of preferences emerging from the analysis of work goals echoes gender preferences across countries. Males tended to express preferences for assertiveness ('high earnings', 'recognition when doing a good job', 'challenging work to do') whereas females tended to express preferences for the interpersonal aspect of work ('working with people who cooperate well with one another', 'having a good working relationship with your manager'). These differences relate to gender role patterns present

FIGURE 6.2



The position of 50 countries and three regions on the Masculinity–Femininity and Individualism–Collectivism dimensions

Source: **Hofstede, 2001: 294**

in many societies. Consequently, Hofstede labels this dimension *Masculinity versus Femininity*. This dimension expresses values such as assertiveness of the person (Masculinity) and care and attention to the social surroundings (Femininity). A masculine environment is generally presented as a place where career success is an important motivation. Feminine environments are seen as valuing the wellbeing and satisfaction of employees and tending to foster intuitive and consensus-oriented styles of management.

Long-term versus Short-term Orientation. A fifth dimension of national culture appeared in another study designed to counterbalance the potential Western bias of the IBM questionnaire. In 1987 with the project Chinese Culture Connection (CCC), Michael Bond developed a questionnaire representing 'fundamental and basic values for Chinese people'. This questionnaire was administered to students in 23 Asian and non-Asian countries. The statistical analysis displayed four dimensions. The correlation between Bond's and Hofstede's dimensions was substantial. One dimension, however, appeared unique to the CCC study: the construct of Confucian Dynamism. Hofstede's interpretation of the two poles of this dimension is the unique importance given to values 'fostering virtues oriented toward future rewards' (e.g., 'persistence, perseverance') as opposed to values 'fostering virtues related to the present and past' (e.g., 'stability', 'respect for tradition'). Hofstede adopted this cultural dimension as 'Long-term versus Short-term Orientation'. Illustrations of this cultural dimension are to be found, for example, in the management focus or strategic choices of an organization. In a Long-term Orientation environment, building up a strong position in a market might be seen as preferable to quick, short-term and temporary results. Such a management would persevere in implementing a strategic plan over an extended time-frame A company's strategy might be to persevere in spite of initially slow results. Business in a Short-term Oriented environment puts stronger pressure on organizations and employees to perform well quickly. In addition, employees tend to be judged and rewarded on the basis of their immediate achievements and not necessarily on the basis of their long-term management.

Contribution to cross-cultural management

Undoubtedly Hofstede's contribution to management is the fact that he could identify cultural dimensions with hard data, make comparisons across countries and show culture's consequences in managerial behaviors. Previously, culture was seen as vague and intangible, a soft dimension that couldn't be quantified nor measured. Hofstede influenced the way culture is perceived in management: composed of recognizable dimensions, centered on values and relatively stable over time.

Hofstede shows that national cultures contain at least five universal dimensions. These dimensions are said to be universal because they appear to be fundamental problems with which all societies have to cope. Power Distance deals with human inequality, Uncertainty Avoidance with the level of stress caused by an unknown future, Individualism versus Collectivism deals with individuals' relationships with primary groups, Masculinity versus Femininity relates to emotional role differentiation, and finally, Long-Term versus Short-Term Orientation deals with people's choice of focus for their actions.

Cultural dimensions rest on value systems that are said to affect 'human thinking'. Culture is consequently presented as consisting of values, organized into systems (dimensions). Hofstede's definition of culture presents 'traditional (i.e. historically derived and selected) ideas and especially their attached values' as 'the essential core of culture' (Kroeber and Kluckhohn, 1952: 181). Individuals raised in a society have acquired components of the national culture and its implicit values to which they are exposed from early childhood. Culture is learned partly unconsciously; cultural values are deep-rooted. This is what Hofstede calls the 'mental programming' that influences people's thinking and action. He argues that this mental programming is at the source of differences in management practices across countries.

Hofstede presents possible sources for each of the dimensions and expresses his belief that 'there must be mechanisms in societies that permit the maintenance of stability in culture patterns across many generations'. He suggests the following mechanisms. First, value systems have been influenced by physical and social factors (e.g. climate, demography). These value systems are then expressed as societal norms that help develop and maintain institutions (e.g. family, social groups, religion). 'The institutions, once established, reinforce the societal norms and the conditions that led to their establishment. In a relatively closed society, such a system will hardly change at all.'

Values, norms and behaviors

Cultural differences can be encountered at different levels: values, norms and behavior. Behavior is relatively explicit, but the norm(s) or the value(s) on which it rests are implicit.

Values are beliefs about what is desirable. These beliefs influence individuals' decisions and behaviors. For example, a person values cooperation. She has a belief that cooperation is a preferable alternative to competition. Her belief might influence her behavior. She may try and create a collaborative atmosphere at work or she may be involved in team work.

Norms express what is usually considered to be appropriate in a society. They indicate to individuals what they must or should do. Norms link individuals to behavior and are implicitly justified by a value. For example, a norm can be 'children should be polite to their parents'. The norm expresses the expected behavior (the set of politeness rules) of a group of persons (children) to another group (their parents). The norm rests on the implicit value that respect (displayed by politeness) to older generations is appropriate (adapted from Triandis, 1972: 15).

Behavior is any form of human action. Values and behaviors are related. However, the relationship between them is far more complex than causality. If a person presents equality as an important value in her life, this does not mean that all her actions will follow this value. One can expect nevertheless a certain degree of consistency between individuals' values and desired actions.

Hofstede's 1980 work has been abundantly reviewed and has received a good deal of scrutiny. The critiques of Søndergaard (1994), and Boyacigiller et al. (2002) encapsulate the most frequently raised criticisms. First, concerns have been raised regarding Hofstede's methodology (the use of a survey questionnaire, the original IBM sample and a mismatch that can be perceived between some dimensions and their measurement). A second theme is the choice of nation to study culture (not respecting multicultural

TABLE 6.2

Fundamental dimensions of culture from Trompenaars and Hampden-Turner

Fundamental problems	Resulting dimensions of culture
Social interactions	Neutral versus Affective Individualism versus Communitarianism Universalism versus Particularism Achievement versus Ascription Specificity versus Diffuseness
Passage of time	Time orientation (past-present-future, sequential and synchronic)
Relationship to the environment	Inner versus Outer Directedness

***Source*: Trompenaars and Hampden-Turner, 1997: 8–10.**

nations). A third one is the obsolescence of the data (collected between 1967 and 1973). Hofstede invited researchers to try and measure cultural dimensions that would be theoretically and statistically independent from the ones he developed. Candidates did try. The following sections will present alternatives developed by various management researchers to Hofstede's model and their attempts to measure new (or complementary) dimensions of culture.

3 TROMPENAARS AND HAMPDEN-TURNER

Like Hofstede, Trompenaars (1997) also proposed comparing countries using cultural dimensions. He considers that each culture has to deal with several 'universal problems' and proposes three 'problems': social interactions, passage of time and relationship to the environment, that unveil seven dimensions of culture (see Table 6.2). These cultural dimensions describe the characteristics that each culture provides as answers to the three fundamental problems. Measurement of the cultural dimensions is based on the responses of managers from multinational and international corporations (circa 30,000 from 55 countries). For each dimension, Trompenaars and Hampden-Turner give examples and expected consequences for management and organization.

Trompenaars' cultural dimensions

Five of Trompenaars' dimensions are an adaptation of the work of Parsons and Shils (1951). The additional dimensions are based on research done by anthropologists and psychologists on individuals' perceptions of time (Hall, 1959) and perceptions of the control they exercise on their environment (Rotter, 1966).

The dimension *Neutral versus Affective* is centered on the expression – or not – of feelings in certain situations. Trompenaars measures this dimension with questions such as 'How would you behave if you felt upset about something at work? Would you express your feelings openly?' Responses differentiate respondents in each country. The resulting cultural dimension enables us to recognize that in a certain country, emotions tend to be displayed together with rational arguments. This might be confusing to people coming from a culture where people are not expected to express emotion but to provide rational arguments with respect to work issues.

Individualism versus Communitarianism resembles Hofstede's dimension on employees' independence from or dependence on their organization. Trompenaars and Hampden-Turner however define the Individualism–Communitarianism perspective of an individual's primary orientation either to the self or to common goals and objectives. The questions that were used to measure this dimension (see Table 6.3) focus on the employees' work environment and illustrate the impact of this dimension on the organization of work and employees' responsibility.

Universalism versus Particularism illustrates individuals' attitudes towards universal principles (e.g. telling the truth, following a rule). People can either consider that principles apply whatever the situation, or that the specificity of each situation determines whether one should apply them or not. Questions used in the measurement (see Table 6.4) help understanding this dimension and the alternative behaviors. The mini case study we discuss later in this chapter ('Annika faces divergent cultural meanings') provides an illustration.

Achievement versus Ascription. Social status (e.g. being a manager) can be based either on achievement (what people have accomplished by their own efforts) or ascription (who they are). In a work environment oriented toward individuals' achievement, employees tend to be judged on their performances. Successful managers might reach top positions more quickly than in an ascription-oriented environment. They are also expected to keep performing well in order to maintain their position. In an ascription-oriented environment, the managers' background and former experience are the key factors which determine promotion. Their educational background, for example the school they graduated from, might be taken into consideration even after many years of work experience.

Specificity versus Diffuseness is centered on an individual's separation of private and public spaces. In specific cultures, people tend to compartmentalize their life into different 'protected' spheres. Being good friends at work does not

TABLE 6.3

Sample items from Trompenaars and Hampden-Turner's measurement of Individualism- Communitarianism

	Individualism	Communitarianism
Which kind of work is found more frequently in your organization?	Everybody is allowed to work individually and individual credit can be received.	Everybody works together and you do not get individual credit.
A defect is discovered in one of the installations. It was caused by negligence of one of the members of a team. Responsibility for this mistake can be carried in various ways. Which one of these two ways of taking responsibility do you think is usually the case in your society?	The person causing the defect by negligence is the one responsible.	Because he or she happens to work in a team, the responsibility should be carried by the group.

***Source*: Trompenaars & Hampden-Turner, 1997: 55–57.**

mean that colleagues will get to know each other's family. The authority derived from an individual's position within an organization will not transfer outside the workplace – for example, were a manager to meet their subordinate socially, on the golf course for example, they would acknowledge the subordinate's superior skill as a golfer and seek their advice in improving their golf game. However, in a diffuse environment the various spheres of life (work, family, leisure, etc.) are more integrated. The workplace status of the manager flows through to all other areas of activity and the hierarchy/power base is maintained.

The dimension *Sequential versus Synchronic* time is composed of two themes: ability to perform in a certain time frame and time orientation. In *The Silent Language*, Hall (1959) introduces the terms monochronic (one time) and polychronic (several times). Monochrony is a perception that time is linear, sequential and definite whereas polychrony is a perception that time is multiple, synchronic and diffuse. Illustrations can be found in an individual's behavior, whether they have the ability to do several things at the same time (polychronic) or the ability to differentiate activities into sequences (monochronic). Trompenaars (1993) develops these themes regarding their implication for action made sequentially or synchronically in an organization (for

TABLE 6.4

Sample items from Trompenaars and Hampden-Turner's measurement of Universalism versus Particularism

	Universalism	Particularism
You are riding in a car driven by a close friend. He hits a pedestrian. You know he was going at least 35 miles per hour in an area of the city where the maximum allowed speed is 20 miles per hour. There are no witnesses. His lawyer says that if you testify under oath that he was only driving 20 miles per hour it may save him from serious consequences.		
What right has your friend to expect you to protect him?	He has some right/no right as a friend to expect me to testify to the lower figure.	My friend has some right/a definite right as a friend to expect me to testify on the lower figure.
What do you think you would do in view of the obligations of a sworn witness and the obligation to your friend?	Not testify that he was going 20 miles an hour.	Testify that he was going 20 miles an hour.
You have just come from a secret meeting of the board of directors of a company. You have a close friend who will be ruined unless she can get out of the market before the board's decision becomes known. You happen to be having a dinner at the friend's home this evening.		
What right does your friend have to expect you to tip her off?	She has some right/no right as a friend to expect me to tip her off.	She has some right/a definite right as a friend to expect me to tip her off.
Would you tip her off in view of your obligations to the company and your obligation to your friend?	No	Yes

Source: **Adapted from Trompenaars, 1993: 35–39.**

example the tendency for simultaneous management of multiple projects as opposed to focus on one project for a given period).

The second theme presents the differences that appear between countries as indicated by respondents' varying prioritization of the past, present and future. Consequences regarding management are generally perceived as a reference to the past in a society where there is a strong past-oriented tendency; and vice versa. For example, in a past-oriented environment, the preceding year's sales might be a stronger criterion than expected market growth for determining new sales objectives. This dimension presents similarities with Hofstede's Long-term versus Short-term Orientation. Short-term Orientation resembles Trompenaars' present orientation and Long-term Orientation Trompenaars' future oriented environment.

Inner versus Outer Directedness. This dimension reflects the belief either that individuals can control and influence their environment or that they have limited ability to do so. Consequences for management are reflected for example in strategic choices that will either tend to plan and provoke changes or try to take best advantage of the situation. In Trompenaars' analysis (Smith, Trompenaars and Dugan, 1995), Inner Directedness displays beliefs in planning (thinking), beliefs that personal efforts matter and that luck will influence the outcome. Outer Directedness presents beliefs that personal relationships (networks) as well as political conditions matter for success, beliefs that political conditions do too, and finally that luck will be decisive. Consequences for business life might be seen in employees' strategies for success. In an inner-directed environment, employees would concentrate on making plans and working hard to achieve a goal, whereas in an outer-directed environment, employees might make a greater use of their personal network and the possibilities it contains for achieving their goals. Table 6.5 expands on beliefs associated with Inner and Outer Directedness.

A different understanding of culture

Trompenaars' research has developed through the years into one of the largest databases (along with Hofstede's) available for the study of cross-cultural management. Trompenaars and Hampden-Turner collected responses from some of the former USSR republics or Eastern European countries that Hofstede's database did not include.

Trompenaars' study confirms it is possible to compare culture on the basis of dimensions. It supplements Hofstede's research by extending the number of cultural answers to the fundamental problem 'social interactions' and adds a dimension dealing with individuals' attitudes to the environment (Inner Versus Outer Directedness). In addition, Trompenaars and Hampden-Turner's research further develops the concept of culture with a focus on meanings.

TABLE 6.5

Sample items from Trompenaars and Hampden-Turner's measurement of Inner versus Outer Directedness

	Inner directedness	Outer directedness
Select the statement that you believe most reflects reality.	It is worthwhile trying to control important natural forces, like the weather.	Nature should take its course and we just have to accept it the way it comes and do the best we can.
What statement do you agree with?	Trusting to fate never turned out well.	Without the right breaks one cannot be an effective leader.
	There is no such thing as luck.	Getting a good job. depends on being in the right place at the right time.

Sources: **Trompenaars, 1993: 126; Trompenaars and Hampden-Turner, 1997: 142; Hampden-Turner and Trompenaars, 2000: 238–239.**

Trompenaars considers that cultures are made of shared meanings which influence management practices. Trompenaars and Hofstede hold different conceptions of what the essence of culture is. Hofstede adopts his definition of culture from social sciences theories of the 1950s: 'ideas and especially their attached values' are 'the essential core of culture'. Trompenaars, in line with contemporary theories, positions meanings in the core of culture. He argues that culture is about making sense, not just a shared way of living or working together. People make sense of their world with meanings, i.e. how they interpret what is around them. Consequently, human *interpretation*s are the core of culture. The different interpretations of norms and values distinguish cultures. The following mini case gives an illustration of cultural differences in meanings.

Considering meanings as the core of culture can reveal different cultural differences than those identified by the study of values across cultures. Indeed, if a value survey shows that two national cultures give similar importance to the same values, it doesn't necessarily mean that these cultures display similar individual behaviors, since the *interpretation* of values can be very different in practice.

Annika faces divergent cultural meanings

In a Swedish organization, Annika, one of the managers of the international trainee programme, is organizing the meeting aimed at clarifying decision-making procedures for the recruitment of new trainees for Sweden. In the meeting room, participants are from three different hierarchical levels and many nationalities. Everyone is entitled to give her/his opinion and everyone does. Very quickly, it seems that three groups form. Most of the Swedish participants don't wish to 'formalize' things. Many North American participants are neither against nor in favor but discuss the necessity to write down 'rules'. The southern Europeans present in the room tend to be in favor of rules. They claim the necessity to clarify the recruitment process that many of them see as unclear. The end of the meeting approaches and no consensus has been reached. The meeting ends with a lot of frustration; the southern Europeans accusing the Swedes of keeping things secret and political, the Swedes upset at the way southern Europeans want to impose strict rules and control on everyone.

In this case, the Swedes expressed their wish to keep things flexible by avoiding the formalization that follows the establishment of rules. The North Americans insisted on the need to call for rules, for the same reasons: 'Once you have rules, you are supposed to follow them.' The southern Europeans defended the idea of establishing rules in order to have a clear statement on what people are 'ideally' supposed to do: 'The rules are a clear departure point for the interpretation of what to do. If we don't have a clear statement to start with, everything is too vague.' Consequently, participants´ shared meanings regarding the term 'rules' were very different, ranging from: *rules are something you have to follow* (to the letter), to *a rule is a statement that you are supposed to interpret according to the situation*.

4 LANE, DISTEFANO AND MAZNEVSKI'S ADAPTATION OF KLUCKHOHN AND STRODTBECK

Kluckhohn and Strodtbeck's 'Values Project' (1961) provides a presentation of cultural variations within the 'Cultural orientations framework'. Their project compares the responses of different communities in the American Southwest to five universal 'problems': relationship of humans to nature, to time, to other humans, belief about basic human nature and perceived natural mode of acting. Like Hofstede, Kluckhohn and Strodtbeck gave priority to the study of values. They differ however on the extent to which they use cultural dimensions that contain more variations.

Kluckhohn and Strodtbeck's study has been adapted and discussed for cross-cultural management by Lane, DiStefano and later together with

TABLE 6.6

Value orientations and their range of variation, from Lane, DiStefano and Maznevski

Orientation or issue	Variations		
Activity	Doing	Being	Thinking/ Controlling
Relationship	Individual	Group	Hierarchical
Human Nature	Good	Evil	Changeable
Environment (Relation to nature and to life and work, in general)	Mastery	Harmony	Subjugation
Time Orientation	Past	Present	Future
Space	Public	Private	Mixed

Source: **Adapted from Lane, DiStefano and Maznevski, 2000: 48.**

Maznevski (1988–2000). Table 6.6 displays the adapted value orientations. Maznevski and DiStefano (1995) developed a questionnaire to measure variations of the first five cultural orientations. The questionnaire was tested in Canada, Hong Kong, Mexico, the Netherlands, Taiwan and the USA. Respondents were practicing business people or business students with working experience. Using the questionnaire, it was possible to determine what respondents' strongest preference, second preference and third preference for a variation were. These preferences are presented with potential implications for international management and provided new insights into current international management issues (Maznevski et al., 2002).

Value orientations

The selection of items used to measure five of the six orientations (Table 6.7) presents beliefs associated with each variation. Maznevski and her co-authors define the variations of *Activity* as doing, being and thinking. In a doing mode, people tend to think that individuals ought to work actively and continually to achieve tangible outcomes. People might be judged on what they have achieved. In contrast, a being-oriented society praises spontaneity. In the thinking variation, people ought to be reflective, 'to think through carefully and thoroughly' before acting. Illustrations of these modes of activity might be seen for example in some environments where companies value hard work and sacrifice, while in other business environments companies value quality of work conditions and the wellbeing of their employees.

TABLE 6.7

Sample items from Maznevski and DiStefano's measurement of Value Orientations

	Activity
Doing	• People should work hard and sacrifice enjoyment to accomplish important things.
Being	• Decisions should be based more on how people affected will feel about them, rather than on immediate practical concerns.
Thinking	• Decisions should be made based on analysis, not intuition or emotional feelings.
	Relationship
Individualism	• People are expected to give priority to their needs over those of others.
Collectivism	• The interests of the group take priority over the interests of any individual within the group.
Hierarchy	• People at higher levels should make significant decisions for people below them.
	Human nature
Good	• People only do bad things when they have no other choice.
Evil	• It is hard for people to be good.
Changeability	• Whether people are good or bad depends on their environment and experiences.
	Environment
Mastery	• People can fix almost any problem they face if they use the right methods.
Harmony	• Good performance comes from a perfect fit between the organization and its environment.
Subjugation	• People should realize they do not have control over events in their lives.
	Time
Past	• People should take into account the past when making decisions about the future.
Present	• People should maintain a focus on today and the near future.
Future	• People should always look ahead rather than worry about today or yesterday.

***Source*: Maznevski and DiStefano 2000 version of the Cultural Perspective Questionnaire**

The variations of *Relationship* are individualism, collectivism and hierarchy. The core of this variation is the feeling of responsibility. Individuals feel 'responsibility to and for themselves and their immediate family' in the individual variation. In collectivism, the main responsibility expands to a larger group such as an extended family or colleagues. These two variations present similarities with Hofstede's Individualism versus Collectivism (with employees' dependence on or independence from the organization being the core of the dimension) and Trompenaars' Individualism versus Communitarianism (based on primacy given to individual versus collective goals). The third variation is hierarchy, where people of higher status have responsibility for those of lower status. Consequently, for example, in business negotiations, instead of negotiations being carried out directly between employees of the same hierarchical level, supervisors are first mobilized to represent their subordinates and start the process. This variation of 'hierarchy' presents similarities with Hofstede's dimension of Power Distance.

The *Human Nature* orientation has three variations: good, evil and changeable. In some societies, there is a shared belief that humans are generally good; bad actions are the result of constraining circumstances. Management practices might reflect this general belief with trusting behavior expected between superiors and subordinates. The belief that humans are evil is shared in other societies in which trust among people builds on knowledge and experience. Consequences regarding management might be seen in managerial intensive supervision and monitoring. Finally, a third belief is that people's basic nature is changeable, consequently management might invest in employees' training in order to develop people into the job, rather than looking for a person who already has the right profile (with the assumption that it will remain so).

The variations of the *Environment* orientation are mastery, harmony and subjugation. In mastery-oriented societies, people tend to believe that people can control and master their environment. Resulting managerial practices might be seen in the tendency to plan and make the business environment fit into the plans. In harmony-oriented societies, people are concerned about 'the balance of forces in the world around them'. In China for example, a Feng shui ('wind water') expert may advise on the physical orientation of offices so that they are in harmony with nature and favorable to business. Mastery and harmony variations present similarities with Trompenaars' Inner versus Outer Directedness. A third variation, subjugation, is the belief that humans are neither stronger than nor independent from natural and supernatural forces surrounding them. Business conditions might be seen as difficult to influence. Consequently, the behavior of trying to plan and transform a business environment is not as strong as in mastery-oriented societies.

Maznevski and her co-authors define the variations of the *Time* orientation as past, present and future. In the first orientation the past serves as an 'important criterion by which to make decisions'. In the present variation, decisions rest on present or immediate needs. In future-oriented societies, decisions are made regarding long-term future goals. Illustrations of the Time orientation might be seen in corporate strategic plans, built either on what has been achieved, what is needed now, or future long-term objectives. These variations echo Trompenaars' study of the importance given to past, present or future, as well as Hofstede's Long-term versus Short-term Orientation.

The *Space* orientation varies between public, private and mixed space. This orientation evolves around the sense of 'ownership' of space by which people are surrounded. In the public orientation, space is seen as available for everyone's use. In a work environment, this might be displayed by preference for an open office layout. The opposite variation values privacy. The sense of ownership of the space surrounding individuals is high. Offices tend to have closed doors and superiors might prefer to have bigger rooms. The mixed variation is a combination of the public and private perceptions. Clearly this orientation to space would influence communication, and information flows will be freer and more rapid in open office configurations.

Going beyond paradoxes

Lane, DiStefano and Maznevski's study differs from other studies of cultural values in at least two ways. The value orientations proposed by Lane, DiStefano and Maznevski (2000) are not bipolar, but offer three options (see Table 6.6). Unlike the cultural dimensions developed by Hofstede and Trompenaars, the orientations suggest that alternatives are not mutually exclusive. Trompenaars had, for example, numerous items in his questionnaire that were forced choices between two alternatives, each one representing one pole of a dimension. For example, Hofstede measured Individualism by the high level of importance given to certain work goals and deduced that the low importance given to the same work goals must be the opposite: Collectivism. The common feature shared by Hofstede and Trompenaars is that they developed bipolar dimensions, maybe forcing respondents to adopt either a 'Western' (or maybe American/North European) or 'Other' points of view. Maznevski and DiStefano's questionnaire contrasts on that feature.

Considering only the dominant values or the dominant behavior in a society leads to what Osland and Bird call a cultural paradox which they define as 'situations that exhibit an apparently contradictory nature' (2000: 65). Simply stated, this phenomenon acknowledges the fact that, given the complexity of the human response to any given situation, 'it is difficult to make useful generalizations since so many exceptions and qualifications to the stereotypes, on both a cultural and individual level, come to mind' (ibid.). Consequently, a great deal of people's behavior in each country cannot be explained by dominant values or most broadly shared perceptions because of the multiplicity of variables influencing each specific situation. The instrument developed by Maznevski and DiStefano however can show a rank of preference.

For example, in the USA, respondents' preferred mode of activity is 'doing' on the same level as 'thinking', and 'being' comes third by quite a significant margin. In Taiwan, however, 'thinking' comes first with a stronger preference over 'doing', and 'being' has a very low rating (Maznevski et al., 1997). The instrument provides a rank of preferences for each orientation. It enables us to go beyond a bipolar-based cultural response.

5 SUMMARY

About twenty cultural dimensions have been developed with cross-national comparative management research. Similarities between the dimensions enable us to regroup some of them into categories. Table 6.8 summarizes the fundamental cultural issues and their resulting cultural dimensions presented in this chapter.

The review of cross-national comparative research shows us that comparisons of nations rest on three major themes. First, country-level analyses are used to study culture. Second, cultural values or meanings provide tangible and measurable cultural dimensions with a limited set of variations. Finally, culture rests on values or meanings that influence individuals' behavior and consequently management practices. These three themes are representative of quantitative comparative studies in cross-cultural management and are the fundamentals of the thinking of that strand of research.

6 CONCLUSION

Cultural dimensions give an indication of culture's consequences, but what is the actual influence of culture on people's behavior? It is exercised in interaction with other factors, for example employees' education, their functional background, the nature of the work they do (very defined task or not, short or long-term project, etc.). How can we possibly know what is cultural, what is related to the type of work and what is related to the personalities of the employees? Cross-cultural management does not aim at identifying purely cultural behavior, it gives an indication of the possible variations in individuals' cultural background. This knowledge is helpful because it is about implicit aspects of work. The other aspects are more explicit and consequently may be easier to identify.

Management in today's corporations seems to be challenged by the cultural diversity of their employees. However, is knowledge of the cultural

TABLE 6.8

Cultural issues and resulting cultural dimensions (major theme of the dimension)

Cultural Issues or Fundamental Problems		Cultural Dimensions
	Differentiation between social groups	Hierarchical (responsibility) Power Distance (inequality acceptance) Achievement/Ascription (status allocation) Masculinity/Femininity (individual assertiveness or care for social) Specific/Diffuseness (scope of personal involvement)
Relationships with people	Preserve/rule the 'social fabric'	Universalism/Particularism (scope of norms and standards) Neutral/Affective (expression of emotions)
	Individuals' relationship to social groups	Individualism/Collectivism (autonomy) Individualism/Communitarianism (prime orientation for goals and objectives) Collectivism/Individualism (responsibility)
Relationships with the environment		Inner Directedness/Outer Directedness (believed control) Subjugation/Harmony/Mastery (from acceptance to control)
Time orientation		Sequential and Synchronic (nature of time) Past/Present/Future (importance of a time horizon) Long-term/Short-term Orientation (preferred focus)
Human nature		Evil/Changeable/Good
Natural mode of activity		Doing/Being/Thinking
Level of stress in a society in the face of an unknown future		Uncertainty Avoidance

***Sources*: Hofstede, 2001; Trompenaars and Hampden-Turner, 1997; Maznevski et al., 2002**

background of employees valuable in terms of managing their interactions? How does knowledge on 'Time orientation' help in managing a team composed of people with distinct orientations? Cross-cultural management research knowledge is valuable because it enables us to raise implicit cultural differences to a conscious level. Knowing about the various cultural dimensions helps us to recognize cultural aspects of a situation. Once explicit, the cultural differences can be investigated, talked about and understood. Situations can be solved.

How did Annika come to a solution?

During the meeting, everyone was using the word 'rule' and making sense of it. Annika's management style favors consensus, so she decided to continue the conversation separately with each group, come to a solution and propose that solution in a second meeting. Only during the individual talks did she realize that everyone was interpreting the word 'rule' differently. These differences reminded her of a cultural dimension (Universalism versus Particularism). She managed to make all participants clarify how they see rules: from a strict constraint to something to be interpreted. She was thus able to go beyond the first discussion (and the resulting frustration) that was only on the need to have rules or not. During her second talks with the participants, she actually discussed what rules meant for them, asking questions such as: 'How do you usually react to a rule? Please give me an example outside work'. Then, she came back to the discussion on recruitment rules and invited people to say why they were in favor of or against rules. It appeared that everyone wanted to keep recruitment procedures flexible. She came to a solution by establishing 'guiding principles' for recruiting new trainees. They were well accepted a week later in the management meeting.

Both institutional and cultural dimensions as discussed in the first two chapters of this section have an important impact on HRM practices in different countries. In the next three chapters we will look in some detail at how HRM is practiced in three major areas of the world: Europe, Asia and developing countries.

7 DISCUSSION QUESTIONS

1 Discuss the various conceptions of culture reviewed in this chapter
2 What is the relationship of culture to human resource management?
3 Discuss the three frameworks and their related cultural dimensions presented in this chapter.

4 What are the differences between looking at (dominant) values, meanings or value orientation in the study of cultural differences?

5 What benefit does cross-cultural knowledge give to a manager?

8 FURTHER READINGS

- **Hofstede, Geert (2001), *Culture's Consequences: Comparing Values, Behaviors, Institutions, and Organizations across Nations* (Second Edition), Thousand Oaks, CA: Sage Publications.**

This study is a classic treatise on the investigation of culture and management. In this (academic) book Hofstede presents the methodology he used to develop each cultural dimension. He provides many illustrations and refers to numerous studies that have used his work. This is THE reference for the quantitative study of culture's influence on managerial behavior.

- **Hampden-Turner, Charles and Alfons Trompenaars (2000), *Building Cross-Cultural Competence: How to create wealth from conflicting values*. Chichester: John Wiley and Sons.**

Hampden-Turner and Trompenaars' managerial book not only develops various cultural dimensions but also illustrates them with examples and consequences for working life. The authors provide tools for dealing with cultural differences. They enable the reconciling of the dilemmas expressed in each cultural dimension (e.g. Individualism or Communitarianism).

- **Lane, Henry W., Joseph J. DiStefano and Martha L. Maznevski, (2000), *International Management Behavior: Text, Readings and Cases*. Oxford: Blackwell.**

The researchers who adapted Kluckhohn and Strodtbeck's cultural framework for management edited this textbook. They provide numerous relevant illustrations of the influence of culture on management with a combination of accessible theoretical chapters, readings on specific issues written by a specialist on that question, and case studies.

- **D'Iribarne, Philippe (forthcoming) Honor, Contract and Consensus.**

D'Iribarne presents a rich case study of a company using the same technology in three different countries (France, the Netherlands and the USA). The author shows how local interpretations cause employees' work to differ in each country. He offers socio-historical (cultural) explanations for the differences between countries in the interpretation and development of work conditions. Comprehensively illustrated with examples and quotations, the book is an insightful study of diverging work behaviors across countries.

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7 HRM in Europe

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CHAPTER CONTENTS

1 INTRODUCTION

Looking at a map of the world, Europe appears rather small. Yet the richness of its national and regional traditions, the variety of its topography, climate, people, architecture, cuisine, languages, as well as the distinguishing features of its national states, with their diverse institutions, laws and underpinning philosophies, make it a unique place. Nowhere else in the world have so many distinct and well-established cultures existed so closely together over such a long period of time. For centuries, these differences and other vested interests made Europe the scene of countless conflicts and wars, pitting one nation against the other.

Yet over past decades, a quiet revolution has been happening: the rise – from within – of a European identity, overcoming with great success traditional antagonisms. Europe now has a common currency, an overriding legislative framework and associated Courts and political structures such as the European Parliament and Commission. Europeans are becoming multilingual, with access to the media in many languages and the branding of goods and services also in different languages. Substantial investments in the transport infrastructure are greatly facilitating the exchange of people, goods and services across former borders. Overall, Europeans benefit from high standards of living and are developing a common understanding of social responsibility. Consequently, a significant effort is being made, accompanying the trend of globalisation, for organisations to seek, find and apply common principles of management. This applies to the management of human resources as much as any other area. How much diversity still influences HRM in Europe, what HRM looks like in Europe and how it compares to HRM in the United States, are the subjects of this chapter.

Section 2 below introduces some of the features which make Europe a distinct geographical, political and cultural entity. Section 3 describes European HRM by contrasting it with the American and/or universalistic model. Section 4 takes a closer look at Europe from within. It examines in a little more detail the cultural diversity that exists in terms of HRM within Europe at national and regional levels. Finally, Section 5 draws conclusions about HRM in this complex multicultural continent.

2 DISTINGUISHING FEATURES OF EUROPE

Geo-political Europe

Geographically, Europe consists of the western part of the landmass of which Asia forms the eastern (and much greater) part, and includes Scandinavia, the British Isles and a number of smaller islands. It is broadly framed to the north by the Arctic Ocean, to the south by the Mediterranean Sea, to the west by the Atlantic Ocean and to the east by the Ural mountains.

Politically, the borders of Europe have been less clear. In some formulations only western Europe is included; in others Russia is too. In addition, the south-eastern edge of Europe has been a subject of particular debate for the last generation. Jean Monnet (1888–1979), one of the founders of the European Community, once asserted: ‘Europe has never existed. It is not the addition of national sovereignties in a conclave which creates an entity. One must genuinely *create* Europe’ (Knowles, 1999: 526; from Anthony Sampson, *The New Europeans*, 1968, quoting Jean Monnet). The creation of a ‘united Europe’ was spurred by a desire for international reconciliation after World War II. Its first expression was the creation of the European Coal and Steel Community, founded by the Treaty of Paris in 1951 between Belgium, France, Italy, Luxembourg, the Netherlands and West Germany. Thanks to the Treaty, coal and steel resources could be pooled between 'the Six' countries, thus creating the basis for a greater common market. With the Treaty of Rome in 1957, 'the Six' agreed the framework for a more comprehensive European Economic Community (EEC). With the EEC started a colossal endeavour to harmonise policies, touching areas of indirect taxation, regulation, border control, agriculture and fisheries, as well as monetary matters. In 1973, Denmark, Ireland and the United Kingdom (UK) joined the EEC. They were followed by Greece in 1981, Portugal and Spain in 1986. In 1987, the Europe of 'the Twelve' signed the Single European Act. This came into force on 1 January 1993, creating for the first time a single market, which enabled the free movement of goods, services and people. The EEC became the European Union (EU), with significant implications for HRM.

Following German reunification in 1990, the EEC enlarged to include the former East Germany. Later, in 1995, Austria, Finland and Sweden joined the EU, creating a 'Europe of Fifteen'. The EU-15 comprises more than 375 million citizens (compared to around 280 million in the US), over an area of 3,191,000 square km (compared to 9,159,115 square km for the US) (EIU Viewswire, 2002). Economically, it is one of the powerhouses of the world.

An important historical step was taken on 1 January 2002 with the introduction of a single currency, the Euro, across the EU (with the exception of Denmark, Sweden and the UK). This economic union has been accompanied by a desire to create and strengthen political and institutional co-ordination across the member states (the European Parliament, the European Court of Justice) and above all by a growing sense of European identity amongst EU citizens. The EU Charter of Fundamental Social Rights, established in 1989, (see Table 7.1) is but one manifestation of this.

Towards European HRM

The establishment of the EU and the Charter have had significant implications for employing organisations and for HRM. As elsewhere, HRM in Europe is in transition but the circumstances here are unparalleled in history. There is a question about whether a distinct European HRM culture is in the making. In anticipation of the creation of the single European market, prior to 1993, organisations were beginning to review their strategies to take advantage of the markets, freed from border tariffs, which were going to open before them. The 1990s witnessed an unprecedented number of mergers and acquisitions in Europe as organisations sought to develop an integrated Europe (see Chapter 4). This led HRM professionals across the different countries to start conversations: first, to map what practices prevailed at the national and industry level (Brewster et al., 2001); and second, to find common ground for European HRM policy. Communal (1999) reports such conversations between Swedish and

TABLE 7.1

European Union Social Charter

The European Union Charter of Fundamental Social Rights or the 'Social Charter' lists the following 12 as major areas to be addressed:

- the freedom of movement
- employment and remuneration
- improvement of living and working conditions
- social protection
- freedom of association
- vocational training
- equal treatment for men and women
- information, consultation and participation of workers
- health protection
- protection of children and adolescents
- protection of elderly persons, and
- protection of disabled persons

After lengthy negotiations that intensified from May to December 1989, the Charter was signed by all member states except the UK at the Strasbourg summit in December 1989. The Labour government elected in the UK in 1997 accepted the social charter for the UK as well.

British HRM professionals following the merger of their organisations, and previous consolidations at UK level. The following quote is from a Swedish manager (Communal, 1999: 194):

> In the UK they have a grading system. This grading system is very important. Now they have a problem when they merge different parts together and change the structure. They have trouble because they mix different grading systems within the same unit. I asked them: 'What do you have them for? We don't have any grading systems.' They said: 'How can you manage without grading systems?' Then we started to discuss what do they have them for and what do we do instead. So, for instance, making sure that you do not belong to the same grade as your subordinates is important in the UK (more than in Sweden). I think that this reflects the society. For example, when you move up a grade, you get a better car. I think that the grading system in some way reflects the society outside. In Sweden the differences between salaries is not very much, the range of salaries in our society is very narrow.

These differences had also struck the British counterpart who commented (Communal, 1999: 194): ‘In Sweden the internal organisational structure is less visible than in the UK. This is because of the tighter social structure in Sweden. They did away with grades.’

‘European HRM’, if it is to exist, will begin with such conversations, which, in time, lead on to the creation of equivalent, consistent, coherent policies. One may suggest that a dynamic view of HRM in Europe has to take into account firms at their various stages of international development, so as to provide a full picture of the environment within which many European organisations operate (Adler and Ghadar, 1990, see also Chapter 3). The fact is that, although there are clearly aspects of European HRM that can be identified in contrast to HRM in other regions of the world, this also remains the geographical area with perhaps the largest diversity of HRM approaches (Brewster, 2001). In that sense, it is more correct to speak of ‘HRM in Europe’, rather than ‘European HRM’ (Sparrow and Hiltrop, 1994). Moreover, it is essential to bear in mind that the EU does not (yet) encompass the whole of Europe.

21st century Europe

There is another Europe, which throughout the history of the EU has posed the question of enlargement. In 2002, the EU accepted applications to join from ten states. They include two Southern European states (Cyprus and Malta) and eight Central European states (the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Slovakia and Slovenia). These eight states have a combined population of 73 million, with, in 2002, up to one in six workers unemployed (Browne and Kite, 2002). Despite the socio-economic challenges of enlargement, these ten countries are set to join in 2004, bringing about EU-25, and the total number of EU citizens to 455 million. Other countries that have filed applications for EU membership are: Romania, Bulgaria (both set to join in 2007), Turkey and Switzerland. In the latter case, the Swiss voted ‘no’ to joining in a 1992 referendum and the Swiss government did not pursue its application, but neither did it withdraw it. Norway also held a referendum on joining the EU but its citizens voted against and it remains outside. Turkey, on the other hand, continues to press its case for membership. To some, Turkey’s application poses the questions of what is the European cultural identity and where the ‘true’ borders of Europe lie.

What is more, certain parts of Europe, where conflict has been endemic, still require stabilising; for example Yugoslavia, Bosnia-Herzegovina, Croatia, Albania and Macedonia. Some borders (between Northern and Southern Ireland; Gibraltar and Spain; Spain and the islands off the North African continent) are perhaps still to be clarified. Nevertheless, commentators from elsewhere should not discount the influence of the notion of ‘Europe’. Indeed, those countries that are not currently part of the EU are taking steps to co-ordinate their labour practices with those within the Union. For example, in the various areas of employment legislation and policy, such as laws on employment contracts or the free movement of labour, the Norwegian, Swiss and 'access countries' are committed to harmonisation with the EU. In one sense, they are already 'in' rather than 'beyond' this Europe. Nonetheless, the fact that, even within the EU, there is still a lot of work going on to co-ordinate practice, indicates the deep-rooted nature of the diversity which is such a key feature of Europe and of HRM in Europe.

Having set the European scene, it is worth shifting our attention to examine the origins of HRM across the Atlantic, in the United States of America, so as to compare and contrast the American model of HRM with developments in Europe.

3 THE AMERICAN MODEL OF HRM AND A EUROPEAN CHALLENGE

HRM: born in the USA

It is now widely accepted that HRM, as a concept, was initially popularised in the United States of America. In fact, the teaching of management and business as education subjects was first pioneered in the United States. Wharton Business School was created in 1881. In contrast, Cranfield School of Management and London Business School, which were the first two schools in Europe, were created in 1965 (Locke, 1989).

The Americans were first into the field not only of management, but also of human resource management and, arguably, have developed hegemony in what the subject involves and what is good practice (Brewster, 2000). Lawrence (1996) argues that Americans have a propensity to reflect and deconstruct the activity of 'management' with the view of seeking greater efficiency. Accordingly, organisations have to utilise, and hence to manage, human resources to best effect to achieve competitiveness and efficiency. HRM is viewed as a logical and rational system. From this viewpoint, Fombrun et al. (1984) state that the activity of managing HR consists in a five-step cycle: selection, performance, appraisal, rewards and development. Indeed, all firms have to manage this (or a similar) process regardless of where they are in the world. However, it is helpful to consider the management of HR not as a strict system of 'rational' processes but as the process of managing people. People cannot be 'managed' in a vacuum; they are managed within a context (e.g. cultural, social, educational, religious, geographical, legal, historical). The process of HRM is therefore not neutral; it is surrounded by cultural, social and other norms characteristic of human behaviour. Although the American development of HRM first appeared akin to a scientific process, a number of writers have since put it into context and characterised a so-called US-model of HRM (Brewster, 1994; Sparrow and Hiltrop, 1997) or in some formulations, a 'universalistic' model (Brewster, 1999), since its proponents argue that it can be applied anywhere in the world. It is important to spend some time reflecting on what underpins the notion of American HRM as it allows other complementary positions to be refined; for example, HRM in Europe.

US versus Europe

At the most general level, the limited evidence that we have on national cultural differences points clearly to the uniqueness of the USA. The USA is, according to researchers in this field, quite atypical of the world as a whole (Hofstede, 1980; Lawrence, 1996; Trompenaars and Hampden-Turner, 1997). The US culture is indeed considered to be more individualistic and more achievement-orientated than most other cultures. The American ideal of HRM is underpinned by, on the one hand, a high degree of formalisation (process) and, on the other hand, a strong sense of a managerial 'right to manage' (Jamieson, 1980, 1985). This is apparent in the effort invested in drawing up clear sets of procedures, in formal management development programmes and in the search for quantitative data (in the form of, for example, salary surveys, employee satisfaction surveys or benchmarking of benefits with competitors). Formalisation in the European context may look very different. As an example, managers in France tend to be recruited from the *grandes écoles*, which train the intellectual elite of that nation. Hence in the French context, there may be a suspicion about the need for additional formal management development programmes (Barsoux and Lawrence, 1997).[1]

In his seminal work, D'Iribarne (1989) depicts the American understanding of formalisation, drawing from observations of organisational life in a US factory. In particular, he highlights the importance of contracts, which regulate unambiguously the relationships between workers and management. The study describes, for instance, the manner in which performance appraisals are conducted. Managers insist on measurable aspects and 'visible' fairness, D'Iribarne (1989: 138):

> Une des manières d'assurer le caractère correct des évaluations est de préciser soigneusement les objectifs donnés à chacun, et à la lumière desquels il sera noté. Ces objectifs 'doivent être définis en mettant les points sur les i'. Nos divers interlocuteurs ont insistés sur le fait qu'ils devaient être 'propres', <<mesurables>>. Ainsi chacun sera jugé sur une base aussi indiscutable et bien connue d'avance que possible, et celui qui rempli son contrat sera sûr d'être quitte.

> **[Our translation: 'One of the ways in which to ensure correct evaluation is to carefully specify to each employee their objectives. These will then form the basis of the assessment. These objectives 'must be clearly spelled out'. Our various informers insisted on the fact that they had to be 'proper', 'measurable'. Hence, everyone will be judged on an undeniable basis, agreed in advance as early and as well as is possible. Those who fulfil their contract can be sure that they will be OK'.]**

D'Iribarne (1989) points out that, in the US, managers are free to fire or reward employees within the boundaries of a 'fair contract'. He contrasts the situation in the US factory with matched factories in France and in the Netherlands. In France, the notion of a 'contract', psychological or other, is not of primary relevance. Instead, D'Iribarne insists on a 'logic of honour'. If the manager has status and if his (more often than her) authority is considered justified (justification comes primarily through standards of education, qualification and to a lesser extent through experience), then orders are obeyed and all is well. If this 'logic of honour' is breached and the authority of the manager is not established, employees will refuse to respond to orders, or at the very least will display passive and active resistance to authority. Furthermore, under pressure, people will not hesitate to shout and complain. This is part of normal organisational life and is seen as a healthy, positive way of communicating.

In contrast, D'Iribarne (1989) observes that the guiding organisational principle in the Netherlands is consensus. There is a strong resistance to both formal pressures exercised by managers (American style formalisation) and informal pressures (French style shouting). Hence, the management of HR in the Netherlands is centred on the principle of ongoing communication: talking, explaining. People accept orders if they understand them.

The examples from France and the Netherlands explored above are a far cry from the manager's 'right to manage' through the contractual perspective, which is a feature of HRM in the US. What underpins the American perspective is the notion of theirs as the land of opportunity in which any individual, through hard work or self-improvement, can be a success. These ideals of freedom and autonomy are reflected in:

- the private enterprise culture;
- the low interference from the state with low levels of support, subsidy or control (especially compared to the role of the state in European countries);
- the antagonism of management towards trade unions.

It is worth exploring each of these issues in a little more depth.

The private enterprise culture

The private enterprise culture is reflected in the way HRM has been studied. In the USA, it is generally assumed that the purpose of the study of HRM, and in particular strategic human resource management (SHRM) is to improve the way that human resources are managed within organisations (Fombrun et al., 1984; Tichy et al., 1982; Ulrich, 1997; Wright and McMahan, 1992). The ultimate aim of HRM research is to improve organisational performance, as judged by its impact on the organisation's corporate strategy (Huselid, 1995), the customer (Ulrich, 1989) or shareholders (Becker and Gerhart, 1996; Becker et al., 1997; Huselid, 1995). Further, it is implicit that the objective of improving organisational performance will apply in all cases. Thus, the widely cited definition by Wright and McMahan states that SHRM is 'the pattern of planned human resource deployments and activities intended to enable a firm to achieve its goals' (Wright and McMahan, 1992: 298). By contrast, in Europe there is considerable debate about the meaning and purpose of HRM and no automatic assumption that employers' interests should be paramount (Brewster, 1999; Brewster and Larsen, 2000; Legge, 1995; Guest, 1990; Keenoy, 1990). Furthermore, HRM is often seen as something that can apply at either regional, national level, or at European Union level.

Many authors have recognised that US views of HRM may be culture-bound, particularly in the emphasis on organisational autonomy. In the UK Guest (1990) has argued that the view of freedom and autonomy in HRM is peculiar to the USA and epitomises the 'private enterprise' culture. These factors are uncharacteristic of most European countries, with the possible exception of the UK (which would in any case take a more moderate position to that of the US). In the European tradition, private enterprises are more constrained, not just by national culture (see Chapter 6) but also by legislation.

The low level of state involvement

The low level of state involvement, typical of the USA, is absent in Europe. The autonomy of organisations in Europe to manage their HRM, as they wish, is constrained by legislation (including supranational, EU level legislation), and by other aspects of the state's activities.

On the subject of legislation, German researcher Pieper (1990) unambiguously pointed out that: 'the major difference between HRM in the US and in Western Europe is the degree to which [HRM] is influenced and determined by state regulations. Companies have a narrower scope of choice in regard to personnel management than in the US' (1990: 8). Pieper points, in particular, to the greater regulation of recruitment and dismissal, the formalisation of educational certification, and the quasi-legal characteristics of the industrial relations framework (in comparison to the USA). One could add to Pieper's list legislative requirements on pay, forms of employment contract, health and safety, the working environment and hours of work. Supplementary to these requirements are rights to trade union representation, as well as requirements

TABLE 7.2

Public expenditure in labour market programmes in OECD countries

2001 Public expenditure as a percentage of GDP	
Denmark	4.56
Belgium	3.48
Netherlands	3.44
Germany	3.13
France	2.96
Finland	2.96
Sweden	2.28
Spain	2.06
Austria	1.60
Portugal	1.52
Norway	1.23
Greece	0.93
UK	0.92
USA	0.45

***Source*: OECD, *Employment Outlook* (2002), Statistical annexe, pp. 325–332.**

to establish and operate consultation or co-determination arrangements, which impact on a range of organisational matters (Jacobi et al., 1998; Thelen, 2001). Thus, HR specialists in Europe are likely to have to deal with a much wider range of legislative requirements than their US equivalents. This legal framework in Europe is not necessarily seen as a 'constraint' but also as a source of comparative advantage (Hall and Soskice, 2001).

For HR specialists in Europe, state involvement is not restricted to legislation. Indeed, EU member states tend to seek to regulate the labour market from which organisations draw their pool of employees. The state may do so through various interventions in the area of education, life-long learning and tax incentives for organisations. OECD figures show public expenditure on labour market programmes to be substantially higher in Europe than in the USA (see Table 7.2). Other ways in which EU member states, compared to the US, impact on HRM include: the high involvement in social security provision, the provision of more personnel and industrial relations services and a more directly interventionist role in the economy.

The antagonism of US management to trade unionism

The antagonism to trade unionism found in US management is much less common in Europe. Studies of HRM in the USA have tended to take place in the non-union sector. A constant thread in research programmes in the USA has been the link between HRM practices and non-unionism (Beaumont, 1991).

TABLE 7.3

Union density and coverage

	1994 Trade union density (%)	1994 Bargaining coverage (%)
Austria	42	98
Belgium	54	90
Denmark	76	69
Finland	81	95
France	9	95
Germany	29	92
Italy	39	82
Netherlands	26	81
Norway	58	74
Portugal	32	71
Spain	19	78
Sweden	91	89
Switzerland	27	50
United Kingdom	34	47
Japan	24	21
United States	16	18

***Source*: OECD *Employment Outlook* (1997) p. 71, Table 3.3.**

Although it is the case that union membership figures have different implications in different countries it is quite clear that, in general, the European countries are more heavily unionised than the United States and, indeed, than countries in most other parts of the world. Some, such as Germany, France and the Benelux countries (Belgium, Netherlands, Luxembourg), have legislation requiring employers over a certain size to recognise unions for consultative purposes. In France, Greece and Portugal employers have to negotiate with a union if it can show that it has any members at all in the workplace.

Europe is a highly unionised continent. Trade union membership and influence varies by country, but is always significant (see Table 7.3). The Scandinavian countries have union membership averaging three-quarters of the working population whilst the UK averages around a third. Even in the less unionised countries such as France, bargaining coverage remains higher than in the USA. In many European countries, the law requires that trade unions be recognised for collective bargaining purposes. Indeed, across Europe more than seven out of every ten organisations with more than 200 employees formally recognise trade unions (Morley et al., 1996). Furthermore, in most European countries, many union functions, such as pay bargaining, are exercised at industrial or national level, outside the direct involvement of organisational managers.

In itself, a measure of trade union membership underestimates the influence that European employees may have on their management. Indeed, the practice of employee involvement is widespread and the latest EU Directive requires organisations of successively smaller sizes to institute works councils over the coming years. Works councils across Europe have differing degrees of power: most would shock American managers influenced by theories of 'management's right to manage'. Employee representatives may, for instance, resort to the courts to prevent, or to delay, managerial decisions in certain areas (recruitment, termination, changing working practices), which have bypassed the due consultative process. In the USA, such decisions would be subject to managerial prerogative or, in limited circumstances, individual action (as opposed to collective action as in the EU).

In some countries, such as Denmark, the Netherlands and Germany, legislation goes one step further and requires organisations to have two-tier management boards. This gives employees the right to be represented at the most senior level (through a 'supervisory board'). In such systems, employee representatives can, depending on the country, size and sector, make up to 50% of the supervisory board. These arrangements give considerable (legally backed) power to the employee representatives.

The tradition of trade unionism and employee involvement therefore remains widespread and important in Europe. This tradition is further strengthened by EU policy. The EU is seeking harmonisation of employee representation rights in all member states. Thus, EU legislation encourages the creation of platforms for European-level dialogue through European Work Councils (EWCs) for organisations with subsidiaries located in different member states (see Chapter 18). EWCs complement local employee representation systems, giving scope for European-level negotiation and consultation (Communal, 1999; European Commission, 2000). The EU refers to the unions as 'social partners' and the reality is that in many European organisations trade unions are seen as a positive force for understanding between management and employees. As such, trade unions are likely to be encouraged and supported by managers, who may even be trade union members themselves.

Some of the proponents of universalist HRM in the USA argue that consultative and involvement systems can be used to supplant trade unions. In the differing European context these systems tend to *supplement* the union position. In relatively highly unionised countries, it is unsurprising that many of the representatives of the workforce are, in practice, trade union officials. In Germany, for example, the majority of works council and supervisory board employee representatives are drawn from the union representatives.

An alternative European model

The contrast between the situation in America and that in Europe has highlighted a number of elements, namely: the American propensity for formalised processes, including quantitative and contractual elements; the American private enterprise culture, reflected in a strong sense of organisational and managerial freedom and autonomy; the low level of state involvement; and the American antagonism towards trade unions. The contrasted portrait of HRM in Europe has shown: the qualitative impact of cultural diversity on HR processes; the wider sense of organisational and managerial responsibility towards employees; the greater involvement of the state; and the wider support for and different role of trade union representation.

A distinct picture of HRM in Europe is therefore emerging. Europeans are gradually developing a more explicit awareness of what constitutes European HRM. This has arisen from a critique of the American model. For example, Guest (1990: 377), observing the UK, saw 'signs that … the American model is losing its appeal as attention focuses to a greater extent on developments in Europe'. Similarly, Brewster (2000) attacked the 'universalist' assumptions of many HRM texts. Critiques of simplistic attempts to 'universalise' the American models also came from French writers (Communal, 1999; Voynnet Fourboul and Bournois, 1999). The inapplicability of American models in Europe was noted in Germany too: 'An international comparison of HR practices clearly indicates that the basic functions of HR management are given different weights in different countries and that they are carried out differently' (Gaugler, 1988: 26). Another German writer, Pieper, surveying European personnel management similarly concluded that: 'a single universal model of HRM does not exist' (1990: 11).

Indeed, the American concept of HRM contrasts with the view of HRM in Europe as summarised in Table 7.4. This emerging model of HRM in Europe calls for flexibility for member states and their agencies to operate within their respective cultural traditions; an understanding of minimum social standards in society, protected by a legal framework; a degree of involvement of member states or supranational institutions in labour market issues; as well as an appreciation of the social dynamics between employers, their associations and employees and their representative bodies.

Having discussed features of HRM in Europe at a high level of generalisation (cross-Atlantic comparison), it is time to take a closer look at HRM within Europe, particularly at the differences that characterise the European concept of HRM at regional and national level.

4 DIFFERENCES WITHIN EUROPE

The qualitative impact of cultural and institutional diversity on HRM has been documented by an array of commentators (e.g. Brewster and Larsen, 2000; Communal and Senior, 1999; Edwards and Lawrence, 2000). Thus, the

TABLE 7.4

Features of HRM in the USA and in Europe

Dominant features	HRM in the USA	HRM in Europe
Roots	Freedom and autonomy	Qualitative impact of cultural diversity
Organisational cultures	Private enterprise	Sense of organisational and managerial responsibility towards employees
Role of the state	Low interference from the state	Greater involvement of the states and European supranational agencies
Trade unions and employee representation	Traditional antagonism of management towards trade unions	Wider support towards trade union and other forms of employee representation

European concept of HRM embraces regional and national differences. The position has been compared to using a telescope (Brewster, 2001): as the focus is changed, so some items which had seemed from a distance to look very similar begin to reveal identifiable differences. It doesn't mean that the longer view (US/Europe, for example), or the medium range view (regional differences within Europe) or closer range views (national differences or even within-country differences) have more validity than each other: they just reveal different elements of the true picture.

Regional clusters

Let us start our discussion of differences within Europe by identifying the various regional areas which show common elements of HRM. Some authors, such as Ronen and Shenkar (1985), outline the following cultural and geographic clusters in Europe: Nordic (Finland, Norway, Denmark, Sweden); Germanic (Austria, Germany, Switzerland); Anglo (United Kingdom, Ireland) and Latin European (France, Belgium, Italy, Spain, Portugal). Others, such as Due et al. (1991), distinguish between the UK, Ireland; the Nordic countries; and the Roman-Germanic countries. The differences are not all culturally based. Brewster and Tregaskis (2001) found that as far as the use of flexible working practices was concerned, countries tended to cluster according to institutional factors, such as trade unionisation or unemployment rates rather than, overlapping but distinct, cultural factors. Brewster and Larsen (2000) argued that there is something in common in HRM between the countries in the North of Europe where English is widely spoken.

An attempt to refine such distinctions was made by Calori and de Woot (1994). Trying to map an emerging European management model, they proposed an examination of cultural clusters at a regional level (see Figure 7.1, adapted by the authors). At the first level of segmentation, the United Kingdom appears separate from the rest of Europe. The UK is pictured as closer to the American model, with a shared history, language and spirit of free enterprise. The rest of Europe can then be broadly split into the North, the South and the East. Calori and de Woot (1994) argue that the South of Europe is characterised by more state intervention, more protectionism, more hierarchy in the firm and more intuitive management. The North features less state intervention, more liberalism, more participation in the firm and more organised management.

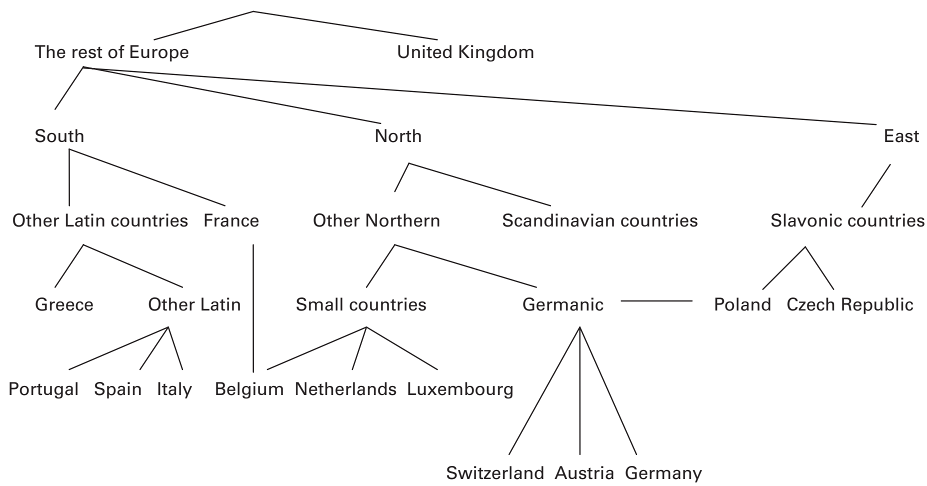
Comparing Latin countries with Germanic countries, it appears for instance that patterns of ownership in the private sector tend to vary. In many of the Southern European countries, family ownership of most businesses (even some giant, household names) remains a common pattern. In contrast, in Germany a tight network of banks effectively controls a significant number of the larger companies. These interlocking shareholdings and the close involvement in the management of the larger companies create a major disincentive to drive competitors, often owned by the same banks, out of the marketplace. Equally, these shareholders are less likely to apply pressure to produce short-term profits (compared to the US or UK style wider shareholding system: see Lawrence, 1991a).

Eastern countries remain influenced by the Germanic model; this is especially true for Poland and the Czech Republic, who maintain strong commercial links with Germany in particular. Many commentators have, at least thus far, tended to refer to 'Eastern Europe' or, more correctly, Central and Eastern Europe (CEE) as a whole, thus encompassing all post-communist economies. Unsurprisingly though, a more sophisticated, and distinct, picture of management and HRM has started to emerge in this region (see for example Clark and Soulsby, 1999) as each country reasserts its own national identity, even whilst shaping up towards acquiring EU membership.

Amongst Southern countries, France is differentiated mainly because its management system uniquely combines, on the one hand, improvisation and intuition with, on the other hand, structure and hierarchy (Barsoux and Lawrence, 1997; Communal, 1999). From a geographical point of view, France is also at the border between the North and the South.

Amongst Northern countries, the Nordic countries differ from Germanic countries or smaller countries (such as Belgium, Luxembourg and

FIGURE 7.1



Typology of management orientations in Europe (adapted from Calori and De Woot, 1994)

the Netherlands). As Europe has a larger and more influential public sector than the USA, so the Nordic countries have more of their economy in the public sector than the rest of Europe. Compared to Germanic management, Nordic management is less concerned with performance, less concerned with status differences between people and more concerned with quality of working life (Hofstede, 1980). As a consequence, Swedish HR managers, for example, are likely to manage with fewer organisational charts and are likely to make less use of formal grading systems (see earlier discussion and Communal, 1999).

Calori and de Woot (1994) argue that the smaller countries (Belgium, Luxembourg and the Netherlands) may provide a privileged ground from which to observe European HR. Indeed, these countries opened early to outside influences (Lawrence, 1991b) and have assimilated a blend of practices, as much from the British model, as from the Germanic model, and encompassing the Latin and Scandinavian influence. Calori and de Woot (1994: 21) quote a senior manager on this subject:

> These small countries are melting pots. They have been more sensitive to outside influences and have integrated these influences: because of the pressure against them, because of the small base they have for recruiting and because they were forced

> to look outside looking for markets. … I think that they are influenced by German practices. The Belgians may also be influenced by French practices, while the Dutch are also influenced by British practices.

Figure 7.1 merely serves to introduce some of the enormous differences between European countries. It is beyond the scope of this chapter to explore in detail the diversity inherent in the very different UK, Italian and Norwegian ways of managing HRM or the more subtle but very real differences between the German, Austrian and Dutch systems. The opportunity to go into depth on the differences within countries has also been eschewed: differences exist between the Walloon (French-speaking) and Flemish (Dutch-speaking) parts of Belgium (Dewettinck et al., forthcoming). Differences also exist between the Italian, French and German cantons in Switzerland. Differences exist between the north and south of Ireland or the north and south of Italy. It would take another book to encompass these national differences in HRM, but some simple examples below will serve to illustrate our point.

Country specificities

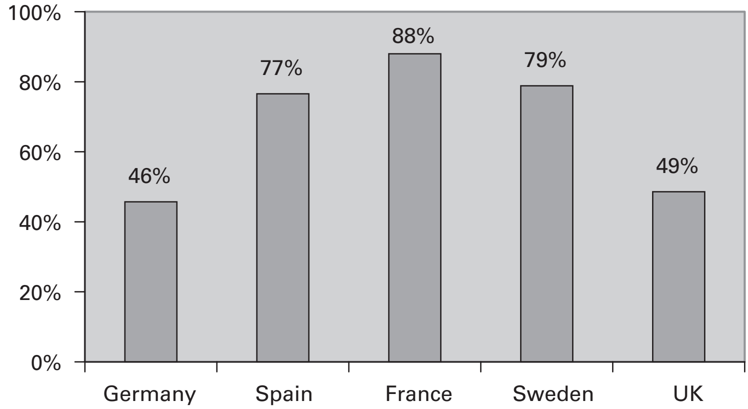
We examine these national differences in HRM using, for reasons of space, just the five major countries that have been involved in the Cranet network of researchers:[2] France (F), Spain (E), Germany (D), Sweden (S) and the United Kingdom (UK). Also, for space constraints, we confine ourselves to four topics: the status of HR; flexible working practices; training and development and the influence of trade unions.

One simple measure of the status of the HRM function concerns whether its head is represented on the Board of the company (or the equivalent main decision-making body of the organisation). It is true that there are numerous CEOs who may not have come from the personnel function but exhibit a particular interest in HRM. However, these are still exceptions. In practice an informed HR input to top-level debates is most likely only where the head of the HR functions is a member of the key policy-making forum. According to Purcell (1995: 78):

> There is clear, unambiguous evidence … that the presence of a personnel director on the main board makes a considerable difference to the role played in corporate strategy.

However, as Figure 7.2 shows, this varies by country. In Germany and the UK there are noticeably fewer organisations with the head of HR represented on the Board than there are in the Scandinavian country, Sweden, or the two Latin countries. The reasons may be different. In Germany, HR issues are brought into top-level discussions through the role of the employee director or the

FIGURE 7.2



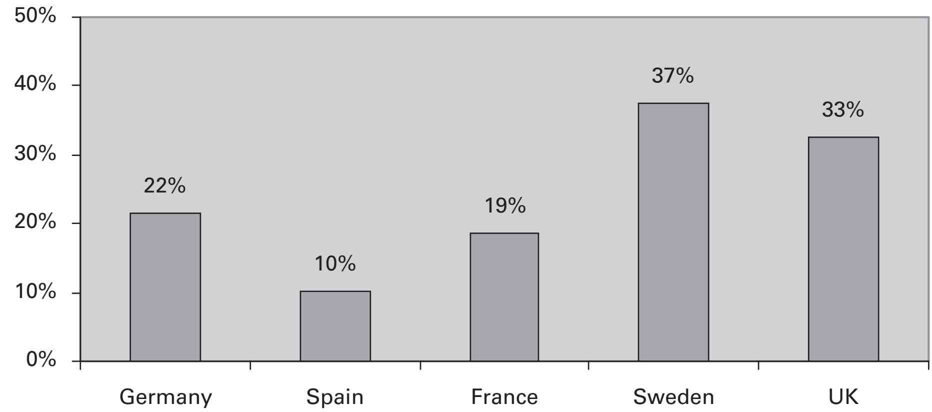
Head of HR on Board (Survey 1999/2000, Cranet network 2002)

works council. In France and Spain, the presence of HR directors may be as much a reflection of the formalisation of roles (with all 'heads' being represented) as of the importance given to HR. In Sweden most organisations do take HR as a key to the successful operation of their business. We have explored this issue further in Brewster et al. (1997, 2000) and Communal (1999).

Two aspects of flexible working practices will serve as examples: the extent of use of part-time work and the use of short-term contracts. In broad terms part-time working is used more in the North of Europe and short-term employment more in the South. Both forms of flexible working practices can be very cost-effective for management. At the risk of generalisation, part-time working often suits those (84% of them women) who are on such contracts;[3] whereas short-term working is less popular amongst employees (Eurostat, 2002). Despite these generalities the incidence of these, and indeed other, forms of flexibility varies significantly between countries (see Figures 7.3 and 7.4).

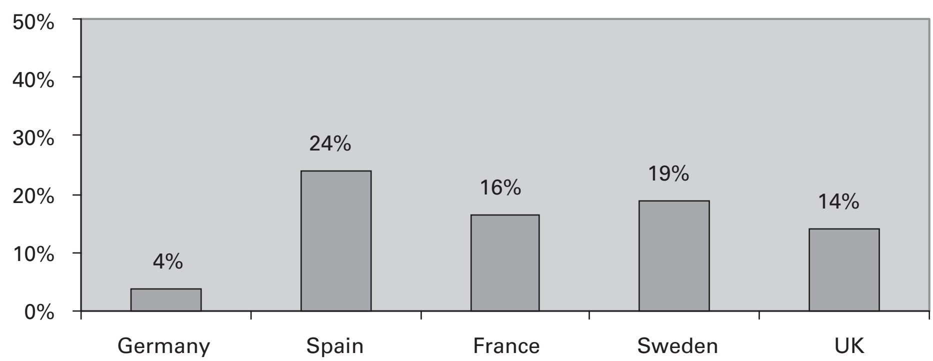
The data shows the percentage of organisations in each country that have more than 10% of their workforce on each form of contract. The North/South variation is clear: only one in 10 organisations in Spain has a substantial proportion of their workforce in part-time employment, whereas nearly four in ten of the Swedish organisations do. Though it is not shown here, the Netherlands, which has more part-time work than anywhere else, has 41% of its total workforce on such contracts (Eurostat, 2002). Spain has double the average number of organisations employing a lot of people on temporary contracts (and Spain has more short-term employment than anywhere else in Europe) whilst Germany is noticeably lower. The variations between the countries reflect a combination

FIGURE 7.3



Organisations with more than 10% of workforce on part-time contracts (Survey 1999/2000, Cranet network 2002)

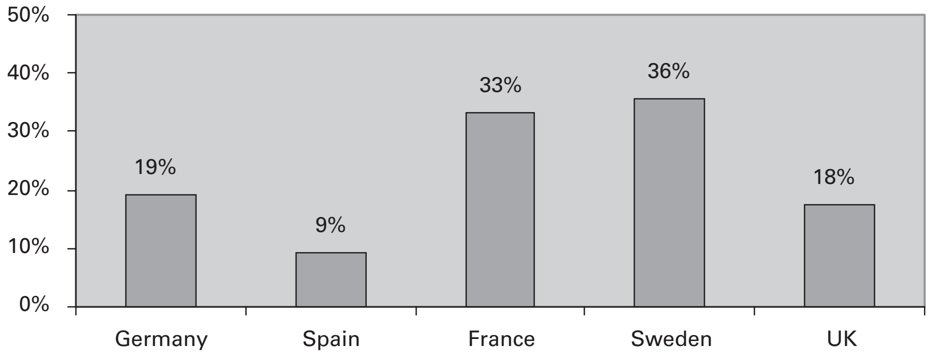
FIGURE 7.4



Organisations with more than 10% of workforce on temporary contracts (Survey 1999/2000, Cranet network 2002)

of cultural differences (equal opportunities for women being arguably more accepted in Northern Europe, for example), legislative differences and trade union influence. This important and complex topic has been explored further in Brewster, 1998; Brewster and Tregaskis, 2001, forthcoming; Mayne et al., 1996; Tregaskis et al., 1998.

FIGURE 7.5

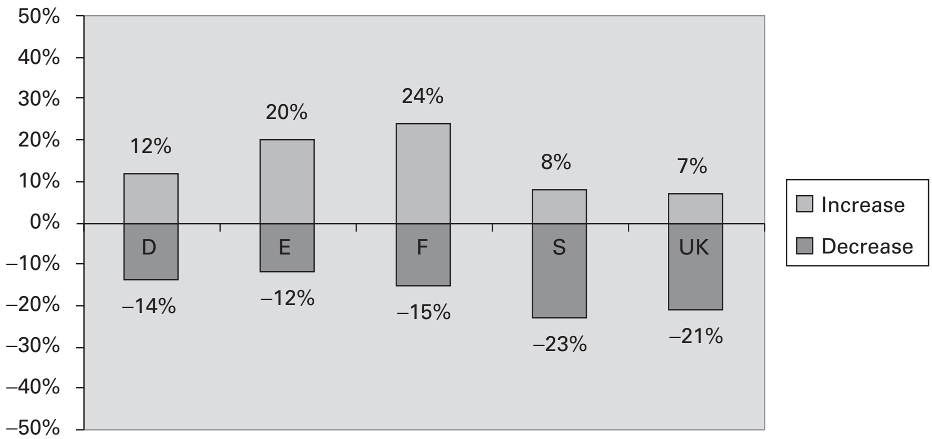


Organisations spending more than 5% of their wage bill on training (Survey 1999/2000, Cranet network 2002)

In terms of differences in training between the countries, a simple measure is the amount of the labour budget that organisations spend on training. This too varies considerably between countries; France generally has the highest spending in this area. French taxation penalises companies that do not spend just over 1% of their labour budget on training and French companies generally spend considerably more than that. Figure 7.5 shows that, if we compare the proportion of organisations spending more than 5% of their pay bill on training, it is in Sweden and France that the most organisations spend this high amount on upgrading their staff. In contrast, organisations in Spain have the lowest levels of such spending. Again, this needs to be set into the national context. For example, the roughly similar proportions of organisations with high spends on training in Germany and the UK may have different impacts if the general education levels of employees in one country are significantly above those of the other country. In such a circumstance, the training may be developmental in one case but remedial in the other. This is perhaps a simplistic means of assessment (measuring the value of the training would be much more useful than the cost of it), but it does indicate significant national differences. Further analyses can be found in Estevez-Abe et al. (2001); Ryan (1991); Steedman and Wagner (1989).

We have noted that the influence of trade unions in Europe is high; this is despite the variance in trade union membership amongst European countries. Indeed, generally the unions in Europe have a more positive 'partnering'

FIGURE 7.6



Changes in trade union influence (Survey 1999/2000, Cranet network 2002)

relationship with employers than elsewhere in the world. Yet, it is an influence that is changing, and also changing differently in different countries. It is difficult to measure influence; but one way is to ask senior HR practitioners, who have a high degree of confidence in knowing whether influence has increased or decreased over a period. Figure 7.6 shows that in each country there are both significant numbers of organisations, as represented by their senior HR practitioner, that believe the unions' influence has increased as well as organisations where their influence has decreased. It also shows, though, that in France and Spain more organisations are seeing an increase in union influence than are seeing a decrease; the pattern is static in Germany; and in Sweden and the UK the unions are losing influence. These trends have to be set in the context of union density and coverage (see Table 7.3) which, again, point to national differences. These data have been explored further in Mayrhofer et al. (2000) and Morley et al. (2000).

The point has thus been made that cultural and institutional differences do exist and that they do have an impact on HRM in Europe. Yet, these differences should not underplay the wider European trends identified earlier, namely: the wider European sense of organisational and managerial responsibility towards employees, the greater involvement of European states in organisational life and the wider support of management towards employee and trade union representation.

5 CONCLUDING THOUGHTS

European history has been charged with conflict and alliances for two thousand years. Yet, from the beginning, there have been attempts to unify Europe. Between 50 BC and AD 50, the Emperors Caesar and Claudius established Roman rule across most of Europe. Long after the collapse of the Roman Empire, Charlemagne, in AD 800, was crowned Emperor and reigned over great parts of the continent (stretching from the Mediterranean to the North and Baltic seas). However, throughout this history, nationalist sentiment has also played an important role. Will the forces of twenty-first century globalisation and the social capitalism prevalent in Europe prove stronger in establishing a unified zone for commerce and prosperity? Will Europeans continue to develop a sense of common identity and common understanding of management? Do the various endeavours to harmonise HR practice across Europe point in the direction of long-term convergence? Or will the national differences remain profound?

It should not be assumed that European HR managers will increasingly adopt the (universalist) American way and that US ideas will sweep across the old continent. Nor should it be assumed that the increasing formalisation of rules on employment that is being provided by the EU will lead to convergence towards a European model. These are matters for further empirical investigation in the future. However, it would not be too bold to predict that Europe will continue to be different from the USA in the way it approaches HRM, that regional differences within Europe will remain and that 'country' will continue to provide a significant explanation for the differences in HR policies and practices.

It may be that, in the future, as flexibility, adaptability and agility increasingly become sources of competitive advantage, the value of coherence and unity enjoyed by countries such as the USA and Japan is lessened and the value of diversity increases. If so, then regions like Europe, with its capacity to draw on substantial diversity, may be in a better position to respond to the challenges of the modern era.

Arguably, there are many areas, such as providing for higher levels of educated workforces and the positive communication between managers and the representatives of the employees, where individual countries in Europe could be said to lead the field. There is certainly scope for HRM 'made in Europe'.

6 DISCUSSION QUESTIONS

1 What factors might make US HRM models increasingly influential for European HR managers? What elements of the US models are likely to create problems for managers in Europe?

2 What would you consider the competitive advantages of HRM in Europe to be?

3 How might HRM in Southern Europe generally differ from HRM in Northern Europe? How might an international company operating in both regions handle these differences?

4 In what ways is the greater trade union presence in Europe an advantage for managers; and in what ways a disadvantage? How, generally, does the relationship of unions to management differ between the US and Europe?

7 FURTHER READING

- **Brewster, C., Communal, C., Farndale, E., van Ommeren, J., Hegewisch, A. and Johnson, G. (2001) *The HR Healthcheck: Benchmarking HRM Practices across UK and Europe*, (Management Research in Practice series), London: Financial Times, Prentice-Hall.**

This research report reviews in what ways HR practice in the UK is similar to or different from HR practice in other European countries. The report presents data gathered between 1990 and 1999 as part of CRANET (the Cranfield Network) and examines longitudinal trends.

- **Brewster, C., Mayrhofer, W. and Morley, M. (eds) (forthcoming) *Human Resource Management in Europe: Convergence, Divergence or Statis?* London: Butterworth-Heinemann.**

A student textbook in which local authors use the latest Cranet data to compare HRM in 23 European countries and which considers and attempts to answer questions about convergence and divergence.

- **Brunstein, I. (ed.) (1995) *Human Resource Management in Western Europe*, Berlin: de Gruyter.**

This book contains chapters on 12 different European countries, each written by a local author or authors as a summary of extant work.

- **Sparrow, P. and Hiltrop, J.-M. (1994) *European Human Resource Management in Transition,* London: Prentice-Hall.**

An ambitious attempt to put together a theoretical and issue based comparison of a series of HR issues across Europe and to examine the trends.

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NOTES

1 Much managerial prestige in France is associated with graduating from one of the *grandes écoles*. Further formal managerial development later in one's career may be considered with suspicion in the sense that it can never replace a *grandes écoles* qualification. Nonetheless, the French attach much importance to education in general and organisations tend to spend above European average amounts on further training and developing their employees and managers (see Figure 7.5).

2 Details of the HRM surveys carried out through the Cranet network are available in Brewster and Hegewisch (1994) and in Brewster et al. (2003 forthcoming).
3 People working part-time in the EU-15 represent 18% of the total employed workforce. Although the majority of part-time workers are women (84%), it would be a myth to say that most women work part-time. Indeed, the majority of women in employment are actually in full-time jobs (66%) – year 2000 statistics (Eurostat, 2002).

8 HRM in East Asia

Ying Zhu and Malcolm Warner

CHAPTER CONTENTS

1 INTRODUCTION

Since the 1960s, East Asia has been regarded as the region with the most rapid economic development in the world. In the context of such rapid development, being able to find a suitable HRM model was essential for countries in the East Asian region. Economic success in this part of the world has often been explained in culturalist terms, at least by a number of leading writers on Asian management (Redding, 1995). However, we believe that other factors such as political, economic and historical influences also shape managerial thinking and practices. In this chapter, we therefore explore the interplay between wider cultural factors and other factors (i.e. political, economic and historical) as they affect HRM in business organisational settings. We are aware of the diversity of management patterns in the East Asian region and do not claim that a homogeneous Asian HRM model exists.

The purpose of this chapter is to compare and contrast current HRM strategies and practices in four East Asia economies, namely Japan, Taiwan, China and Vietnam. The rationale of such selection and classification is based on the following considerations: (1) we want to cover the diversity of HRM strategies and practices in this region; (2) we want to explore the interplay between cultural factors and political, economic and historical influences that affect HRM. The four cases have similar traditional philosophical roots, but political, economic and historical factors set them apart. We distinguish two groups of countries. The first group includes Japan and Taiwan and represents capitalist industrialised economies. China and Vietnam are selected to represent a different type of society, namely a socialist market economy. Generally speaking, the four cases represent different stages of economic development, ideological orientation, maturity of managerial and market knowledge but share a similar traditional philosophical foundation.

This chapter is structured as follows: Section 2 reviews the traditional philosophical thinking and illustrates the underlying cultural factors that may be responsible for the development of their unique HRM approaches; Section 3 illustrates the HRM strategies and practices in Japan and Taiwan, while Section 4 does the same for China and Vietnam. Finally Section 5 concludes the chapter by highlighting the expectations for the future and the contribution for managerial thinking.

2 TRADITIONAL PHILOSOPHICAL THINKING AND ITS IMPLICATIONS

Generally speaking, traditional philosophical thinking in East Asia is rooted in ancient China thousands of years ago. During the period of Spring Autumn Warring States (770–221 BC), many different philosophical schools emerged in an age when old social rules (early Zhou dynasty 11th century – 771 BC) were collapsing and the search was on for new systems of thought to explain the resulting chaos (McGreal, 1995: 62). This era was named the ‘contention of a hundred schools of thought’ (Chu, 1995). Three major domains dominated traditional thinking and are relevant to management: Confucianism, Daoism, and War Strategies. One of the characteristics of Chinese thinking is that it does not divide the search for knowledge into separate and rigid categories with a separate set of principles governing each domain. Different philosophies benefit from each other and efforts to combine philosophical approaches are common. A typical example of such efforts can be found in War Strategy and later Neo-Confucianism (AD 1130–1200).

Traditional philosophies

Confucianism

Confucius (Kongzi, 551–479 BC) developed a set of teachings based on absolute respect for tradition (early Zhou Dynasty) and on a carefully ranked hierarchy founded on primary relationships between members of families and between the people and their rulers (De Mente, 1994). It has been seen as a philosophy guiding people's daily life. The major ideas of Confucius were three basic guides (i.e. ruler guides subject, father guides son, and husband guides wife), five constant virtues (i.e. benevolence, righteousness, propriety, wisdom, and fidelity), and the doctrine of harmony. Confucius believed that *Ren* or human heartedness/benevolence is the highest virtue an individual can attain and that this is the ultimate goal of education (McGreal, 1995). *Ren* is a strictly natural and humanistic love, based upon spontaneous feelings cultivated through education.

The path to the attainment of *Ren* is the practice of *Li*. *Li* can be interpreted as rituals, rites or proprieties. In its broadest sense, the term includes all moral codes and social institutions. In its fundamental but narrow sense, it means socially acceptable forms of behaviour (McGreal, 1995). In addition, *Li* involves the deliberate devices used by the intellectuals to educate people and maintain social order. Since *Li* is a term for moral codes and social institutions, people are tempted to think that the practice of *Li (*proprieties*)* is intended to enforce conformity with social order at the cost of individuality (McGreal, 1995). However, in Confucianism, an individual is not an isolated entity. Confucius said, 'In order to establish oneself, one has to establish others. This is the way of a person of *Ren*' (McGreal, 1995: 5). Therefore, individualisation and socialisation are two aspects of the same process.

The principle governing the adoption of *Li* is *Yi*, which means righteousness or proper character and is a principle of rationality. *Yi* is the habitual practice of expressing one's cultivated feeling at the right times and in the right places. Confucius said: '*Junzi* (a perfect person or superior) is conscious of, and receptive to *Yi*, but *Xiaoren* (a petty person) is conscious of, and receptive to gains' (McGreal, 1995: 6).

According to Confucius, the right method of governing is not by legislation and law enforcement, but by supervising the moral education of the people (McGreal, 1995: 6). The ideal government for him is a government of *wuwei* (non-action) based on the solid groundwork of moral education. The reason given by Confucius is: 'If you lead the people with political force and restrict them with law and punishment, they can just avoid law violation, but will have no sense of honour and shame. If you lead them with morality and guide them with *Li*, they will develop a sense of honour and shame, and will do good of their own accord' (McGreal, 1995: 7). This is the doctrine of appealing to the human heart: self-realisation toward external world peace (harmony) and a peaceful world and orderly society are the ultimate goal of Confucianism.

Daoism

Certainly, Confucianism dominated Chinese philosophy for many years. However, other philosophies before and after Confucianism were also influential, albeit with different emphases. Daoism is one of the other influential schools of thinking. The founding father of Daoism, Lao Zi (6th century BC–?) introduced the idea of yielding to the primordial ways of the universe (Whiteley et al., 2000). Everything in the universe follows certain patterns and processes that escape precise definition and imprecisely this is called *Dao*, the 'Way' (McGreal, 1995: 9). In his work entitled *Daode Jing* (Classic of the Way and Its Power), Lao Zi claimed that *De* (virtue) cannot be strived for, but emerges naturally. The best 'Way' to act or think is *wuwei* (effortless activity).

However, the most important element of Daoism is the 'Oneness' and *Yin-Yang*. In Lao Zi's work, he indicated that '*Dao* produces one. One produces two. Two produces three. And three produces ten thousand things (i.e. everything). The ten thousand things carry *Yin* and embrace *Yang*. By combining these forces, harmony is created' *(Daode Jing*, Verse 42). These can be understood as the fundamentals of the universe that contains the polar complements of *Yin* and *Yang*. *Yin* represents the dark, recessive, soft, feminine, low, contractive, centripetal, short, hollow, empty, and so forth, and *Yang* represents the light, dominant, hard, masculine, high, expansive, centrifugal, long, full, and solid. Nothing is ever purely one or the other; rather all things are in flux between one pole and its opposite (McGreal, 1995: 14).

De is the second important concept within Daoism. *De*, usually translated as 'virtue' or 'power', is an object's personal stock of *Dao*, or, put another way, it is the natural potential or potency instilled within one. In contrast to Confucians who refer to *De* as a moral term, for Lao Zi *De* signifies natural abilities that enable things to be their best spontaneously and effortlessly (McGreal, 1995: 13). Furthermore, Lao Zi argued that once ineffectual *Ren* has degenerated into rules, the conditions for conflict, rebellion and repression have emerged. Since rules advise doing something unnaturally through human intervention, there will always be someone who will refuse to comply. For a rule to remain meaningful and not become an empty rule, compliance must be enforced (McGreal, 1995: 13).

For Lao Zi, balance between the poles does not mean static parity, but a dynamic reversion that perpetually counterbalances all propensities toward one extreme or the other. However, the world tends to favour the *Yang* while ignoring or denigrating the *Yin*. Daoism aims to rebalance this by emphasising *Yin* over *Yang*. In *Daode Jing*, Lao Zi claimed: 'Human beings are born soft and flexible; when they die they are hard and stiff. Plants arise soft and delicate, when they die they are withered and dry. Thus, the hard and stiff are disciples of death; the soft and flexible are disciples of life. An inflexible army is not victorious; an unbending tree will break' (*Daode Jing*, Verse 76). Therefore, Daoism provides enlightenment for human beings to understand and follow the fundamental cycle of the universe.

Bing Fa (War Strategies)
Bing Fa is a form of strategic thinking that was first developed for military purposes and has since been applied to almost all human interactions. It was written down by Sun Zi in the fourth century BC. In his book *Sun Zi Bing Fa*, Sun Zi discussed the five elements that must be considered in formulating a strategy (Chu, 1995: 25–30): (1) the moral cause: the *Dao* addresses the morality and righteousness of a battle; (2) temporal conditions: heaven is signified by *Yin and Yang*, manifested as summer and winter and the changing of the four seasons; (3) geographical conditions: the earth contains far and near, danger and ease, open ground and narrow passes; (4) leadership: the commander must be wise, trustful, benevolent, courageous, and strict; (5) organisation and discipline: organisation and discipline must be thoroughly understood. Delegation of authority and areas of responsibility within an organisation must be absolutely clear. The harmony of the five elements is of great importance to success in any endeavour (Chu, 1995: 32). These elements are intangible, spiritual, psychological and are more related to people's mindset.

Implications for HRM practices

From the above review we can summarise the underlying elements that may be responsible for the development of modern HRM concepts in Asia. The following key issues can be identified as the fundamental relational values that determine the formation of managerial knowledge based on a combination of types of Chinese traditional thinking.

1 The establishment of the fundamental virtue of *Ren* (heartedness/benevolence) within the organisation. Under such influence, the concept of 'workplace is family' is widespread among Chinese organisations. It requires organisation/management to look after the interests of fellow employees, while employees have high commitment to the organisation. The outcome of implementing this relational virtue can be reflected in management and individual behaviours, such as employment security, compensation and reward schemes, training (as part of educational function) and development (including promotion) systems from the management aspect, and high commitment, self-discipline, and the blurred time boundary between work and leisure (more overtime work) and so on from the employee aspect. The eventual goal of such efforts is to achieve a peaceful and orderly workplace.
2 Collectivism and interdependent relational value: It is a well-defined principle within Confucianism that an individual is not an isolated entity. Therefore, the concept of family life as the basic unit in the society is emulated in the work setting and with it the broader societal values that ensure that social harmony and behavioural ritual are preserved

(Scarborough, 1998; Yau, 1988; Whiteley et al., 2000). HRM practices such as teamwork, sharing values and information, and group-oriented incentive schemes are based on the foundation of collectivism.

3 The doctrine of harmony and the balance between *Yin* and *Yang*: the effort to achieve harmonisation of the workplace and maintain a dynamic reversion that perpetually counterbalances all propensities towards one extreme or the other puts the organisation in a stable and sustained position. The concept of *Yin* and *Yang* provides a mindset for coping with the environment in an adaptive and flexible way.

4 *Bing Fa* and the philosophy of war strategy leads to strategic thinking and strategic management: the ever-changing nature of internal and external factors forces human beings to adopt strategic thinking in order to survive not only in the short term, but also in the long term. The outcome of combining different philosophies such as *Bing Fa* provides the general guidance for strategic thinking which helps organisations to form business strategies.

5 The virtues and quality of leadership emphasised by Confucianism were adopted by current management thinking in the area of leadership: managerial leadership requires the qualities of wisdom, trust, sincerity, benevolence, courage, and strictness to carry out policies (Chu, 1995: 29). If managers lack these qualities, they will experience a shortage of support from employees, and the consequence will be low productivity and discontent.

From these key elements of HRM, we can see that traditional thinking has a profound influence on the formation and practices of modern managerial approaches. In the next section, our country cases show that these elements can be identified in their strategic thinking as well as HRM practices. However, modification is necessary for individual countries in order to make their HRM approach more relevant to their social, political and economic environments. Hence, different HRM strategies and practices do exist in these four countries, and that reflects the modification process. In the next two sections, we compare and contrast four cases: Japan and Taiwan representing more developed economies under the capitalist market economic system, and China and Vietnam representing less developed economies under the socialist market economic system. All of them were influenced by ancient Chinese philosophies and such cultural roots led to some similarity in HRM strategies and practices. However, the four countries experienced different histories and have different political and economic environments. Hence, these factors may have reshaped their HRM strategies and practices. It is clear that differences did and still do exist among them.

3 CAPITALIST MARKET ECONOMIES: JAPAN AND TAIWAN

It is interesting to compare and contrast Japan and Taiwan: each of them can be identified as an island economy although their population base is different in scale; both of them experienced the domination of a feudalist agrarian economy and have transformed to state-led capitalism and industrialisation, and more recently to a more open capitalist market economy; and Japan colonised Taiwan for the first half of the twentieth century. Hence, similarities as well as differences can be found, as we shall see.

Japan

In Japan, three 'pillars' have been identified as the foundation of the traditional Japanese HRM model, namely long-term employment (i.e. life-time employment), seniority-based wage system (wage increases are determined by the age and length of service of workers within the company) and enterprise labour unions (Sano, 1995). The management pattern in post-war Japan has been defined as paternalist in which employers relate to employees as parents and the company is seen as a 'family'.

From the cultural point of view, these Japanese characteristics of HRM are rooted in tradition. The cultural background of the society plays a significant role in the formation of company culture, expressions such as *mura shakai* (a village society), *shudan shugi* (group-orientation), *onjo shugi* (paternalism), *nenko joretsu* (seniority-base), *danson johi* (male domination), *tate shakai* (vertical society or hierarchy) are used as part of organisational culture (Sano, 1995: 25). In the traditional Japanese management style, people are important and enterprise costs are not thought about all that much. It is the vision that dominates Japanese organisational culture with the focus on their people. In return, a highly committed workforce strengthens the unity of the organisation. The outcome here could reasonably be expected to be lower turnover and absenteeism and higher productivity.

However, such neo-Confucian virtual-oriented HRM practices did not come automatically or without struggle in post-war Japan (see Gordon, 2001). In the 1950s and early 1960s, the labour movement was very active and through the struggle of labour unions and compromise with the government and employers, the so-called 'three pillars' of the Japanese HRM model (employment security, seniority wage systems, and enterprise labour unions) were established (Mackerras, 1992: 373–376). Not only were these fundamental issues of Japanese HRM gradually developed, but other related aspects with unique Japanese characteristics in the areas of recruitment, training and development, group-based activities including decision-making, quality control and incentives, and other management practices such as just-in-time (JIT) and total quality management (TQM) were also being adopted (Sako and Sato, 1997).

In post-war Japan, employees were recruited from different levels of graduates. The first group were factory workers who came from regional middle schools. The second were high school graduates who would work as factory workers or lower level clerks. The third was composed of administrative strata candidates who had experienced an urban lifestyle, came from the middle class and were university graduates (Sano, 1995). While each group was distinct, the common denominator was the fact that they were selected directly after graduation without work experience. Selection was related not to special technical skills or knowledge, but to more general abilities and characteristics. Individuals would follow the organisational needs for their career development and the company would provide training for individuals to achieve that goal.

Therefore, training and development are crucial for both individuals and organisations to be able to fulfil the operational tasks in both the short and long term. In Japanese organisations, internal training and development are pivotal HRM functions (Morishima, 1999: 331). As Koike (1988 and 1992) found, the Japanese training system emphasises the content of employee learning on the job; so-called 'on-the-job training' (OJT). Most Japanese firms pay attention to problem-solving and decision-making skills for routine and non-routine problems and systematically use OJT to train workers to handle progressively difficult non-routine operations.

The philosophy of collectivism is also found in the Japanese organisation in terms of its group-oriented approach. Group-based activities include teamwork and decision-making. Quality control and incentives are common managerial practices. In the Japanese organisation, decisions are group-based (Sano, 1995). Employee participation and the reaching of consensus are important steps in the decision-making process. It may take time to make the final decision but implementation can then be quick and smooth due to the better understanding of a particular decision among employees. Total quality management (TQM) and quality control circles (QCC) are also practices based on the philosophy of collectivism. QCC usually involves seven or eight workers from the same work unit and aims not just at the satisfactory execution of duties assigned to the unit, but also at the improvement (*Kaizen*) of productivity, product quality and the work environment (Watanabe, 2000: 314). It is a collective effort to implement changes for better outcomes and it provides valuable learning opportunities for employees. In addition, it motivates people to design and manage their own work (ibid.). Another group-based activity relates to the payment of bonuses. A bonus is usually considered as a specific individual incentive, however in Japan the bonus calculation to a large degree reflects organisational/group performance rather than individual performance. It is usually paid twice a year and is equivalent to three to five months' salary (Sano, 1995). This shows that even in the incentive scheme, a collective orientation is still the fundamental consideration.

Recent attempts at reform

Challenges such as the recent economic recession and global competition have built up the pressure on the Japanese organisation to modify HRM strategies and practices, although the change is very slow (Benson and Debroux, 1998). The recent changes can be seen in both government policies and enterprises' initiatives. From the government point of view, job creation and training have become the most important issues since 1997. Therefore, the government has provided a substantial financial support for tackling these issues. In addition, the Ministry of Labour (MOL) promoted mobility of employees (e.g. the *Shukko* Scheme: external mobility; and the *Haken* Scheme: internal mobility) through government financial support and extended the retirement age from 60 to 65 in order to handle the problem of an ageing population.

From the enterprises' point of view, reform has been relatively slow. Global competition, domestic economic restructuring and company internal reorganisation led to a situation of uncertainty and anxiety among both managers and employees. In the area of human resource management, there are several new initiatives but key elements remain unchanged. For instance, most companies adopt two ways of recruitment now. One is the traditional way of recruiting graduates from colleges and universities. Another is a relatively new way of recruiting mid-career professionals and technicians. Job allocation becomes more skill- and task-oriented compared with the traditional general-duty orientation.

Compensation is the major area of reform among the majority of Japanese enterprises. Companies use different methods to implement compensation policy with a similar goal, which is to promote and reward people who make contributions to their organisation. The seniority-based pay system has been gradually replaced by a performance-based and skill/knowledge-based pay system (see Watanabe, 2000: 327). There is also a gradual change of the promotion scheme from the traditional age/seniority-oriented promotion system to a more capability/leadership-oriented system. Promotion now is closely linked with the annual appraisal and compensation scheme. Following the policy of restructuring and reorganisation of economy and enterprises, labour mobility has been increasing in recent years. Many companies adopt *Shukko* (external) and *Haken* (internal) mobility schemes.

However, most HR managers are still playing a passive role. They are not part of the decision-making team. They are normally required by the senior management to provide advice and proposals for HR related issues. In most small companies, the general manager or the manager's assistant takes up the HR management function. Trade unions are also facing a challenge. Economic down-turn has had a profound impact on the well-being of working men and women. Unions are trying hard to raise their popularity and protect member workers. Key issues have been addressed by the trade union movement, such as: using the strength of industrial unions to protect members from being unfairly dismissed by companies during the economic down-turn; increasing membership by providing support for employees working in small and medium enterprises; creating dialogue with management through partnership and cooperation with management; providing training for laid-off employees and helping them to be re-employed, while reducing the problem of mismatch between the job and the employee's skills.

Taiwan

The Taiwanese management system is rooted in the traditional Chinese culture and values and includes predominantly small-sized family businesses, coupled with strong family control and an extensive subcontracting business network (Chen, 1995). In the first half of the twentieth century, Taiwan was colonised by Japan and the Japanese influence was widespread, including its management system. Taiwan gradually developed large businesses in the capital-intensive sector owned and/or controlled by the state under the Nationalist government since the late 1940s (Lee, 1995).

Generally speaking, the characteristics of the Taiwanese management system can be summarised as: obvious hierarchies, paternalist beliefs and practices with an emphasis on personal loyalty and commitment, the emphasis on the moral superiority and greater rationality of leaders, and the importance of personal connections and contacts (so-called *guanxi*) in business operation and individual life (Chen, 1995). Those characteristics are rooted in Confucianism, which emphasises hierarchy, harmony, and the tendency to cultivate individuals into a family- and group-oriented and socially dependent being.

Export expansion period and technology-intensive industry expansion period

Different stages of economic development are accompanied by different management patterns. In Taiwan, for instance, economic development since the 1960s can be divided into two stages: the export expansion period between 1961 and 1980 and the technology-intensive industries' expansion period from 1981 to recent years (Lee, 1995; Zhu et al., 2000). HRM in Taiwan also changed during the two periods.

The main characteristics of HRM during the export expansion period can be identified as follows:

1 Recruitment: recruiting blue-collar workers relied heavily on informal channels, i.e. employee referral and company network. For recruitment of white-collar workers, formal channels were preferred to informal ones. Since most of the middle- and high-ranking management positions were filled either by the owners' family members or by internal promotions, little recruiting activity took place (Lee, 1995: 92).

2 Company-sponsored training was not popular during this period. Apprenticeships were also not common in Taiwan. However, as a rule, more skilled workers received formal on-the-job training (OJT) than did semi-skilled and unskilled workers, and foreign-owned companies offered more OJT programmes than did local companies (Lee, 1995: 93).
3 The compensation package included basic pay and various types of bonuses, such as year-end, competition, invention, long-services and so on (Chen, 1998: 160). It was common practice for Taiwanese companies to adopt the Japanese seniority-based wage system for base pay (Lee, 1995: 110). With the traditional culture of avoiding conflict between management and employees, most workers could be promoted along the grades of their job titles if their annual performances were classified as 'above-average' (Chen, 1998: 161).
4 Trade unions were controlled by the government during this period (Zhu et al., 2000). The ruling Kumintang (KMT) party guided most unions through local government control over the election of union officials, through the fostering of KMT branches at workplaces and through 'supervision' by larger affiliates of the sole national union peak organization, the Chinese Federation of Labour (CFL) (Zhu et al., 2000: 38). Therefore, the government was able to maintain a low minimum wage and control the adjustment of wage rates in the public sector (Lee, 1995: 98).

However, during the technology-intensive industries' expansion period, not only did the structure of the economy change quickly, but so did industrial relations, human resource management practices, and the government's labour policies. The industrial system became more complex and formal, and government policy shifted towards a more pro-labour orientation. The outcome was that the government amended some labour laws in the 1980s, including the Collective Agreement Law in 1982 (in conjunction with the Labour Union Law enacted in 1929 and last amended in 1975), the Labour Disputes Law and the Labour Insurance Act in 1988, and the Vocational Training Act in 1983. The ruling Nationist Party (KMT) controlled most unions at workplaces and through 'supervision' by larger affiliates of the national union organization – the Chinese Federation of Labour (CFL).

The changes in industrial structure and government policy and legislation have had a profound impact on HRM and the structure of organisation in Taiwan. To cope with the increase in production costs employers adopted many strategies, such as employing lower-wage foreign workers with the permission of the government (companies can employ foreign workers up to 30% of its total employees) (Zhu et al., 2000), improving the efficiency of the workforce by providing more training, introducing automated machinery to substitute for labour, and subcontracting work (Lee, 1995: 105). In addition, to search for new competitive advantages many companies from Taiwan relocated their operations to low-wage countries, especially in mainland China and South-East Asia (Zhu and Warner, 2001).

SMEs and state-owned LEs

Different enterprises had different approaches to the changes in the labour market and the challenges of global economic competition. Two major variables are family-based small- and medium-sized enterprises (SMEs) and state-owned large-sized enterprises (LEs). SMEs have been seen as the most dynamic and flexible sector determining Taiwanese economic growth (see Hamilton, 1997). However, since the mid-1980s, more SMEs have felt the environment becoming less favourable for their business in Taiwan: higher business costs and more regulations control their business operations. In addition, international competition is forcing them to reorganise their businesses in order to survive. The major changes include internationalisation of business operations, professional management and more flexible HRM and marketing strategies.

The SMEs still have a centralised decision-making process. However, there is a tendency now for owners gradually to withdraw from routine management activities. Some high-ranking managers are trained and promoted within the companies and are not necessarily family members. Management professionalism is becoming more important and it is a kind of response to the criticism of managerial nepotism. During the recent financial crisis, more companies realised that more effective management and relevant skills were crucial to business survival. Therefore, middle-level managers and skilled employees may be recruited externally from formal employment agencies. Most SMEs now pay attention to both pre- and ongoing types of training in order to cope with market changes and link the skills of employees with the needs of production. The compensation package has not been changed and the philosophy of 'harmony' still plays an important role in wage determination. Therefore, the wage-gap between top managers and bottom employees is about five times, which is much lower than that in foreign owned enterprises (FOEs), where sometimes it is over 20 times (e.g. in the US firms) (Zhu and Warner, 2001).

Trade unions have always been weak in SMEs. Although the Trade Union Law (1975) required unions to be established in workplaces in most sectors with more than 30 employees (Lee, 1988: 188–191; cf. Warner, 1995), the reality is that even now a large number of SMEs are without union organisation. In addition, the major tasks of unions in these firms are rather narrowly defined, such as communicating with and assisting management, organising annual union meetings and collective agreements with management once every three years. There is a general sense that the managers in SMEs do not want union involvement in decision-making (Zhu and Warner, 2001).

On the other hand, the state-owned LEs in Taiwan for years enjoyed monopoly status in key sectors. This was in the strategic industrial areas with strong support provided by the government. However, in recent years, privatisation and marketisation have dominated the economic decision-making process and these enterprises are facing restructuring and reform.

Generally speaking, LEs have well-established systems of external recruitment of managers. Through examination, interview and evaluation procedures, state-owned enterprises (SOEs) can obtain the most capable people from outside their organisation. For a long time, people preferred the situation within LEs for its security, better pay and welfare, good working environment, and social prestige; this made recruitment even more competitive. Therefore, the qualifications of managers in these enterprises still remain the highest, with a superior level of university graduate and postgraduate. In addition, public recruitment of employees is the major recruiting channel for LEs. However, the public sector is not allowed to employ foreign workers. In terms of training, both on-the-job training and professional training are provided by the enterprises. The compensation package has not been changed either. In fact, among all types of enterprises, LEs seem to have the highest salary levels. Bonuses are paid as a group incentive with an equivalence of three- to four-month wages (Zhu and Warner, 2001).

The trade unions in the Taiwanese public sector have remained subservient to the government for a long period (Frenkel et al., 1993). Even now, trade unions in these state-owned LEs are not wholly independent, though they have a strong membership base and bureaucracy. The functions of unions were described as 'promoting enterprise productivity as well as protecting workers' interests', and there is a strong sense of the 'dual' role of trade unions as a useful bridge between employees and management to guarantee smooth industrial relations (Zhu et al., 2000).

Summary of Asian capitalist market economies

We see that HRM policies and practices in Japan and Taiwan were under the influence of the traditional culture and the changing political and economic environments. Key characteristics such as collectivism, harmony, loyalty, quality of leadership and hierarchy, and strategic thinking can be found in both Japanese and Taiwanese management systems. Those characteristics are reflected in HRM such as group-oriented production activity (teamwork), group-based performance evaluation and incentives, a relatively close salary gap between management and employees, cooperative and harmonised labour–management relations, relatively high employee commitment to the company in return for internal promotion and a seniority-based wage system. In addition, strategic thinking and strategic management are dealing with changes, in particular during the period of economic transition and crisis. In recent years, both increasing global competition and the Asian financial crisis have forced the government and enterprises in Japan and Taiwan to adopt more flexible policies and management systems. The new political environment, a reformed legal framework and economic pressure added new dimensions to HRM, though the changes are not rapid enough for policy makers, especially in Japan. However, the evidence shows that traditional culture still has a profound influence on HRM policies and practices, despite political, economic and historical factors.

4 SOCIALIST MARKET ECONOMIES: CHINA AND VIETNAM

China and Vietnam represent a different political and economic system that is still nominally influential both ideologically and politically. Both of them have a similar traditional culture, predominantly Confucianism, and in recent years, they have transformed from a centrally planed socialist system to a more market oriented economy, but still with so-called 'socialist characteristics'. Economic reforms and an open door policy have led to significant changes in these socialist market economies. The emergence of new interest groups, the inflow of foreign capital and the diversity of ownership of enterprises, and a large and floating population moving from the countryside to the cities, have accentuated conflicts of interest and require a more relevant employment relations policy at a macro level and HRM strategies at a micro level to cope with these challenges.

China

China is the birthplace of the ancient philosophies that influenced the East Asian region. In China, Confucianism handed down the idea of correct behaviour and rules of conduct, and Daoism provided the knowledge of rituals and laws of nature. In some form or another, these were preserved through the ages right to the time of late Qing Dynasty, around the time that the industrial revolution was happening in the West. Under the challenges of Western colonisation, China was seen as backward and needing to be reformed and rejuvenated (McGreal, 1995: 134). At this time Chinese scholars and philosophers were in a transitional age making efforts to synthesise Western and Chinese philosophies (Whiteley et al., 2000: 36). However, China did not experience business in the Western sense during and after the period of the industrial revolution. In the twentieth century, the Japanese invasion and civil war led to political and military conflicts and communist ideology eventually prevailed. The People's Republic of China (PRC) was established in 1949 under the leadership of the Chinese Communist Party (CCP), and this event was called 'Liberation'.

After the Liberation in 1949, China laid the foundations of its industrial and labour relations system, particularly during the 1950s, but there was great turbulence and upheaval over the decade or so following the laying down of these foundations. China was turned 'upside down' by the ebb and flow of radical change which occurred at that time, during the ten years of Cultural Revolution (1966–1976), which was led by the CCP Chairman Mao Zedong in an attempt to remove the party from the influence of the bourgeoisie (mainly intellectuals). At the end of the Cultural Revolution, the Chinese economy was nearly bankrupt: almost 100 million people had barely enough food and clothing, the level of enterprise performance was weak and unlikely to improve greatly under a system in which the workers were not strongly motivated (Zhu and Warner, 2000).

The year 1976 marked the end of an era: Mao Zedong died. In order to develop the economy and achieve the goal of 'modernisation', under the new leadership of Deng Xiao-ping, China adopted economic reform and an 'open door' policy for foreign investment and international trade (Zhu and Warner, 2000). Both Western technology and management systems and the Japanese pattern of economic development and management were encouraged as models to be transferred into Chinese economic and management systems (see Child, 1994). In order to understand the transformation of Chinese management systems, we need to highlight the differences between the pre-reform period and the reform period.

Pre-reform period (1949–1979)

The development of the Chinese system during the pre-reform period was covered under the so-called 'Socialist Superiority' values in the following significant ways: (1) employment security, seniority, social welfare, and party/management leadership (central control) were labelled the 'advantages' of the 'socialist system'; (2) trade unions mainly played a 'window- dressing' role but this was explained away as leading to 'industrial harmony'; (3) narrow wage differentials were praised as 'egalitarian'; (4) life-time employment with a seniority-based wage system was introduced; (5) the traditional kinship system was modified into a 'revolutionary' relationship, as relationships (*guanxi*) with powerful leaders determined the path of an individual career; (6) the goals of the work-unit (*danwei*) required individual sacrifice not only for the unit but also for the nation; (7) political interests replaced economic interests as dominating influences in the Industrial Relations system; (8) as a consequence, workers lost their motivation for production and both the economic system and management systems collapsed at the end of the Cultural Revolution in 1976.

The reform period (1979–now)

In the reform period, the main task was reforming the IR system and transforming it into a new one embodying employment relations and HRM. New policies were mainly centred on the reform of wages, employment, welfare and management. The reforming initiatives of the government have been broadly defined as breaking the 'three irons': 'iron rice-bowl' refers to life-time employment, 'iron wages' refers to the fixed wage system, and 'iron chair' refers to the inflexibility of the position of cadre and manager. In contrast, more flexible systems such as labour contract systems, floating wage systems, and cadre and manager engagement systems were established (Yuan, 1990).

Under Deng Xiao-ping's new ideological position, policy shifted to restore the principle of 'distribution according to work' and to link individual performance, skills and position with income in order to generate motivation for greater production (Zhu and Campbell, 1996). New types of wage systems were introduced such as the 'piece (-work) wage system', 'bonus system' and later 'structural wage system', 'floating wage system' (Li, 1992) and 'post plus skills wage system' (Warner, 1997). This new wage policy was designed to break one of the three irons – 'iron wages'. This step was important because the economic reform process called for greater efficiency in factor allocation, with labour flexibility a priority.

Allowing variations in rewards based on productivity was part and parcel of this reform. Moreover, labour was to be encouraged to move from less productive firms to more efficient ones. Immobility of labour had been a feature of the old system dominated by the SOEs, where there was overmanning and zero turnover of workers. The new initiative was to create a labour market and encourage labour mobility. Creating an effective labour market was therefore high on the reformers' agenda. However, improvements in labour mobility were not to take place overnight. Even by the late 1990s, the level of job mobility was relatively low in many SOEs although it was rising in the non-state sector, for example joint ventures (JVs) especially in large cities like Shanghai.

Managing human resources

With the reforms of the employment system, a new terminology of human resource management came to China in the middle of the 1980s (see Child, 1994; Warner, 1995, 1999). Initially, HRM as an academic concept was introduced by joint teaching arrangements between Chinese and foreign universities as well as in management practice in foreign-owned enterprises, mainly from Japan, the US and Europe (Warner, 1995). The translation of HRM into Chinese is *renli ziyuan guanli* (with the same Chinese characters as in Japanese) which means 'labour force resources management'. But in fact, some people now use it misleadingly as a synonym for 'Personnel Management' (*renshi guanli)* and indeed treat it as such (Warner, 1997). This form of older personnel management practice is still very common in SOEs and a fair degree of conservatism continues to pervade the administration of personnel in such enterprises. Certainly, it is still very far from the initial concept of HRM as understood in the international community (Poole, 1997).

In parallel, attempts were made to import 'enterprise culture', a 'code-word' for adopting and adapting the Japanese model (Chan, 1995). This is normally found in firms entering JV arrangements with Japanese multinational companies or where the Japanese have set up wholly owned firms on site. Some aspects of the Japanese management system such as the quality control circles (QCC)

TABLE 8.1

Employment systems in Chinese enterprises

OLD	NEW
Plan	Market
Cadres	Managers
SOEs and COEs	Diverse owners
Life-time employment	Labour contracts
Personnel management	Adapted-HRM
Flat reward structure	Performance-based wages
Zero labour turnover	Greater job mobility
Few dismissals	Labour discipline
Free medical care	Contributory insurance
Subsidised housing	Market rentals or sales
All-China Federation of Trade Unions presence	Often no union or Congress
Top-down IR	Tripartism

and total quality control (TQC) have been practised in both local and foreign companies. However, the system is adapted to local laws and practices.

The term HRM is in fact mostly *de rigueur* in the more prominent Sino-foreign JVs, particularly the larger ones. However, even in these types of firms, management seems to be more inward-looking, with a focus on issues like wages, welfare and promotion as found in the conventional personnel arrangements rather than strategic ones like long-term development normally associated with HRM (see Table 8.1). Clearly, at this time, there is no homogeneous model of HRM in Chinese enterprises. Individual enterprises are reforming their HRM systems differently on the basis of their existing conditions and the impact of economic reform.

Vietnam

Vietnamese society has experienced many changes, from the early years of Chinese political and cultural influence (111 BC – AD 939) through French colonisation, Japanese invasion, and American occupation, to later communist rule and independence, and more recently economic reform and engagement in the global economy. There are marks in Vietnamese society of all these historical influences.

Fundamentally, the traditional thinking in Vietnam was influenced by ancient Chinese philosophies, predominantly by Confucianism. Confucianism came to Vietnam after 111 BC when the Chinese emperor colonised Vietnam and brought important technology, including water buffalo, the plough, pig rearing, market gardening, printing, minting of coins, silkworm breeding, porcelain manufacture and international trade to Vietnam. In addition, Chinese models of bureaucracy, judicial systems and education systems were implemented in Vietnamese society. Even the written language was based on the Chinese characters. This fundamental influence still exists in contemporary Vietnamese society.

After World War II, Vietnam was divided into North and South, until unification in 1975. For many years, Vietnam has been the focal point of the struggle for and against colonialism, of the ideological war between capitalism and socialism and, more recently, of the conflict between different approaches to economic reforms. In Vietnam certain cultural and socio-economic differences between North and South pre-date the formal separation of the two regions in 1954 (Beresford, 1989). However, the socialist central planning system based on neo-Stalinist doctrine dominated the country from 1954 in the North and since 1975 in the South. The development of heavy industry was the state's first economic priority. State-owned enterprises and collective-owned enterprises (COEs) were the only sectors permitted to operate in this economic system. Their activities were heavily subsidised and all prices were fixed by the state.

Vietnam took its first steps towards economic reform in 1986, marked by the Sixth National Congress of the Vietnamese Communist Party's resolution of '*doi moi*', namely economic renovation (Perkins, 1993; Ljunggren, 1993). Under the *doi moi* policy, the government wanted to promote economic development by introducing a market-oriented economic system with enterprise autonomy and by opening the economy for international trade and investment (Chan and Norlund, 1999; Zhu and Fahey, 2000). Among the reform's initiatives, changing the employment relations system is the critical point at which economic imperatives spill over into social and political considerations.

Pre-reform period (1975–1986)

Under the pre-reform system, SOEs were integrated into a system of mandatory state planning. Enterprise inputs, including labour, were assigned by government plan. Enterprises did not necessarily acquire labour with the right skills set and were invariably overstaffed because the labour administration arranged employees for individual firms (Doanh and Tran, 1998). In addition, enterprises had few ways to motivate or discipline employees. The reward system had only an indirect relation to enterprise efficiency and individual labour effort. It was based on a narrowly defined egalitarianism as well as the tendency to reward labour on the grounds of seniority and contribution to the party as well as to the war effort in the past. In the area of personnel management, it had a rigid function in the areas of allocating jobs and managing personnel files. Due to the absence of a well-developed external labour market, pre-reform personnel management was inward-looking, with the focus on issues such as distribution of wages, provision of welfare and routine promotion of workers and cadres from lower ranks to higher ranks according to regulations.

Reform period (1986–now)

In the early stages of *doi moi* (1986–1991), reform of the SOEs was intensified owing to the loss of financial assistance from the former Soviet Union (Zhu and Fahey, 1999). In addition, diversity in ownership of enterprises emerged. Not only have the traditional SOEs been transformed into new ventures, such as group companies or Joint Stock Companies (JSCs), but other private ownership enterprises have also been developed, such as domestic private enterprises (DPEs) and foreign-owned enterprises (FOEs) (Zhu, 2002). In order to create a more flexible employment relations system, the government relinquished its control over the recruitment and employment of workers. Individual firms gained the autonomy to decide on the number of workers hired, the terms of employment and the discharge of employees.

There has been a relatively slow pace in the transforming of life-time employment into a new contract-employment system, with the predominance of fixed-term contract employment since the new system was initially introduced in 1987. By the mid-1990s, for example, 2.7 million workers were still working under the old system (Norlund, 1993). At present, there are three types of contracts covering different type of employees: the unlimited-term contract for employees who joined the work unit before the introduction of the new system; the fixed-term contract with a duration of one to three years for employees who joined the work unit after the introduction of the new system; and the temporary contract with a duration of less than one year for casual workers or seasonal workers (Zhu, 2002). However, due to the economic difficulties in a large number of SOEs, many so-called ‘permanent employees’ who are under unlimited-term contracts can be retrenched due to further restructuring of SOEs in recent years. So an unlimited-term contract does not mean any security at all.

Another major change in the area of employment relations is the transformation of wage systems. The central task is transforming the old egalitarian system in which levels of wages were based on length of service to the new system in which levels of wages link more closely with company and individual performance in terms of profit, productivity, responsibility and skills. The employee receives a basic wage and additional benefits accrue from several forms of bonuses. Some companies can afford to pay cash bonuses from profit sharing whereas other enterprises may pay wages in kind, from part of the company’s production, such as clothes that cannot be sold (Zhu and Fahey, 1999).

The third issue of reforming employment relations is changing the welfare system into a social insurance system (Norlund, 1993). The old ‘cradle to grave’ type of welfare system (even it covered only the minority of the labour force who were working in the public sector) is considered a financial burden for enterprises. Thus individual firms seek ways to minimise welfare costs. In order to speed up the reform process and reduce the burden of SOEs, the government issued a new policy introducing a social insurance system to replace the old welfare system. According to the government regulation (Decision No. 12/CP, 26/1/1995), firms have to contribute social insurance and health insurance for their workers. Social insurance comprises 20% of total wages, to which firms contribute 15% and individual employees contribute 5%. Social insurance would cover unemployment benefits, retirement benefits, sickness benefit, maternity allowance and accident allowance as well as compensation for death. In addition, health insurance comprises 3% of total wages which firms have to pay entirely. At the present, not only do the majority of SOEs set up this insurance system, but a large number of foreign-owned and domestic private enterprises follow the government regulations to set up these insurance funds.

The fourth issue of reforming employment relations is in the area of management–labour relations. Certainly, the central aim of economic reform is increasing the autonomy of enterprise management. The results are varied, but it seems that managers have enjoyed an increase in power. In addition, informal bargaining remains important to the success of the enterprise and this proceeds most smoothly through personal connections. Though economic reform is premised on a reduction of party influence in the enterprise, political networks form a readily accessible structure for informal bargaining and personal connections, which lead to problems ranging from unpredictability to corruption (Zhu and Fahey, 2000).

Trade unions have constituted one element – though a distinctly subordinate element – in the power relations within the enterprise. The official trade union movement, the Vietnam Federation of Trade Unions (VFTU), enjoys a strong position because of its high level of membership (3 million in 1995) amongst the workforce of urban industrial regions (Zhu and Fahey, 1999). However, the major challenge that faces the trade union movement is one of credibility in its representation of labour, especially if the union is to depend on the voluntary contributions of workers for financial support. The official unions are under pressure to change.

Managing human resources

In recent years, many Vietnamese enterprises have developed more flexible work relations. However, there is a mixed pattern of HRM in Vietnamese enterprises. The influences of cultural traditions as well as political, economic and historical factors are reflected in several dimensions, such as adherence to rules, common values and norms, less individual-oriented pay, and harmony. Even FOEs adopt certain localised strategies in order to fit into the social/cultural environment (Zhu, 2002).

A recent survey by one of the authors shows that the realisation of flexibility and competitiveness of enterprises depends on the type of employment relations established and practised by the management (Zhu, 2002). There is a mixture of control and nurturing in management practices. Most senior management did demonstrate a more transformational leadership, and the middle management and the HR manager demonstrated the more transactional approach. In addition, more firms emphasised personnel procedures and rules as the basis of good managerial practice. This indicates that compliance with rules is more important, suggesting that the aim is to encourage employee commitment. Generally speaking, the position of the HR manager was not a specialised one and in most of the firms was filled by line managers. The HR managers had little involvement in their firm's strategic planning. In fact, the HR task was more operational (wage, social welfare calculations) than strategic. This is clearly a traditional role of the so-called 'personnel manager'.

A paternalist management pattern still has certain influence. However, in the post-reform era this attitude has gradually changed, especially among younger employees. The fixed-term contract employment system has largely contributed to this change. Except for people who have worked for SOEs for a long time and have attained a high position in the enterprise, most workers have no problem in changing their place of work for purely economic reasons. The philosophy of collectivism is still found in Vietnamese organisations in terms of their group-oriented approach. Group-based activities including teamwork and decision-making, quality control and incentives are common managerial practices. In the Vietnamese organisation, leadership and decision-making are team-based. Another group-based activity relates to the incentive scheme, a collective orientation, which is still fundamental for bonus payments (Zhu, 2002).

Summary of socialist market economies

Comparing China and Vietnam, both similarities and differences emerge: both countries adopt the so-called 'socialist market economy' to replace the traditional planning system, and both countries are pushing for micro-economic efficiency, flexibility and competitiveness. The trend of reforming SOEs and the influence of foreign capital in terms of creating jobs and introducing new technology and management systems is profound in both countries. In the area of HRM, however, the changes in China seem to be more radical: the implementation of regulations and policies on labour contracts, recruitment, dismissals, wages and welfare has resulted in individual contracts, freedom in personnel selection, and individual performance pay (Benson and Zhu, 1999: 71). The liberalisation of the economy and the introduction of foreign investment in China have created the opportunity for both FOEs and local firms to adopt some of the best HR practices. In contrast, in Vietnam, change in local firms is rather slow and FOEs adopt more local work practices in such areas as employment contracts and compensation.

5 CONCLUSION

East Asia has seen a surge of economic growth since the 1960s. Its cultural background has undoubtedly played a significant role in this process. There is a core value-system based on the combined characteristics of Confucianism, Daoism and War Strategies which still has a strong influence on Asian HRM, although clearly exceptions also apply.

We have also seen that the management of human resources in the Asian economies we have selected shows both similarities and differences. While Japan and Taiwan have relied on the 'market', albeit backed up by robust state support, China and Vietnam have only recently emerged from the strait-jacket of the 'command economy'. And while they all shared a similar employment model relating to collectivism, harmony, hierarchy and paternalistic management, they differed in the detail of actual practice.

Today, they all have greater labour-market flexibility but this may vary between the economies with stronger state support and those with less. In China, the 'iron rice bowl' system is being phased out entirely as it enters an era of greater openness in its product and factor markets, with its entry into the World Trade Organisation. The Japanese life-time employment model is now also under severe pressure. More performance-driven rewards systems are adopted by the family-owned businesses in Taiwan and other overseas Chinese economies in the South-East Asian region and they are becoming more commonplace in even the nominally socialist societies such as China and Vietnam. Social security has also been weakened and is now dependent on individual workers' contributions added to by the employers.

While we cannot propose a full degree of convergence either between the two sets of countries in this chapter or other countries in this book (see Chapters 7 and 9), we can accept that there will be a degree of 'relative convergence' (see Warner, 2002). The trends towards globalisation can only strengthen these tendencies towards greater similarities in Industrial Relations and HRM policies and practices over the coming decades, although we can expect that each country's apparent distinctiveness will remain visible.

6 DISCUSSION QUESTIONS

1 What are the underlying traditional philosophies that may be responsible for the development of some modern HRM concepts in East Asia?

2 What are the driving forces for the current transformation of HRM in East Asia?

3 How relevant are Western-style HRM policies and practices to East Asia?

4 What are the future trends of HRM in East Asia under the process of globalisation?

7 FURTHER READING

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A comprehensive view of HRM in East Asia.

- **Bamber, G. et al. (eds) (2000), *Employment Relations in the Asia-Pacific: Changing Approaches*. London: Business Press Thomson learning.**

Useful comparative studies and overall changes on IR and HRM in East Asia.

- **Whiteley, A., Cheung, S. and Zhang, S.Q. (2000), *Human Resource Strategies in China*. Singapore: World Scientific.**

Offers a comprehensive understanding of cultural differences between 'East' and 'West' and in particular the case of China.

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9 HRM in Developing Countries

Terence Jackson

CHAPTER CONTENTS

1 INTRODUCTION

Countries that have been termed 'developing' comprise some 80% of the globe. However, such countries have suffered from a negative image and under-exposure in the mainstream management literature. Punnett (in press) points to the difficulties and sensitivities of defining what is, and what is not, a developing country. The term 'developed' country is used (for example by the United States Council for International Business) to distinguish industrialized countries, normally the 24 OECD members from developing countries or LDCs (less developed countries). The term 'developing' is used (for example by the United Nations) to describe a broad range of countries which include those with both high and low per capita national incomes, which are heavily dependent on primary production and normally lack an advanced industrialized infrastructure, including education, health, communications and transport facilities (Punnett, in press).

So within these definitions could be included all countries in the continent of Africa, in Latin America, South Asia, many parts of South East Asia and Polynesia, and Central Asia including many of the former Soviet republics. One could also stretch the point to include some of the transitional economies of the former Soviet bloc in East and Central Europe, the newly industrialized countries of East Asia, and much of the Middle East. China also is often included in this category. It is difficult to provide a comprehensive account of issues relating to HRM in all these countries in a short chapter. The main focus here is on sub-Saharan Africa as an illustration of some of the specific issues that need to be addressed, and these can equally be applied to many of the other regions and countries that can be grouped under the somewhat pejorative term 'developing'.

The objectives of this chapter are to:

- review current perceptions of the management of people in the so-called developing countries within the literature;
- challenge the concept of human resource management as it is perceived and applied in such countries;
- develop an understanding of management of people in such countries by focusing on both historical and current international power relations, and on the cross-cultural nature of human interactions in organizations in developing countries; and,
- suggest a more constructive approach to managing people in such countries that takes into account the complexity of stakeholder interests and aspirations.

This is undertaken first by looking in Section 2 at the particular issues involved in discussing HRM in developing countries, including the problems of adopting the developing–developed world paradigm and the need to understand this in the context of cross-cultural theory. Section 3 then reviews the current literature, which tends to focus on a post-colonial inheritance. The need to challenge the concept of HRM in the context of developing countries is subsequently considered in Section 4. The processes of cultural crossvergence and hybridization need to be understood within this context, and this is the focus of Section 5. From this discussion, Section 6 then makes recommendations about how more appropriate approaches to 'people management' may be developed within 'emerging' countries, using terms that may address the concerns and sensitivities discussed within the chapter. Section 7 concludes this chapter.

2 ISSUES IN DISCUSSING HRM IN DEVELOPING COUNTRIES

In achieving the objectives of this chapter there are three main difficulties. The first is in finding a suitable alternative term for 'developing' country that breaks out of the accepted *developing–developed* world paradigm. This paradigm is readily adopted and employed in the few texts currently available on management in developing countries (e.g. Jaeger and Kanungo, 1990). The paradigm projects a view that 'developing' countries should become more like the 'developed' countries: the United States and Western Europe in particular. The aim of *development* then becomes to make the developing countries more like the developed countries. This includes introducing 'modern' management methods, in order to manage staff more efficiently. This definitional problem will be addressed in more detail later. The second difficulty is to find an alternative term for *human resource management* which, as we explain later, enables us to break out of an *instrumental* view of people in organizations, which sees human beings as a means to an end. Again, we will say more about this later. The third (which is connected to the first two) is to overcome the inadequacies of current cross-cultural theory in understanding the management of people in 'developing' countries. Cross-cultural understanding and analysis is required at at least three different levels (see Figure 9.1).

Inter-continental level. Interactions take place across continents with Western powers, both historically as former colonial countries, and through the activities of modern multinational companies, and as a result of the predominance of Western education. These interactions were dominated economically, militarily and often ideologically by the colonial power (Reader, 1998). Today they are dominated economically through interactions with both multinational companies and multilateral agencies, particularly the World Bank and the IMF, and bilateral agencies of Western governments (Barratt Brown, 1995). The predominance of Western education ensures an ideological disparaging of indigenous thought systems. Again, there is tremendous potential to develop effective hybrid systems of management with admixtures of Western and indigenous thought systems and practices. This is being undertaken in India, for example by the Human Resource Development (HRD) systems being developed in Indian companies (Rao, 1996).

Cross-border level. Emerging trading blocs among countries such as Southern African Development Community (SADC) in Southern Africa are encouraging interaction among countries, rather than between the developing country and its former colonial master (Mulat, 1998). For example, colonial

FIGURE 9.1

LEVELS OF ANALYSIS	Past	Present	Future
Inter-continental	Colonial/Indigenous	Post-colonial/ Western/Indigenous	Future hybrid systems
Power dynamic	Economic, military and ideological	Economic, contractual and ideological	Contractual and obligatory
Cross-border	Restricted cross-national	Increased intra-regional	Increased intra-continental
Power dynamic	Political and military	Political and economic	Economic and cooperative
Inter-ethnic	Colonial 'divide and rule'	Political/power relations	Increased synergies
Power dynamic	Political and military	Political, economic and sometimes military	Multiculturalism

Cross-cultural dynamics in post-colonial/neo-colonial societies

powers severely restricted communications among African countries and their neighbours. Transport infrastructure reflected this in roads and railways being built to link seaports with mineral sources, rather than to link a country with its neighbour. Trade was restricted to include only that between colony and colonial power. Trading blocs are now encouraging more interaction, although often the legacy of colonial transport infrastructure restricts this. The need to work with managers and trading partners among post-colonial countries introduces another level of cross-cultural interaction.

Inter-ethnic level Many of the countries of interest are multi-ethnic, often by virtue of the fact that successive colonial powers have artificially divided up continents, ignoring indigenous identities. South Africa has 11 official languages, while India has 18. Cameroon, an African country that was successively ruled by Germany and then partitioned and jointly administered by France and Britain, has over 250 language groups, as well as the two official languages of French and English. 'Divide and rule' was a common political strategy for colonial rulers, and resentments thus created have often extended into the inter-ethnic tensions witnessed today. Yet in organizations in post-colonial countries there is great potential to create synergies from multiculturalism.

Extant grand theories of cross-cultural management (e.g. Hofstede, 1980; Schwartz, 1994; Smith et al., 1996) are inadequate in dealing with these different levels of analysis (see Figure 9.1) where boundaries are often blurred and where cultural 'groups' are difficult to define. Also, such theories do not directly address the dynamics of cross-cultural interaction (Cray and Mallory, 1998) within a complexity of power relationships (Human, 1996), and within a process of cultural crossvergence that gives rise to myriad hybrid forms of management and organization. Figure 9.1 summarizes the factors, discussed above, that need to be understood within the cross-cultural process of hybridization of management systems in 'developing' countries. It is necessary to understand these processes, and in so doing redefine human resource management in the context of developing countries. To do this it is first necessary to look at the post-colonial factors in people management that predominate in the literature.

3 CURRENT PERCEPTIONS OF HRM IN DEVELOPING COUNTRIES: THE COLONIAL LEGACY

Descriptions of management in 'developing' countries, informed by the developed–developing world dichotomy, contrast 'Western' management styles involving teamwork, empowerment and participation with the centralized, bureaucratic, authoritarian styles found in 'developing' countries (e.g. Jaeger and Kanungo, 1990; Blunt and Jones, 1992). However these are mostly representative of a colonial heritage, reflecting a theory X style of management (McGregor, 1960) which generally mistrusts human nature and has a need to impose controls on workers, allowing little worker initiative and rewarding a narrow set of skills simply by financial means. This system has been 'tacked on' to the society originally by the colonial power (for example in Africa: Carlsson, 1998, and Dia, 1996), and has been perpetuated after independence, perhaps as a result of vested political and economic interests, or purely because this was the way managers in the colonial era were trained. Yet as can be seen in Table 9.1, the post-colonial systems that predominate in the literature provide a one-sided view of the different admixtures of systems that may influence the management of people in organizations operating within developing countries. We now briefly review this in relation to the management of people. The alternative systems are discussed in subsequent sections of this chapter, within a consideration of cultural crossvergence of systems.

Post-colonial management systems

As can be seen in Table 9.1, the main characteristics of organizations in developing countries are perceived as:

TABLE 9.1

Influences on people management systems is developing countries

	Post-colonial	Post-instrumental	Humanistic
Main principles	• Theory X • Western/post-independence African • Instrumental	• Theory Y • Western/'modern' • Functionalist	• Humanistic • Ubuntu • Community collectivism
Importance	• Continuing legacy through political and economic interests	• Looked to as alternative • Influence from multinationals, management education and consultants	• Some elements may prevail in indigenous organizations, in African *Ubuntu* and Indian HRD • Of growing interest internationally
Strategy	• Inputs and process orientation • Lack of results and objectives • Risk aversive	• Results and market oriented • Clear objectives • Calculated risk taking	• Stakeholder orientation
Governance and decision making	• Hierarchical • Centralized • Authoritarian • Non-consultative • Rule bound • Lack of flexibility • Outside influence or control (family, government) often seen as negative	• Flatter hierarchy • Often decentralized • Often consultative • Increasing emphasis on 'empowerment' • Clear rules of action • Flexible • Outside government influence decreasing	• Flatter hierarchy • Decentralized and closer to stakeholders • Participative, consensus seeking (*indaba*) • Benign rules of action • Outside influence (government, family) may be seen as more benign
Character	• May not act ethically towards stakeholders • Not very efficient • Static • Probably not foreign owned	• More ethically responsible • Aims to be successful • Change is a feature • Probably foreign owned	• Stakeholder interest may be more important than 'ethics' • Success related to development and wellbeing of its people • Indigenous

(Continued)

TABLE 9.1

(Continued)

	Post-colonial	Post-instrumental	Humanistic
Internal policies	• Discriminatory • Employee policies aimed at duties rather than rights	• Non-discriminatory • Access to equal opportunities and clear employee policies on responsibilities and rights	• Stakeholder interests • Access to equal opportunities
Organizational climate and employee commitment	• Employee alienation common • Weak trade unions • Inter-ethnic friction • Discourages diversity of opinions • Promotion by ascription	• Emphasis on employee motivation • Weak or co-operative unions • Move towards inter-ethnic harmony • Diverse opinions often encouraged • Promotion based on achievement	• Motivation through participation important • Unions protect rights • Inter-ethnic harmony taken into consideration • Everyone should be able to state their opinions • Promotion based on legitimization of status
Management expertise	• Educated management elite with low managerial expertise	• High, results oriented managerial expertise is aimed for	• Management expertise based on people orientation
Management motivators	• Economic security • Control	• Managing uncertainty • Self-enhancement • Autonomy • Independence • Achievement	• Belonging • Development of person and group
Management commitment	• To business objectives • To relatives • To organization	• To self • To results • To ethical principles • To work	• To group • To people

(Continued)

TABLE 9.1

(Continued)

	Post-colonial	Post-instrumental	Humanistic
Management principles	• External locus of control • Deontology • Theory X • Mistrust of human nature • Status orientation	• Internal locus of control • Teleology • Theory Y • Conditional trust of human nature • Achievement orientation	• Internal and external locus of control • Trust of human nature • Status and achievement orientation
Management practices	• Reliance on hierarchy • Use of rank • Low egalitarianism • Lack of open communication • Lack of open information	• Some participation • Mostly communicating openly • Providing open information when necessary • Confrontational	• Participation • Egalitarianism • Communicating openly • Providing open communication

People management practices	• Administrative personnel procedures	• 'Modern' HRM practices relating to individual competency approaches and involving the introduction of:
		  • performance management systems including appraisal systems;
		  • participation at tactical/ implementation level
		  • limited anti-discrimination policies
			• Holistic approaches to developing the person within the context of the group
			• Reconciling work life with community/home life
			• Participation and empowerment at strategic levels, and including a wider stakeholder base
			• Management of diversity and difference

People orientation	• Control orientation	• People and results orientation	• People and stakeholder orientation

***Source*: adapted from Jackson, 2002a**

- *top-down management* with authoritarian and paternalistic decision styles with centralized control and decision-making (Kiggundu, 1989; Blunt and Jones, 1997). Associated with this is
- *a heavy bureaucracy* with an emphasis on control mechanisms, rules and procedures rather than performance, with a high level of conservatism and risk aversion, and the lack of a clear mission statement or sense of direction in organizations. A reluctance to judge performance makes appraisal systems problematic (Kiggundu, 1989; Blunt and Jones, 1992, 1997). This may be associated with
- *an emphasis on inputs* through increasing expenditure on health, education and housing after independence in, for example African states, to the exclusion of outputs such as quantity, quality, service and client satisfaction (Blunt and Jones, 1992). Best use is not being made of inputs or the supply to organizations (generated by improvement in education and training) through capacity utilization within organizations (Dia, 1996). This, together with a bureaucratic focus may lead to
- *inefficiencies*, including lack of clear objectives, over-staffing, lack of job descriptions and job evaluation, lack of incentives, as well as to political interference, poor infrastructure and lack of systems (Balogun, 1986; Kiggundu, 1988; Joergensen, 1990). In addition,
- *internal policies may be discriminatory* as a result of preferences given to in-group or family members (this is well documented in the collectivism–individualism literature, e.g. Triandis, 1990). This may lead to decisions (such as promotion and appointments) based on relationships rather than the application of universal rules. All these factors may lead to
- *employee alienation*. Under-staffing, poor motivation, risk aversion and unwillingness to take independent action; close supervision of subordinates with little delegation; operations that are often inefficient and high cost with low productivity, over-staffing, under-utilization, poor pay and poor morale indicated by high turnover and absenteeism (Kiggundu, 1989; Jackson and Bak, 1998, in China). Because of the general under-development of the economy and the tenuous status of many jobs, unions are likely to be weak and often subjugated to wider political interests (Fashoyin and Matanmi, 1996). This may also be associated with
- *lack of management skills* Kiggundu (1989). Although top managers are typically learned, articulate and well travelled, at middle management levels there are weak systems and controls, inadequate managerial skills and a lack of industrial knowledge. This is reflected in the generally low levels of managerial expertise. This, together with the control-orientation of organization may encourage
- *management motivated by control rather than results*. While little research has been undertaken on management motivation, those few studies

undertaken in Africa do seem to support this supposition (Blunt and Jones, 1992, report one study in Kenya by Blunt in 1976 and one undertaken in Malawi by Jones in 1986). Management commitment may ignore means in favour of ends, although not reflecting an achievement orientation (Montgomery, 1987). This may reflect an ethical disregard for wider stakeholders, and a pursuit of corporate objectives as they dovetail with their own objectives. Kiggundu (1989) underlines the political nature of this agenda; and de Sardan (1999) argues that corruption is embedded in the logics of such practices as negotiation and gift giving in Africa. In addition,

- *management principles reflect an external locus of control* where events are considered as not within the individual's control, where creative potential is regarded as being limited, and people are generally fixed in their ways and not malleable or changeable (Kanungo and Jaeger, 1990). This may well reflect also a mistrust of human nature, and a belief in the undisciplined attitudes of workers to industrial life (for example in Nigeria: Abudu, 1986). Decisions are focused on the past and present rather than the future (Montgomery, 1987; Kanungo and Jaeger, 1990) and therefore may be deontological in nature rather than teleological. Action is focused on the short term, and success orientation may be moralistic rather than pragmatic as a result. This may reflect a passive-reactive orientation (Kanungo and Jaeger, 1990). These principles then may lead to
- *authoritarian management practices* with reliance on the hierarchy, use of rank, low egalitarianism, and a lack of openness in communication and information giving (Montgomery, 1987; Blunt and Jones, 1992, 1997), with the main management orientations within post-colonial management systems towards managing internal processes and managing power relations. This results from and is related to the top-down management identified earlier.

Post-colonial personnel administration

The way these aspects relate to personnel practices in developing countries is through an administrative emphasis on control. HRM systems (at least in the Western sense) are likely to be underdeveloped. These aspects are compared in Table 9.1 with other systems of people management operating within 'developing' countries. Western practices are often introduced in order that 'modern' HRM principles may challenge the predominant control and process focus of personnel administration in developing countries. Yet the suitability of those principles and practices summarized under 'post-instrumental' management systems in Table 9.1 should also be challenged within the context of 'developing' countries. It is to this that we now turn.

4 CHALLENGING THE CONCEPT OF HRM IN DEVELOPING COUNTRIES

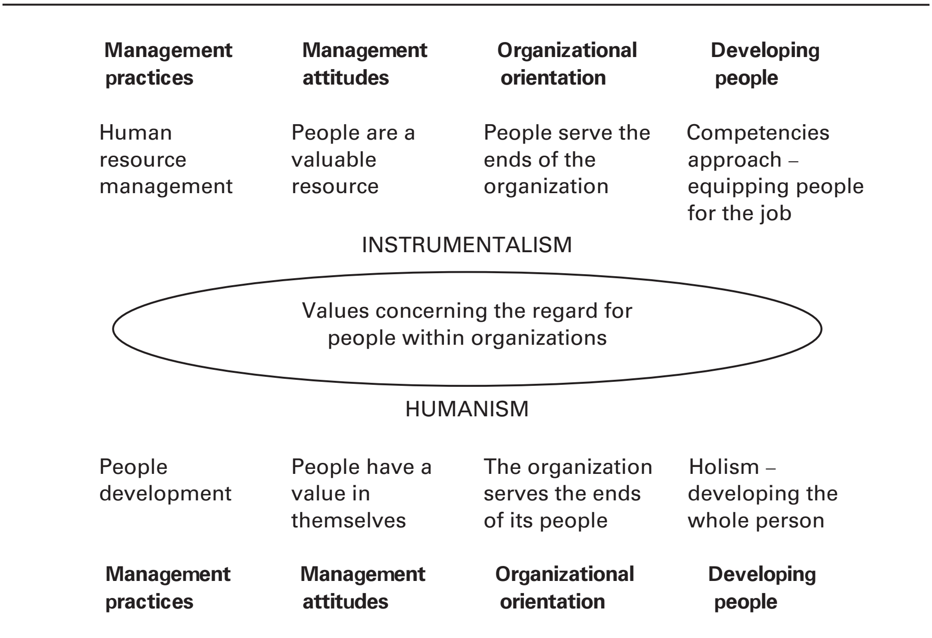
The perception of management in 'developing countries', created by the conceptualization presented above, is summarized under the heading 'post-colonial' in Table 9.1. The resulting profile is not useful when directly contrasted with management in the 'developed' world, however much it may reflect the realities of many organizations operating in Africa, India, and other post-colonial regions. Yet this is a perception that is often employed by Western multinational companies operating in developing countries, and is accepted by indigenous managers often through the influence of their own management education in Western-style programmes and institutions. This pejorative view – of an inefficiently bureaucratic, authoritarian and relationship-driven system – if accepted, leads to only one logical solution: the introduction of 'modern' management – a Western style, results-driven, customer focused, and 'participative' and accountable HRM.

Such a conclusion may not only affect organizations in the private sector in 'developing' countries, but also those in the public sector, state owned enterprises and those recently privatized enterprises which are in the process of refocusing as a result of downsizing and other major organizational change (in fact this prescription to introduce modern Western management is often a condition of World Bank/IMF led structural adjustment programmes in both the developing world and former Soviet bloc countries: e.g. Barratt Brown, 1995; Glenny, 1993). If one accepts the developing–developed world paradigm this is wholly appropriate, and represents the inevitable march towards 'modernization' or emulation of the successful 'developed' world.

However, in order to understand the pitfalls of this approach it is necessary to understand the cultural boundedness of the concept of human resource management by making a distinction between the two very different cultural perceptions of the value that is placed on a human being in different cultural settings: *instrumental* and *humanistic* (Figure 9.2).

The cultural perception of human beings as a resource used in the pursuit of shareholder value may be challenged by a perception of people as having a value in their own right (Jackson, 1999). Hence, a developmental approach towards people, as an integral part of the organization, and as a direction of its objectives, may be implicit within, for example, Japanese approaches to managing people (Allinson, 1993). There has been an increasing emphasis in Western literature on the stakeholder approach to managing organizations, and a hard instrumental approach has already been challenged in a limited

FIGURE 9.2



Instrumentalism and humanism in the management of people (Jackson, 1999)

way within the context and conceptual framework of Western human resource management (Legge, 1989, Ellig, 1997). Hence a distinction has been made in the strategic human resource management literature between the 'hard' perspective reflecting utilitarian instrumentalism which sees people in the organization as a mere resource towards achieving the ends of the organization, and the 'soft' developmental approach which sees people more as valued assets capable of development, worthy of trust, and providing input through participation and informed choice (Beer and Spector, 1985; Tyson and Fell, 1986; Hendry and Pettigrew, 1990; Storey, 1992; Vaughan, 1994).

Yet Tayeb (2000) quite rightly states that the concept of human resource management is itself a product of a particular Anglo-American culture. It is likely that the 'hard' and 'soft' approaches taken within Western organizations are both a reflection of an inherent cultural concept that perceives human beings in organizations as a means to an end (Blunt and Jones, 1997, use the term 'functionalism'). They are simply two poles of a continuum from high to low instrumentalism. Working within this conceptualization of people as a means to an end, it is likely that when Western managers, or managers educated in the Western tradition, try to implement 'Western' human resource practices in cultures which have a different concept of the value of people, then incompatibilities will be manifested through lack of involvement and motivation. A study by the current author (Jackson, 2002b), in seven countries found that the harder forms of instrumental HRM are being introduced uncritically in countries such as Russia and Poland, where there is a short-term focus on achieving results and developing organizations along Western lines. This may also be the case in the newly industrialized countries (NICs) such as Korea. Also these harder forms seem to fit well with traditionally more authoritarian management in organizations in post-Soviet and post-colonial countries.

'Humanism' can be defined as a regard for people as an end in themselves, and as having a value for themselves and of themselves within an organizational context. Hence the locus of value or worth of persons in a work organization is towards those persons in themselves rather than towards organizational objectives as appropriate ends (for conceptual roots see Jackson, 1999; Koopman, 1991; Lessem 1989; Saunders, 1998). This contrasts with 'instrumentalism' as a regard for people as a means to an end, where the focus of value or worth is towards the ends (objectives) of the organization (see also Jackson, 1999). This is the implicit perception of the value of people within both the hard and soft varieties of HRM discussed above.

By employing a concept of locus of human value (instrumentalism–humanism) we can start to explore the positives within the so-called developing countries, and look towards the contributions that can be made if this concept is understood and adopted in formulating people management policies and practices. From this perspective, the paradigm behind the term *developing* country is challenged, as is the assumption behind the use of the term *HRM* within different contexts outside predominantly Anglophone countries. As a generic term, the term p*eople management* can be adopted to overcome the culture-boundedness of the term 'human resource management'. This is a term increasingly favoured in South Africa, for example, but in the emerging hybrid concept and practice of Indian HRD, the term 'human resource' has been retained.

The term *developing* country is far more difficult to replace. 'Post-colonial' is perhaps too restricting. It is used in the present chapter to denote systems of management that are a legacy of colonial times. This term, as well as 'neo-colonialism' fails to acknowledge the evolving state of the country, yet provides appropriate descriptions of power relations past and present. Although the term 'emerging' has come into currency in connection with emerging markets (i.e. for Western countries), and is perhaps inadequate in conceptual terms, it appears to be a term that can be accepted by the 'emerging' country, as well as aid agencies and multinational companies alike. It also provides a note of optimism, as well as not providing a preconceived direction in emulating the 'developed' countries. Nor does it contrast directly 'emerging–emerged' countries. This is therefore the term that is made use of in the remainder of this chapter.

5 DEVELOPING AN UNDERSTANDING OF HRM IN EMERGING COUNTRIES: CROSSVERGENCE AND HYBRIDIZATION

The consequences of introducing Western-style HRM practices in emerging countries appear to be a narrow focus on participatory management that concentrates on the tactical implementation of strategy decided by top (and sometimes foreign) management. It is therefore not inclusive of a wider stakeholder base, including community, government and trade unions and other employee representation. It also does not give better access to decision processes within the organization to those who have been discriminated against: e.g. non-dominant ethnic or gender groups. There is an individual basis for performance management systems, rewarding the individual's initiative and underemphasizing the importance of the group, that may not be appropriate. It provides a contractual basis for employing people, which makes a distinction between the world of work and home/community life; and alienates home culture from work culture. By ignoring the cross-cultural aspects of operating in an emerging country, Western-style approaches tend to ignore the cultural content of Western principles and practices, and the frequently inappropriate application in a different cultural context.

As mentioned above, the characteristics of humanistic people management systems in emerging countries remain by and large an ideal, and generally do not deal with relations of power and hegemony of other management systems, tending to assume that the clock can somehow be turned back to pre-colonial times. In order to make sense of the different influences (actual and potential) on people management systems within the complex multicultural context, the process of hybridization, and its implications, must be understood.

A view of African indigenous value systems in the context of people management

Characteristics of African values and social systems that may influence the development of humanistic people management principles are provided by Binet (1970) on African economic psychology. Dia (1996) provides a brief account of this work. This can be supplemented and supported by popular African management texts (Boon, 1996; Mbigi and Maree, 1995; Mbigi, 1997), as well as academic anthropological work (e.g. Gelfand, 1973, on Shona systems in Zimbabwe) to suggest the following cultural characteristics of African organizational life.

- *Sharing*. A need for security in the face of hardship has provided a commitment to help one another. However, it is likely that this value is not based on simple exchange, but on a network of social obligations based predominantly on kinship but also on community. More recently the concept of *ubuntu* has been prominent in the popular management literature, meaning that people are only people through other people. Mbigi (1997) for example suggests that collective trust is a large part of this value that should be developed in organizations before participation and empowerment initiatives can succeed. Certainly Gelfand (1973) suggests that trust (*ruvimbo*) is seen as an important virtue in Shona culture. Openness, sharing and welcome together form important components of *ubuntu* (Boon,1996).

- *Deference to rank*. Dia's (1996) assertion that this refers to power distance, particularly within the organizational context between employer and employee, may be too simplistic. Although traditional rulers gained their position through succession (ascription), they had to earn the respect of their followers, and rule by consensus. Political decision-making was achieved through obtaining consensus, and through a system of checks and balances against autocratic rule. People were free to express opinions and to dissent (Mbigi, 1997). At the same time taking one's proper place in the social scale (*kuzvipeta* in Shona) is an important aspect of the virtue of humility (*kuzvidukupisa*), and refers not only to deference to rank and seniority, but also to the senior person showing humility towards the younger person, and to the educated person not looking down on those less educated (Gelfand, 1973).
- *Sanctity of commitment*. Commitment and mutual obligation stems from group pressures to meet one's promises and to conform to social expectations. Social pressure can be brought to bear in order to ensure commitment.
- *Regard for compromise and consensus*. This certainly involves the maintenance of harmony within the social context, but also incorporates the deference to rank discussed above. Boon (1996) summarizes the main characteristics of traditional African leadership by saying that the chief personifies the unity of the tribe and must live the values of his community in an exemplary way; not being an autocrat the chief must rely on representatives of the people, councillors, to assist him and must be guided by consensus. Failure to do this would result in his people ignoring his decisions and law. The people are strongly represented and have a duty to attend court hearings, and all have a responsibility to each other collectively to ensure the laws are upheld. As a result of this collective responsibility everyone has a right to question in open court. The concept of openness is an important value and implies that no one should receive retribution for anything said correctly in an open forum. If this is a latter-day idealization of consensual authority, it was also a perception of early anthropological work in Southern Africa (Gluckman, 1956).
- *Good social and personal relations*. This stems from many of the aspects discussed above, particularly the commitment to social solidarity. Dia (1996) observes that the tensions of management–labour relations which have been a feature in African organizations may be attributed largely to a lack of a human dimension and to the adversarial attitudes of colonial (and apartheid) employment relations.

While the developing–developed world paradigm reflects the traditions of the convergence thesis (from Kerr, Dunlop, Harbison and Myers, 1960) which takes the view that cultures are moving together and (often tacitly) accepting the universality of American theory and methods in management in emerging countries, crossvergence theory looks at the different influences on the development of hybrid forms of management: a process that is very important in post-colonial countries.

Concepts of crossvergence have been operationalized and researched in other regions such as Hong Kong (Priem, Love and Shaffer, 2000). These studies indicate that rather than a tendency of convergence (the coming together of value systems) in regions and countries that have had high levels of influence from other cultures, there is a tendency to crossvergence (developing of hybrid values or management systems as a result of cultural interactions). The nature of change, and continued influences from different cultural sources in emerging countries may indicate the development of hybrid systems of various forms. Some of these may be highly adaptive and effective in managing cross-cultural dynamics, and in managing the different requirements of instrumental and humanistic perspectives. Some may be maladaptive. There is evidence from India (Rao, 1996) that hybrid 'human resource development' systems are being designed to manage the different Western (instrumental) and Indian (humanistic) orientations in organizations. Their applicability in other regions such as sub-Saharan Africa needs to be investigated, as well as good practice being developed in Africa (Cashbuild in South Africa may be an example: Koopman, 1991).

Indian HRD

Indian management practitioners and academics have developed a distinctive approach to Human Resource Development (HRD being a preferred term to that of HRM, and by way of distancing from Anglophone practices which emphasize the *resource* side of the equation: Sparrow and Budhwar, 1995). HRD approaches are increasingly playing a role in organizational responses to issues arising from liberalization. Accustomed to operating in protected markets, organizations are having to learn to manage combining the virtues of conflicting market models, rather than relying exclusively on a single set of pre-conditioned theoretically validated policies. HRD therefore addresses the need to arrest deteriorating values, building up organizational and cultural strengths, broadening the philosophy of tolerance and sacrifice and displaying deep concern for people (Rohmetra, 1998). HRD as a 'humanistic' concept and a subsuming norm that guides management approaches to its employees has come to assume a critical role in Indian management thought and practice. As a management philosophy, HRD involves a paradigm shift from the old approach of control to the new approach of involvement and self-development (Silvera, 1988) and would be more closely aligned with the 'soft' approach to HRM.

HRD is similar to the concept about the rights and duties of human beings, about which democratic constitutions the world over consider inalienable and inseparable from human nature, and has similarities to the United Nations Development Programme's concept of a nation's human development. HRD is therefore a humanistic concept that places a premium on the dignity and respect of people and is based on a belief in the limitless potential of human beings. It emphasizes that people should not be treated as mere cogs in the wheel of production, but with respect as human beings.

As a humanistic concept HRD proposes that human beings should be valued as human beings, independent of their contribution to corporate productivity or profit. The various underlying attitudes symbolizing respect for people's dignity, trust in their basic integrity and belief in their potential, should lead to the creation of an environment in companies in which individuals should find fulfilment in work and seek newer horizons for themselves and the enterprise (Rohmetra, 1998).

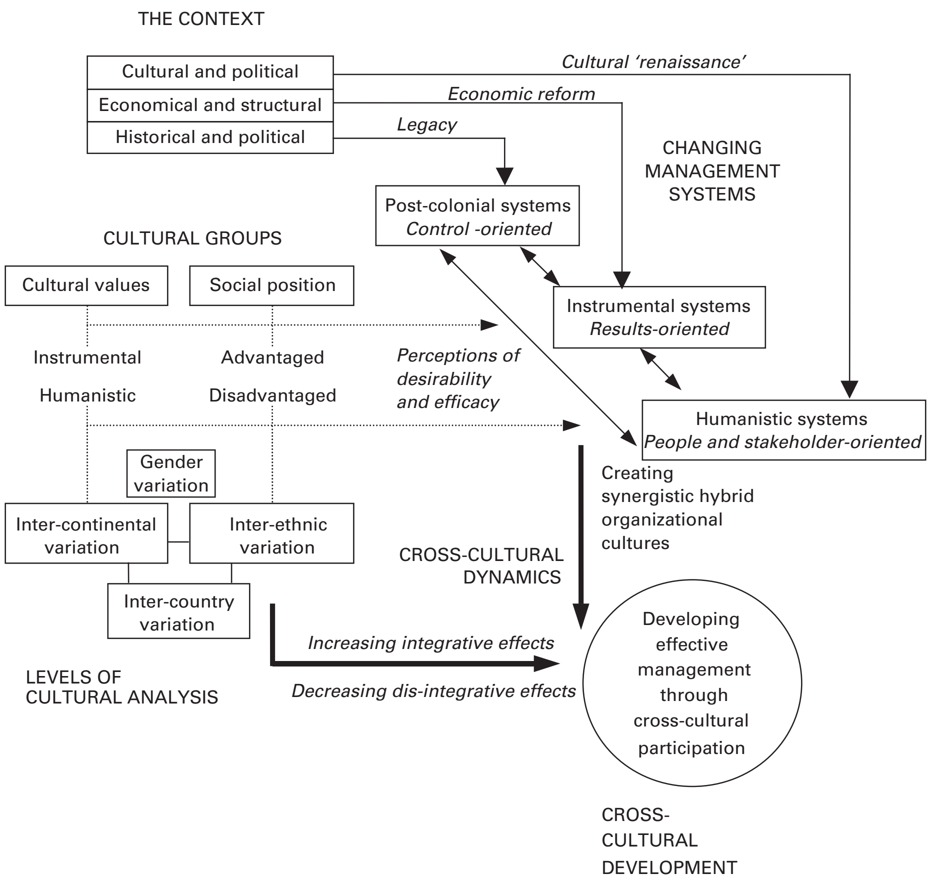
HRD practices in Indian companies attempt to blend Western and Eastern ideas and systems of people management. This concept of HRD attempts to be more comprehensive and meaningful than utilitarian concepts evolved in Anglophone countries. It has come to denote a planned way of developing and multiplying competencies, and the creation of an organizational climate that promotes the utilization and development of new competencies. Culture building is seen as a part of its agenda.

(From T. Jackson, *International HRM: A Cross-cultural Approach*, London: Sage, 2002a, Chapter 10, pp.)

The different influences and processes discussed above are summarized in Figure 9.3.

The dynamic created by introducing Western HRM systems is often unsuited to the social conditions prevailing in emerging countries and the need to develop huge numbers of people, from basic literacy programmes through to skilling and upskilling for a modern economy. In this context, Western HRM systems are driven by global competition and a need to develop competitive, mean and lean companies, companies driven by a liberalization process through structural adjustment programmes. Organizations, as a vehicle for providing this development, are not able to do this through a need to lay off staff and downsize. This creates contradictions and tensions within HRM systems and between work organizations and civil society. Again this represents an antithesis between the instrumental perception of people in organizations, which sees people, in the extreme, as expendable, and humanistic views that see organizations as vehicles of human development. Unless people management systems can address these contradictions and contribute to developing adaptive hybrid forms of organization and managing, then such tensions and inefficiencies are going to continue.

FIGURE 9.3



Cross-cultural dynamics and hybridization in people management in developing countries (adapted from Jackson, 2002a)

6 DEVELOPING APPROACHES TO MANAGING PEOPLE IN EMERGING COUNTRIES

We have seen that both post-colonial systems of management, and 'modern' HRM may not be appropriate for implementation in developing countries and may result in alienation of the workforce. For example Blunt and Jones (1992) remark in the context of Africa that workers use their work organizations instrumentally themselves: seeing them purely as a means of survival, but sometimes also to provide a means of pursuing other interests in the informal economy. There is a lack of appreciation of a wider stakeholder base in societies that traditionally have been community-oriented (e.g. Koopman, 1991). Aligned with this lack of appreciation is a lack of questioning of the appropriateness of 'modern' HRM methods, and a failure to incorporate the management of multiculturalism. Training and development interventions are not the only ways of addressing these issues, but appropriate training can be incorporated into facilitating the process of change and effective hybridization of people management systems in emerging countries. We now discuss these issues and make suggestions for developing effective and appropriate people management principles and practices.

Accommodating the interests of multiple stakeholders

As a result of their adoption of structural adjustment programmes, and being launched into a competitive global marketplace, companies in emerging countries may be becoming increasingly results-focused, as well as having the primacy of shareholder value as their main strategic driver. For example, in South Africa, Jackson (1999) found that managers saw their organizations as giving a low priority to employees, managers and local community as stakeholders. They saw their organizations as viewing quality and growth as important key success factors but job satisfaction and success of affirmative action were considered to be of minimal importance as success factors. Yet organizations, to be effective in South Africa and other emerging countries by all other measures apart from profit and financial efficiency, may have to reflect the multiple interests of a broader base of stakeholders, and incorporate these within the strategic objectives of the organization.

In order to incorporate the interests of multiple stakeholders, it would seem logical that organizations must have effective means to give voice to those interests, and incorporate them within the dialogue of the organization, its strategy, objectives, policies and practices. As we have seen, studies within the 'developing' world see management as fatalistic, resistant to change, reactive, short-termist, authoritarian, and risk reducing (Kanungo and Jaeger, 1990). With the influence of democratic processes from Western approaches to management as well as from indigenous approaches, organizations in the 'developing' world generally may be looking towards more involvement of their people in decision processes. Hence the current author found elements of consultative management, but not participative management in South Africa (Jackson, 1999). Organizations were seen as hierarchical, centralized, fairly rule-bound yet having an element of consultative management.

It seems that lip service is being paid to participative management in organizations. Often downsizing and de-layering leads to 'empowerment' of managers and staff at lower levels of the organization than was previously required (e.g. Cameron, 1994; Freeman, 1994). This may well give the impression that there is participative management. Yet because of the diversity of interests in organizations in many emerging countries, participative management may only arise through the active empowerment of all such interest groups. 'Empowerment' may be seen cynically as a means to get a manager to take on more responsibility with fewer resources and for the same money in a period of organizational downsizing. The concept of empowerment must also stretch out to the community. In African societies, as in many communalistic societies, the barriers between community life and organizational life must be broken down in order to provide a context for commitment and motivation of the workforce.

Obtaining commitment and motivation

There is an indication of a lack of commitment to the organization by employees as we have seen in the context of Africa (Blunt and Jones, 1992). Corporations in Japan have been successful in harnessing the wider societal collectivism to corporate life, in order to foster commitment by employees in a reciprocal relationship with the corporation. Corporations in most other collectivistic societies (typically 'developing' societies) have failed to do this, and this is mostly due to the legacies of colonial institutions and their failure to integrate with their host societies.

The way a corporation pays attention to employee commitment and motivation through integrating the links between corporation and community, the bringing in of different stakeholder interests and the regard for its people, is driven by its management systems: that is its principles, policies and practices. These systems are culturally influenced through a mixture of post-colonial, Western (and perhaps Eastern) and African inputs. The likelihood of the management of these inputs in hybrid systems of management being adaptive rather than maladaptive to their context may depend to a large extent on managers' abilities to recognize and articulate these cultural influences. In order to achieve this, there is a need to maintain a high level of awareness of the contributing factors to the way the organization is managed through principles, policies and practices, and their appropriateness to the socio-cultural contexts within which the organization operates.

Assessing the appropriateness of management techniques

The concern discussed above was that there is an apparent antithesis between Western and non-Western ideas of organization and management; between an idea of people as a resource (human resource management) and people with a value in themselves (see the concept of *ubuntu* in Box 1). It may be possible to reconcile this antithesis, but it would seem logical that before this can happen, managers should be aware of these different perspectives. In the current author's study of predominantly black management in South Africa (Jackson, 1999), managers saw themselves as generally oriented towards the view of an intrinsic value of people for themselves rather than as a means to an end of the organization. The consensus was that people should be valued in their own right, they should be consulted, and they should be treated fairly and ethically in an organization that is not merely concerned with short-term results and making profits or gaining results above all else.

Whilst the study indicated that organizations are making strides to address the developmental aspects of people, there still seems to be a gap between humanistic and developmental intentions of organizations and their somewhat instrumental orientation. The fact that organizations were often seen as hierarchical, authoritarian and rule bound, and that they were trying to move towards an outcomes-based management focus while at the same time encouraging employee participation, indicates a move from post-colonial influences towards Western influences (Jackson, 1999). This is reflected in a number of other studies in South Africa (although Hofmeyr's, 1998 findings indicated a lack of optimism about the change from the one to the other). It may also be that there is still a low articulation of an 'African' approach in South Africa, and very little evidence that, for example, *ubuntu* principles are being applied. This may be in part due to a lack of articulation of these different influences, as a result of a lack of conscious management of multiculturalism not only at the macro-level of management systems, but also at the level of managing a culturally diverse workforce with different expectations about the way people should be managed.

Managing the dynamics of multiculturalism

The management of multiculturalism can be undertaken from a number of perspectives. For example, in most African countries, as indeed in countries in other emerging regions, this would involve not only managing differences in culture and gender from the point of view of understanding different cultures. It would also involve managing the power relations that are bound up with interactions among people of different cultures (e.g. Human, 1996). A huge distortion in the relative power of different cultural groups exists as a result of apartheid in South Africa. In other African countries with large white settler populations, such as Zimbabwe, such distortions also still exist. In most other African countries dominant and subordinate cultural groups can be identified, either at country or corporate level. Again, this is reflected in many other emerging countries around the globe. The Central Asian states, such as Kazakstan, have large Russian settler populations that have been dominant within their industrial economies (e.g. Akiner, 1995).

South Africa now has one of the most highly developed sets of anti-discrimination laws in the world. Attempting to regulate relationships among gender and ethnic groups in the workplace involves compliance to employment equity legislation in order to redress the imbalances between dominant and disadvantaged groups both at corporate and country level, as well as consciously managing multicultural workplaces. Recent figures (Breakwater Monitor, 2000) indicate that of a sample of 200 companies in the year 2000, 9.52% of managers were African, 5.53% were Indian, 5.31% were coloured and 79.64% were white. Of the total, 78.66% were male and 21.34% were female. The relative power balance of ethnic groups within these sample companies can be deduced if the managerial populations are compared with the total representation of these four racial groupings within these organizations. These are 49.2% for Africans, 5.63% for Indians, 14.42% for coloured and 30.76% for whites: 72.07% are male and 27.93% are female. There still appears to be considerable room for further redressing the power balances among the racial groupings in corporations in South Africa.

Training courses in intercultural management and awareness sessions may address issues of interaction. However, they may add very little directly to addressing issues arising from the power imbalance within corporations which is culturally related. They also do not address imbalances within the total stakeholder population. Just looking at this statistically, the racial split in the population of the Breakwater Monitor Report (2000) is fairly representative of the economically active population according to the 1999 Household Survey (although it over-represents whites, and under-represents African females), yet this does not reflect the total population (75.5% African, 2.5% Asian, 8.6% coloured and 13.1% white in the 1991 census). The number of Africans outside the economically active population indicates a disparity in power relations among the racial groups in the total stakeholder community. This situation would be repeated among emerging countries as different as India and Kazakstan.

Yet simply complying with the legislation is not sufficient in these circumstances. Proactively managing across cultures would seem to be necessary in order to redress some of the power imbalances not only by building awareness, but also by developing general cross-cultural competences. Human (1996) is critical of the maximalist approach (within South Africa, and elsewhere) based on broad classification of cultures, such as Hofstede's framework, as this creates stereotypes. As these stereotypes are value-laden they have serious implications for both the way in which individuals and groups perceive themselves and how others perceive them. They therefore acquire a self-fulfilling nature. Previously these stereotypes led to perceptions about the inferiority of black cultures from both blacks and whites. Human contends that more recently perceptions have been created that African approaches are 'nice' and that managers should be aiming to acquire more Africanized approaches. She argues for a 'minimalist' position which 'takes an interactional approach to culture and argues that culture constitutes a subconscious part of a person's identity as a communicator and is therefore constructed to a large extent by the perception of the other party in the interaction' (Human, 1996).

To effectively manage across cultures in emerging countries, it is perhaps necessary to have an awareness of the kinds of stereotypes that one is working with, in order to overcome some of the negatives and focus on the positive aspects of cross-cultural working: to see multiculturalism as a positive aspect whereby different stakeholders from different cultural perspectives can make a variety of contributions, and where this input is not just simply desirable, it is necessary for the realization of economic and social prosperity. A starting point in this evolution is for individuals to have a high awareness of their own cultural background, its values, and the contribution that their values, perceptions and expectations can make.

One of the major problems with the maximalist approach described above is that concepts such as those developed by Hofstede (1980) may describe national culture in a very general way, but they do not provide enough detail and sensitivity to describe the many different cultures represented in many African societies, and indeed the numerous cultures in other regions such as the Indian sub-continent. They also do not provide the means for describing the manifestations of those cultures in corporate life. For example, there has been much debate around the concept of collectivism: that it is target specific and that its influence on corporate life may vary considerably among countries (e.g. Hui, 1990), let alone within culturally heterogeneous countries such as South Africa. More specific information is needed on the way people feel about their own culture, and on the way they feel about others' cultures. This approach may also give rise to negative views of the value of one's culture among black Africans who have acquired such views through the legacy of apartheid in South Africa, or (in common with the educated elite in other African and emerging countries) through receiving a Western or Westernized education that has had the effect of downgrading indigenous culture in relation to Western culture. In a multicultural context, the lack of understanding and articulation of the nature and influence of one's culture may be a serious stumbling block to the building of synergies from cultural diversity.

7 CONCLUSIONS

In this chapter we started by looking at HRM in developing countries, and ended by considering people management and development in emerging countries. This journey required a reassessment of the way management systems are perceived in the so-called developing countries, and showed that current literature focuses predominantly on post-colonial systems within a developing–developed world paradigm. By positioning our understanding within a multicultural context that operates at different levels, and within the framework of developing effective hybrid forms of management, it may be possible to appreciate the contributions that can be made to management from a more humanistic view of people in organizations. It is also possible to assess the (lack of) appropriateness of Western HRM systems in emerging countries. In order to develop appropriate hybrid forms of people management, it is necessary to expand the concept of participative management to include a wider stakeholder base that has access to strategic levels of decision making. It is necessary to incorporate within this framework a reconciling of the conflicts between community/home life and work/organizational life in order to obtain commitment from staff. This requires a high level of awareness of multicultural dynamics that incorporates not only an appreciation of one's own and others' cultural values and aspirations, but also an understanding of the power relations that exist often as a result of a colonial legacy.

Often Western expatriate managers believe that they have nothing to learn from their colleagues in developing countries. The same is true of managers from developing countries who believe they have everything to learn from their Western colleagues and nothing to teach them. Yet managers working within the multicultural contexts of emerging countries, who have had to reconcile humanistic values with instrumental ones, community values with work values, and have had to develop multi-ethnic workforces, and now have to work with colleagues in neighbouring countries, have a lot to teach. Not all have been successful managers. Yet this lack of success may well have resulted from a disparaging of non-Western approaches, and from a blind adherence to principles learned in Western MBA programmes or in Western textbooks.

Success in developing effective people management processes relies on developing a body of knowledge from success stories within emerging countries, and in sharing this information with colleagues in emerging countries across the globe. It is hoped that this chapter has at least pointed the way to thinking about how this task may be undertaken.

This chapter concludes the second part of this book, which has focused on a comparative perspective. In Part 3, we will return to the international perspective and look at the management of international staff.

8 DISCUSSION QUESTIONS

1 Why is the developing–developed world paradigm problematic in conceptualizing the issues involved in managing people in emerging countries?

2 How appropriate are Western-style HRM practices to emerging countries?

3 What are the shortcomings of current cross-cultural management theory in addressing the issues of people management in emerging countries?

4 How can people management practices be developed in emerging countries in order to make them more appropriate to the local situation?

9 FURTHER READING

- **T. Jackson (2002a) *International HRM: A Cross-cultural Approach*, London: Sage.**

Provides a more comprehensive view of the cross-cultural issues involved in managing people in international contexts including emerging countries, particularly the instrumental-humanistic dichotomy, and the way different cultures have addressed the split between home/community and work life.

- **M. Dia (1996) *Africa's Management in the 1990s and Beyond*, Washington, DC: World Bank.**

Provides a comprehensive view of the disconnection theory of organizations from the community in the context of Africa. This is written largely for the development community rather than the management community.

- **A.M. Jaeger and R.N. Kanungo (eds) (1990) *Management in Developing Countries*, London: Routledge.**

Difficult to obtain, but a classic, providing a number of chapters on aspects of managing in developing countries, albeit largely within the developing–developed world paradigm.

- **P. Blunt and M.L. Jones (1992) *Managing Organizations in Africa*, Berlin: Walter de Gruyter.**

Again, this is getting more difficult to obtain. The classic work on management in Africa.

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PART 3

Managing An International Staff

10 Composing an International Staff

Anne-Wil Harzing

CHAPTER CONTENTS

1 INTRODUCTION

This chapter is the first of five that will look at different aspects of managing international staff. In this chapter we will discuss the challenges associated with composing an international staff. First, Section 2 reviews different staffing policies and looks in some detail at the factors influencing the choice between host country and parent country nationals. Subsequently, Section 3 takes a strategic perspective on international transfers and looks at the underlying motives that MNCs have to send out expatriates to their international subsidiaries. We will investigate whether these different motives for international transfers are more important in some circumstances than in others and will review one of the motives for international transfers – control and coordination – in more detail. The final subsections will discuss the alternatives to expatriation, including the use of impatriation. Section 4 then deals with the recruitment and selection issues associated with expatriation and discusses both the prescriptive models found in the expatriate literature and the situation that seems to persist in practice. Expatriate adjustment and failure is then reviewed in some detail in Section 5, while in the final section we will examine four different transfer archetypes based on the type of expatriate allegiance.

2 STAFFING POLICIES

In Chapter 2 we discussed Perlmutter's (1969) classic study that identified three different international orientations: ethnocentric, polycentric and geocentric. As we indicated in that chapter, these three orientations have become the standard way to describe MNC staffing policies. MNCs following an *ethnocentric* staffing policy would appoint mostly parent country nationals (PCNs) to top positions at their subsidiaries, while MNCs following a *polycentric* staffing policy would prefer to appoint host country nationals (HCNs). Firms with a *geocentric* staffing policy would simply appoint the best person, regardless of his/her nationality and that could include third country nationals (TCNs), nationals of a country other than the MNC's home country and the country of the subsidiary. In a later publication Heenan and Perlmutter (1979) defined a fourth approach, which they called *regiocentric*. In this approach, managers are moved on a regional basis, such as within Europe, and it often forms a mid-way station between a pure polycentric/ethnocentric approach and a truly geocentric approach. It is important to note that these staffing policies apply to key positions in MNC subsidiaries only. Although some PCNs or TCNs might still be found at middle management, MNCs normally appoint host country managers at this and lower levels.

The term *expatriation* is often used to describe the process of international transfer of managers. Although the term *expatriate* could literally be taken to mean any employee that is working outside his or her home country, it is normally reserved for PCNs (and sometimes TCNs) working in foreign subsidiaries of the MNC for a pre-defined period, usually 2–5 years. An alternative to expatriation is impatriation, where subsidiary managers are transferred to HQ. We will discuss impatriation in Section 3. In this section, we will offer a more detailed discussion of the advantages and disadvantages of using PCNs, HCNs or TCNs as well as some recent statistics on the use of PCNs and HCNs in different countries and industries. We will also present a conceptual model that summarises the factors influencing the choice between PCNs and HCNs.

PCNs, HCNs or TCNs: (dis)advantages and statistics

A review of the advantages and disadvantages of employing these different groups of employees will clarify the applicability of the different staffing policies identified above. Some of the most frequently mentioned advantages and disadvantages (Negandhi, 1987; Phatak, 1989; Dowling and Schuler, 1990) are summarised in Table 10.1.

It will be clear that none of the options is without its disadvantages. In the next subsection, we will discuss several factors that might influence the choice between these different types of managers, but first we will provide some recent statistics on the relative use of these groups. Given the fact that staffing policies might have an important impact on the functioning of the subsidiary, it is surprising that there is such a paucity of research on the relative use of PCNs, HCNs and TCNs. In fact until recently, only two studies had been conducted which provided any details on this issue (Tung, 1982 and Kopp, 1994). Kopp's results were limited to the use of PCNs in MNCs from various home countries only and neither Tung nor Kopp discussed the use of PCNs in different industries. Moreover, both studies looked at Europe as one supposedly homogeneous group, both in terms of home and host country.

A recent study (Harzing, 2001a) – based on archival data for 2,689 subsidiaries of nearly 250 different MNCs – provides us with detailed information on the relative use of PCNs for the managing director position in foreign subsidiaries. Overall, 40.8% of the subsidiaries had a PCN as managing director, but as Table 10.2 shows this percentage differed substantially by home country, host country cluster and industry. With regard to home countries, subsidiaries of Japanese MNCs are much more likely to have a PCN as managing director than are subsidiaries of European MNCs. The exact percentage of PCNs in subsidiaries of European MNCs does differ considerably across the various countries, however, from a low of 18.2% for Denmark to a high of 48.1% for Italy. At subsidiary level, the highest percentage of PCNs can be found in Latin America, Africa, Asia and the Middle East, while expatriate presence is much lower in Canada and Western Europe and is particularly low in Scandinavia. In general, MNCs operating in the financial sector and the automobile industry show the highest percentage of PCNs as managing directors. A low expatriate presence is found in some service industries and in 'multidomestic' industries such as food. As the sample size for some of the categories is relatively small, results for these categories should be treated with caution. It must be noted though that the overall sample size is *much* higher than that of either Tung's or Kopp's study.

The results above describe the percentage of PCNs in the managing director function only. Although much less information was available for the other functions, the level of expatriate presence was generally found to be lower in these functions. Only 17.2% of the subsidiary finance directors (N = 358) were PCNs, while this was the case for 10.1% of the marketing directors (N = 218).

TABLE 10.1

The advantages and disadvantages of using PCNs, HCNs or TCNs

	Advantages	Disadvantages
PCNs (Parent country nationals)	• familiarity with the home office's goals, objectives, policies and practices • technical and managerial competence • effective liaison and communication with home-office personnel • easier exercise of control over the subsidiary's operations	• difficulties in adapting to the foreign language and the socioeconomic, political, cultural and legal environment • excessive cost of selecting, training and maintaining expatriate managers and their families abroad • the host countries' insistence on localising operations and on promoting local nationals in top positions at foreign subsidiaries • family adjustment problems, especially concerning the unemployed partners of managers
HCNs (Host country nationals)	• familiarity with the socioeconomic, political and legal environment and with business practices in the host country • lower cost incurred in hiring them as compared to PCN and TCN • provides opportunities for advancement and promotion to local nationals and, consequently, increases their commitment and motivation • responds effectively to the host country's demands for localisation of the subsidiary's operation	• difficulties in exercising effective control over the subsidiary's operation • communication difficulties in dealing with home-office personnel • lack of opportunities for the home country's nationals to gain international and cross-cultural experience
TCNs (Third country nationals)	• perhaps the best compromise between securing needed technical and managerial expertise and adapting to a foreign socioeconomic and cultural environment • TCNs are usually career international business managers • TCNs are usually less expensive to maintain than PCNs • TCNs may be better informed about the host environment than PCNs	• host country's sensitivity with respect to nationals of specific countries • local nationals are impeded in their efforts to upgrade their own ranks and assume responsible positions in the multinational subsidiaries

TABLE 10.2

Sample size and percentage of PCN subsidiary managing directors in different HQ countries, subsidiary country clusters and industries

Country of origin of headquarters	N	% of PCNs	Industry	N	% of PCNs
Denmark	88	18.2	Business & management services	71	12.7
UK	381	23.1	Rubber & miscellaneous plastics	30	20.0
Norway	49	24.5	Stone, glass & clay products	72	23.6
Switzerland	207	25.6	Pharmaceutical	156	25.0
France	247	30.0	Food & related products	132	25.8
Finland	200	30.0	Advertising agencies	109	26.6
Netherlands	196	32.7	Electronic & electric equipment	160	30.6
Sweden	389	34.2	Industrial equipment	282	32.6
Germany	279	40.9	Instruments	70	32.9
Italy	52	48.1	Paper	101	33.7
Japan	601	76.5	Computers & office machines	128	34.4
			Industrial chemicals	175	37.7
Total	2689	40.8	Engineering services	41	39.0
			Insurance carriers & agents	139	39.6
			Household appliances	84	40.5
Subsidary country cluster					
Scandinavia	164	14.6	Metal products	83	42.2
Western Europe	1351	33.3	Printing & publishing	80	45.0
Eastern Europe	81	39.5	Oil & gas	25	48.0
Canada	94	41.5	Non depository financial institutions	46	52.2
Australia/ New Zealand	135	41.5	Telecommunications equipment	62	53.2
Latin America	254	50.8	Motor vehicles and parts	82	62.2
Africa	53	58.5	Banks & banking services	481	76.1
Asia	515	60.2	Security & commodity brokers	80	84.8
Middle East	42	66.7			
Total	2689	40.8	Total	2689	40.8

The lowest percentage of PCNs, however, was found in the personnel director's function (2.2%, N = 92). In general, MNCs tended to have more PCNs for the managing director function than for any of the other functions. For both German and Italian MNCs, however, the percentage of PCNs for the financial director function comes close to the percentage of PCNs for the managing director function, while for British MNCs the financial director in subsidiaries is even more likely to be a PCN than is the managing director.

Since less than 5% of the positions in this study were taken up by TCNs, we have not discussed this category in any detail. However, we can say that, similar to Tung's study, the highest percentage of TCNs in our sample can be found in African subsidiaries. Confirming the results of both Tung's and Kopp's study, European MNCs tend to employ more TCNs than Japanese MNCs. This might be a reflection of the availability of near-nationals in European countries (e.g. Denmark–Sweden, Spain–Portugal).

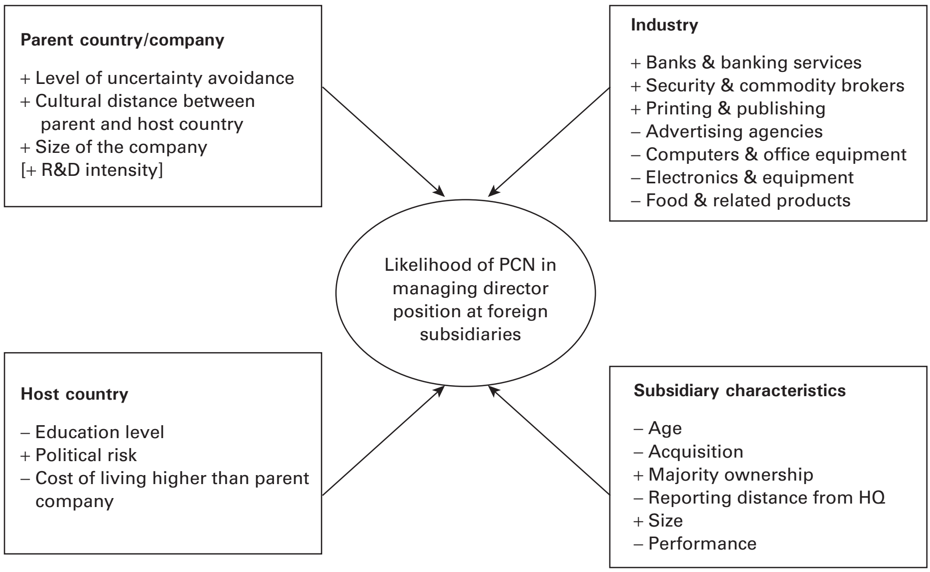
Our study also shows that a differentiated approach to subsidiary management, as advocated by many scholars in the field of international management (Bartlett and Ghoshal, 1989; Ghoshal and Nohria, 1993; Martinez and Jarillo, 1991), is important for staffing practices as well. Fewer than 10% of the companies in this study had a uniform staffing policy (only HCNs or only PCNs). These companies were mostly Japanese MNCs in the financial sector, a sector that on average had a very high percentage of PCNs as managing directors. Other companies differentiated their approach according to host country and subsidiary characteristics. We will look into the factors that influence the choice between HCNs and PCNs in more detail in the next section.

Factors influencing the choice between HCNs and PCNs

The same study we referred to above (Harzing, 2001a) also gives us some insight into the factors that influence the choice between HCNs and PCNs for the managing director position in foreign subsidiaries. Figure 10.1 summarises the factors that had a significant impact on this choice. It is important to realise that this model was constructed based on multivariate statistical analysis (logistic regression). This means that although some of the factors might be intercorrelated, they all have a significant and independent impact on the choice between HCNs and PCNs.

With regard to parent country/company characteristics, MNCs from countries with a national culture that scores high on uncertainty avoidance (Hofstede, 1980, 2001) have a higher tendency to employ PCNs as managing directors for their subsidiaries. In these cultures, there is a strong preference for being 'in control'. There is suspicion towards foreigners as managers and a view that initiative of subordinates should be kept under control. Managers are expected to be experts in their fields and generally are selected based on seniority (Hofstede, 1980, 2001). These characteristics usually point to a trusted PCN

FIGURE 10.1



Factors influencing the choice between HCN and PCN

as the preferred alternative for senior positions in subsidiaries. Direct control of subsidiary operations will also be more important if the level of cultural distance between home and host country is high. In this case, HQ managers might not trust the information they receive from local managers. In addition, HQ managers might fear that local managers are less committed to the company. Furthermore, communication between people from different cultural backgrounds can be very difficult (even if they speak the same language) and the opportunity for misunderstandings is usually high (Boyacigiller, 1990). Therefore, headquarters managers will prefer to have at least some home country managers in important positions to facilitate the information flow. Larger MNCs have more PCNs as managing directors since they have more managerial resources and are more likely to have a formal management development program in operation that involves the transfer of managers around the world. MNCs with a research intensive product are more likely to feel the need to transfer at least some of this knowledge to their subsidiaries and to train local managers (Hamill, 1989; Ronen, 1986). Our study did not find support for this relationship, but a recent study by Tan and Mahoney (2002) found that R&D intensity did increase the number of PCNs for Japanese firms, though not the likelihood of a PCN as managing director. This is probably due to the fact that R&D knowledge is transferred mainly by technical specialists rather than by the managing director.

With regard to industry, only the industries with a significantly higher or lower level of PCNs as managing director are included in this model. A high percentage of PCNs as managing director is found in the financial services and printing & publishing, while a low percentage of expatriates is found in the advertising industry, the computers & office equipment industry, the electronic & electric equipment industry, and the food industry. Some of the industry effects are easily explained. The control aspect will lead companies to employ a large percentage of PCNs in financial services, while the importance of knowledge of the local market will lead companies to employ a large percentage of HCNs in advertising and the food industry. The results for the other industries are less straightforward and would merit further investigation in a more controlled sample.

With regard to host country characteristics, MNCs are more likely to employ PCNs when the level of education in the host country is low (Boyacigiller, 1990; Scullion, 1991), since in that case qualified local personnel will be scarce. Further, a high level of political risk in the host country is likely to make direct control through expatriates more important because the risks of loss of income or assets might be substantial. It also makes the speed and clarity of communication allowed by the use of PCNs of vital importance (Boyacigiller, 1990). As we have seen above, one of the advantages of having HCNs in top management positions is that they are less expensive to employ than PCNs. This motive is more important when the cost of living in the host country is higher than in the home country. In this case, an expatriate will expect to get additional compensation to maintain his/her previous lifestyle. Local managers have probably adjusted better to the high cost of living and would not require additional compensation.

Finally there are several subsidiary characteristics that impact on the choice between HCNs and PCNs as managing director. Subsidiary age will be negatively related to the likelihood of using PCNs as managing directors. When a subsidiary has just been established, HQ will feel a higher need to ensure its operations are in accordance with HQ policies and will hence use trusted PCNs. Furthermore, MNCs might have difficulty in attracting high-caliber locals in recently established subsidiaries. When subsidiaries become more established, local recruitment may be easier and some transfer of knowledge and training of local managers will already have been effected (Boyacigiller, 1990; Franko, 1973; Hamill, 1989). The parent company's lack of knowledge of the local labor market and a lack of recruitment potential will also be major reasons for greenfield establishments to attract PCNs for top management positions. In acquired subsidiaries, there will often be an established local managerial cadre. When a subsidiary is very important to headquarters, keeping its operations under control through PCNs will be felt to be more necessary (see also Boyacigiller, 1990). Large, majority-owned subsidiaries that report directly to headquarters are more important to headquarters than are small, minority-owned subsidiaries that are much 'lower' in the corporate reporting hierarchy. Finally, control of the subsidiary will also be more important when a subsidiary is under-performing, and direct headquarters intervention by means of a parent country expatriate is necessary.

3 MOTIVES FOR INTERNATIONAL TRANSFERS

Now that we have established the advantages and disadvantages of using different groups of managers and have reviewed the factors influencing the choice between HCNs and PCNs, we will take a closer look at the motives that MNCs have to send out expatriates to their foreign subsidiaries. In this section, we will first discuss the classification by Edström and Galbraith (1977) and will show that the results of German studies largely confirm this classification. We will then investigate whether the different motives for international transfers are more important in some circumstances than in others and will review one of the motives for international transfers – control and coordination – in more detail. A final subsection will discuss the alternatives to international transfers, including the use of impatriation.

Edström and Galbraith's typology

There are few theoretical clarifications or concepts regarding the motives for international transfers. At first sight, the study by Edström and Galbraith (1977) is the only one that theoretically explains why international transfer of managers occurs. They found three general company motives for making this type of transfer. The first was to *fill positions*, which concerns the transfer of technical and managerial knowledge. This motive is quite important for developing countries, where qualified local nationals might not be available, but specific knowledge transfer might be necessary to subsidiaries in developed countries as well. Expatriates can be seen as the key bearers of tacit knowledge. The second major motive is *management development*. The transfer gives the manager international experience and develops him/her for future important tasks in subsidiaries abroad or with the parent company. This kind of transfer would be carried out even if qualified host-country nationals were available. For the third motive for international transfers, the final goal is not individual development but *organisation development*. This motive consists of two elements: socialisation of both expatriate and local managers into the corporate culture and the creation of a verbal information network that provides links between subsidiaries and headquarters.

The classification of Edström and Galbraith is well accepted in the literature on international transfers. Virtually every publication that deals with this topic refers to Edström and Galbraith's now classic 1977 *Administrative Science Quarterly* article. Borg perfectly describes this unanimous support in his dissertation: 'The study of Edström and Galbraith (1977), which is very often quoted in both articles and textbooks, seems to be the only one which theoretically explains why international transfers of managers occur' (Borg, 1988: 41). A further investigation, however, revealed a substantial number of German studies, both conceptual and empirical, on this topic. The fact that they appeared in the German language only seems to have blocked their access by the Anglophone research community. A summary of these studies and a comparison of their classifications to the one by Edström and Galbraith can be found in Table 10.3.

TABLE 10.3

Motives for international transfers according to various authors

Edström and Galbraith (1977)	**Position filling**	**Management development**	**Organisation development (coordination & control)**
Pausenberger and Noelle (1977) [*our translation*]	To ensure transfer of know-how; To compensate for a lack of local managers; Training and development of local managers.	To develop the expatriate's management capabilities; To develop managers' global awareness.	To ensure homogeneous practices in the company; To ensure a common reporting system in the company; Presence of different view-points in decision-making bodies.
Welge (1980 [*our translation*]	Position filling; Transfer of know-how.	International experience; Use management potential.	Coordination; Change management.
Kenter (1985) [*our translation*]	Lack of qualified local managers available; Transfer of know-how; Training of local managers.	Development of parent country nationals.	Control and coordination; Increase loyalty and trustworthiness of expatriates.
Kumar and Steinmann (1986)	Transfer of know-how;	Headquarters want Japanese managers	To ensure coordination with

(*Continued*)

TABLE 10.3

Continued

Edström and Galbraith (1977)	**Position filling**	**Management development**	**Organisation development (coordination & control)**
[*our translation*]	The necessity to train German managers.	to gain international experience.	headquarters corporate policies and philosophies; To facilitate communication; Desired loyalty with headquarters goals.
Pausenberger (1987) [*our translation*]	Transfer of know-how.	Management development.	To ensure a uniform company policy.
Roessel (1988) [*our translation*]	Transfer of management know-how; Lack of qualified local personnel	Managerial development of expatriates and local managers.	Coordination, control and steering; Reciprocal information flows; Internationalisation of the company as a whole.
Groenewald and Sapozhnikov (1990) [*our translation*]	Transfer of technological, administrative or sales know-how; Lack of qualified local personnel.	Management development; Better career opportunities for employees.	Steering and coordination.
Kumar and Karlshaus (1992) [*our translation*]	Transfer of know-how; Limited availability of local managers; The necessity to train foreign managers.	Headquarters want German managers to gain international experience.	To ensure coordination and communication with headquarters; Desired loyalty with headquarters goals.
Macharzina (1992) [*our translation*]	Filling vacant positions.	Management development.	Coordination.
Wolf (1994) [*our translation*]	Filling vacant positions.	Personal or managerial development.	Coordination.

There seems to be a considerable consensus on the principal functions of international transfers, well represented by the original classification of Edström and Galbraith. In many of the German studies, though, the focus is more on a direct type of expatriate control than on the informal type of control or coordination identified by Edström and Galbraith. However, the ultimate goal is similar in both cases: making sure that the various organisational units strive towards common organisational goals. It is interesting to note, however, that although Edström and Galbraith termed their third motive 'organisation development', their description of this organisational motive for international transfers focuses exclusively on control aspects. This is also the way in which this motive for international transfers has been interpreted in most of the English articles that refer to the Edström and Galbraith classification and the German studies. Pausenberger (1987), however, indicates that all three functions of international transfer can in fact lead to organisation development defined as the increase of the company's potential to succeed and to compete in the international market. Roessel (1988) puts forward a similar view when he discusses how the various functions of international transfers can lead to the further internationalisation of the MNC, which would make it more effective in international markets. Maybe we should conclude that organisation development is not a goal of international transfers as such, but is rather the result of knowledge transfer, management development and the creation of a common organisational culture and effective informal information network. It might then be more appropriate to call the third category coordination and control rather than organisation development.

As Edström and Galbraith (1977) pointed out, these three motives for international transfers are not mutually exclusive. The key point that companies should realise is the fact that expatriation is a strategic tool to achieve specific organisational goals and needs to be used as such.

Different motives for different circumstances?

Although, as we have seen above, there is a reasonably well accepted classification of the motives for international transfers, very little research has been done with regard to the importance of different motives in different circumstances. The most that studies in the field do is to assess the relative importance of the three different motives and in this respect there is little convergence across studies. Based on a study of 212 subsidiaries located in 22 countries representing MNCs headquartered in nine different countries, Harzing (2001b) provided a first attempt at exploring this issue in more detail. The study explored the motives for international transfers from a subsidiary rather than a headquarters perspective. There might be a substantial difference between the perspective of headquarters and subsidiary managers in this respect. First of all, expatriates might be sent out for a particular motive (e.g. management development), but in practice might actually fulfil another function (as well). Second, HRM managers at headquarters are more likely to put forward the 'company line' in surveys, while subsidiary managers are more likely to paint a realistic picture of the functions of expatriation in their subsidiaries. Harzing investigated the impact of home country, host country, cultural distance and subsidiary characteristics.

Home countries

Position filling is seen as significantly more important in subsidiaries of British and American MNCs than in subsidiaries of MNCs from other countries. At the same time, transfer for coordination and control was seen as less important in these subsidiaries and transfer for management development was at a level comparable to that in subsidiaries of other MNCs. American and British MNCs tend to send out fewer expatriates than MNCs from other countries (Harzing, 1999). Apparently, if they do send out expatriates, it is because it is absolutely necessary for reasons of knowledge transfer or the lack of availability of locally qualified personnel.

Management development is seen as more important in subsidiaries of Dutch, Swiss and also German MNCs than in subsidiaries of MNCs from other countries. The higher than average use of international management training (as a control mechanism) by Swiss and Dutch MNCs (Harzing, 1996) fits this observation. In addition, German and to some extent Swiss and Dutch companies tend to follow the functional approach to management development (Evans, Lank and Farquhar, 1989). Horizontal job rotation through many different functions is a key feature of this 'Germanic' model of management development. Developmental assignments abroad might fit this model better than the 'elite cohort', 'elite political' and 'managed development' approaches that are found in other countries.

Finally, there is a highly significant difference in the importance of the *coordination and control* function of international transfers between subsidiaries of German and Japanese MNCs on the one hand and subsidiaries of American and British MNCs on the other hand. This fits with the findings of other studies that Japanese and German MNCs have a more personal approach towards control, while American and British companies tend to rely on a more impersonal bureaucratic type of control (see e.g. Egelhoff, 1984, 1988; Negandhi and Welge, 1984; Ferner and Varul, 1999). It can also be argued that transfer for one of the subfunctions of coordination and control – the improvement of communication channels – is less necessary for American and British MNCs, because many subsidiary managers will be able to communicate in English.

Host countries

Overall, the subsidiary region did not have a major impact in terms of differences across the three motives for international transfer. All three motives, however, were seen as slightly more important for subsidiaries in Asia than for subsidiaries in other regions, while *position filling* was more important in Latin American countries as well. A (perceived) lower level of management capabilities in Latin America and Asia might explain the differences for both position filling and management development. The level of cultural distance (see below) and the higher communication barriers between headquarters and the subsidiary in question could explain the relative importance of coordination and control for Asian subsidiaries. It is interesting to note that although this difference was not significant, transfer for management development was perceived as most important and transfer for position filling as least important in subsidiaries in the Anglophone cluster (USA, UK, Ireland). This might lead us to conclude that MNCs see these countries as relatively advanced in terms of management skills and that MNCs use an assignment in these countries to expose their managers to the Anglophone style of management.

Cultural distance

As we have seen above, cultural distance is found to be related to a high expatriate presence (see also Boyacigiller, 1990; Wolf, 1994). Our data show that this is mainly due to a higher importance of the *coordination and control* function in culturally distant countries. As we have discussed above, both control of subsidiary operations (either directly or indirectly) and improvement of communication channels between HQ and subsidiaries will be more important if the level of cultural distance between home and host country is high. *Position filling* also showed a significant, though smaller, positive correlation with cultural distance. The mere fact that subsidiary employees are culturally different would probably lead headquarters managers to think that they are less suited for top-level positions and that transfer of know-how would be necessary. Management development, on the contrary, is perceived as less important in subsidiaries in culturally distant countries.

Other subsidiary characteristics

Position filling is perceived as slightly more important in large greenfield subsidiaries. Finding a large enough contingent of locally qualified personnel might be more difficult in this type of subsidiary. *Management development* is seen as much more important in older and larger subsidiaries. This type of subsidiary is likely to be more established and more important to headquarters and might therefore offer a more suitable training ground. Finally, transfer for *coordination and control* is seen as more important in younger subsidiaries. Making sure that the new subsidiary functions according to headquarters' plans and establishing communication channels is likely to be very important in the early phases of operation.

These findings have an important impact on the *management* of expatriates. Most publications in the expatriate literature prescribe 'best practices' in expatriate management in terms of selection, training and compensation. However, since expatriates are sent out for different reasons, practices with regard to their selection, training and appraisal and compensation might need to be tailored to these different reasons for transfer. For instance, for an expatriate who is mainly sent out for coordination and control and in particular to improve communication channels between headquarters and the subsidiary in question, excellent language and communication skills would be essential. These skills might be less important for an expatriate who is sent out to transfer technical knowledge. In this case, possession of specific technical skills would be most important. In terms of appraisal and compensation, appraisal systems that are geared towards the realisation of the specific objectives of the assignment would put the expatriate in a far better position to achieve his or her objectives.

Of bears, bumble-bees and spiders

In this section we'll take a closer look at one of the motives for international transfers: coordination and control, based on a study by Harzing (2001c). In contrast to the study above, that directly asked managers for the motives for international transfers, this study looked at expatriation in the context of control mechanisms in general. Data were analysed by correlating the level of expatriate presence with the coordination mechanisms in question (direct expatriate control, socialisation/shared values and informal communication). The fact that there was a significantly positive relationship between expatriate presence and these three coordination mechanisms, while no such relationship was present for the other coordination mechanisms (e.g. bureaucratic control, output control) included in this study, independently confirms the importance of this function of expatriation.

As we have seen above, the coordination and control function of international transfers has three distinct elements. Expatriates are used to provide personal/cultural control, in both a direct and an indirect way. They can serve to replace or complement HQ centralisation of decision-making and direct surveillance of subsidiaries by headquarters managers. This is the kind of control that is alluded to in many of the German studies discussed above. We call this the '*bear*' role of expatriates. The bear is chosen as an analogy, because it reflects a level of dominance (and threat that might be perceived in the extreme case) associated with this type of expatriate control. Expatriates can also be used to realise control based on socialisation and the creation of informal communication networks, which is the kind of control described by Edström and Galbraith and some of the German studies. The role of expatriates in socialisation we refer to as that of '*bumble-bees*'. Organisational bumble-bees fly 'from plant to plant' and create cross-pollination between the various off-shoots. Weaving an informal communication network is of course the role of expatriates as '*spiders*'.

While expatriates seem to perform their roles as bears in any situation, an exploratory analysis showed that their role as bumble-bees and spiders is more important in some situations than in others. It is more important in subsidiaries that were established more than 50 years ago than in younger subsidiaries, although the bumble-bee role is important in very young subsidiaries as well. Both the bumble-bee and the spider role are particularly important in subsidiaries that show a high level of local responsiveness, and that are not at all or hardly dependent on headquarters for their sales and purchases. Finally, the bumble-bee and spider roles are more important in acquisitions than in greenfields. What these situations have in common is that they all represent situations in which subsidiaries operate quite independently from headquarters. Apparently, expatriate presence is most effective in facilitating informal control in subsidiaries that are otherwise relatively independent from headquarters, while in subsidiaries that are quite dependent on headquarters expatriate presence serves mostly to facilitate direct expatriate control. Since absolute expatriate presence is generally lower in subsidiaries that are relatively independent from headquarters (Harzing, 1999), we might also conclude that the 'marginal effectiveness' of expatriates in facilitating informal control decreases if expatriate presence increases. In other words: if there are no or only a few expatriates employed in a particular subsidiary, 'adding' expatriates might have a strong positive effect on shared values and informal communication, while the effect of adding another expatriate is much weaker in subsidiaries that already employ a large number of expatriates.

Alternatives to expatriation

We have seen that international transfers can fulfill a number of very important functions in MNCs. Unfortunately, there are increasing signs that barriers to mobility – especially the issue of dual-career couples – become more and more important, leading to a decline in willingness to accept an assignment abroad (Forster, 1992; Kilgore, 1991; Punnett et al., 1992; Scullion, 1992; Welch, 1994). Further, sending out expatriates can be very costly. So increasingly, companies will be looking for alternatives to expatriation, which we will discuss below.

Impatriation

An alternative to expatriation might be *impatriation*, which involves the transfer of subsidiary managers to headquarters for a specific period of time. This would allow key subsidiary managers to get to know the workings of the parent company and build up informal communication networks. It also allows headquarters to inculcate the subsidiary managers into the corporate culture in a more direct way than would be possible by the transfer of expatriates. Impatriation is also a useful option if tacit knowledge needs to be transferred from subsidiaries to headquarters, which might very well be the case in transnational companies (see Chapter 2) and it has the added advantage of exposing parent company managers to an international perspective.

Unfortunately, there is virtually no information about the actual use of impatriation by MNCs. A recent – as yet unpublished – survey by Harzing and Noorderhaven investigated HQ–subsidiary relationships in some 175 subsidiaries of MNCs headquartered in the USA, Japan, UK, France, Germany and the Netherlands and can provide us with some basic data in this respect. Nearly two-thirds of the subsidiaries indicated that some of their employees had been on temporary assignment to headquarters. Although in most cases this concerned just one or two employees, in nearly 20% of the subsidiaries 3–5 employees had been impatriates, in a further 7% this was true for 6–10 employees and in 10% of the subsidiaries more than 10 employees had been impatriates. In some companies impatriation does indeed seem to be used as an alternative to expatriation: half of the subsidiaries that *did not* count expatriates among their workforce, *did* have employees that had been impatriated to headquarters.

Impatriation therefore seems to be an important addition to the company repertoire and can help to transfer knowledge, improve HQ–subsidiary relationships and develop managers. However, impatriates have to cope with many of the same problems as expatriates, such as adjustment and repatriation. It is therefore unlikely that they will ever completely replace expatriates.

Transfers vs. travel, training and teams

With regard to management development, Gregersen et al. (1998) see international transfers as the most powerful means of developing the skills and knowledge that future global managers will need. When they asked leaders what had been the most powerful experience in their life for developing global leadership capabilities, 80% replied it was living and working in a foreign country. However, they do indicate that travel, training and teams can also help in this respect. The *travel* option is discussed in some detail by Marilyn Fenwick in Chapter 12 under the heading 'Virtual international assignments'.

Of course *training* can always fulfill a development role, but training is also recognised as an important means for socialisation (Child, 1984; De Meyer, 1991; Derr and Oddou, 1993; Ondrack, 1985). Formal training programmes can be an effective way to directly transfer the organisational goals and values to a whole group of people at the same time. Management trainees in large (multinational) companies usually follow a whole series of one- or two-week training courses. In addition, this shared experience might also create informal networks. So in multinational companies, these training programmes can provide an important impetus to achieve shared values and facilitate network building between headquarters and subsidiaries, as such acting as an alternative to expatriation.

Work in *teams* with people from different backgrounds can clearly have a developmental role. These teams can be formalised into task forces or project groups constructed to work on a specific company problem. The Philips Octagon programme (Van Houten, 1989), in which a team of eight young high-potential managers of different backgrounds and nationalities are brought together to work on an actual company problem, is an excellent example. This programme lasts six to eight months and 'its purpose is to broaden the scope of understanding of the company, to increase appreciation of the interdependence of functions and disciplines, and to provide a cross-cultural forum for working together and exchanging ideas' (Van Houten, 1989: 110). Of course, this intensive cooperation also gives a very strong impetus to informal network building (another function of expatriation).

Since expatriation fulfills many roles, these three alternatives are unlikely to completely replace expatriates. However, they are certainly a cheaper alternative to expatriation and it is much easier to involve a large number of managers through travel, training and international task forces or project groups than it is through expatriation. And since travel, training and international task forces serve other important aims as well, directly related to the successful operation of the company, they are instruments that should form part of the repertoire of any MNC.

4 RECRUITMENT AND SELECTION OF EXPATRIATES

After our discussion of staffing policies and the motives for expatriation, it is now time to look at recruitment and selection issues associated with expatriation. In this section we will first discuss two popular studies in this respect and then look at the situation that seems to persist in practice.

Selection criteria: prescriptions for good practice

The first major study in this area was carried out by Tung (1981). Based on a review of the literature on the selection of personnel for assignments abroad, she identified four groups of variables that contribute to success or failure on the job and hence should be used to guide selection:

- *Technical competence on the job*. As in the selection and placement of personnel in domestic operations, this factor is one of the primary determinants of success. It may be even more important for assignments abroad because the individual is located at some distance from headquarters, often the hub of technical expertise, and cannot consult as readily with his peers and superiors on matters related to the job.
- *Personal traits or relational abilities*. This refers to the ability of the individual to deal effectively with his/her superiors, peers, subordinates, business associates and clients. In assignments abroad, this variable greatly influences the probability of successful performance. This factor is not limited to simple knowledge of another culture. The crucial thing is the ability to live and work with people whose value systems, beliefs, customs, manners and ways of conducting business may be greatly different from one's own.
- *Ability to cope with environmental variables*. In domestic operations the ability to identify and cope with environmental constraints, such as governments, unions, competitors and customers, is crucial to effective

performance. This same requirement is no less valid in assignments abroad, but the political, legal and socioeconomic structures which constitute the macroenvironment in the host country may be very different from the systems with which the expatriate is familiar. This poses problems of adjustment. The expatriate has to understand these systems and operate within them.

- *Family situation*. This refers to the ability of the expatriate's family (the partner in particular) to adjust to living in a foreign environment. Researchers and practitioners are becoming increasingly cognisant of the importance of this factor to effective performance abroad. The situation often becomes even more complex if the partner (male or female) has had to give up a job or even a career to accompany his or her partner abroad. We will come back to the problems of dual career families in the chapter on women in international management.

A second important contribution is the study by Mendenhall and Oddou (1985). According to them there is insufficient knowledge about the relevant dimensions in expatriate acculturation, leading to the use of inappropriate selection procedures. They distinguish four dimensions as components of the expatriate adjustment process:

- the *self-orientation dimension*: activities and attributes that serve to strengthen the expatriate's self-esteem, self-confidence, and mental hygiene;
- the *other's orientation dimension*: activities and attributes that enhance the expatriate's ability to interact effectively with host nationals;
- the *perceptual dimension*: the ability to understand why foreigners behave the way they do, the ability to make correct attributions about the reasons or causes of host-nationals' behavior;
- the *cultural toughness dimension*: this dimension can modify the importance of the first three dimensions. In culturally tough countries (countries that are culturally very different from the home country), the first three dimensions become even more important than in culturally similar countries.

The expatriate selection process should focus explicitly on the strengths and weaknesses of the applicant on the above-mentioned dimensions.

Expatriate selection in practice

In both the studies discussed above and in other studies in the field, we notice an emphasis on the fact that expatriate selection is a multi-faceted subject and that interpersonal skills are very important. In practice, however, most companies use technical competence and knowledge of company systems as selection criteria (Barham and Devine, 1990; Brewster, 1988; Harvey, 1985; Mendenhall et al., 1987; Miller, 1972; Tung, 1981). According to Miller (1972) there are two major reasons for this practice: first, the difficulty of identifying and measuring the relevant interpersonal and cross-cultural skills, and secondly, the self-interest of the selectors, who will try to minimise the personal risk involved in selecting a candidate who might fail on the job. Technical competence will almost always prevent immediate failure on the job. A more practical reason for the lack of attention to factors such as relational skills, cultural empathy and partner/family support in selection lies in the actual selection procedures adopted by companies.

Brewster (1991) notes that reliance on personal recommendations for expatriate postings from either specialist personnel staff or line managers is widespread. The result is that the outcome of selection interviews is more or less pre-determined and negotiating the terms of the offer takes precedence over determining the suitability of the candidate. In a provocatively titled article: 'The Coffee-machine System: How International Selection Really Works' Harris and Brewster (1999) develop this idea further and provide a typology of international manager selection systems based on the distinction between open and closed systems and formal and informal systems. Chapter 14 provides a more extensive description of this typology and its implications for the role of women in international management. The closed/informal system was most frequent among the organisations that Harris and Brewster studied. The researchers adopted the term 'the coffee-machine system' as a catchy summary for this type of selection system. The process starts with a senior line manager (usually male) who is joined by a colleague while waiting for his coffee at the coffee machine:

> How's it going?
>
> Oh, you know, overworked and underpaid.
>
> Tell me about it. As well as all the usual stuff, Jimmy in Mombai has just fallen ill and is being flown home. I've got no idea who we can get over there to pick up the pieces at such short notice. It's driving me crazy.
>
> Have you met that Simon on the fifth floor? He's in the same line of work. Very bright and looks like going a long way. He was telling me that he and his wife had a great holiday in Goa a couple of years ago. He seems to like India. Could be worth a chat.
>
> Hey thanks. I'll check him out.
>
> No problem. They don't seem to be able to improve this coffee though, do they? (Harris and Brewster, 1999: 497)

As Harris and Brewster indicate, the decision, that in effect has already been taken, is subsequently legitimised by organisational processes. The international HRM department will usually only become involved to deal with the financial aspects and practical arrangement related to the transfer. The disadvantages of this type of selection system are obvious. Candidates are not formally evaluated against ideal-type criteria, the pool of candidates is very much restricted and the organisation takes a reactive rather than strategic approach to expatriation.

5 EXPATRIATE ADJUSTMENT AND FAILURE

In the previous section we already alluded to the importance of expatriate adjustment. In this section we will provide a comprehensive model of expatriate adjustment and will critically evaluate the related issue of expatriate failure.

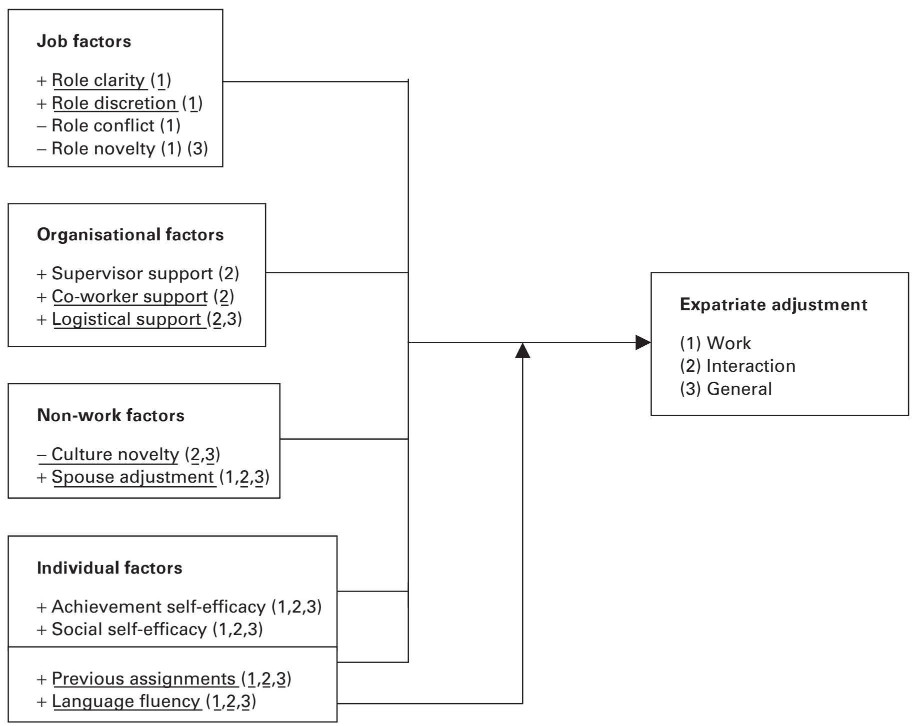
A model of expatriate adjustment

Black, Mendenhall and Oddou (1991) provided a comprehensive model of expatriate adjustment that integrates perspectives from theoretical and empirical work in both the domestic and international adjustment literature. They argue that expatriate adjustment includes two components: anticipatory adjustment and in-country adjustment. Anticipatory adjustment can have an important positive impact on in-country adjustment. It is positively influenced by cross-cultural training and previous international experience, although it is reasonable to expect that the latter will only be true if the earlier experience abroad was a positive one. Both help to build up accurate expectations and the more accurate the expatriate's expectations, the lower the level of uncertainty, the fewer the surprises and the lower the level of culture shock. The MNC can help anticipatory adjustment by providing cross-cultural training and using comprehensive selection criteria (see Section 4).

The in-country adjustment part of their model, which is reproduced in Figure 10.2, was tested by Shaffer, Harrison and Gilley (1999). Shaffer et al. introduced two moderating variables, previous assignments and language fluency. In Figure 10.2 we have underlined the relationships that were confirmed in the empirical study. The model identifies three dimensions of adjustment: adjustment to work, adjustment to interacting with host country nationals and general adjustment to the living conditions abroad. As expected, both role clarity (the extent to which what is expected from the expatriate is clear and unambiguous) and role discretion (flexibility in the execution of the job) were positively related to work adjustment. Role conflict (conflicting signals about what is expected in the new work setting) and role novelty (the extent to which the current role is different from past roles) did not show the expected negative relationship to work adjustment, though role novelty was negatively related to general adjustment.

Support from co-workers and logistical support were positively related to interaction adjustment, though the expected impact of logistical support on

FIGURE 10.2



* Numbers in parentheses indicate the corresponding dependent variables. Underlined relationships were confirmed.

Determinants of expatriate adjustment (adapted from Black et al., 1991 and Shaffer et al., 1999)*

general adjustment was not confirmed. Supervisor support did not have any significant influence on adjustment. Cultural novelty and spousal adjustment had a very strong impact on general adjustment and a weaker, though still very significant, impact on interaction adjustment. Spousal adjustment did not influence work adjustment. The two self-efficacy variables seemed completely unrelated to adjustment, but contrary to the authors' expectations both the number of previous assignments and language fluency have a significant positive *direct* effect on interaction adjustment.

As expected, both previous experience and language fluency had important moderating effects as well. Previous experience moderated the relationship between supervisor and co-worker support. For expatriates on their first assignments, supervisor support was negatively related to all aspects of adjustment, while for more experienced expatriates this relationship was reversed. The same was true for co-worker support: experienced expatriates relied more on their support for their adjustment. Shaffer et al. conclude that experienced expatriates have learned to rely more on host country management than on home country management. Language fluency moderated the relationship between role conflict and all three dimensions of adjustment, which was more strongly negative for those expatriates who were fluent in the host country language. Shaffer et al. reason that the conflicting demands from host country management and home country management might go unnoticed for expatriates with fewer language skills.

Shaffer et al.'s results provide general confirmation of Black, Mendenhall and Oddou's conceptual model and clearly point to the importance of job design, organisational support systems, the inclusion of the spouse in any training and support programmes and the importance of language fluency as a selection criterion.

Expatriate failure: is it just a myth?

If there is one thing that most publications in the area of expatriate management – and in particular those dealing with either cross-cultural training or adjustment – have in common it is that they all refer to the 'fact' that expatriate failure rates – measured as premature return of the expatriate – are very high, with commonly cited figures in the region of 16–50% for developed countries. Harzing (1995, 2002) has argued that there is no empirical foundation for these claims and that the myth of high expatriate failure rates has been perpetuated by careless and inappropriate referencing. She also argues that this myth may have had a negative impact on the effectiveness of expatriate management. When reading the academic and practitioner literature on expatriate management, practitioners cannot help but draw the false conclusion that expatriate premature return is one of the most important problems in sending employees abroad. This might lead companies to focus their attention and resources on avoiding expatriates' premature return, while failing to notice or manage other issues that are, in fact, far more important for assuring the expatriates' and the company's success. Forster and Johnsen (1996), suggest another practitioner reaction to the myth of high expatriate failure rates that might be equally detrimental to both expatriate and company success. They propose that this myth might well explain why the training and selection procedures of companies in their study were so different from the ideal policies recommended in the literature. In reconciling the high expatriate failure rate figures with the actual practice in their company, each individual firm may believe that it is other firms who have a problem with high failure – not themselves. These companies would therefore see no reason to change training and selection policies and might lose out on the benefits of improved selection and training methods.

So should we conclude we can disregard expatriate failure? On the contrary! Further and more sophisticated research into expatriate failure is long overdue. Such research would first of all involve using a much broader definition of failure. The current definition used by the overwhelming majority of studies is the expatriate returning before his/her assignment contract expires. However, in some circumstances a premature return might actually indicate a success – a job accomplished in less time than originally anticipated – while in others an expatriate who stays on, but is under-performing, might in fact do much more damage than one who returns early. And what about the expat who returns home, but finds that his/her skills developed during the assignment are not really valued in the home company and is so frustrated that he/she leaves the company soon after returning? Any definition of expatriate failure should therefore include under-performance and repatriate failure. Companies should also acknowledge that the costs of expatriate failure might go well beyond a simple calculation including the expatriate's salary, relocation costs and training costs. They might include indirect costs such as damage to customer relationships and contacts with host government officials and a negative impact on the morale of local staff. Expatriate failure will also be very traumatic for the expatriate and his/her family and might impact his/her future performance. A high incidence of expatriate and repatriate failure will also make it more difficult for the company to recruit managers for international assignments.

Expatriate failure is often due to the inability of either the expatriate or the expatriate's spouse to adjust or the expatriate's inability to cope with the larger international responsibility (Tung, 1981). Addressing expatriate failure therefore involves paying more attention to many of the same factors indicated under adjustment:

- an acknowledgement that expatriate adjustment involves not just adjustment to another job, but also adjustment to the interaction with host country nationals from another culture as well as more general adjustment to living in a foreign country;
- use of sophisticated selection procedures that include selection criteria such as cross-cultural competence and language fluency;
- a job design that maximises role discretion and role clarity, minimises role conflict and compensates a high level of role novelty with proper training and/or selection of a candidate with a high level of international experience;
- provision of proper organisational support systems, both through logistical support and support from supervisors and co-workers in the host country;
- inclusion of the spouse in any training and support programme.

Addressing repatriate failure requires a different set of considerations that will be discussed in detail in Chapter 13.

6 TRANSFER ARCHETYPES

In the previous section, we introduced the concept of role conflict, a situation that arises because expatriates have to reconcile the different demands of the home and host organisations. Black and Gregersen (1992) refer to this as 'Serving Two Masters' and based on a study of over 750 expatriates and repatriates provide a typology of expatriate allegiance as reproduced in Figure 10.3. Each cell also indicates the percentage of expatriates who fall into this category. Expatriates can be highly committed to either the home or host organisation, to both organisations or to neither organisation. If an expatriate is over-committed to the host organisation relative to the home organisation (going native), integration and coordination within the MNC as a whole becomes very difficult. An expatriate who is over-committed to the home organisation relative to the host organisation (heart-at-home) might be unwilling or unable to adapt home country practices and will not be able to manage host country managers effectively. However, in Black and Gregersen's study both these categories were rather small. The largest group of expatriates fell into the free agent category, where commitment to both home and host organisation is low. Black and Gregersen identify two different types of expatriates in this category: 'hired-gun free agents' and 'plateaued-career free agents'. The hired-gun free agents are often externally hired international experts. They are first and foremost committed to their own career and enjoy the challenges, status, freedom and monetary rewards associated with expatriate life. In many ways this concept is similar to the boundaryless career concept discussed in Chapter 13. Although the hired-gun free agents are usually hard workers and do their job well, they always keep an eye out for a better job and pay, and can leave the firm without much warning. Since very few of them are interested in repatriation to the home office, integrating their knowledge into the organisation is virtually impossible. The plateaued-career free agents are willing to accept an international assignment because their career has plateaued at the home organisation and they see it as a last opportunity to change this. However, they are not intrinsically interested in international work and are often ineffective in their job abroad. The combination that Black and Gregersen see as most beneficial to the long-term success of the MNC is dual allegiance, where expatriates are highly committed to both home and host organisation. They found that role clarity and role discretion, as well as clarity of repatriation programmes, promoted the development of dual citizens.

FIGURE 10.3

Allegiance to the local firm \ Allegiance to the parent firm	Low	High
Low	FREE AGENTS (41%) Adaptation strategy: marginalization Expatriate characteristics • Flexibility • Adventurousness	HEART-AT-HOME (12%) Adaptation strategy: separation Expatriate characteristics • Commitment to the company • Perseverance
High	GOING NATIVE (15%) Adaptation strategy: assimilation Expatriate characteristics • Extroversion • Cultural empathy	DUAL CITIZENS (32%) Adaptation strategy: integration Expatriate characteristics • Open-mindedness • Orientation to action

Forms of expatriate allegiance (based on Black and Gregersen, 1992 and van Oudenhoven et al., 2001)

Black and Gregersen's typology resembles a schema frequently used in acculturation studies to distinguish identification with the home culture and identification with the host culture (Van Oudenhoven et al., 2001). The combination of these two factors leads to four adaptation strategies that are included in Figure 10.3. Through factor analysis based on responses of 127 expatriates in a large Dutch MNC, Van Oudenhoven et al. (2001) were also able to determine which expatriate characteristics were associated with the four different forms of allegiance (see Figure 10.3). The characteristics in the free agent category, however, would seem to apply only to the 'hired-gun free agent'. The authors also found some differences in the perceived importance of the four types of allegiance according to demographic and situational factors. The dual citizen allegiance was deemed more important by older expatriates, while the free-agent allegiance was deemed more important by younger expatriates. The heart-at-home allegiance was seen as more important by technicians and production workers than by managers. With regard to host region, the free agent and going-native allegiance was seen as less important in Africa than in Asia, Europe and Latin America.

7 SUMMARY AND CONCLUSIONS

This chapter has taken a general look at composing an international staff. We provided an analysis of the motives for international transfers, the different transfer policies and transfer archetypes as well as the alternatives to international transfers. We also discussed international recruitment and selection and expatriate adjustment and failure in some detail. In the following four chapters we will look at four subjects that are related to managing an international staff. We will begin by analysing the process of cross-cultural training and development in multinational companies. Secondly, we will deal with a very practical problem that often puzzles personnel managers: international compensation and performance management. A third chapter deals with the challenges associated with repatriation and knowledge management, while the fourth and final chapter will consider the problems women encounter in (international) management.

8 DISCUSSION QUESTIONS

1 With the growth in modern communication technologies, such as email and video-conferencing, and the declining costs of international travel, expatriates will become an extinct species! Comment on this statement.

2 With regard to recruitment and selection, actual practice in MNCs seems to be quite different from recommendations for good practice. Why do you think this is the case?

3 Section 6 discusses four transfer archetypes. Do you think any of these archetypes would have a higher likelihood of occurring in one of the four different organisational models discussed in Chapter 2: global, international, multidomestic and transnational?

9 FURTHER READING

- **Harzing, A.W.K. (2001a) 'Who's in Charge: an Empirical Study of Executive Staffing Practices in Foreign Subsidiaries', *Human Resource Management*, Summer, pp. 139–158.**

- **Harzing, A.W.K. (2001b) 'An Analysis of the Functions of International Transfer of Managers in MNCs', *Employee Relations*, vol. 23, no. 6, pp. 581–598.**
- **Harzing, A.W.K. (2001c) 'Of Bears, Bumble-bees and Spiders: the Role of Expatriates in Controlling Foreign Subsidiaries', *Journal of World Business*, vol. 36, no. 4, pp. 366–379.**

The main conclusions of the these three articles are summarised in this chapter, but the original articles provide much more detail on the most recent empirical studies dealing with staffing policies and the functions of international transfers.

- **Shaffer, M.A., Harrison, D.A., Gilley, K.M. (1999) 'Dimensions, Determinants and Differences in the Expatriate Adjustment Process', *Journal of International Business Studies*, vol. 30, no. 3, pp. 557–581.**

This study provides the most comprehensive and up-to-date empirical test of the expatriate adjustment model by Black, Mendenhall and Oddou. It introduces two new variables in the model – international experience and language fluency – and shows that both variables have an important direct effect as well as a moderating effect on some of the other variables related to adjustment.

- **Black, J.S., Gregersen, H.B. (1992) 'Serving Two Masters: Managing the Dual Allegiance of Expatriate Employees', *Sloan Management Review*, Summer. pp. 61–71.**

The classic study about allegiance patterns of expatriates. Based on questionnaire data of over 750 expatriates and in-depth interviews with over 30 expatriates, this article provides a highly readable account of the four transfer archetypes. It also includes strategies to counterbalance ineffective allegiance patterns and to promote the development of dual citizens.

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11 Training and Development of International Staff

Ibraiz Tarique and Paula Caligiuri

CHAPTER CONTENTS

1 INTRODUCTION

Multinational companies (MNCs) recognize that human resources play an important role in developing and sustaining a competitive advantage in today's highly competitive global business environment (Brewster, 2002; Schuler, Budhwar, and Florkowski, 2002; Dowling, Welch, and Schuler, 1998; Stroh and Caligiuri, 1998a, 1998b; Taylor, Beechler, and Napier, 1996). As a result, MNCs increasingly use expatriates on short-term and long-term international job assignments for a variety of purposes, such as to acquire and transfer knowledge, to manage a foreign subsidiary, to fill a staffing need, to maintain communication, coordination, and control between subsidiaries and corporate headquarters, and to develop global leadership competence (Gupta and Govindarajan, 2002; Bender and Fish, 2000; Mendenhall et al., 2002; Au and Fukuda, 2002; Bonache and Brewster, 2001; Mendenhall, 2000; Harzing, 2001; Downes, 2000; Torbiorn, 1994, see also Chapter 10). Given this, successful expatriate assignments are indispensable to MNCs for both developmental and functional reasons (Adler, 1983; Brake et al., 1994; Mendenhall and Oddou, 1985; Stroh and Caligiuri, 1998a, 1998b; Tung and Miller, 1990).

An expatriate's success in the host country is largely determined by his or her cross-cultural adjustment to the host country (Black and Mendenhall, 1990; Kealey and Protheroe, 1996; Sappinen, 1993). While immersed in the new culture, expatriates are 'removed from the comfortable environment of their parental culture and placed in a less familiar culture' (Sanchez et al., 2000: 96), and are susceptible to adjustment problems because of numerous challenges that inhibit their cross-cultural adjustment like the need to speak the foreign language, to cope with culture shock, to understand different laws and customs, and to interact with local nationals (Black et al., 1999; Tung, 1981).

Scholarly research that has been conducted in recent years suggests that expatriates who are not prepared to confront the challenges (e.g., to cope with culture shock) find it difficult to adjust and hence incur, and impose on others, costly implications. For example, expatriates who are unable to adjust are more likely to perform poorly (Caligiuri, 1997). Poor performance on the assignment has costly implications for expatriates (such as low self-esteem, self-confidence, and loss of prestige among co-workers), for the parent firm (such as lost business opportunities), and for the host company (such as damaged company image) (Aycan, 1997; Mendenhall and Oddou, 1985; Tung, 1987). Thus, improving cross-cultural adjustment has been the focus of many international HR interventions. Since cross-cultural adjustment can be facilitated if the expatriate has an awareness of the norms and behaviors that are appropriate in the host country (Black and Mendenhall, 1990), many MNCs offer cross-cultural training (CCT) to teach their expatriates the host country's appropriate norms and behaviors.

Cross-cultural training is defined as any planned intervention designed to increase the knowledge and skills of expatriates to live and work effectively and achieve general life satisfaction in an unfamiliar host culture (Kealey and Protheroe, 1996). For more than 20 years, CCT has been advocated as a means of facilitating effective cross-cultural interactions and cross-cultural adjustment (Brewster, 1995; Caligiuri et al., 2001; Katz and Seifer, 1996; Kealey and Protheroe, 1996). There has been a positive trajectory of growth with respect to MNCs who are offering CCT. For instance, in the early 1980s, Tung (1981, 1982) found that only 32% of MNCs offered CCT. Almost 20 years later, the 1998 Global Relocation Trends Survey Report indicates that 70% of the 177 MNCs surveyed provide CCT of at least one day's duration (Windham International and National Foreign Trade Council, 1998).

A vital aspect of any CCT program involves determining how training effectively enhances expatriates' cultural knowledge and skills and facilitates expatriates' adjustment to the host country's culture. Cross-cultural training effectiveness is reflected by the *cognitive*, *affective*, and *behavioral* changes that occur during the CCT event. In order to improve the effectiveness of CCT programs, or to maximize the change that occurs during training, it is important to follow a systematic approach to designing effective CCT programs. Research has shown that a well-designed CCT program can enhance the learning process of the expatriate and thus facilitate effective cross-cultural interactions and cross-cultural adjustment (Black and Gregersen, 1991; Caligiuri et al., 2001).

This chapter focuses on the systematic process for designing effective CCT programs. The process for designing effective CCT programs consists of five distinct phases:

1 Identify the type of global assignment for which CCT is needed.
2 Determine the specific cross-cultural training needs.
3 Establish the goals and measures for determining training effectiveness.
4 Develop and deliver the CCT program.
5 Evaluate whether the CCT program was effective.

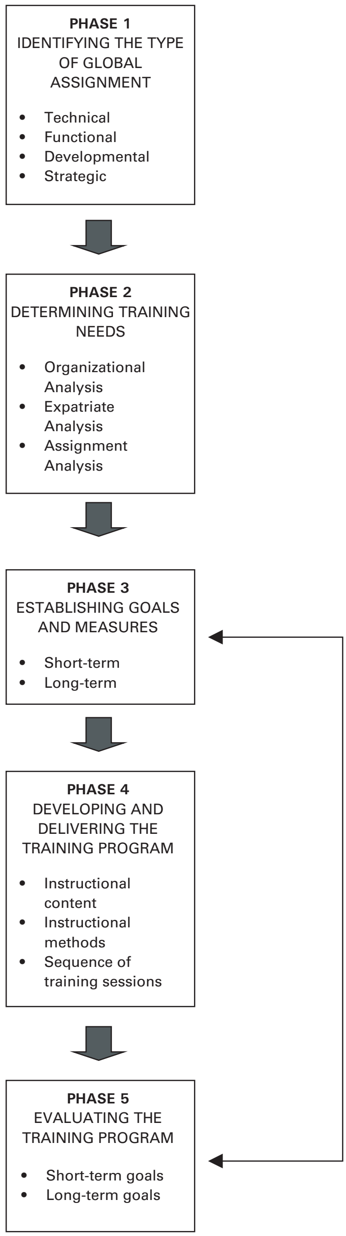
This process for designing effective CCT programs is presented in Figure 11.1. Each phase in this process will be described in greater detail in this chapter.

2 PHASE 1 – IDENTIFY THE TYPE OF GLOBAL ASSIGNMENT

The type of global assignment should be taken into consideration when designing CCT programs. As many authors point out (e.g., Caligiuri, forthcoming; Caligiuri and Lazarova, 2001; Hays, 1974; Oddou, 1991), there are different types of global assignments – and expatriate practices, such as selection, cross-cultural training, and repatriation will differ depending on the type of global assignment being managed. Based on the performance goals for expatriate assignments, Caligiuri (forthcoming) describes a classification of global assignments into four categories:

1 Technical
2 Functional/tactical
3 Developmental/high potential
4 Strategic/executive

FIGURE 11.1



Systematic process of designing effective CCT programs

Using this typology, CCT programs will vary based on the goals required for the successful completion of each assignment. Below we briefly describe these four types of global assignments, referring interested readers to Caligiuri and Lazarova (2001) and Chapter 13 for a thorough description of the entire typology.

The technical assignment is similar in content to the assignee's domestic position. Technical assignees are in an organizational setting fairly typical of the setting of the home country. Many of the global assignees on technical assignments describe their work experience as 'quite similar' to what they were doing back home. When technical skills do not exist in one geographic region, a global assignment may be necessary to fill a technical need. It is not expected that these global assignees will have significant interactions with the host nationals working at the subsidiary location – and those interactions that inevitably will occur, will not greatly affect the outcome of the assignment. In other words, the person is being sent for his or her technical skills. It is those technical skills that will determine the outcome of the assignment. These assignments include technicians on an oil refinery, systems engineers on continuation client sites, systems analysts interfacing with a computer system, and the like.

The functional/tactical assignment is similar to the technical assignment with one distinct difference – significant interactions with host nationals are necessary in order for the assignment to be deemed successful. As with the technical assignments, functional assignees are sent to fill technical or managerial gaps in host countries. Unlike technical assignees, functional assignees will need to interact with host nationals in order for the assignment to be deemed successful. Given their interaction with host nationals, cross-cultural skills are needed in order for functional assignees to be successful. This type of global assignment is the most common global assignment.

For some MNCs, sending expatriates abroad on a *developmental/high potential* assignment is consistent with their overall strategic human resource plan. Most organizations which utilize this type of global assignment do so within the context of their managerial development program. These programs are often rotational – with one of the rotations being in another country. While on this type of assignment, the goal is individual development.

S*trategic/executive assignees* tend to be high profile (e.g., general managers, vice-presidents) and very senior in the organizational hierarchy. Unlike the more junior developmental assignees, the executive assignments are viewed as both developmental and strategic. These strategic assignees are the core 'critical' group of assignees and considered a competitive resource for the organization. They may have the task of entering a new market, developing a country's market base, being the general manager of a joint venture, and the like.

3 PHASE 2 – CONDUCT A CROSS-CULTURAL TRAINING NEEDS ANALYSIS

A cross-cultural training needs analysis is conducted across three levels:

1 The organizational level, to determine the organizational context for CCT;

2 The individual (or expatriate) level, to determine any special needs that have to be addressed in CCT for a given person; and

3 The assignment level, to determine the cross-cultural knowledge and skills required to effectively complete the given assignment.

Organizational analysis considers the role of CCT within the context of the organization's (e.g., headquarter and/or subsidiary) culture, politics, structure, and strategy. This analysis considers how CCT can assist both the headquarters and the subsidiary in supporting its global strategy. In addition, organizational analysis considers the availability of training resources, such as trainers and equipment required to effectively design and offer CCT. To illustrate, organizations with a higher proportion of strategic or developmental assignees are more likely to need higher CCT budgets, are more likely to use professional cross-cultural trainers, and are more likely to conduct CCT, compared to organizations with more of their expatriates on technical assignments. Finally, organizational analysis should determine the expected cost and the expected benefit of a CCT program. Based upon this organizational assessment, HR decisions are made as to whether an organization is ready, able, and willing to offer effective CCT.

The individual expatriate analysis examines the level of the individuals who are on the receiving end of the CCT, the expatriates themselves. The expatriate analysis examines the extent of the individual's prior international experience, their experiences with earlier CCT (Pusch, 1994), and their existing levels of cross-cultural knowledge and skills. In addition, the expatriate analysis examines how expatriates perceive the issues the CCT program is designed to address (e.g., expatriates may be opposed to CCT or may be opposed to a specific CCT method such as role playing), and their intercultural communication style (e.g. they may have specific problems in communicating with individuals from cultures other than their own). Finally, this analysis examines the needs of the expatriate's entire family. Recent research has shown that a maladjusted spouse is an important reason why expatriates do not succeed on global assignments (Caligiuri et al., 1998).

Assignment analysis identifies the important tasks required on the global assignment, and the type of cross-cultural knowledge and skills needed to perform those tasks effectively. As far as the assignment analysis of each type of global assignment is concerned, Caligiuri (forthcoming) provides a broad range of tasks that are carried out by each type of assignee and identifies the general level of cross-cultural knowledge and skills required to successfully complete the assignment. Given that a global assignment is a job context (and not a job description) there are numerous position-specific competencies which could be included in CCT as needed.

4 PHASE 3 – ESTABLISH CCT GOALS AND MEASURES

After cross-cultural training needs have been identified, short-term and long-term goals for the training outcomes must be developed. Short-term goals specify what the expatriate should be able to accomplish on completion of the CCT program. Long-term goals, in contrast, reflect the expected outcome of the expatriate assignment, such as cross-cultural adjustment and success on the assignment (Kealey and Protheroe, 1996).

Cross-cultural training goals should be stated in detailed and measurable terms. As discussed by Noe (1999), detailed and measurable training goals help develop appropriate outcomes for training evaluation (we will discuss this in phase 5). Short-term CCT goals can bring about cognitive, affective, and behavioral changes (Gudykunst et al., 1996). Cognitive goals focus on helping expatriates understand the role of cultural values on behavior in the destination country, in both social and business contexts. Specific examples of cognitive goals include: increased understanding of the purpose, value, and benefits of the assignment, increased knowledge about managing stress, and increased awareness of norms required to effectively interact with local nationals. Affective goals aim at helping expatriates effectively manage their attitude toward the new culture and successfully handle negative emotions. Affective goals include modifying an expatriate's perception about the host culture and increasing his/her self-confidence to communicate with individuals from other cultures. Behavioral goals help expatriates form adaptive behaviors by emphasizing the cross-cultural skills expatriates require in order to successfully interact with individuals from other cultures. Examples of behavioral goals include developing intercultural skills, negotiating skills, and relationship building skills.

Although these three types of changes (cognitive, affective, and behavioral) are relevant to most CCT goals, the type of global assignment determines which type of change is required. For example, CCT for people sent on a technical assignment, which does not require significant interactions with the host nationals, needs to focus on cognitive goals (e.g., providing practical information such as information on the shopping and the transportation system in the host country). In contrast, CCT for people sent on the developmental/high potential assignments, and on strategic/executive assignments, which require significant interactions with host nationals to successfully complete the assignment, must concentrate more on behavioral goals (e.g., developing their intercultural effectiveness skills).

While the short-term goals of CCT will vary from assignment to assignment, the long-term goal of many CCT programs is to improve the rate of cross-cultural adjustment. Improving cross-cultural adjustment is important for all expatriates and would generalize across assignments. Likewise, improved success on the global assignment may be another generalized long-term goal – with the specific dimensions, of course, being job specific.

5 PHASE 4 – DEVELOP AND DELIVER THE CCT PROGRAM

Once the training needs have been determined and translated into short-term and long-term goals, the next step is to develop and deliver the training program that achieves the training goals. This phase involves determining the specific instructional content needed in order to achieve the stated goal, the methods to deliver the instructional content, and the sequencing of the training sessions.

Instructional content

Harrison (1994) presented a framework that enables researchers and practitioners to identify appropriate training content. Based on the cross-cultural interaction research (e.g., Brislin et al., 1986; Copeland and Griggs, 1985; Harris and Moran, 1991), Harrison suggests that content structure should follow an integrated approach consisting of both general cultural orientation and specific cultural orientation. The purpose of cultural general orientation is twofold. The first purpose is to understand factors that may influence one's receptiveness to effective cross-cultural interactions, such as resistance to change, clear understanding of the purpose, value, and benefits of the global assignment, and the ability to manage stress. The second purpose is to understand how cultures differ and the impact of these differences on expatriates. (See Chapter 6 for details about the various cultural dimensions).

The objective of specific cultural orientation is to help expatriates understand more about the specific culture to which they are being assigned. To provide this cultural context, expatriates will learn about a country's language, customs, diversity, history, geography, etc. In addition, expatriates learn about appropriate cultural behaviors and suitable ways of performing necessary job tasks in the host country (Black and Mendenhall, 1990; Kealey and Protheroe, 1996), and about creating realistic expectations about living and working in the host country (Black and Mendenhall, 1990; Black et al., 1991; Caligiuri et al., 2001).

Instructional methods

Gudykunst et al. (1996) suggest that CCT methodologies available for CCT can be categorized according to two issues: learning approach (didactic vs. experiential) and the content of the training (culture-general vs. culture-specific). Based on these continua, CCT methodologies can be categorized into four categories:

1 Didactic culture general training

2 Didactic culture specific training

3 Experiential cultural general training

4 Experiential cultural specific training

A didactic approach to training emphasizes knowledge acquisition and is based on the assumption that a cognitive understanding of a culture is necessary to appreciate the norms and behaviors of that culture. Didactic culture general training methods provide cultural general information to expatriates and include lectures, seminars, reading material, discussions, videotapes, and culture-general assimilators. Didactic culture specific training methods, in contrast, present information on a particular culture. Methods used in this category include area studies, videotapes, orientation briefings, case studies, and the like.

The experiential approach to training stresses skills acquisition and is based on the assumption that individuals learn best from their experiences in the host country or from interacting with individuals from other cultures. Experiential cultural-general training methods help expatriates experience the impact of cultural differences on their behaviors. Methods in this category include immersion programs or intensive workshops. In contrast, experiential culture-specific training methods help expatriates experience and learn from interactions with individuals from the host culture. This approach generally includes methods like role-playing, look-see trips, in-country cultural coaching, and language training.

A recent development in the use of written or reading methodology is the notion that good fiction can provide a type of virtual learning (Fox, 2003), particularly in situations where trainees are separated from the realities of life in the new country, such as in predeparture CCT. Fox describes several travelogues, missionary biographies and autobiographies, and intentional collections that can be used to facilitate the learning process (see Fox, 2003 for details).

Selecting instructional methods

It is obvious from the above classification system that, within each category, expatriates may be trained in a variety of ways. Black and Mendenhall (1989) presented a theory-based contingency framework for selecting an appropriate CCT method. Using Social Learning theory, they suggest that learning is a sequential process involving three components: attention (i.e., gaining awareness), retention (i.e., acquiring knowledge), and reproduction (i.e., developing skills). They argue that CCT needs to be differentiated by the level of 'training rigor' required to successfully train the expatriate. Training rigor is the degree of cognitive effort necessary to grasp the cultural knowledge and cross-cultural skills in order to successfully live and work in a new country.

According to Black and Mendenhall three contextual factors influence the level of rigor necessary for training success: culture novelty, degree of interaction with host nationals, and job novelty. Culture novelty is the extent to which the expatriate's home culture differs from the host culture. The authors argue that the greater the novelty, the more difficult the learning challenge because 'the more difficult it will be for the individual to attend to and retain the various models of appropriate behavior' (p. 523). Degree of interaction with host nationals is defined as 'the degree of expected interaction between the individual and members of the host culture' (p. 524). Finally, job novelty refers to the fact that 'the more novel the tasks of the new job in the new culture, the more assistance the individual will need through rigorous training to produce the desired and necessary behaviors to be effective in the new job' (p. 525). In summary, the various types of training methods within each of the four categories (e.g., experiential cultural specific) can be differentiated according to the degree of training rigor which depends upon the situational factors of the global assignment (e.g., degree of cultural novelty, degree of job novelty, and the degree of interaction with local nationals).*

Sequencing of training sessions

The sequencing of CCT refers to the timing of training sessions. Training sessions can take the form of predeparture CCT (provided before departure), in-country CCT (provided after arrival in the new country), or sequential CCT (combination of the two) (Bennett et al., 2000; Black et al., 1999).

Cross-cultural training sessions may be provided prior to departure (predeparture CCT), after arrival in the destination country (post-arrival CCT or

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*In general, training methods of high rigour include simulations, field trips, role-plays, and interactive language training. Training methods of moderate rigour include sensitivity training, culture assimilators, case studies, classroom language training, and films. Finally, training methods of low rigour include books, lectures, and area briefings (see Black and Mendenhall, 1989 or Mendenhall and Oddou, 1999: 442–69 for more details).

in-country CCT) or as a combination of both (sequential CCT or continuous CCT). Predeparture CCT has been the most widely utilized form of training used by organizations to prepare individuals to live and work in a new country. Advocates of predeparture CCT argue that this type of training allows expatriates to enter the assignment already equipped with realistic expectations about living and working in a new country. In a study to test a theoretical model to determine whether the formation of expectations as a result of predeparture CCT programs affects expatriates' adjustment, Caliguiri et al., (2001) found that predeparture CCT affects the accuracy of expatriates' expectations prior to the assignment – and that having accurate expectations, in turn, positively affects cross-cultural adjustment. Predeparture CCT, however, works best if the training content focuses on basic information about the host culture, such as currency exchange rate, hotels, transportation system, hospitals, etc.

Advocates of post-arrival or in-country CCT argue that while predeparture CCT may provide the expatriate with greater confidence about being successful in the new country, predeparture CCT is conducted apart from the actual experience of realties in the host country. They propose that in-country CCT is likely to be more effective than predeparture CCT because individuals, after arrival in the new country, enhance their learning readiness by experiencing the host country culture, beliefs, and values (see Black et al., 1999; Selmer et al., 1998; Gudykunst et al., 1996).

Given that there are important differences between predeparture CCT and post-arrival CCT, the appropriate sequencing of information (either predeparture or post-arrival) is considered a *best practice for CCT*. For example, basic information should be offered prior to a global assignment – while deeper cultural learning about a new country and its culture, and the awareness of the skills and behaviors needed to be successful in another culture could be effectively administered after arrival in the host country (see Selmer et al., 1998; Gudykunst et al. 1996).

Drawing on Cohen and Levinthal's (1990) theory of absorptive capacity, Tarique (2001) puts forward the theoretical framework of cross-cultural absorptive capacity (CCAC) to support the notion of sequenced series of predeparture and post-arrival training. Tarique argues that an individual's ability to recognize new cultural knowledge, assimilate it and apply it in new cross-cultural settings is dependent on his or her prior accumulated cultural knowledge. That is, an individual's prior accumulated cultural knowledge enhances his or her ability to learn new cultural knowledge. For instance, an expatriate from China working in the US may not be able to learn the values of the American culture without first having prior knowledge of the general dimensions on which most cultures differ such as how people view humanity and how people see nature (Kluckhohn and Strodtbeck 1961; for further frameworks of cultural dimensions see Chapter 6). Furthermore, Tarique argues that an individual's learning of new cultural knowledge can vary with the magnitude of the individual's prior accumulated cultural knowledge, that is, the larger the individual's prior accumulated cultural knowledge, the greater the learning of new cultural knowledge. For instance, the Chinese expatriate's learning of US culture will be enhanced if his/her prior accumulated cultural knowledge contains an understanding of all the general dimensions on which most cultures differ like Kluckhohn and Strodtbeck's six dimensions that describe the cultural orientations of societies (1961). In sum, Tarique's notion of CCAC explains theoretically why training contents need to be sequenced at different training periods.

In practice, Caligiuri and Associates, a strategic global HR consulting firm, provide an example of a CCT program that follows the sequential approach. Their CCT program consists of three sessions: predeparture, post-arrival session 1, and post-arrival session 2. During the predeparture phase all participants take the Self-Assessment for Global Endeavors test (the SAGE) online and participate in a SAGE debriefing session. The SAGE is a decision-making tool for employees who are contemplating whether or not to pursue a global assignment (for details visit www.caligiuri.com). This session helps participants identify key areas of concern and customizes the focus of the CCT sessions. Predeparture materials are sent to participants to provide information on the host culture. The first post-arrival CCT session takes place three to four weeks after arrival in the new country. Since the participants have had some time to overcome logistical difficulties and experience some degree of cultural interaction, the training relevance of session 1 is extremely high. After the first CCT session, the trainer maintains a degree of e-support with the participants to help coach on developing cultural issues. Approximately one month after the first session of CCT, the second post-arrival CCT session is administered. This session is much more contextual and provides participants with a sophisticated way of applying cultural learning. Again, e-support is maintained after the second session of CCT for up to five months.

6 PHASE 5 – EVALUATE CROSS-CULTURAL TRAINING

After CCT has been delivered, it should be evaluated against the stated goals for effectiveness. Results from the CCT evaluation should help the organization decide whether CCT should be continued in its current form or modified. Cross-cultural training evaluation refers to the systematic process of gathering information necessary to determine the effectiveness of CCT. Cross-cultural training effectiveness is generally defined in terms of the benefits the expatriates receive from CCT and is determined by the extent to which expatriates have changed as a result of participating in CCT.

The evaluation process involves establishing measures of effectiveness (criteria), and developing research designs to determine what changes (e.g. cognitive, affective, and behavioral) have occurred during the training. Criteria must be established for both evaluation of short-term, and long-term goals. The appropriate evaluation criteria should also be assessed prior to the delivery of CCT to provide some type of comparison bases for post-training assessment. In addition evaluation strategies need to be developed during phase 3, that is, the decision on how to evaluate CCT's short-term and long-term goals needs to be made at the same time as these goals are established.

Evaluation of short-term goals

Evaluation of expatriates at the conclusion of the CCT program involves developing outcome measures that assess the extent to which cognitive, affective, and behavioral changes have occurred during CCT. Cognitive outcomes are usually used to determine whether the expatriates knew more than they did prior to participating in CCT. Cognitive outcomes such as the acquisition of cross-cultural knowledge and the awareness of the appropriate cross-cultural skills and behaviors, measure what cross-cultural knowledge expatriates learned in the program. Typically, paper and pencil tests or online tests are used to measure cognitive outcomes. Affective outcomes, such as attitude and motivations, measure expatriates' perception of the CCT program and his/her attitude toward individuals from other cultures. This information is collected through personal interviews or group discussions. Behavioral outcomes are used to assess the change in the level of cross-cultural skill such as intercultural communication skills and language skills. The extent to which expatriates have acquired cross-cultural skills can be measured by observing performance in a cultural simulator or in a role play. Although all three of these outcomes are relevant to CCT's short-term goals discussed earlier, the type of global assignment will decide which outcome(s) will be used in evaluating expatriates at the conclusion of the CCT program. For example, short-term goals for people sent on a technical assignment, which does not require significant interactions with the host nationals, need to focus on cognitive outcomes, such as acquiring *practical information* (e.g., information on the shopping and the transportation system in the host country). In contrast, the short-term goals for people sent on the developmental/high potential assignments, and on strategic/executive assignments, which require significant interactions with host nationals to successfully complete the assignment, must focus more on affective and behavioral outcomes such as acquiring *intercultural skills*.

Evaluation of long-term goals

As mentioned earlier, the majority of CCT programs emphasize cross-cultural adjustment as a long-term goal of CCT. Evaluation of expatriates' adjustment can be measured through paper and pencil questionnaires, phone interviews, in-person interviews, or electronic surveys. Studies have shown that cross-cultural adjustment is positively related to performance or professional effectiveness on the assignment (Caligiuri, 1997). Professional effectiveness can be measured through performance appraisal, which is done by those who are able to observe the expatriate (Caligiuri and Day, 2000). Blake et al. (1996) point out that a critical aspect of the evaluation process is the source of data. An expatriate's performance may be effective from the headquarters' perspective, yet may be deemed unsuccessful from the subsidiary's viewpoint. The authors suggest the use of balanced evaluations that consider home and host culture data sources.

In addition to establishing measures of effectiveness, the evaluation phase must also focus on the necessary research design to assess the effectiveness of the CCT program. There are several research designs which can be used to evaluate CCT programs (e.g. post-test only, pre-test/post-test) and the choice of a design depends on the focus of the evaluation (e.g., to improve the CCT program, or to determine the extent to which expatriates have changed as a result of CCT), and on the rigor of the evaluation (e.g., conclusions based on anecdotal data or highly quantitative data). The focus and rigor help determine the structure of the evaluation design. Kealey and Protheroe (1996), for example, reviewed the CCT literature and examined methodologies used to assess cross-cultural training effectiveness. They concluded that these past studies were 'seriously deficient' (Kealey and Protheroe, 1996: 159) for a variety of methodological reasons. They suggest that a methodologically rigorous study of CCT effectiveness would need to include the following elements:

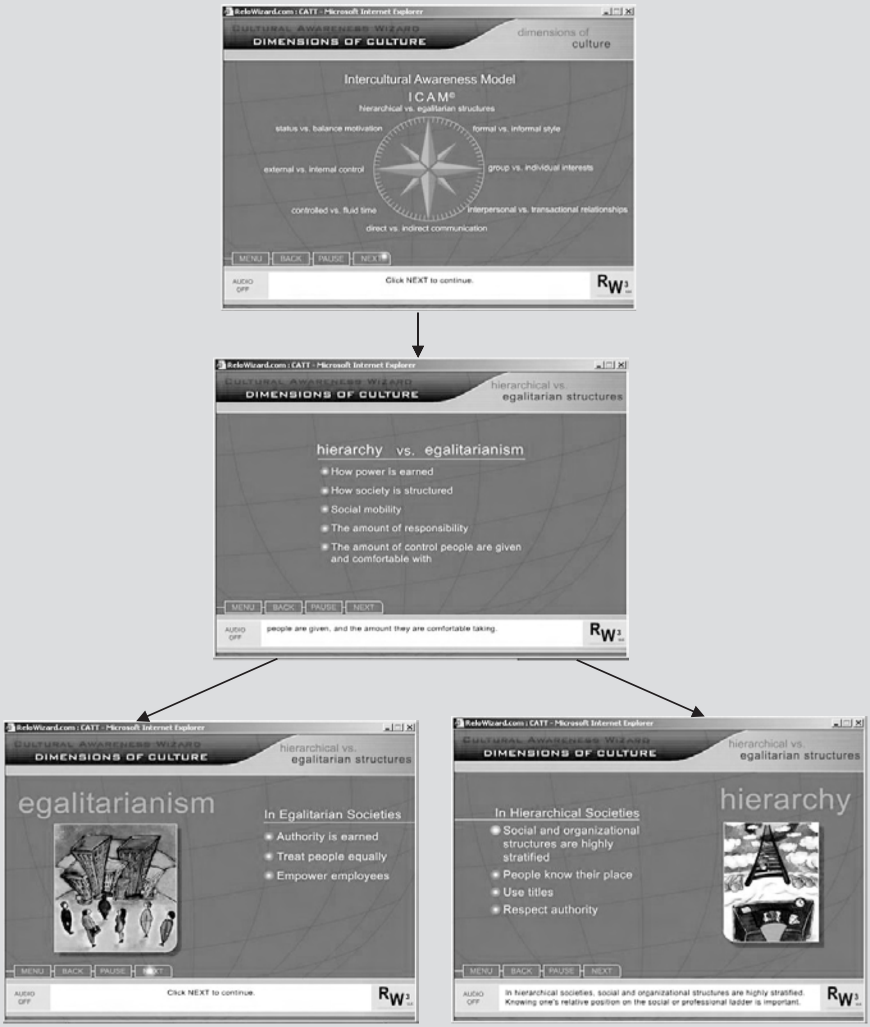
1. A comparison between groups receiving CCT and control groups. Participants have to be randomly assigned to groups.
2. Pre- and post measures of change in cognitive, behavioral, and affective outcomes.
3. Longitudinal measures of subsequent performance on the assignment. Tests should be conducted immediately after CCT to measure the immediate results and at a later date to measure CCT's impact on performance.
4. Multiple measures of the short-term and long-term outcomes of CCT.
5. Clearly defined independent variable(s), such as the type of training method implemented, the instructional content of the CCT, and the sequencing of the cross-cultural training sessions.
6. Clearly defined dependent variable(s), such as cross-cultural adjustment.

7 FINAL CONSIDERATIONS

In this section, we briefly discuss three additional issues that must be taken into consideration when developing CCT programs: (1) electronic CCT; (2) linking CCT to other HR practices; and (3) designing effective training programs for host country nationals and for third country nationals.

BOX 11.1: Sample e-CCT screenshots

These are examples from an e-CCCT program offered by RW3©



Electronic cross-cultural training

The recent advances in technology based training (TBT), particularly CD-ROM, DVD, internet-based training, multimedia, and distance learning have resulted in a vast array of new CCT methodologies (Mendenhall and Stahl, 2000; Greengard, 1999). One interesting TBT innovation is the development of electronic CCT (e-CCT). e-CCT delivers training content via the internet/intranet in a variety of forms such as motion pictures, stills, text, and sounds and allows trainees to interact with the training content (see Box 11.1 for an example of e-CCT).

Compared to traditional CCT methodologies (e.g., lecture based), e-CCT has several advantages: it enables firms to lower costs associated with delivering training content, it allows trainees to individualize and self-manage their learning experience, and is easier to administer. For these reasons e-CCT is rapidly growing as an effective way of preparing expatriates to live and work in a new culture. Because e-CCT contains highly specialized training content, many organizations depend on external training vendors to design, develop, and deliver the e-CCT program. e-CCT programs come in a variety of packages, each with its own benefits and drawbacks, therefore selecting the right e-CCT vendor is very important to the success of the CCT program (see Box 11.2 on how to evaluate potential e-CCT vendors).

Box 11.2: Evaluation of e-CCT

With the inception of e-learning in many organizations, cross-cultural training programs are also beginning to be delivered via the internet or through organization's intranet systems. To evaluate these electronic delivery CCT programs, one should determine to what extent this system provides a complete program of CCT, covering everything that would normally be covered in a comprehensive cross-cultural training program. You can evaluate the content of e-CCT by asking these questions:

- Does the program have a section explaining what culture is and how it affects daily life? Evaluate how well these are explained.
- Does the program provide a framework (or model) for understanding culture – including several dimensions of culture? Are they easy to understand and apply to real life?
- Does the program allow the participant an opportunity to evaluate his or her own cultural values? Is the cultural value assessment a reliable instrument? Ask to see the reliability evidence for the scales measuring the various dimensions (e.g., alpha coefficients).
- Can the participant's cultural values be evaluated against the host country's cultural values? How were the values applied to the host countries validated? (Be careful that they were not created by the author's perceptions.) Ask to see a report on the development process and the validation studies.
- Does the program effectively explain the challenges of culture shock? Evaluate how well this concept is described.
- Does the program include a self-assessment to help the expatriate consider the challenges for his or her family, career, and personality? As before, check carefully the reliability of the scales used to assess these concepts and validity reports which document the linkage between the dimensions assessed and criteria of expatriate success. (Be careful because there are tools that have been written to 'look' relevant – which have no practical or substantiated worth.)

In addition to the content of the system, several other factors should be considered when evaluating an electronic-delivery cross-cultural training program. Some other factors to evaluate include:

- Is the program self-directed? Is the participant able to move in and out of the program easily? Are the basic materials presented before the more challenging information is offered? Would they need to start over if they exit the program?
- Can expatriates access this information in real time, while they are on assignment? Are they allowed free access to the site – or do they have limited time or a limited number of accesses to the site?
- Is the system designed to tailor the information for the expatriates as they work through the training program? For example, does the system remember the country in which the expatriate is living, that she has two children, etc.? The more tailoring provided by the system, the more receptive the expatriate will be to interacting with the e-CCT system.
- Is the system relatively easy to use? Does it load quickly? Is the system easy to navigate?
- Is the information current? Check the country information – especially with those also offering broader relocation provisions (home searches, schools, etc.).

While e-CCT may be a cost-effective way to deliver training to many expatriates, international HR professionals are advised to select their vendors carefully – not solely on low cost or flashy graphics.

Link cross-cultural training with other HR practices

A CCT program that is linked with an organization's HR practices has a greater chance of success than CCT programs that are not linked by an overall HR strategy. For example, when expatriates acquire new cross-cultural knowledge and skills and apply them on the assignment, the way in which their assignment performance is assessed must reflect these changes. The more critical global assignments should be emphasized within the organization's total performance management system. In a similar fashion, expatriate compensation should reflect the outcomes of CCT. If expatriates have acquired new cross-cultural knowledge and skills and are able to use them effectively on the assignment to enhance their performance, then they should be compensated accordingly. Cross-cultural training should also link with selection and assessment. Some personality traits, such as openness, may influence CCT success and could be incorporated into the assessment phase of the expatriate process (Caligiuri, 2000a, 2000b). Therefore, selection of people to participate in

CCT – and ultimately go on a global assignment – will play a key role in the outcome of the effectiveness of a well-designed CCT program.

Designing effective training programs for host country nationals and for third country nationals

As organizations globalize their operations (e.g. establish international joint ventures and foreign subsidiaries), they continue to recruit and select a mix of different types of employees including host country national (employee with citizenship of a country where he/she works), third country national (employee with citizenship of a country different from the country where the organization has its headquarters and different from the country where he/she works), and parent country national (employee with citizenship of the country where the organization has its headquarters). International joint ventures (IJVs), for example, can include as many as nine different types of employees each with their own distinct characteristics: foreign parent expatriate, host parent appointee, foreign parent transferee, host country national, third country expatriate of foreign parents, third country expatriate of host country parents, third country expatriate of the IJV, foreign headquarter executive, and host headquarter executive (see Zeira and Shenkar, 1990). The various employee groups, each with its own cultural background and unique performance goals, highlight the complexity of issues associated with designing CCT programs in organizations with multiple employee groups. For example, should all employees receive general cultural awareness training and/or cultural specific training? How will training for co-workers and subordinates of a parent country national on a strategic/high potential assignment (e.g., general manager, vice-president) differ from training for co-workers and subordinates of a parent country national on a functional assignment (e.g., compensation manager) or on a developmental assignment (e.g., international marketing coordinator)?

The above issues, and other training design issues in general, can be addressed through the systematic process for designing effective CCT programs explained in this chapter (see Figure 11.1, p. 286). Although we have used the five phases of the CCT design process to provide an overview of the major issues associated with designing CCT programs for expatriates who can either be parent country nationals or third country nationals, the five phases can also be used to design training programs for host country nationals (Tarique et al., 2001). Phase 1 (identification of employee type), however, will need to be modified to include different types of host country nationals. The remaining phases can be used to determine the specific training needs, to establish learning goals and measures for determining training effectiveness, and to evaluate learning outcomes of host country trainees.

8 CONCLUSION

This chapter has provided broad guidelines for both cross-cultural trainers and human resource specialists to better understand the systematic process of designing effective CCT programs for expatriates. This systematic process included identifying the type of global assignment for which CCT is needed, determining the specific CCT needs, establishing the goals and measures for determining training effectiveness, developing and delivering the CCT program, and evaluating whether the CCT program is effective. Also, this chapter briefly discussed e-CCT, the alignment of CCT with other HRM practices, and designing effective training programs for host country nationals and for third country nationals.

The CCT industry is continuously working to improve the effectiveness of CCT programs (Mendenhall and Stahl, 2000). As Mendenhall and Stahl stated, 'those of us in the industry are constantly learning how to improve the design and delivery of cross cultural training programs from both practice and scholarly research' (p. 251). We believe that the key to improving the process for developing, delivering, and evaluating CCT programs for expatriates lies in new training technologies. Based on the current instructional technology research and on our practical experience, new training technologies, such as the internet and web-based technologies, are developing at an enormous pace and are providing cost effective alternatives to traditional training design processes. Using new technology to its best advantage is a major challenge facing cross-cultural trainers and human resource specialists. In our opinion, it seems that making the most of this technology is critical to designing effective CCT interventions now and in the future. Currently, new technology is having a growing impact on the *delivery* of CCT programs (e.g. instructional content, instructional methods, and the sequence of training sessions). We sense that new technologies will soon allow organizations to improve the process of conducting a needs assessment and of evaluating CCT outcomes. As new technologies make it easier than before to design CCT programs, the use of CCT to prepare individuals for global assignments will continue to increase in the coming decades.

9 DISCUSSION QUESTIONS

1 Compare and contrast the four types of global assignments. Explain why CCT programs will differ depending on the type of global assignment.

2 What factors would you consider in evaluating an e-CCT program?

3 What are the six steps in a methodologically rigorous study of CCT effectiveness?

4 Under what circumstances would e-CCT be preferable to instructor-based CCT? Under what circumstances might you recommend instructor- based CCT instead of e-CCT?

10 FURTHER READING

- **Fowler, S.M., and Mumford, M.G. (1999). *Intercultural Sourcebook: Cross-Cultural Training Methods, volume 2.* Yarmouth, ME: Intercultural Press.**

This book includes articles by 23 leading cross-cultural trainers and covers divergent training methods for cross-cultural skill development and intercultural learning. These include self-awareness inventories, videotapes, small group exercises, and area studies.

- **Harrison, J.K. (1994). 'Developing successful expatriate managers: A framework for the structural design and strategic alignment of cross-cultural training programs.' *Human Resource Planning,*17: 17–35.**

This article suggests that MNCs can maximize returns from their human resources by implementing CCT programs in accordance with their corporate strategies, and describes in detail how CCT programs should be aligned with corporate strategies.

- **Kohls, L.R., and Knight, J.M. (1994). *Developing Intercultural Awareness: A Cross-Cultural Training Handbook.* Yarmouth, ME: Intercultural Press.**

This book provides information on simulation games, case studies, icebreakers, and other CCT activities. In addition, this book provides preplanned programs and demonstrates how to lead a workshop designed to develop intercultural awareness in a culturally naive audience.

- **Landis, D., and Bhagat, R. S. (eds) (1996). *Handbook of Intercultural Training,* 2nd edn. Thousand Oaks, CA: Sage Publications.**

This book discusses theoretical and methodological issues inherent in understanding intercultural interactions and training and the contexts in which training takes place.

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12 International Compensation and Performance Management

Marilyn Fenwick

CHAPTER CONTENTS

1 INTRODUCTION

This chapter deals with the compensation and performance management of staff in multinational companies (MNCs). The first section, on international compensation, outlines the definition and purposes of international compensation; the variables influencing international compensation strategy; options for compensating those on international transfer within MNCs; and problems and enduring issues with international compensation.

The second major part of the chapter examines the performance management of MNC staff. Performance management is defined and its dual purpose outlined within the context of MNCs. Then, performance appraisal, the core human resource management (HRM) activity of performance management, is examined. The chapter concludes by highlighting the changing nature of international work and, using 'virtual assignments' as an example of this change, the implications for international compensation and performance management.

2 INTERNATIONAL COMPENSATION

An organization's compensation system is the usual means by which employee rewards are planned and administered. Increasingly, the importance of international compensation strategy in the implementation of organizational strategy is being acknowledged (Bonache and Fernández, 1997; O'Donnell, 1999). International compensation can be defined as the provision of monetary and non-monetary rewards, including base salary, benefits, perquisites, long- and short-term incentives, valued by employees in accordance with their relative contributions to MNC performance. Its broad HRM purpose is to attract, retain and motivate those personnel required throughout the MNC currently and in the future. Job evaluation is the means by which internal relativities and compensable factors, those elements such as skills, physical and mental demands and responsibilities that comprise an individual's work role in the MNC and contribute to its performance, are determined (Cascio, 1991). From the perspective of employees, in particular, compensation is one of the most visible aspects of strategic international human resource management. Indeed, Kessler and Purcell have demonstrated 'the centrality of pay to the structure and operation of the employment relationship' (1995: 17).

There has been relatively little theory applied to explanations of international compensation. However, contingency, resource-based and agency theories offer some insight. An influential management theory, the contingency approach, suggests there are variables that impact on compensation policies and practices to make them more or less appropriate and effective (for a review in relation to compensation, see Balkin and Gomez-Mejia, 1987). Its contribution to international compensation strategy is implicit in the rationale for enduring expatriate compensation practices such as the Balance Sheet approach, and in more recent, global models of international compensation such as that proposed by Milkovich and Bloom (1998) discussed later in this chapter. Both developments incorporate the need to consider particular contingencies or situations, such as host country preferences, when devising and implementing international compensation.

Recently, two additional theories, Resource-based theory and Agency theory, have been applied to explain and predict particular aspects of international compensation. Resource-based theory analyses conditions in which organizations can gain positions of competitive advantage through having human resources which are valuable, rare, and difficult to imitate or replace (Barney, 1991) (such as employees with knowledge gained through specific international experience and organizational experience). Possession of such a resource can be seen to contribute to the organization's sustainable competitive advantage and therefore add value to the organization (see Bonache and Fernández, 1997, for an explanation of these concepts in the context of international compensation). In human resource terms, value creation for the MNC resides in competent, or knowledgeable and skilled employees. According to Resource-based theory, international compensation that effectively applies appropriate rewards to maintain and retain such employees throughout the MNC can serve to protect this source of sustainable competitive advantage.

The principal–agent relationship proposed in Agency theory (Eisenhardt, 1989) translates as the MNC headquarters–subsidiary relationship, where the headquarters is the principal and the subsidiary is the agency to which work and responsibilities are delegated. Given that the headquarters does not have all the unique knowledge of the subsidiaries, not all decisions in the MNC can be made by headquarters. It must depend on the subsidiaries, as their agents, and an 'agency problem' arises if the goals of the headquarters and subsidiary managers are not aligned (Roth and O'Donnell, 1996). International compensation strategy, therefore, must include those elements that motivate appropriate behaviours to implement the MNC strategy (O'Donnell, 1999).

In practice, international compensation strategy must facilitate equity and the movement of staff throughout the MNC. Equity is a fundamental principle of compensation. In human resource management terms, the basis of equity is the definition of relativities between work performed by employees, usually determined by the job evaluation activity, and expressed via the different rates of compensation administered to employees. Extending the equity principle to international compensation has been a significant challenge. Relativities are much more difficult to establish within the complex organization of an MNC, due to its geographic and cultural spread, and its workforce mix of home, host and third country nationals. Sparrow (1999: 111) notes the contemporary shift away from job-based HRM systems to person-based approaches. He suggests that this transition has 'immense' implications for international compensation, concluding that the assumption of the job as the essential differentiator of wage or salary in an organization is increasingly being challenged.

Within MNCs, international compensation requires very high involvement of the HRM activity (Reynolds, 1997). Drawing from Dowling (1988) and Dowling et al. (1999), the key differences for HRM in MNCs lie in the increased scope, perspective and level of involvement required in employees' lives as well as the level of risk. For example, the fundamental principles of compensation strategy are to balance the organization's capacity to pay with the provision of fair and equitable compensation. In MNCs, achieving this balance in practice is much more complex as it involves multiple international contexts and employee groups. Thus, the scope is greater, with different policies and practices traditionally developed for headquarters staff and international staff transfers, including expatriation.

A broader perspective is required in order to achieve global consistency in compensating employees throughout the MNC while allowing for variations in accordance with workforce characteristics and local preferences and requirements. In the case of international staff transfers, international compensation has included elements not usually explicit in compensation, such as allowances for housing and children's education, resulting in greater involvement of the human resource management (HRM) function in the personal lives of employees.

The level of risk associated with international compensation is greater in two related ways. First, risk is increased by the complexities of operating within multiple diverse economic, employment and taxation regimes. Second, the imperative for global consistency in international compensation can increase risk through direct and indirect cost inefficiencies associated with international staff transfers, and also with the implementation of an international compensation strategy. For example, recent research has identified a proliferation of employee ownership, or equity based schemes such as stock options in international compensation. It concluded that unless MNCs pay due diligence to adapting to local conditions, such schemes can result in employee dissatisfaction, failure of international compensation to meet its objectives and cost inefficiencies through inappropriately over-rewarding some employees (Cahill, 2002; Dwyer, 1999).

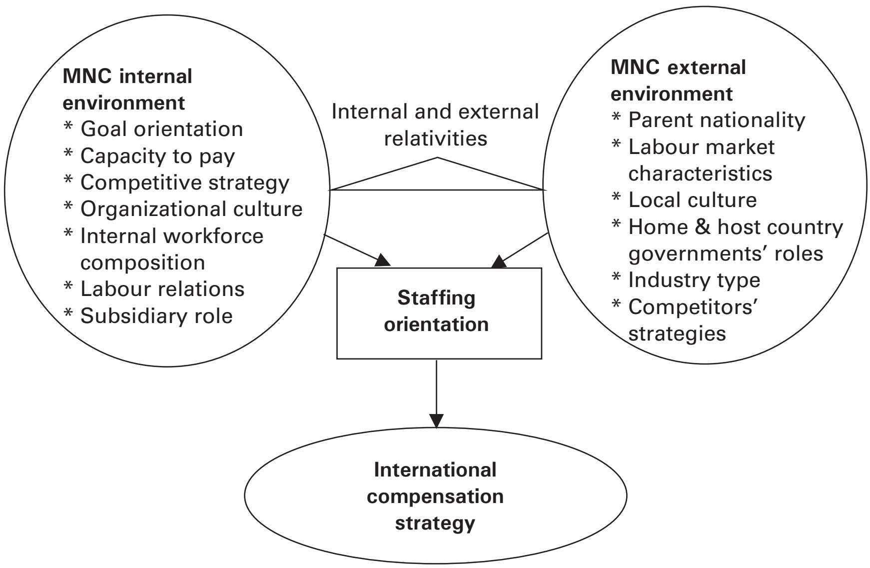
Variables influencing international compensation strategy

Internal and external factors influencing international compensation strategy are shown in Figure 12.1.

Within the internal environment, the goal orientation is reflected in the mission and goals of the MNC. Goals may be viewed as MNCs' images of their future states, which may or may not be realized (Etzioni, 1961). Manufacturing and service MNCs producing and supplying commodities to outsiders for profit have economic goals. Cultural rather than economic goals are reflected by organizations such as international non-government organizations seeking to make a difference to the human condition by institutionalizing and preserving desired values. Compare the late 1990s goal orientations of World Vision Australia, 'Fighting poverty by empowering people to transform their worlds' and Broken Hill Petroleum, 'To enter the 21st century as a billion dollar a year international oil and gas company' (O'Connor, 1996: 1; World Vision Australia, 1998: 1).

The mission and goals will frame the way the role of international compensation is defined. For instance, in the UK-based foam manufacturer Zotefoam, where equality is a key aspect of HRM in the company's mission, the

FIGURE 12.1



Internal and external variables influencing international compensation strategy

'only perks that differentiate executives from other workers are private health insurance and a car allowance' (Donkin, 1998: 8). The Managing Director of Zotefoam sees the internationalizing firm as one with minimal status differences between levels in the organization hierarchy.

An MNC's capacity to pay affects both the levels and types of international compensation. Thus, international compensation strategy must reflect consideration of cost constraints on the enterprise. The competitive strategy of the MNC will most likely influence the nature of international compensation through its IHRM strategy, the aspect of MNC that is aimed at sustaining competitive advantage through human resources. If, for example, as part of the MNC competitive strategy, the IHRM strategy is to be a market leader in employee compensation in order to compete for the most competent candidates, then the levels of compensation might well be higher than if the competitive strategy is based on, say, the provision of secure employment.

Attitudes, values and beliefs about the relative value of employee contributions and international compensation elements such as cash compensation, benefits, perquisites and employee ownership plans across the MNC are inherent in the organizational culture. The latter also influences the degree to which employees are compensated on the basis of seniority, in contrast to personal connections or performance.

Workforce characteristics such as age, education level, qualifications and experience, along with workforce tastes and preferences, and labour relations factors such as the nature of the employment relationship, for instance the level of trade union involvement within MNCs, will result in different international compensation approaches. Finally, if the strategic role of each subsidiary varies, then this is likely to influence international compensation strategy.

In addition to the internal environmental variables, the external environment also influences the nature of international compensation in MNCs. Relevant external elements include the nationality of the parent country, in terms of culturally determined values and attitudes towards compensation policy and practices. Local culture influences international compensation strategy through the dominant societal values, norms, attitudes and beliefs concerning, for example, bases for compensation differences (for example, performance, family connections, gender), degrees of compensation differences between managerial and non-managerial employees, and the propensity for using particular types of compensation (such as pay incentives and benefits). Other influences include labour market characteristics of supply and demand, and the education and skill levels, ages and experience of those in the labour market. The roles of home and host country governments in labour relations will also affect the level of government regulation of the labour market and the employment relationship, including compensation of the workforce.

Referring to Porter's (1986) typology, O'Donnell (1999) has recently concluded that international compensation strategy will vary according to industry type. For example, she cites evidence from two global industries, scientific measuring and medical instruments, that MNCs competing in a global industry may be more likely to allocate rewards based on corporate and regional performance, rather than on subsidiary performance, as favoured by MNCs competing in a multidomestic industry (see Chapter 2 for a discussion of these different industry types). Further, different industry sectors also have different norms and practices for international compensation. For example, service-sector and high technology MNCs have been more likely than manufacturers to incorporate equity-based options in their international compensation strategies (Butler, 2001).

Competitors' strategies will influence international compensation strategy. Even if the MNC is not seeking to be a market leader in international compensation, it generally cannot afford to fall behind market rates across its locations, as it will risk losing valuable employees to competitors.

As indicated in Figure 12.1, the internal and external environments of MNCs will largely determine the staffing orientations they adopt. As discussed in Chapter 10, MNCs commonly adopt ethnocentric, polycentric, regiocentric, geocentric or a mixture of these staffing orientations (Dowling et al., 1999). Traditionally, these orientations referred to staffing senior management positions in MNCs (Heenan and Perlmutter, 1979). The nature of international compensation will vary in accordance with the staffing orientation. For example, an ethnocentric orientation, expatriating senior management from headquarters to positions in international subsidiaries, has usually been associated with an approach based on compensating the manager and his or her family for relocating outside their home country through a number of allowances (Harvey, 1993). In contrast, MNCs with a predominantly geocentric approach might more readily adopt a global compensation strategy. Such an approach, according to Milkovich and Bloom (1998) moves away from relying on stereotypical ideas of cross-cultural, cross-national differences toward understanding and leveraging cross-cultural and cross-national differences. These approaches will be discussed further later in this chapter.

Compensation for international staff transfers

Until recently, international compensation research and practice has been firmly focused on expatriation. This focus is understandable given the reported high direct costs of such assignments. Take, for instance, the following example.

The million dollar assignment

The Director of Compensation and Benefits for Europe, the Middle East and Africa at UK-based Lucent Technologies, Steve Spencer, notes that the 'million dollar assignment' (in terms of total costs over three years) is now commonplace. He allocates the costs as:

Recurring costs	*US$ p.a.*	**Non-recurring costs**	*US$ p.a.*
Basic salary	100,000	Preparation/orientation	10,000
Performance bonus	20,000	Relocation/shipment	25,000
Pension, insurance, etc.	20,000	Temporary accommodation	5,000
Accommodation	50,000	Relocation allowances	15,000
Schooling	25,000	Repatriation/shipment	25,000
Local transport	10,000	Repatriation allowance	10,000
Home-leave travel	10,000		
COLA[1]/Hardship	10,000		
Tax gross-up	75,000		
Total	320,000	Total	90,000
Total x 3 years	960,000		

Total assignment cost: US$1.05 million over three years (assuming a married assignee with two school-age children).

[1]Cost of living allowance.
Source: Spencer, 1999: reproduced with permission.

Expatriate compensation comprises various allowances for international relocation. Some common allowances are:

- Foreign service premiums – most common for employees on long-term assignments (over one year), as an incentive to take the assignment. More often paid to parent country nationals (PCNs) than to third country nationals (TCNs).
- Hardship – in consideration of isolation, crime, natural hazards, political violence, based on government data upon which rates can be provided by consulting organizations such as International SOS, a global medical and security assistance company.
- Relocation – compensation for costs such as transport, storage, temporary accommodation, purchases of appliances and vehicles, associated with moving to the host country.
- Education – for assignees' children. This may involve compensation for language classes, books, and school fees. Home country boarding school fees may also be involved for assignees who opt not to take their children to isolated and or politically violent locations.
- Home leave – provision for the assignee and family to return home periodically during the length of the assignment. (Dowling et al., 1999; Stanley, 2001)

Phil Stanley, the South East Asia Director of Organization Resources Counselors (ORC), reported recently on trends in expatriate allowances. Recent research in 650 MNCs world-wide by ORC suggests that foreign service premiums are increasingly being paid in lump sums rather than as ongoing salary payments, and that even in longer-term assignments the premium payment continues. Housing allowances are increasingly being made as 'benefit-in-kind' rather than in cash. Over 80 per cent of respondents use tax equalization, a hypothetical tax deduction based on the usual compensation, excluding expatriate allowances, withheld by the MNC with the host country taxation liabilities fully paid by the MNC (Stanley, 2001).

The basis for expatriate compensation is maintaining relativities with parent country national colleagues and preserving parity of purchasing power; that is, ensuring that the expatriate maintains the same standard of living that he or she enjoyed at home. This has been most commonly achieved through applying the Balance Sheet approach (Dowling et al., 1999; Stanley, 2001). It comprises the payment of a base salary consistent with home country rates, plus cost of living and housing allowances reflecting home country standards, and provision for tax equalization or tax protection and a reserve of, say, savings, social security and investments. Costs incurred by the international assignee that exceed equivalent costs in the home country are met by both the MNC and the assignee proportional to preserving the assignee's home country equivalent purchasing power.

The Balance Sheet approach preserves equity between international assignees of the same nationality and between assignments, and is easy to communicate. It also facilitates repatriation (Dowling et al., 1999). However, it can create disparities and inequities between PCNs and TCNs and between them and host country nationals (HCNs). It can also be expensive. Cost of living allowances can provide unintended financial windfalls to assignees, if for example the data upon which the allowance is calculated is inaccurate, or for other reasons it is overestimated. A negative cost of living allowance occurs when an expatriate is unintentionally overpaid through a cost of living allowance that is higher than the actual cost of living in a particular location. ORC's research indicated that the majority of MNCs replying to their survey indicated they did not act to recover overpayments, or negative cost of living allowances. The distribution of such windfalls to certain international assignees and not others challenges the equity principle. ORC suggests that for 73 per cent of the MNCs surveyed, the Balance Sheet remains the system of choice (Stanley, 2001).

Host country and region-based expatriate compensation strategies are the best-known alternatives to the Balance Sheet approach. These are often referred to as localized approaches. Host country compensation places higher priority on local equity than on home country equity, compensating the assignee to host country standards, and often participation in a home country retirement scheme is the only compensation link with the home country (Dwyer, 1999). It is suited to long-term assignments where comparisons with home country peers are less relevant to assignees. However, some countries might find this approach more difficult to adopt due to the nature of their taxation and social security reporting requirements. For example, according to Dwyer, a host-country-based approach 'is often more difficult to apply to U.S. expatriates due to strict home country tax and social security reporting obligations' (1999: 51). This approach may also result in some repatriation problems if the home salary is lower than that being paid by the host country subsidiary.

A regional approach attempts to capitalize on apparent similarities in culture, compensation and taxes, for example by adopting the same compensation for all countries within a particular region. There is some evidence that MNCs are beginning to view the 11 countries that have adopted the Euro, or the 'Eurozone', as a region for compensation structures. For example, Portal Software Europe has equalized car allowances and some other benefits for employees in 8 of their 11 Eurozone bases, (Crabb, 2002; Dwyer, 1999). As Dwyer (1999) notes, while the Eurozone is a relatively easy region to define, one of the challenges with this approach can be that of defining a region. Consider Australia, for example, geographically close to but culturally distant from Asia.

Localization involves integrating the assignee into regional or host country compensation levels and systems to the extent that the law allows. This is obviously best suited to the longer-term international assignment. According to ORC, while reasons such as cost reduction by the MNC or the assignee wanting to remain in the assignment favour localization, only 27 per cent of respondents to their 2000 survey have a compensation policy that is localized at either the regional or host country level. A similar minority pursuing localization was identified in the most recent survey of 70,000 mobile workers in 276 companies by PricewaterhouseCoopers, with only 13 per cent considering the local market when determining salaries for expatriates on long-term assignments (Pricewaterhouse-Coopers, 2002). Of course, these approaches, including the Balance Sheet approach, have many variations and degrees. Overall, conservative and traditional models dominate compensation for international assignments, and enduring problems such as inequities between parent country national, third country national and host country national executive compensation, and the compensation legacy, or adherence to outmoded and irrelevant practices, have been identified (Harvey, 1993). The above section has focused on compensation for international staff transfers and issues related to it. The next section takes a broader view to consider issues with international compensation as a whole.

International compensation and the role of national culture

As shown in Figure 12.1, local national culture was identified as an external variable influencing international compensation strategy. While international compensation research and practice is extending beyond expatriate and executive compensation, debate about the influence of national culture on international compensation strategy and implementation endures. Consider, for example, the egalitarian compensation approach that the Managing Director of Zotefoam intends to transfer to his international operations. He does not see this as a barrier to international expansion into the USA and given that the cultural distance, or degree of cultural difference, between the UK and the USA is relatively small, his view might prevail. Proponents of a culture-free approach to compensation (see for example, Milkovich and Bloom, 1998) would argue that a standard, yet flexible, international compensation strategy could be universally applied with some modification in, say, defining an egalitarian organization across cultures. However, others would argue that cultural differences warrant different international compensation strategies (Harvey, 1993).

While recognizing the importance of cultural values in determining compensation, Bradley et al. (1999) suggest that, in addition to cultural similarities and differences, industry and corporate effects must also be included in determining whether or not a global compensation system is feasible. Compatible with this suggestion is the notion of strategic flexibility, an emerging trend in international compensation. This means focusing on leveraging national differences, developing MNC organizational culture and on managing multiple compensation deals. In effect, the strategic flexibility approach reflects Sparrow's (1999) caution against cultural determinism, and that international compensation strategies may be at once culture free (etic) and culture bound (emic). Milkovich and Bloom's (1998) international compensation model consists of three sets of different forms of total (monetary and non-monetary) compensation. The 'core' set is defined as that compensation which signals the organization's 'global mind-set'. Local conditions can be accounted for with variations in specific practices, but they must be consistent with core policies. The need for each subsidiary or business unit to be able to choose from total compensation options, which might be important to gaining and sustaining competitive advantage in each of their operating markets, is allowed for in the 'crafted' set of compensation forms.

The final, 'choice', set of total compensation offers flexibility for employees to choose from various options in total compensation from within a total cost framework. This acknowledges the 'difficulties in identifying national cultures' by customizing at the individual level (Milkovich and Bloom, 1998: 23), allowing individuals to have some say in their international compensation. It seems that, as involvement in globalization intensifies, multicultural environments increasingly influence MNC populations, and approaches such as that of Milkovich and Bloom are likely to find favour. Indeed, recent results from the Best Practices in International HRM study suggest that understanding 'what employees in a given culture want from a compensation system rather than replicating current cultural norms' might be the way forward for international compensation (Lowe et al., 2002: 76).

An effective international compensation strategy facilitates implementation of MNC strategy and contributes to employee job satisfaction and the motivation to achieve MNC goals. As shown in Figure 12.1, a robust international compensation strategy balances internal and external relativities across the MNC in order to ensure consistency and equity. However, as O'Donnell (1999) and Bonache and Fernández (1997) have recently pointed out, the strategic role of international compensation systems has been largely neglected. The second part of this chapter deals with performance management, the way in which goals may be transformed into action, the progress towards goal achievement monitored and the results rewarded. As indicated at the beginning of this chapter, performance management is defined and its dual purposes outlined within the context of MNCs. Then, at the functional level, performance appraisal, the core human resource management activity of performance management, is examined.

3 PERFORMANCE MANAGEMENT OF INTERNATIONAL STAFF

Performance management, according to Lewis (1998: 67), 'is a term used to describe an integrated set of techniques which have had an independent

TABLE 12.1

Characteristics of integrated performance management and their links to HRM functions

Performance management	HR functions
Links to MNC strategy clearly communicated to all employees	HR planning; job design and analysis (job descriptions)
Setting individual performance goals	Job analysis (job descriptions); performance appraisal
Providing regular feedback towards those goals	Performance appraisal
Providing opportunities for improving performance	Performance appraisal; training and development
Links between results and rewards	Performance appraisal; compensation

existence under their own names, *e.g.* performance appraisal' (author's italics). Broadly, performance management could be considered to comprise any HRM activity, or bundle of HRM activities, designed to improve employee performance, consequently it has been variously defined by writers and researchers. Differences have resulted in a lack of consensus as to the precise nature of performance management. There is however, agreement that performance management in contemporary organizations comprises a bundle of HRM activities with performance appraisal as the core, or central activity. Most narrowly, performance management would involve performance appraisal linked to reward decisions (Bernthal, 1996). At the optimum level, that of its strategic integration with other management systems, performance management involves:

1 links to organizational strategy

2 setting individual performance goals

3 providing regular feedback on progress towards those goals

4 providing opportunities for improving; and

5 linking results and rewards. (Armstrong, 1994)

The direct links of these characteristics to specific HRM functions within the MNC are shown in Table 12.1.

Performance management emphasizes employee development and rewards as outcomes of performance evaluation or appraisal. From an organizational behaviour perspective, Expectancy theory and Goal Setting theory have been identified as particularly relevant when discussing performance management (Clark, 1995). Expectancy theory hypothesizes that employees alter their behaviour due to their anticipated satisfaction of valued goals. Goal

Setting theory suggests that goals pursued by employees potentially play an important part in enhancing performance: challenging or difficult goals provide directional cues and motivate employees to exert effort. Goals also encourage consideration of the performance and goal setting processes (Fenwick and De Cieri, 2001).

Understanding of the nature of the job together with equitable, accurate and timely performance evaluation, the provision of feedback about performance to employees and equitable distribution of development opportunities and pay are aspects of performance management that form an employee's psychological contract (Stiles et al., 1997). The concept of the 'psychological contract' has received considerable attention in relation to HRM. It is a concept referring to an employee's belief regarding the terms and conditions of a reciprocal exchange agreement between that employee and the employer (Robinson and Rousseau, 1994). It establishes the nature of the employee's psychological relationship with the MNC and directs work-related attitudes and behaviours.

For example, in international HRM, particularly with regard to international staff transfers, it is often assumed that assignees have strong loyalties and commitment to the MNC. In practice, these attributes seem more likely to be present when assignees have relational rather than transactional psychological contracts (Welch, 1998). The former contract is viewed as longer lasting and based on some sense of emotional attachment to the MNC; the latter is more a short-term, exchange-based contract typified by the view, 'a fair day's work for a fair day's pay'. This distinction is important in relation to the performance management of international assignees because often the assignee is expected to engage in extra-role activities, to go beyond his or her position description, due to his or her presence in a foreign country.

In an MNC, performance management is more complex as it occurs across national and cultural boundaries. The impact of this additional complexity on each of the characteristics of an integrated performance management system listed above will now be considered for all MNC employees.

Links to the MNC strategy

In the performance management literature, the need for links between performance management and organizational strategy for achieving a shared vision of organizational objectives has been emphasized (Armstrong, 1994; Bevan and Thompson, 1991). This necessitates the relationship between each individual's performance and the achievement of strategic goals and objectives being clearly established and understood. It reflects the desirability of alignment of international HRM practices with the organization context, or vertical fit, advocated for organizational performance outcomes such as competitive advantage in the strategic international HRM literature (Schuler et al., 1993; Taylor et al., 1996).

Even with recent advances in communications technology, communicating strategy in MNCs is more complicated due to their competitive arena and the latitude, inherent in their strategies, to respond to competition differently, both strategically and structurally (Bartlett and Ghoshal, 1992).

Setting individual performance goals

Effective individual performance goals are said to be those that are Specific, Measurable, Achievable, Realistic and Timely (SMART) (Flamholtz et al., 1985). They should also reflect critical success factors or key performance indicators of the job role. In control terms, goal setting is said to be critical for organizations seeking to 'increase the probability that individuals and groups will behave in ways that lead to the attainment of organizational goals' (Flamholz et al., 1985: 36). Tasks to be performed by employees are usually communicated in the first instance in the position or job description. In performance management terms, this process should occur with extensive employee involvement and in the context of both the immediate position and the whole organization (Armstrong, 1994).

The rationale for such involvement appears to be that participation in goal setting 'has been found to be related to the acceptance and subsequent commitment to the established goals, leading to favourable outcomes in terms of both performance and attitudes' (Flamholtz et al., 1985). However, this is essentially a western perspective and there will probably be variations in the manner in which goal setting is conducted across the MNC. For example, Tahvanainen (1998), in her case study research of a large Finnish MNC, found that employees in Germany and Sweden commonly participated in goal setting for their jobs, but those in the USA tended to have their job goals assigned. Cultural differences in the nature of performance goals have also been noted (Rubienska and Bovaird, 1999).

Providing feedback on progress towards goal achievement

Feedback 'as part of a control system refers to the information provided about work behavior and outcomes' (Flamholtz et al., 1985: 41). Feedback controls the work behaviour of organization members by directing behaviour through the provision of necessary feedback for corrective action. Also, it motivates behaviour by acting as a promise for future rewards. Therefore, such feedback through the performance appraisal activity is central to performance management and has two distinct purposes: evaluation and development (Cascio, 1991).

In MNCs, great physical distance, which often exists between subsidiaries and the headquarters, can result in lack of meaningful, effective observation, support and supervision of those on international assignment (Harvey, 1997; Janssens, 1994). Opportunities for thorough headquarters performance reviews may also be limited by distance and time-zone differentials (Fenwick, 2000). Failure to provide such feedback might violate the psychological contract between employees and the MNC, in addition to preventing corrective action in the event of ineffective performance (Stiles et al., 1997). These problems highlight the challenges for international performance management in terms of being able to deliver timely, relevant, and therefore effective, feedback.

Providing opportunities for improvement through appraisal feedback and training and development

As previously mentioned, performance appraisal feedback has a developmental purpose. Much expatriate training and development appears to have been focused on developing expatriates' ability to adjust to the new culture. Certainly, cross-cultural adjustment has been shown to influence performance (see for example, Black et al., 1992; Tung, 1982). However, providing opportunities for improvement through appraisal feedback and training and development is an ongoing performance management activity aimed at continuous improvement and socialization to desired organizational practices. This is particularly relevant when MNC policies and practices change and re-socialization is required (Fenwick et al., 1999).

A significant performance management issue in international assignments is that of conflicting expatriate loyalty to the subsidiary and headquarters (Black et al., 1992). While this may also be identified as an issue between divisions and headquarters of a large domestic organization, again the broader perspective, scope and activities required, and greater risk exposure in the international environment, differentiate domestic training and development from that in MNCs. Training and development may also facilitate the development of dual allegiance in expatriates, thus ensuring balanced bonds with both headquarters and subsidiary (Black et al., 1992).

Links between results and rewards

Strategic HRM has emphasized the need to link performance to compensation, through monetary and non-monetary rewards (Kessler and Purcell, 1995). The underlying assumption has been that individuals can be motivated to perform more effectively and efficiently if there is a direct link between their effort and reward. In MNCs, management of links between performance and rewards is complex, due to the specialized knowledge required of multiple employment and legal environments in order to meet the objectives of international compensation outlined earlier in this chapter.

An important performance management requirement for MNCs seems to be ensuring that individuals are not financially disadvantaged by accepting an international assignment, moving to another location or re-entering headquarters (Crandall and Phelps, 1991). In terms of integrated performance management, the major concern if this occurs is the finding that there may be no link to expatriate performance. This contradicts the performance-based emphasis in reward systems currently occurring elsewhere in MNCs, as evidenced by recent research in European, Japanese and American MNCs (Hiltrop, 1999).

This discussion has illustrated the strategic and operational complexities around managing the performance of MNC staff. The ensuing section will now examine the core performance management activities of determining performance criteria and appraising performance.

Performance criteria

Both quantitative and qualitative criteria for measuring performance are necessary for effective performance management (Kaplan and Norton, 1992). Performance criteria may be classified according to time-span covered, specificity and closeness to organizational goals. In essence, it is important for performance criteria to be relevant, practical and reliable.

Organization level criteria. Within MNCs, specific performance expectations for each MNC subsidiary exist relative to the market performance and contribution of each to total profit and competitiveness. Based on Pucik's (1985) analysis, Dowling et al. (1999) presented five key variables likely to affect the evaluation and performance of each subsidiary management team. First, 'whole vs part' decisions may influence subsidiary performance such that subsidiary performance in the short term might be sacrificed in the interests of the 'whole' MNC. Second, incomparable data across the MNC's operations can cloud the ability for objective appraisal of subsidiary performance, and therefore management. Third, the volatility of the international environment means that if inflexible performance goals are set from a headquarters perspective, local conditions might be mismanaged. Fourth, separation by time and distance further complicates assessments about congruence between MNC and subsidiary activities. Fifth, variable levels of market maturity might necessitate additional time for foreign subsidiaries to achieve performance goals compared to that which is customary in the domestic market. These are constraints that might affect MNC performance management. Consideration of the industry in which the MNC operates when determining performance criteria might facilitate management of these constraints. For example, it has been suggested that performance criteria should emphasize sets of decisions and behaviours that focus on corporate and regional performance in MNCs competing in global industries, whereas for MNCs competing in a multi-domestic industry, decisions and behaviours should focus on subsidiary, not corporate, performance (O'Donnell, 1999). Of course, MNCs often have simultaneous, different strategies for different business units competing in different industries.

The propensity to rely on accounting measures as the basis for MNC performance criteria has also been problematic. For example, measures such as return on investment (ROI) do not consider the nature of each subsidiary's assigned role within the MNC: 'successful performance for a subsidiary with a primary role of R & D or market development would not necessarily be reflected in an increase in ROI' (O'Donnell, 1999: 158). Further, for MNCs seeking to be global, since the motive for globalization is value creation, adherence to accounting-based measures might cause managers to avoid value-creating opportunities. The short-term focus on accounting and transfer pricing for transactions between units of globalizing firms may also be poor measures of employee performance. Transfer pricing is often set 'with the objectives of minimizing taxes, avoiding tariffs, and circumventing exchange controls', so the profit outcome for a particular subsidiary is not necessarily an accurate indicator of its employees' performance (Reilly and Campbell, 1990: 65).

Individual level criteria. For individuals working in MNCs, their international work often involves additional dimensions to those in their domestic work.

> Repatriates interviewed in an Australian MNC with approximately 75 expatriates at any one time revealed changes to their positions that were not acknowledged in the performance criteria upon which the MNC's performance management system was based. Although not necessarily in senior management roles, the repatriates found they were often expected by the company to act as 'envoys' or 'diplomats' representing the company in the communities of the locations to which they were expatriated. This involved such activities as entertaining local government representatives, and attending invitation-only official functions such as ceremonies and social events at foreign embassies, usually with their spouses. They reported that this required considerable interpersonal skills. It also involved their families in extra-role activities they felt went unrecognized by the MNC. There were no criteria related to such activities in the MNC's performance appraisal form, even though successful performance of these activities greatly benefited their organization in its relationships with the local community. The repatriates felt this disadvantaged them in relation to others during the annual performance review, and that it was a function of the standardized position-based performance criteria implemented throughout the MNC. (Fenwick, 2000)

Individual performance criteria and standards in MNCs need to be relevant to the international context in which they are performing (Harvey, 1997). For those on international assignments, for example, in addition to recognizing any increase in job scope, the cultural distance between them and their co-workers and the extent to which their first language is the same, are of considerable importance in the development of relevant performance criteria.

One popular framework for linking strategic organizational objectives to individual performance, the 'balanced scorecard', exemplifies attempts to address the problems of determining appropriate measures of effective performance. Originally a framework of organizational performance measures, the balanced scorecard has been extended to HRM and the performance management of individuals (McKenzie and Shilling, 1998). This approach identifies four critical perspectives on organizational performance that might form the basis for effective performance criteria: the financial perspective, the internal business perspective, the innovation and learning perspective and the customer perspective (Kaplan and Norton, 1992).

Performance appraisal

Performance appraisal involves two distinct processes: observation and judgement (Cascio, 1991). It serves two purposes: evaluation of performance and development of it. In the context of international performance management, performance appraisal is the means by which training and development needs are identified, and compensation decisions made. The latter is particularly pertinent given the current trend towards larger proportions of variable pay and away from fixed components mentioned earlier in this chapter.

One of the challenges for performance management as part of the MNC's international HRM portfolio is to balance the simultaneous needs for global consistency and for fit with local conditions and preferences. Thus, the dilemma is often to what extent the performance appraisal process at home is transferable to international locations. With regard to the core activity of performance management, performance appraisal, it seems that even when the appraisal process is the same world-wide, local variations in practice are evident. For example, in Australian organizations, including MNCs, a combination of performance appraisal methods has most commonly been used, with Management by Objectives and competency-based appraisal the most popular of these (Nankervis and Leece, 1997).

As discussed earlier in this chapter, caution should be exercised when claiming national cultural differences as the sole or major explanatory factor for local differences in international HRM preferences, policies and practices. However, evidence has emerged that suggests performance appraisal practices probably require adaptation across cultures. For instance, although performance management and performance appraisal appear to be etic, or culture-free concepts, and therefore present across cultures, different preferences between western cultures and Asian cultures have been noted. These have included the extent to which extrinsic rewards, group performance, specific and formal appraisal methods, employee involvement and off-the-job behaviours are favoured (Bernthal, 1996; Vance et al., 1992).

Issues such as who conducts performance appraisals, how and based on what data, remain high on the research agenda. This has been reflected in recent developments such as 360-degree feedback and competency-based appraisal techniques (Albright and Levy, 1995). Within the MNC, such enduring issues may be intensified. For example, the extent to which performance appraisal and feedback is interpreted with distrust or as an insult differs across cultures (Rubienska and Bovaird, 1999). Bernthal (1996) compared traditional and progressive USA and Pacific Rim appraisal practices. The study did not include popular USA and Australian approaches such as Management by Objectives and multiple-rater, for example 360-degree, appraisals. However, it does conclude that managers from different cultures vary as to what performance appraisal practices they find most effective.

It seems that regardless of the impact of national culture on the process, performance appraisal remains problematic. In particular, recent research has highlighted that common to the ten countries studied was the failure of performance appraisal to fulfil its development purpose (Milliman et al., 2002). The findings are further evidence of the need for performance appraisal to be embedded in a performance management system, such as the integrated approach outlined in this chapter, rather than as a stand-alone international HRM function.

The preceding discussion has considered international compensation and performance management in the context of the MNC and international staff transfers. However, not all international work occurring in MNCs involves physical relocation to another country. By way of recognizing the evolving nature of international HRM, and the increasingly complex work environment in MNCs, the final part of this chapter explores implications for international compensation and performance management in virtual international assignments.

4 VIRTUAL INTERNATIONAL ASSIGNMENTS

International work in MNCs is changing. Recent research has identified trends to a range of non-standard international assignments (Fenwick, forthcoming, 2003; PricewaterhouseCoopers, 2000). For example, MNCs surveyed in Australia and in Europe revealed at least four types of international assignment in use. These are: ‘long-term’ or ‘expatriate assignment’, ‘short-term assignment’, ‘international-commuter’, and ‘frequent-flyer’ assignments. For the survey, long-term assignments were defined as those when the employee and family move to the host country for a specified period of time, usually over one year, also known as an expatriate assignment. Short-term assignments were defined as those with a specified duration, usually less than one year, and on which the family may accompany the employee. International-commuter assignments were defined as ones where the employee commutes from home country to a place of work in another country, usually on a weekly or bi-weekly basis, while the family remains at home. Frequent-flyer assignments were defined as those when the employee undertakes frequent international business trips but does not relocate (Fenwick, forthcoming, 2003).

It is possible that shorter assignments are used as a way of overcoming costs and risks associated with longer expatriate assignments. Further, alternative forms of multinational enterprise such as collaborative, intra- and inter-organizational networks or informal yet intensive collaborations, and 'born globals', firms that are international from their inception, have proliferated (Bartlett and Ghoshal, 1992; Oviatt and McDougall, 1995). These forms significantly challenge prevailing views of multinational enterprise and, therefore, of international HRM. They are implemented only through high levels of interdependence between their constituents, and may require different approaches to international staffing. Therefore, the likelihood of alternatives to traditional international compensation and performance management being adopted in such organizations will increase.

Increasingly, all who work in MNCs, not just those on international assignment, are involved in international work. The 'virtual assignment' is defined as an assignment where 'an employee does not relocate to a host location, but has international responsibilities for a part of the organization in another country which they manage from the home country' (PricewaterhouseCoopers, 2000: 31). It is a replacement for a traditional international assignment, and not one where business travel is a normal part of a person's role. However, it does involve frequent business trips to the host country and relies on the use of telecommunication and information technology such as telephone, e-mail and video conferencing as a substitute for actual physical presence in the foreign location.

> A marketing manager for Hewlett-Packard Australia, for example, in addition to several international business trips per year, is involved in teleconferencing with other locations in the Hewlett-Packard international network. Often he will wake at 3 a.m. to participate in a two- to three-hour international teleconference, after which he will prepare for a normal business day in his Australian office. It is not unusual for this executive to spend 16-hour days 'at work', balancing the demands of his home-based international responsibilities.

The appeal of the virtual assignment is that it either removes or lessens some of the barriers to the traditional assignment: staff immobility and cost containment (Welch and Fenwick, 2002). However, in relation to international compensation and performance management, the virtual assignment presents its own challenges. These will now be briefly considered.

As mentioned earlier, equity is a central concern in compensation strategy. Informal and formal interactions between virtual assignees necessary for effective performance brings individuals from all participating organizations together to form ongoing relationships. For employees throughout the MNC possibly performing very similar international work yet being paid different amounts, conflict and dissatisfaction might develop in spite of the existence of any particular national cultural norms defining what is equitable. Also, questions like, 'what are the compensable factors in virtual assignments?' and 'how might compensation for virtual assignees fit with global compensation strategy?' will need to be resolved.

In relation to performance management in MNCs, virtual assignments challenge the characteristics of integrated performance management discussed earlier in the chapter. For instance, the already difficult challenge of effectively communicating the strategic links between the employee's performance and MNC strategy is likely to be magnified for virtual assignments. Also, in terms of performance criteria, what are the critical success factors of virtual assignments? These will need to be identified. In relation to performance appraisal, those enduring concerns of who conducts them, how they are implemented and based on what performance data, may be intensified when it involves those outside head office with whom the virtual assignee is working.

It might not be so easy to identify the international aspects of job performance in a virtual assignment as in international assignments involving physical relocation, so determining individual performance levels – outstanding performance, under-performance or failure in virtual assignments – will present a challenge (Welch and Fenwick, 2003). Given that effective performance of virtual assignments is most likely to rely substantially on competence with communication technology and with interpersonal communication, up-front training in, and maintenance and updating of those competencies might well emerge as a development priority.

5 CONCLUSION

This chapter has outlined the definition and purposes of international compensation; the variables influencing international compensation strategy; options for compensating those on international transfer within MNCs; and problems and enduring issues with international compensation. From the employee's perspective, international compensation is one of the most visible and contended aspects of international HRM. The contention often arises as, from the organization's perspective, international compensation policy and practice seek to reconcile principles of capacity to pay and equity across the complex operating environment of the MNC. Further, while it has been ignored in favour of a focus on expatriate compensation in research and practice, the role of international compensation in achieving MNC strategic goals and objectives is now receiving increasing attention. Many external and internal environmental variables influence international compensation strategy. While traditional forms of international compensation still dominate international staff transfers, evidence is emerging of global compensation strategies robust enough to allow for consistency and for adaptation to different international environments.

The second major part of the chapter examined the performance management of international staff. International compensation and performance management are interdependent, as the objectives of compensation and the characteristics of integrated performance management illustrate. At the strategic level, performance management was defined and its dual purposes of evaluation and development were outlined within the context of MNCs. At the functional level, performance appraisal, the core human resource management activity of performance management, was examined. Enduring issues concerning who conducts performance appraisals, and what is appraised, remain. Accounting-based, organizational-level performance criteria are often used to appraise the performance of subsidiary managers in spite of the environmental constraints on their validity and reliability. Performance criteria which recognize the international context, that are therefore accurate and reliable measures of the international work being performed, and which align with the mission and objectives of the MNC, are essential for individuals and organizations. The challenge of developing and maintaining effective international compensation and performance management across the MNC will be further magnified by changes in international work such as non-standard international assignments, for example virtual assignments.

6 DISCUSSION QUESTIONS

1 What variables influence the development of an international compensation strategy?

2 How can consistency of international compensation across international locations be achieved when local environments differ?

3 What are the challenges to effective performance management, including performance appraisal, in MNCs?

7 FURTHER READING

- **Bernthal, P.R. (1996) 'Comparing performance management practices in the United States and Pacific Rim', *Advances in International Comparative Management*, 11: 1–29.**

A comparison of surveys conducted into traditional and progressive performance appraisal practices rated for current and future use. The study highlights the need to contextualize performance management, particularly with regard to the provision of performance feedback and whether to focus on the individual or the group.

- **Brewster, C. and Harris, H. (eds) (1999) *International HRM: Contemporary Issues in Europe.* London: Routledge.**

This text provides number of interesting articles from a European perspective that extend discussion of IHRM strategy and functions.

- **Lowe, K., Milliman, J., De Cieri, H. and Dowling, P. (2002) 'International compensation practices: a ten-country comparative analysis', *Asia Pacific Journal of Human Resources,* 40 (1): 55–78.**

This is a special edition of the journal reporting the Best Practice in International HRM collaborative 10-country/regional analysis covering several IHRM functions, including compensation and performance appraisal as well as convergence and divergence and the role of HRM.

- **O'Donnell, S. (1999) 'Compensation design as a tool for implementing foreign subsidiary strategy', *Management International Review*, 39 (2): 149–165.**

A detailed discussion and testing of agency theory in the context of international compensation. See also Roth and O'Donnell (1996).

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13 Repatriation and Knowledge Management

Mila Lazarova and Paula Caligiuri

CHAPTER CONTENTS

1 INTRODUCTION

The diversity of national contexts and the necessity to effectively manage workers of different cultural backgrounds introduces complexity to the operations of multinational corporations (MNCs). Many MNCs recognize that they lack not only global executives capable of managing and leading on a global scale, but they also lack the comprehensive systems for developing these necessary human resource capabilities (Gregersen et al., 1998; Caligiuri and

Stroh, 1995; Stroh and Caligiuri 1998a, 1998b). Such challenges posed by globalization have caused many companies to rethink their global management development systems. For many MNCs, one important aspect of these systems involves expatriate assignments for the purpose of global leadership development (Stroh and Caligiuri, 1998a, 1998b). While traditionally expatriates were deployed to foreign locations solely to fill technical or managerial needs or to provide the liaison with headquarters, today expatriate assignments are increasingly being utilized for their potential to develop global talent (see also Chapter 10).

Recent research has suggested that, on an individual level, global assignments can play an important role in shaping professional and career development (Tung, 1998; Stahl et al., 2002; Inkson et al., 1997). On an organizational level, it has been found that 'developing global leadership through developmental cross-cultural assignments' is related to MNCs' bottom-line financial performance (Stroh and Caligiuri, 1998a). In order for MNCs to utilize the benefits of international experience, ideally they should ensure that repatriates stay with them upon return from their international postings. In reality, however, many global organizations state that the low retention rate of assignees upon repatriation is among their greatest human resource challenges. The reasons for this elusive, yet common, repatriation problem are discussed in this chapter. We provide an overview of the basic issues related to the repatriation process and focus on how repatriation can be used within the broader knowledge management framework of an organization. Recommendations for best practices addressing common repatriation concerns are also reviewed.

Specifically, we first identify the major benefits and the primary challenges associated with the repatriation process. The following section addresses, in turn, the benefits of global assignment experience from an individual perspective and from an organizational perspective. We then look at a 'darker side' of the expatriate assignments: Section 3 illustrates the challenges associated with repatriation following global assignments from both an individual and an organizational point of view. The section identifies repatriate retention as a key concern for multinational companies. Section 4 summarizes the most commonly suggested recommendations for company activities aimed at easing repatriates' transition and, in turn, at reducing their turnover rates. Next, in Section 5, we outline the common view that the outcome of repatriation is ultimately a function of the availability of company-provided repatriation support programs and then argue that this perspective, while very informative, may not fully explain the reasons behind high repatriate turnover. Finally, in Section 6 we suggest alternatives to this view by pointing out other concerns that we believe need to be considered and addressed by companies wishing to make their repatriation process more strategic. Recommendations for practice are provided throughout the chapter. Section 7 concludes this chapter.

2 BENEFITS FROM EXPATRIATE ASSIGNMENTS

Benefits from the perspective of the individual

Strategically beneficial for the MNC, global assignments also have indispensable value – both personal and professional – for the individual assignee. Upon return, an overwhelming majority of assignees report the uniqueness of their international experience has enabled them to develop valuable knowledge, skills and abilities that can greatly enhance their professional expertise and improve their performance (Adler, 1981, 1997; Caligiuri and Di Santo, 2001; Tung, 1998; Inkson et al., 1997; Pickard and Brewster, 1995). Such reports fit well with the commonly held view of international assignments as a tool for developing global competence. However, a comprehensive review of existing research found little agreement among various writers as to the precise definition of global competence and pointed out that there really is not much empirical support that international assignments truly lead to the attainment of such global competence (Caligiuri and Di Santo, 2001; Levy et al., 1999).

A recent study by Caligiuri and Di Santo (2001) addressed both these issues and provided preliminary evidence that global assignments can be used as an effective method for developing global leadership. First, Caligiuri and DiSanto found that multinational organizations define global leadership competencies in terms of specific dimensions of *knowledge* (for example, increase in an individual's knowledge of international business issues and increase in a company's worldwide business structure), *abilities* (for example, increase in individual ability to transact business in another country and an increase in an individual's ability to effectively negotiate in another country), and *personality characteristics* (for example, openness, flexibility). Caligiuri and DiSanto (2001) then examined the extent to which these dimensions can indeed be developed by global assignments. The results of their study indicated that *personality* characteristics (by definition relatively stable and immutable) did not change as a result of assignments. This is consistent with past research on personality characteristics related to expatriate success (Caligiuri, 2000a, 2000b). In contrast, global assignments were successfully achieving their developmental goals by developing the *knowledge*-based aspect of global competence. It is interesting to note that with respect to the *ability* dimensions of global leadership competence, repatriates and expatriates self-reported lower scores compared to those who had never been sent on a global assignment. The authors interpreted this interesting finding by noting that being on assignment helps people understand what they do *not* know. In other words, compared to those who have never been on assignment, expatriates and repatriates become more sensitive to the challenges of working in another culture and realize how difficult the process of adaptation to new and unfamiliar environments can be (see also

Adler, 1997; Osland, 1995). Global assignments, therefore, are beneficial for individuals as they can help them develop an appreciation for the complexities of transacting business across national borders – and it is this cognitive complexity that is critical for global leaders' success (Levy et al., 1999).

Benefits from the perspective of the organization

In addition to individual advantages of having gained valuable human capital, successful repatriation is also associated with benefits for the MNCs. Having extensive understanding of how the company is perceived in other countries and being part of a global social network that can advance the company's business around the world, repatriates are an important element in expanding the international operations of the company. Repatriates, therefore, play an irreplaceable role in organizational learning (Bonache and Brewster, 2001; Downes and Thomas, 1999, 2000).

Repatriates provide a resident base of knowledge about the complexities of international operations. They possess first-hand knowledge about characteristics of national markets, their business climate, cultural patterns, structure of the market system, and most importantly, knowledge about individual customers and suppliers. Such market-specific knowledge can only be gained through experience in specific countries. In addition, as suggested previously, repatriates also acquire more general knowledge about doing business internationally on a global market. Such knowledge can often be transferred from one country to another and is cumulative in nature. By sharing and transferring both market-specific and general knowledge to new individuals across boundaries of space, time, or hierarchy, repatriates enable companies to learn from their previous globalization efforts. This serves to enhance the group intellectual capital of the MNC (Downes and Thomas, 1999, 2000).

In short, repatriates represent a unique vehicle for knowledge transfer and organizational learning. Their role in these processes is becoming increasingly important in a context where learning has been recognized as one of the key sources of sustainable competitive advantage. Not surprisingly, many companies view their repatriates as an important human capital investment (Caligiuri and Lazarova, 2001; Downes and Thomas, 1999; Lazarova and Caligiuri, 2001; Tung, 1998).

3 CHALLENGES OF REPATRIATION

Challenges from the perspective of the individual

While global assignments are viewed as beneficial on many counts, when repatriation is considered it becomes clear that the experience also entails some costs – both for individuals and organizations. Repatriation is associated with several concerns – personal and professional – for the individual global assignee. From a personal perspective, the majority of repatriates experience 'reverse culture shock' (Gullahorn and Gullahorn, 1963). Some suggest that coming home is more emotionally stressful than going abroad (Adler, 1981, 1997; Baughn, 1995). For instance, global assignees may be expecting everything they encounter in their host country to be different from their home country. When going home, however, most repatriates expect that nothing will have changed. The latter expectation is generally wrong: the political, economic, social, and cultural climate has changed. Moreover, the expatriates themselves have changed, and this in turn produces an even wider gap between repatriates' expectations and their reality upon return (Adler, 1981, 1997; Black et al., 1992a; Shilling, 1993). In addition to the personal adjustment problems the expatriate is experiencing, he or she may also have family members going through the same difficult readjustment period. Research has suggested that expatriates' and spouses' repatriation adjustment are significantly correlated (Black and Gregersen, 1991). These family adjustment difficulties usually magnify the problems repatriates face upon return (Harvey, 1982, 1989).

Several other factors, related to the repatriates' sudden change in lifestyle, create personal concerns upon repatriation. For example, repatriates may experience cash flow or disposable income problems, housing problems, and other problems associated with loss of social status and lifestyle changes (Harvey, 1982; Kendall, 1981). While on assignment, many expatriates usually receive generous financial allowances to accommodate the 'hardships' of living away from home – allowing them to live in excellent housing conditions and to enjoy a relatively more affluent way of life (Black et al., 1992b; Harvey, 1982, 1989; Kendall, 1981; Stroh et al., 1998). While on the global assignment, expatriates are usually occupying high-level positions in the host national subsidiary and have a unique social status that gives them prominence both in the local community and at work (Black and Gregersen, 1991; Engen, 1995; Gomez-Mejia and Balkin, 1987; Kendall, 1981). It is difficult for global assignees when these advantages are taken away upon repatriation. In addition to the loss of financial and social status, repatriates soon learn that others' interest in their international experience fades fairly quickly – and that they no longer hold any special social position (Black et al., 1992a; Gregersen and Black, 1995; Kendall, 1981; Shilling, 1993).

Repatriation is often related to professional disappointments as well. While repatriates describe their global assignments as career enhancing (Tung, 1998), the career enhancement may often be realized only by finding a position with another company. Repatriates' primary concern is related to the under-utilization of their newly developed global skills. Many repatriates perceive their new jobs at home as lacking in autonomy, authority, and significance, compared to their global assignments (Black et al., 1992a;

Gomez-Mejia and Balkin, 1987; Harvey, 1982; Kendall, 1981). They feel that the organization unfairly ignores their global competence. Indeed, a recent study indicated that fewer than 40 per cent of repatriates had the opportunity to utilize their international experience upon returning to their home country (Black et al., 1992a). Often, due to poor career planning, repatriates are placed in a 'holding pattern' – being assigned jobs that are available, without regard to the individual's abilities, qualifications, and needs (Baughn, 1995; Harvey, 1982, 1989). Many repatriates report that, upon return, they are offered a limited number of career choices and are rarely considered for promotions – which makes them feel that they have been removed from the mainstream of corporate advancement. Not surprisingly, many repatriates report bitter disappointment with the repatriation process (Adler, 1997; Baughn, 1995; Black et al., 1992a, 1992b; Gomez-Mejia and Balkin, 1987; Harvey, 1989; Stroh et al., 1998).

Challenges from the perspective of the organization

The multitude of problems encountered by global assignees upon return has traditionally been linked with low repatriate retention – an issue of great concern for many MNCs. From the perspective of the organization, in order to capitalize on the human capital investment of global assignments, repatriates must remain with the organization upon repatriation. The reality of repatriation, however, appears to provide evidence for some concerning trends. Research from the late 1980s and the early 1990s suggested that approximately 20–25 per cent of repatriated employees left their firms within a year after their return to the US. Additionally, more than 40 per cent of repatriates had seriously considered leaving their companies after repatriation, 26 per cent had been actively searching for an alternative employment, and 74 per cent of them reported that they did not expect to be working for the same MNC within two years after repatriation (Black, et al., 1992a, 1992b). The 1999 Global Relocation Trends Report reveals that companies report that 12 per cent of their employees leave within one year of returning and another 13 per cent leave within the following year – for a total of 25 per cent within two years after repatriation (Windham International, NFTC, and SHRM, 1999).

Considering the large investment to develop, maintain, and transfer global assignees, and their role for increasing organizational effectiveness, losing an employee with valuable expatriate experience is costly and can affect the MNC's bottom line (Black et al., 1992a; Stroh, 1995). Moreover, the loss of an internationally proficient employee often indirectly translates into providing advantage to direct competitors, as repatriates are likely to find jobs with them, thus providing them with a valuable human asset (Caligiuri and Lazarova, 2001). In addition, high turnover among repatriates compromises the company's ability to recruit future expatriates since it signals to other employees in the company that, despite the stated message to the contrary, international assignments may have a negative impact on one's career (Downes and Thomas, 1999). Therefore, repatriate retention remains an important challenge facing MNCs today (Black et al., 1992a; Gregersen and Black, 1995; Pickard and Brewster, 1995; Stroh, 1995).

4 'BEST PRACTICE' RECOMMENDATIONS FOR SUCCESSFUL REPATRIATION

Previous studies on repatriation have suggested that these unsatisfactory experiences are the primary determinants of repatriate turnover. As a result, management researchers and experienced practitioners alike have continuously advised companies to take a proactive stance and provide numerous resources to ease their repatriates' transition back home – both from a professional as well as from a personal perspective. Past literature offers a wide range of practical recommendations for what companies should do to counterbalance common challenges faced by expatriates. Various programs are suggested, some targeted towards the repatriate only, and others that include the repatriate's family. The following paragraphs present, in loose chronological order, the most commonly recommended programs:

(a) Prior to going on assignment:

- **Guarantee/agreement outlining the type of position expatriates will be placed in upon repatriation:** In order to reduce ambiguity about the expatriates' future with the company, companies should offer written guarantees or repatriation agreements even before the assignment begins. This repatriation agreement should, as clearly as possible, outline the type of position expatriates will be placed in upon return (Gomez-Mejia and Balkin, 1987).

(b) During the assignment:

- **Continuous communication with the home office:** During the assignment, MNCs should offer opportunities for communication with the home office. For example, expatriates should be included on company e-mail lists, important memos should be forwarded to them, they should regularly receive company newsletters, and both the expatriates and their colleagues in the home office should be encouraged to continuously communicate with each other in order to maintain an extended professional network. As the repatriation date approaches, expatriates could also be offered extended home visits timed so that they can participate in networking activities with key people and maintain high visibility at the office (Adler, 1997; Black, 1994; Gomez-Mejia and Balkin, 1987; Gregersen and Stroh, 1997).

- **Mentoring programs while on assignment:** In addition to encouraging informal mentoring, MNCs should assign formal mentors to expatriates. The mentors' role would be to guide expatriates' future careers with the organization by being their internal champions. Mentors should keep expatriates abreast of important occurrences in the home office and should help them stay connected with important people in the organization during the period of the assignment (Black et al., 1992b; Conference Board, 1996; Gomez-Mejia and Balkin, 1987; Napier and Peterson, 1991).

(c) Immediately preceding repatriation:

- **Career management activities:** Organizations should provide help in repatriates' career planning. Between 6 and 12 months before the end of the global assignment, MNCs should offer multiple career planning sessions to discuss the expatriate's concerns regarding repatriation, for example career objectives, performance, etc. (Adler, 1981, 1997; Black, 1992; Black et al., 1992a; Conference Board, 1996). The intention of these career planning re-entry sessions is to give the expatriate a sense of security regarding his or her future with the company. This planning may utilize the skills of a team, including HR, the sending manager, the business unit leader (Black et al., 1992a). In addition, expatriates should be assigned to projects that require them to work closely with the home office at least a few months before repatriation if not throughout their assignment (if such an alternative is feasible, of course). They should also be kept in mind for potential positions to be taken upon repatriation.
- **Pre-departure briefings on the details of the repatriation process:** MNCs should ensure that all elements of the repatriation process are transparent. The expatriate needs to be given specific information on the company policies on travel reimbursement, shipping of household goods, compensation immediately before and after return; contact information of the person they need to report to upon arrival, etc. Clarity of the repatriation process could reduce the uncertainty associated with returning home and thereby could facilitate adjustment (Black, 1994; Black and Gregersen, 1991).

(d) After repatriation:

- **Repatriation training seminars on the emotional response and lifestyle changes following repatriation:** Such seminars should be offered to employees and their families. They should be aimed at improving re-entry adjustment by addressing potential emotional concerns expatriates may experience upon returning home. Lifestyle counseling can also be beneficial to employees and their families, as their lifestyles are likely to change dramatically upon return (Black, 1992, 1994; Black et al., 1992a, 1992b; Conference Board, 1996; Hammer et al., 1998; Harvey, 1989; Kendall, 1981). Such programs may be provided through the company's pre-existing International Employee Assistance Program (Gomez-Mejia and Balkin, 1987).
- **Financial counseling and financial/tax assistance:** Such counseling would help repatriates adjust back to their lifestyle without the additional allowances of the expatriate position (Gomez-Mejia and Balkin, 1987; Harvey, 1982; Kendall, 1981). For example, some organizations offer bridging loans, low interest loans for the purchase of a house or assistance with mortgages. Other organizations are willing to pay for private schooling back home to have educational continuity for the children of global assignees (Kendall, 1981; Napier and Peterson, 1991).
- **Reorientation program about the changes in the company:** Organizations should offer a reorientation session to brief returning expatriates on the changes in the company, such as in policies, personnel, strategy (Gomez-Mejia and Balkin, 1987; Harvey, 1982). This should be provided immediately upon return from the assignment, when the repatriate returns to work.
- **Downtime upon repatriation:** MNCs should offer an adjustment period for the employees to reintegrate without added pressures from the organization (Harvey, 1989; Kendall, 1981). Given the pressures of repatriation both at home and at work, some organizations will reduce the repatriates' travel time, give more vacation time, etc.
- **Visible signs that the company values international experience:** Companies should send out clear signals to all of their employees that international experience is valued. For example, they should be proactive in ensuring that the repatriate's reintegration into the company is going smoothly. They may circulate an internal memo announcing the repatriate's return, pointing out any of his/her special contributions to advancing the company's business while abroad, and/or may organize an informal get-together to welcome the repatriate back. Repatriates' contacts with key individuals in the organizations should be facilitated. Their newly developed knowledge should be utilized by assigning them to challenging projects with high visibility that can have a beneficial impact on their careers.

The following example illustrates the successful activities of a large multinational company to take control of its repatriation concerns.

GTE Repatriation Case Study

Situation

GTE, then a $25bn, 100,000+ employee telecommunications giant, had a range of international assets, with varying percentages of ownership. The expatriate population was in excess of 350 expatriates, with almost 1000 accompanying family members. Repatriation was handled alongside expatriate staffing; frequently, returning expatriates were unable to find another role at GTE, and they were subsequently released, or became frustrated with the repatriation process and exited the business.

This process, or lack thereof, had a knock-on effect of establishing somewhat of a corporate reputation for expatriate assignments being the 'end of a GTE' career. This, then, caused the occasional hesitancy amongst the best and brightest to accept overseas assignments. All of this served to reduce the corporation's Return on Expatriate Investment.

Task

The goal was to correct this situation, and implement a robust, well-thought-out repatriation process that would bring discipline, thoroughness and transparency to the repatriation effort. It was key that this transparency extended to the repatriating family. We also needed to start the repatriation process earlier in the cycle to give more time for the repatriates to find their next role within GTE. We also needed to establish higher hurdles before a repatriate is released.

Key actions

- Hired and assigned a full-time HR specialist solely to enhance and manage the repatriation functions.
- Created ownership in line managers by repositioning the repatriates as an investment, and communicating the value of the investment.
- Managed cost expectations by including costs of repatriation into pre-assignment cost sign-offs.
- Developed a robust worksheet for repatriates, starting 6 months prior to end of assignment. This worksheet served to ensure that everyone involved in the process, whether the repatriate, international staffing or domestic staffing, understood their role in the process.
- Included interviewing trips home as a part of the repatriation process and expense budget.
- Established evaluation strategies surrounding the repatriation process which would allow GTE to track success in repatriation.

Results

Successfully completed all the above Key Actions. Results were reflected in significant success in repatriating and placing expatriates whom the organization wanted to retain. Metrics delivered in the function were used in the company-wide HR Balanced Scorecard.

(Lance Richards, formerly Director, International Staffing for GTE)

Note: In 2001, GTE and BellAtlantic completed their merger. The ensuing entity is now called Verizon.

5 THE ROLE OF ORGANIZATIONAL SUPPORT FOR SUCCESSFUL REPATRIATION

The long lists of repatriation recommendations can easily be associated with the commonly accepted view that repatriate turnover is, above all, 'a company affair' (Inkson et al., 1997). While turnover among returnees is usually voluntary, the literature explicitly or implicitly suggests that it comes primarily as a result of poor management of the repatriation process on behalf of the MNC (Gomez-Mejia and Balkin, 1987; Harvey, 1982, 1989). The departing point of research is that a returnee's decision to stay with or leave the MNC after repatriation is a consequence of certain actions or lack of actions by the MNC (such as implementing or not implementing a number of repatriation assistance practices). Repatriation is most often considered from the standpoint that MNCs have full control over the repatriation process and that retention of repatriates is ultimately a function of what the MNC does about it. It has been suggested that if all repatriation problems are considered in advance and attended to by the MNC, repatriate turnover will occur less often (Harvey, 1989). The rationale of that proposition is that if the company offers support to returning repatriates, their concerns will be addressed and they will grow more committed to the company – and, in turn, will be more likely to stay.

While intuitively logical, this relationship between company-provided support and repatriate turnover has received very little empirical investigation and support. Indeed, a large part of the research on repatriation turnover and repatriation in general comes from research on return cross-cultural adjustment. Many studies focus on the problems associated with return adjustment, turnover among repatriates being one of the important consequences of unsuccessful adjustment rather than an outcome in its own right (Black, 1992; Black and Gregersen, 1991; Black, et al., 1992a; Feldman and Thompson, 1993; Hammer et al., 1998).

One recent study, based on a relatively small sample of North American repatriates, did find that employees who were offered repatriation support from their companies were less likely to leave (Lazarova and Caligiuri, 2001). Interestingly, the results of this study also indicated that repatriation support practices were related to overall perceptions of organizational support but were *not* related to organizational commitment, an assumption often stipulated by past repatriation studies. This suggests that employees may remain with the MNC only if they feel that the company values and supports them, rather than because of a greater sense of company loyalty or organizational commitment.

This finding makes intuitive sense in today's environment of 'boundaryless' careers and 'boundaryless' organizations – where individuals may manage their careers across a variety of organizations (Tung, 1998; Inkson et al., 1997; Suutari and Brewster, 2000). After years of restructuring, re-engineering, and outsourcing, companies have shown that the notion of lifetime employment and security belongs to the past. Many employees believe that in order to develop and sustain their own careers, they need to be self-directing and flexible, constantly learning and upgrading their skills, and ready to change employers whenever that change would land them at a better position with another organization (Rogers, 1995). In this 'boundaryless' context, it is a likely scenario that organizational support of career investment activities through relevant repatriation practices may encourage retention – but without necessarily positively influencing long-term loyalty.

6 BEYOND PROVIDING SUPPORT: NEW CONCERNS (AND SOLUTIONS) FOR STRATEGIC REPATRIATION AND KNOWLEDGE MANAGEMENT

The changing contexts in which MNCs operate – both in terms of the global markets where they sell their products and services and the labor markets from which they recruit their employees – have demanded a new approach to repatriation. MNCs undoubtedly play an important role in the repatriates' transition back to their home country and to their domestic position. However, there are other issues, beyond the types of repatriation support available to returning assignees, that need to be considered when formulating a strategic repatriation program. While retention remains a formidable challenge for the human resource function, MNCs tend to be reactive, rather than strategic, in their approach to solving this problem. We believe that given the strategic importance of a successful repatriation process and its implications for promoting organizational learning on a global scale, the solutions to the repatriation problem must, likewise, be strategic.

The following sections will identify three major issues that companies need to consider if they are to successfully align the reality of repatriation and their desired state for strategic repatriation. A series of recommendations to address each issue are also suggested. More specifically, these issues include the following:

1 MNCs believe that all global assignees intend to have long-term careers with the MNC – when they do not. Individuals have different career goals.

2 MNCs tend to treat all global assignments as if they had the same strategic objective – when they do not. Some turnover upon repatriation is functional – and possibly even strategic. Different global assignments should have different repatriation strategies.

3 MNCs often do not integrate selection, performance management, and repatriation systems into one strategic process – when it is necessary.

Differences across individual career goals

While the repatriation 'problem' may be a very strategic concern for MNCs, organizations should expect some natural attrition – as they would with any other 'high demand' professionals. In some cases, even with the best possible repatriation program, MNCs will not be able to retain certain repatriates. Harvey (1982) found that many returnees may have better career opportunities in multinational companies other than the company that sent them on the global assignment. He suggested that in such cases, many repatriates would be likely to leave for 'both motivational and monetary reasons' (Harvey, 1982: 54). As with other individual career decisions, rather than staying, some repatriates may *choose* to leave for a better job offer elsewhere and not perceive the organizational exit (initiated by them) as a negative job move.

Clearly, international experience is a competitive asset that may enhance the opportunities for future career advancement even though this may take place in another company. A 1998 study of 409 expatriates on assignment to 51 countries found that most expatriates overwhelmingly agree that the global assignment had 'a positive impact upon subsequent career advancement either in the current organization or *elsewhere*' (Tung, 1998: 129). In addition, most of the expatriates in the sample reported that an international assignment presented them with an opportunity to acquire skills and expertise usually not available at home (Tung, 1998; see also Suutari and Brewster, 2000 for a discussion on self-initiated assignments).

Tung's (1998) study suggests that 'boundaryless' careers are becoming the pattern for international assignees – as with other 'high demand' professionals (such as information technology engineers). A boundaryless career assumes that individuals will move from one company to another to pursue the best opportunities for their own professional development. Recently, authors have suggested that professionals may accept global assignments to gain the additional skills and experience that they perceive to be valuable for their advancement in their *career*, not in their *company* (Inkson, et al., 1997; Tung, 1998; Lazarova and Caligiuri, 2001; Stahl et al., 2002; Suutari and Brewster, 2000).

This trend is even more problematic in countries with a tight job market. In the US currently, there is increased 'job-hopping' and shorter average tenure (in some cases of highly valued professionals, only amounting to several months). Data from the US suggest that in the early 1970s a manager worked for one or two companies in his or her entire career. The US managers of today are more likely to hold 7 to 10 jobs in their lifetime (Cascio, 1993; Kransdorff, 1997). The average tenure for the managers has also been dropping continuously. In some professions (for example, accounting and auditing), typical tenure ranges from 3 to 6 months (Grossman, 1998). Among information technology managers, the turnover rate have been reported to be 15.5 per cent for 12 months (Cone, 1996). Given these trends among managers and technical professionals, it is not surprising that some repatriates are interested in changing companies after their global assignment is completed.

Recommendations for practice. It is a challenge for MNCs to retain their global leaders who are in high demand and have a high internal career motivation. However, there are things companies can do to increase their repatriate retention rates. Some recommendations may be borrowed from other industries, such as the information technology (IT) industry, where the labor market has enabled IT professionals to job-hop with relative ease. Studies of IT professionals suggest many ways to retain high-quality employees. These studies suggest the importance of recognition, encouragement, praise, and opportunities for professional growth (Grossman, 1998). Additional incentives, besides higher pay and competitive benefits, are suggested for high-potential professionals. Such incentives include career development, training programs, promotions, better corporate communications, flexible staffing, and stock options (Comeau-Kirchner, 1999; Fryer, 1998).

Differences across types of global assignments

Shifting focus to the perspective of the MNCs, what research often does not consider is that while international experience can create core competencies for competitive advantage, not all global assignees are created or intended to be equal – in terms of their strategic significance to the organization. A global assignment is a *job context* (that is, a position in a host country), rather than a *job description*. A Vice-President of Operations in Brussels and a systems engineer in New Delhi are both on global assignments. However, the job descriptions for these two positions are very different. The two assignments have different goals (strategic vs. functional) and entail different requirements for their successful completion. In this sense, it is both inappropriate as well as *unrealistic* to simply lump all global assignees into a single category – especially given that the typical MNC is a complex structure with many global assignees serving many different purposes.

While researchers have outlined different categories of global assignments (Caligiuri, 1998; Hays, 1974; Oddou, 1991), to date recommendations for repatriation tend to group all assignments together without regard to the differences in their strategic purpose. One concern arising from treating all assignments alike is related to the fact that, in reality, some MNCs do not want or *need all* of their assignees back. In some cases, the global competencies (either present or acquired during the assignment) may be needed only for the assignment itself – but not upon repatriation. Indeed, some turnover upon repatriation may very well be strategic – in line with the company's strategic objectives and overall human capital needs.

In general, given the differences among various assignments and the diversity in MNCs' strategic needs for the global assignees' competencies upon repatriation, a strong argument can be made that different assignments should have different repatriation strategies. Based on analysis of the dimensions of expatriate performance, Caligiuri (1998) recently developed a typology of global assignments that can be utilized as a useful foundation for a discussion of repatriation policies and practices of MNCs. She argued that global assignments vary according to (1) the amount of intercultural effectiveness needed in order to be effective and (2) the presence or absence of a developmental component of the assignment. She suggested that we can differentiate among the following four categories: (A) Technical, (B) Functional/tactical; (C) Developmental/high potential, and (D) Strategic/executive. The next paragraphs briefly describe these categories, and offer some specific suggestions for repatriation programs for each category.

Technical assignments

This type of assignment is becoming increasingly common as organizations are expanding their technical expertise worldwide. When technical skills do not exist in one geographic region, a global assignment may be necessary to fill a technical need. The typical technical assignment is similar in content to the assignee's domestic position. Specifically, these technical assignees are in an organizational setting fairly typical to the setting of the home country. Many of the global assignees on technical assignments will describe their work experience as 'quite similar' to what they were doing back home. It is not expected that these global assignees will have significant interactions with the host nationals working at the subsidiary location – and those interactions that inevitably occur will not greatly affect the outcome of the assignment. In other words, the person is being sent for his or her technical skills. It is those technical skills that will determine the outcome of the assignment. These assignments involve such roles as technicians on an oil refinery, systems engineers on continuation client site and systems analysts interfacing with a computer system.

In order for repatriation strategies to be effective, organizations have to consider their needs for these individuals' technical skills after the assignment is completed. In most MNCs, these technical experts are needed throughout the organization and are in relatively high demand. However, it may not always be the case that these expatriates' technical skills are needed back in the home country. Sometimes technical experts may rotate from host country to host country – going where their technical skills are needed. In either case, a repatriation system for these assignees would assess technical skills and determine where the skills are needed most in the organization. In some MNCs, technical experts are needed only for a fixed period of time in the host country to complete a given project. These expatriates are 'contract assignees'. MNCs hire these assignees solely to do the job. Once the job is completed, the employment contract with the MNC is over. If this is indeed the case, individuals must be given a realistic preview of the global assignment process, stating the 'no guarantee' reality of their positions.

Functional/tactical assignments

The functional/tactical assignment is similar to the technical assignment with one distinct difference – significant interactions with host nationals are necessary in order for the assignment to be deemed successful. As with the technical assignment, a person will be sent to fill a technical or managerial gap in a given host country. While they are there, they will need to interact with host nationals in order for the assignment to be deemed successful. This is the most common type of global assignment (Windham International NFTC and SHRM, 1999).

These assignees are sent to fill a technical need; however, they realize, once they are there, that cross-cultural skills are needed in order to be successful. If the global skills are an afterthought to the assignment, global assignees are possibly being sent without the skills necessary to be successful on the job (Black et al., 1992a, 1992b). This tends to be an oversight in selection.

In addition to selection, this category of assignees poses the greatest challenge for MNCs in terms of retention upon repatriation. Given that intercultural communication and effectiveness is needed to successfully complete one's global assignment, these functional/tactical assignments have an *unintended* developmental component. The global assignees within this category are the ones most likely to turn over upon repatriation, because they are the ones who have developed new international skills and competencies that were not needed (or intended in the first place). As such, the global assignees within this category are the ones most likely to feel unfulfilled upon repatriation.

As a part of their repatriation strategy, MNCs first need to consider whether the skills and competencies are truly needed within the organization upon repatriation. If the skills and competencies are needed, MNCs should assess (via a performance management system) the additional developmental skills gained during the global assignment. These should be acknowledged and rewarded – and considered as a part of the MNC's human capital investment. Where possible, these skills should be utilized in the domestic position.

If the skills and competencies of repatriates are not needed, then the repatriates should be given a realistic expectation prior to accepting the global assignment. In some cases, MNCs will hire more contract assignees to fill these functional positions. Moreover, some individuals may be very attracted to these contract assignments because they may be consistent with their overall career goals.

Developmental/high potential assignments

For some MNCs, sending expatriates abroad for two or more years to develop global competencies is consistent with their overall strategic human resource plan. Most organizations that utilize this type of global assignment do so within the context of their managerial development program. These programs are often rotational – with one of the rotations being in another country. While on this type of assignment, the goal is individual development.

These developmental rotational assignments often have a very structured series of experiences. Given the structured nature of these assignments for these repatriates, their next assignment is often very clear and known well in advance of the completion of the global assignment. Repatriation, in this case, is rather straightforward and predetermined by the rotations within the leadership development program.

Strategic/executive assignments

Many MNCs, when asked to analyse their ideal staffing strategy for global assignments, will identify 'the strategic/executive assignment' as the ideal. These strategic assignments are usually filled by individuals who are being developed for high-level management positions in the future. The purpose for these assignments tend to be high profile (such as general managers or vice-presidents) and the experience is viewed as both developmental and strategic. Thus, these individuals are not sent solely for developmental assignments; rather, they are there to fill a specific need in the organization. These global assignees are the core 'critical' group of assignees. They may have the task of entering a new market, developing a country base in a new area, or being the general manager of a joint venture. An inpatriate assignment, where high-profile managers from other countries take a global assignment in the headquarters country, is also an example of a strategic assignment (Black et al., 1992a; Kobrin, 1988).

Repatriation for these individuals is often well thought out and a part of the overall succession planning initiative of the organization. In many cases, these expatriates are very well aware that they are being groomed for a given position. An important aspect of the repatriation process will be to ensure that the position for which these individuals are being groomed will actually utilize their developed global skills. As these individuals are often considered the highest human capital investment for MNCs, companies must ensure that they have the appropriate levels of autonomy and job discretion upon repatriation. A turnover upon repatriation within this category of assignee is seriously detrimental to the strategic management of a MNC's human capital.

Lack of integration among selection, performance management, and repatriation systems

Finally, the low retention rates of repatriates are not surprising, given that global assignments generally have not been viewed by companies as a component in employees' career development. The 1994 Global Survey Relocation Report found that repatriation support programs offered by companies typically do not include long-term career development plans. While 97 per cent of the US-based MNCs in the survey offer to pay for the return shipment of household goods, only 31 per cent offer any expatriate career development assistance (Windham International and NFTC, 1994). This lack of strategic integration seems to be a concern not isolated to US-based MNCs. A 1996 repatriation report found that only 13 per cent of US-based companies, 22 per cent of UK-based, and 46 per cent of Continental European-based MNCs plan for their global assignees' return (Conference Board, 1996). More recent research has also suggested that many repatriates describe their repatriation as a more or less 'haphazard affair' – characterized by a lack of coherent HR policies (Lazarova and Caligiuri, 2001).

Recommendations for practice. While these studies and many others bemoan the need to integrate the skills acquired by the global assignee upon repatriation, little has been done to examine the entire strategic global assignment process, including selection, performance management, and repatriation. Given the centrality of repatriates' career needs and expectations, the key to retention after repatriation is creating an environment appreciative of global experience that allows opportunities for career development. This means that the MNC must provide support to the expatriate during all stages of the assignment. Expatriation and repatriation are not two separate processes; expatriation is the initiation and repatriation is the culmination of the same process. In reality, most activities that ensure high retention after repatriation happen *during* – rather than *after* – the expatriate assignment.

Care needs to be taken that repatriates' careers not be derailed as a result of their overseas assignment. The career development concerns cannot be addressed by a repatriation system in isolation. Rather, they need to be integrated into selection, performance management, and repatriation. To be truly strategic, MNCs' purpose for selecting an individual for a global assignment should be a part of a greater developmental career path. In addition, the people with the greatest likelihood of success should be selected for global assignments

(Caligiuri, 2000a, 2000b). MNCs should assess the expatriate's performance on the basis of any desired developmental competencies (Caligiuri and Day, 2000). From the perspective of a total knowledge management system, it follows that the repatriates who were selected, and whose developmental competencies were coached appropriately, would be the greatest benefit to the organization.

7 CONCLUSION

The strategic context for repatriation, in the framework of organizational learning, is creating new implications for HR professionals. With the rise of globalization and the colossal scale of the global economy, international experience is becoming a *critical* asset for global organizations. International assignment experience is rare, valuable, and hard to imitate. In the right context, it can create competitive advantage – both for the individuals and for the companies that employ them (Carpenter et al., 2000). In order to be able to capitalize on their repatriates' skills and knowledge, MNCs need to cultivate a global vision and corporate culture that supports repatriates and values international experience and its contribution to the strategic development of the company through organizational learning on a global scale.

8 DISCUSSION QUESTIONS

1 What can organizations do to measure the 'return on expatriate investment'? What are some factors that will indicate whether retaining repatriates contributes to improving the performance of the organization/ department/unit?

2 Suggest a plan for a comprehensive strategic repatriation system. What are some major programs that need to be introduced to help individuals make the transition more effectively? From an organizational standpoint, what should MNCs do to facilitate transfer of knowledge across subsidiaries?

3 Research has suggested that there are often differences between the repatriation experiences of senior level managers and lower level employees, with senior managers traditionally receiving more support from the MNC to facilitate the potential repatriation concerns they may have. From a point of view of knowledge transfer, are there differences between the two groups of repatriates? Is one group more 'valuable' than the other? Why, or why not?

4 Do you think that there are variations among MNCs from different countries in view of how much they value international experience? If yes, why do you believe such differences exist?

9 FURTHER READING

- **Black, J.S., Gregersen, H.B. and Mendenhall, M.E. (1992). 'Toward a theoretical framework of repatriation adjustment'. *Journal of International Business Studies*, 24: 737–760.**

The article argues that repatriation adjustment is not only costly, but is also theoretically different from domestic relocation and expatriation adjustments in both degree and kind. Given the costs associated with poor repatriation adjustment and the conceptual characteristics of repatriation adjustment, a preliminary model of repatriation adjustment is proposed and some important relationships and outcomes are discussed. The underlying theoretical process for antecedents of repatriation adjustment is that of reducing uncertainty through predictive and behavioral control. Factors are divided into four categories and are hypothesized to influence three separate facets of repatriation adjustment (work, interaction, and general adjustment).

- **Conference Board (1996). *Managing Expatriates' Return* (Report Number 1148–96–RR). New York: The Conference Board, Inc.**

The Report provides some statistics on variables related to the repatriation process and suggests 'best practices' such as integrating global assignments into succession and career planning, managing expatriates' expectations, and facilitating spouse and family repatriation. Case studies and best practice examples from Ciba-Geigy, Royal Dutch Shell, Elf Aquitaine, 3M, and Motorola discuss specific techniques for keeping repatriates satisfied.

- **Gomez-Mejia, L. and Balkin, D.B. (1987). 'The determinants of managerial satisfaction with the expatriation and repatriation processes'. *Journal of Management Development*, 6: 7–17.**

While written over a decade ago, with conclusions based on a relatively small sample of repatriates, this article remains among the commonly cited 'classics' on the topic of repatriation. It reports the outcomes of a survey of returning expatriates and their spouses and identifies important reasons for their dissatisfaction with the repatriation process. The article draws special attention to issues of career development and to repatriates' perceptions that they had limited opportunities within the career ladder of the expatriating organization. Measures to prevent such problems are suggested.

- **Solomon, C.M. (1995). 'Repatriation: Up, down or out?' *Personnel Journal*, 74(1): 28–37.**

The article is targeted towards practicing HR professionals. It reviews the basic challenges encountered by individuals upon repatriation and provides specific recommendations to MNCs related to overcoming the systemic weakness and lack of planning within the international HR function. It showcases successful repatriation programs offered by a selection of large MNCs and provides a 'repatriation planning checklist' for the HR professional.

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14 Women's Role in International Management

Hilary Harris

CHAPTER CONTENTS

1 INTRODUCTION

The importance of international assignments as a key method of developing the future senior management of international organisations and of fostering diversity in the management population has been highlighted in previous chapters. Recent survey evidence (ORC, 1997) shows that this is a growing trend, with 63% of responding organisations indicating that they were planning to increase the number of international assignments in Asia and 54% also planning to increase international assignments in Europe. Over 60% of the assignments were single trips with planned repatriation. This confirms the importance of international experience as part of management development.

Despite this increase in demand for international assignees, the numbers of women in such positions remains stubbornly low. In North America figures show that between 2 and 14% of global assignees are women, compared with 45% of women in management in domestic contexts (Adler, 1984a, 1994a and b; Florkowski and Fogel, 1995; The Conference Board, 1992, Tung, 1997). Figures from Australia indicate that approximately 6.5% of global assignees are women compared to 22% of women who are in management (Hede and O'Brien, 1996). In Europe a similar picture emerges, with between 9 and 15% of women on global assignments, compared with 26% representation in management (Brewster, 1991; Harris, 1998, 2002; ORC, 1997). Such statistics question the assumption that diversity is being acknowledged and incorporated in the development of a geocentric mindset. It is particularly worrying to see that the representation of women on international assignments is increasing at such a slow rate since Adler's study in 1984.

The low incidence of women on international management assignments is even more puzzling when one looks at research into the criteria for effective international managers. Here, the emphasis is on interpersonal, intuitive and cooperative styles of management as the key skills for working internationally (Barham and Devine, 1991; Birchall et al., 1996; Coulson-Thomas, 1992; Mendenhall and Oddou, 1985; Wills and Barham, 1994). These same skills have been argued to be more suited to a woman's style of management. Rosener (1990), for instance, argues that women adopt an 'interactive leadership style, particularly well suited to the versatile and rapidly changing business environment of today'. Women's ability to work well with people, developing 'smooth and cooperative relationships' is also stressed by Wentling (1992). Sharma (1990), meanwhile, sees the main attributes of their approach as collaboration and cooperation, teamwork, intuition and creativity. We will come back to this later in this chapter, especially in our discussion of managerial/leadership behaviour.

Many of the reasons put forward for minimal participation rates of women arise from assumptions about the likelihood of women experiencing problems whilst on assignments. Research into expatriate failure, however, provides no evidence with which to support these assumptions (Copeland and Griggs, 1985; ECA, 1994; Mendenhall and Oddou, 1985; Stone, 1991; Torbiorn, 1982; Tung, 1981; Zeira and Banai, 1985). The most significant feature of the research into expatriate failure rates and reasons for failure is that it is based on a *male* population. This research contains actual evidence of male expatriates facing cross-cultural adjustment problems and family problems. In contrast, research conducted on the outcomes of women's global assignments indicates that female expatriates are successful in their assignments (Adler, 1987; Caligiuri and Tung, 1998; Taylor and Napier, 1996). The attribution of male expatriates' problems is however assumed to be a lack of adequate preparation on the part of the expatriate or lack of organisational support and is therefore seen to be open to remedy. This contrasts starkly with the situation for women where assumptions of potential problems, not linked to any concrete evidence of failure, are used on the part of home country managers as reasons for non-selection of female candidates.

This chapter examines the factors influencing the numbers of women on international assignments. This definition refers only to women sent abroad by the home country organisation and does not take account of women who obtain jobs in foreign countries as a result of independent job-search methods. As selection for international assignments is embedded within home country managerial promotion processes, we will first examine potential barriers to women in the home country context. We will then explore how these and other factors work together to restrict the numbers of women in international management. The chapter will end with recommendations for increasing women's participation rates.

2 WOMEN IN INTERNATIONAL MANAGEMENT: GETTING THERE

Women's participation in international management assignments is influenced by a complex set of cultural, social, legal, economic and political factors which affect women both within their home countries and in host country environments. Later in this chapter we shall look in more detail at the effect of host country cultural barriers on women international managers; at this stage, however, we need to examine more closely the factors affecting women in management within their home country environment to determine the extent to which they may affect women's ability to gain entry to international assignments and to perform effectively as international managers.

A focus on women's progression within home country environments is essential when searching for reasons for their low participation rates, as the vast majority of international assignments are filled by internal applicants. As such, selection for an international assignment is very much embedded in overall organisational promotion and assessment procedures. In particular, when sending individuals on assignments for developmental purposes, the extent to which that person has been identified as 'high potential' and the influence of ideas of 'fit' can be seen to be problematic, given the substantial domestically based literature on discrimination in selection and promotion. The following sections address these issues in more detail.

In the light of more and more women entering the workforce, their failure to attain the highest management positions is particularly puzzling. This phenomenon has become known as the 'glass ceiling' or 'glass wall', to denote an impenetrable barrier which is invisible and which prevents upward – and in the case of the 'glass wall', also lateral – movement. Solomon (1990) explains these terms as describing the phenomena experienced by women and minorities as they attempt to climb upwards in the managerial ranks or move sideways into line positions which have traditionally been held by the dominant work group, in most cases white males. One argument put forward against the 'glass ceiling' theory is that women have not been in the pipeline long enough to reach top management levels. This, however, does not do justice to the complexities of the issue, for studies of men and women's progress up organisational career ladders show blockages for women appearing at much earlier stages than for men (Broderick and Milkovich, 1991; Davidson and Cooper, 1987). It is necessary, therefore, to look for causal factors which affect women's choices and options at both entry level and during subsequent stages of their careers.

Barriers to women in management: entry level

Despite a trend towards increased participation in non-traditional occupational areas, women's choices and options at entry level are still very much influenced by socio-economic factors contributing to occupational segregation and wage differentials. Ragins and Sundstrom (1989) argue that initial choices by women in terms of employment can be affected by sex role stereotyping in early socialisation. Such socialisation leads women to self-select in terms of job versus career and choice of gender-typed occupation and gender-typed speciality. These choices exclude women at the first stage of their careers from positions or areas of power which, the authors argue, are essential for career progression.

The exact nature of gender-typed occupations and careers is elaborated in social-role theory (Eagly, 1987). This perspective argues that societal expectations lead to women developing communal type beliefs and behaviours such as caring, interpersonal sensitivity and emotional expressiveness (Eagly and Wood, 1991). In contrast, men are encouraged to develop agentic type beliefs and behaviours, such as ambition, control, and independence from other people (Bakan, 1966). These characteristics lend themselves more easily to traditional organisational managerial styles.

Occupational segregation can be seen to have a direct effect on women's pay and promotion prospects. Women entering traditional gender-typed occupations may find themselves in such archetypal female 'ghetto' occupations as secretarial work which offer few opportunities for lateral and vertical transfers (Pringle and Gold, 1989). Historical devaluing of women's work means that traditional women's occupations tend to be symbolised by lower pay, power and prestige, which may negatively affect women's career progress.

Barriers to women in management: career path options

Underlying causes of occupational segregation and wage differentials fail, however, to account for the fact that even within strongly gender-typed occupations, such as teaching or the social services, women do not necessarily hold a proportionate number of senior management positions. In the United Kingdom, for instance, latest figures for full-time teachers in secondary schools show that, although women make up 54% of all teaching posts, they hold only 30% of head teachers' positions (UK Department for Education and Skills (2002) statistics for 2000). This would suggest either that women are less able or less willing or that they encounter more obstacles than men in their career progression within organisations. Given that women nowadays enter employment with the same level of educational attainment as men, especially in gender-typed occupations, the literature on male/female differences in motivation/ commitment attitudes to work and male/female managerial/leadership styles, together with issues of perception of male/female attributes and the impact of organisational systems, may provide some clues to more deeply rooted causes of the 'glass ceiling' phenomenon.

Motivation/commitment

The effect of *sex role identity* and *gender-related* behaviour features prominently in discussions relating to women's motivation to succeed in the workforce. Powell (1988) argues that early socialisation from parents, schools, the media and peer groups contributes to the development of a sex role identity which will affect occupational aspirations and expectations. Aspirations will be constrained both by a need to restrict career hopes to 'sex-appropriate' activities and by the strength of occupational segregation in a given sector. Expectations are viewed in highly sex-typed terms for females.

Vinkenburg et al. (2000) summarise research into differences in managerial motivation. They report gender differences in achievement motivation, with fear of success and competitiveness in women often being found (Gattiker and Larwood, 1990; Ruf and Chusmir, 1991). Female managers were, however, more likely to be 'career-primary oriented' as opposed to 'career-family oriented' (Burke and McKeen, 1993); in other words they put their career first. In this respect female managers' needs for achievement and need for power generally do not differ from men's (Chusmir, 1985; Stevens and Brenner, 1990; Ferrario, 1994).

Managerial commitment is subdivided into commitment to the organisation (affective commitment), team commitment and career commitment (Blau et al., 1993; Aryee et al., 1994; Becker et al., 1996). Results from studies show few gender differences in commitment, with some reporting less commitment, some the same and some more (Rosin and Korabik, 1991; Giacobbe and Wheeler, 1992; Aven et al., 1993; Burke and McKeen, 1993; Ellemers et al., 1996; Schneer and Reitman, 1996).

Singh and Vinnicombe (2000), however, indicate that women and men have differences in the nature of their commitment at work. In a sample of matched male/female manager pairs, male meanings overall were more similar to top managers' meanings than were females' meanings. Top managers' meanings included task delivery, putting yourself out, being proactive, being ready for a challenge and being business aware. More women overall gave meanings oriented towards the organisation, particularly good citizenship behaviours, which would be less visible to managers, whilst men overall gave meanings benefiting themselves as well as the organisation, which were very active and highly visible.

Research into motivation/commitment reflects a complicated picture; however, the effect of social-role theory (Eagly, 1987) can still be seen in differences in meanings of commitment and issues relating to achievement orientation for women. In this respect, it is important to bear in mind the evolutionary nature of sex roles. Given the dramatic changes in social roles for men and women in countries such as the UK and the US, for instance, future studies may find very different attitudes relating to motivation/commitment amongst both young men and women.

Managerial/leadership behaviour

Conflicting results in relation to women's motivation/commitment reflect that this is only part of the story of why there are so few women at the most senior managerial positions. A key area of research in this respect focuses on how prevailing views of senior management styles might impact on women's progress into these positions. Given that women have the same motivation to succeed as men in similar circumstances, why do so few achieve executive status? Are women innately less suited to management?

In line with Adler's complementary contribution model (1986/1987) and Rothwell's (1991) vision of a 'woman-shaped pattern of life', the *unique management style* of women is expounded by a number of writers, amongst them Marshall (1984), who argues that the literature on management implicitly alludes to masculine qualities which are equated to 'good' management. Marshall views women as having different managerial/leadership styles, with an emphasis on interpersonal, intuitive and cooperative skills, but argues that these are often seen as deficient in contrast to the predominant male style. However, such qualities are being emphasised increasingly as especially suited to the needs of international management. Rosener (1990) details the ways in which women's interactive leadership style is especially well suited to contemporary business. Women 'encourage participation, share power and information, enhance other people's self-worth and get others excited about their work'. Sharma (1990) describes the feminine management style as being distinct and non-traditional. The main attributes of women's approach are collaboration and cooperation, teamwork, and intuition and creativity. Tom Peters, one of management's most celebrated gurus, is reported as having discovered the future potential of women's leadership styles and even as claiming that men need to learn 'women's games'.

In a recent UK study, this traditionally perceived leadership style of women was highly valued by CEOs (Catalyst and Opportunity Now 2001). In particular, they praised their interpersonal, communication and people-management skills. However, many senior women interviewed said that they felt they had to adjust their style to one with which men were comfortable.

The link between management style and more 'masculine' personality traits and behaviours has been the subject of an extensive body of literature. One of the first studies of the sex role stereotyping and requisites of successful top managers was conducted by Schein (1973, 1975). Schein built on previous work into sex role stereotypes (Anastasi and Foley, 1949; Maccoby, 1966; Rosenkrantz et al., 1968), which suggested that there were distinct characteristics, attitudes and temperaments that could be attributed to men and others that could be attributed to women. She argued that sex role stereotypes could create a barrier to advancement where an occupation is 'sex-typed', i.e. a large majority of individuals in it are of one sex and there is an associated normative expectation that this is how it should be. Writing in the early 1970s, Schein viewed management as a sex-typed occupation due to the high ratio of men in managerial positions. This being the case, she hypothesised that the managerial position would seem to require personal attributes thought to be more characteristic of men than women (Schein, 1973: 95).

In order to test this hypothesis, Schein developed a Descriptive Index (SDI), with items that differentially described males and females. Schein then took the SDI to a sample of 300 male middle line managers of various departments within nine insurance companies located in the United States (Schein, 1973). The sample was split randomly into three equal groups which were each presented with a different form of the SDI containing the same descriptive terms and instructions, but one form asked for a description of women in general, one for a description of men in general and one for a description of successful middle managers. In a second study (Schein, 1975), a sample composed of 167 female managers in the insurance sector who matched as closely as possible the male sample from the previous study, were asked to complete the same task. The findings from both studies found that both males and females perceived a strong correlation between the items rated as resembling men and those resembling managers and a near zero correlation with women and managers. Further research replicating Schein's experiment has tended to produce the same results from men, although women no longer sex-type the managerial job (e.g. Brenner et al., 1989; Heilman et al., 1989; Schein et al., 1989; Schein and Mueller, 1992; Schein and Davidson, 1993; Schein, 1994; Schein et al., 1996). Heilman et al. (1989) expanded Schein's original research by asking 268 male managers to rate one of seven target groups: men (in general, managers, or successful managers), women (in general, managers, or successful managers), or successful middle managers. The results from this study were similar to

Schein's original findings in relation to ratings of men and women in general and managers; however, they also discovered that the correspondence between descriptions of women and successful managers strengthens when women are depicted as managers and is very strong when women are depicted as successful managers.

More recent research (Vinnicombe and Singh, 2002) investigating the impact of sex role stereotyping on perceptions of successful managers used a different instrument, the PAQ, developed by Spence et al. (1975). The PAQ is derived from a model of agency and communion. Under this model, masculine typed traits are related to instrumentality and agency, whilst feminine typed traits are interpersonal and expressive. Individuals who have been traditionally socialised would be seen to show more features from one dimension than the other, whereas androgynous individuals would be high on both dimensions. Korabik (1990) argues that androgynous managers may have an aptitude for combining their masculine and feminine strengths to use in a wide variety of situations. Vinnicombe and Singh (2002) used the PAQ in a large UK insurance company to identify male and female managers' management styles and their perceptions of the style of the 'successful manager'. The results showed that women managers saw themselves as androgynous or feminine, but they saw top managers as significantly more masculine than themselves. The authors argue that this is likely to have a significant impact on the women's career aspirations as they seek progression. The results indicate that they are less likely to identify with, and be seen as identifying with, the current model of leadership in their organisation.

From an individual perspective, therefore, a number of factors relating to motivation/commitment and managerial/leadership behaviour can be seen to impact on women's ability to progress to the highest levels of the organisation. In addition to these factors, however, women face barriers in trying to fit their model of career development into the traditional corpocratic career model, which traditionally is based on the typical working lives of men. The next section looks at the impact of organisational career systems on women's opportunities for advancement.

Impact of organisational career systems

The domination of men in management over many years has led career theory and practice to reflect the patterns of men's working lives rather than women's. Careers have traditionally been defined as a meaningful progression through a series of related jobs (White, 1995). This would normally take place over a number of years, but following a fairly tight chronological timetable and leading to increasing levels of responsibility at each stage. The core meaning of career centred on paid work and linear upward progression (Mavin, 2000; Still and Timms, 1998).

Perceptions of appropriate career development processes therefore tend to reflect male workplace experiences, values and goals. A key feature of this model is the ability to progress in a predictable and ordered manner through increasingly higher status roles (O'Leary, 1997). It is notable that this dominant model does not reflect all men's experiences of work, but reflects a predominantly middle-class profile. Women's greater need for more flexibility in career patterns due to child-care and other domestic responsibilities does not fit this traditional career model (Flanders, 1994). The idea of career development as a competitive series of tournaments in which there are winners and losers suggests that those individuals who wish to work in collegiate and supportive atmospheres will be seen to have little career ambition (O'Leary, 1997).

Women, more than men, are seen to be affected by conflict between work and home roles. Traditional career structures and organisational demands often mean that women have to choose between maintaining a home life and moving upwards. Even the choice of having a family is becoming an increasing problem amongst young women who do not want to interrupt their careers to take time off to look after their children. Whereas having a family is often viewed as a positive in a man, the choice of women in management is still not viewed as a positive by society and organisations. Women's career theories (see Hall, 1976; Derr, 1986; Powell and Mainiero, 1992; White, 1995; O'Leary, 1997) highlight the specific 'life stages' that women pass through whilst still showing commitment to their career. In White's (1995) study, all the successful women displayed a high 'career centrality'. Continuous full-time employment appeared to be a prerequisite for career success.

Rigid approaches to career development and the meaning of careers can be seen as major barriers for women, given their traditionally greater home responsibilities. However, changes in the psychological contract with the impact of globalisation, pressure on wage and social costs of employment and demographic pressures have major implications for career expectations and the field of career management (Herriot and Pemberton, 1995, 1996; Hiltrop, 1995). The old psychological contract was based on a world where there was full employment, stability, growth and predictability and was built on steady financial rewards, investment in training and expectations of advancement in return for hard work and loyalty (Sparrow, 1996). The new contract is based on a more transactional model, with less security of employment and, in return, less loyalty, combined with performance-based reward and promotion structures. The idea of the traditional organisational career is changing and this may lead to a new model of careers which may prove more favourable to women (and men) who have responsibilities outside the workplace. At present, it is still too early to tell what the impact of these changes will be.

In summary, this section has examined the key factors influencing the ability of women to advance to senior levels of management within organisations. The need for individuals who are sent on the majority of international assignments to be seen as 'high potential' highlights the potentially negative impact of perceptions that men are more 'acceptable' as managers and that women are not keeping up with the normal model of career progression. In addition, the tension between work and home demands, which is often the cause of women opting out at higher management levels, becomes even more critical in the case of an international move.

3 WOMEN IN INTERNATIONAL MANAGEMENT: CRITICAL ISSUES

The preceding section has highlighted the fact that women and men are not on an even playing field when opportunities for international assignments arise. The complexity of these internal barriers is only partially acknowledged, however, in research into women in international management. Here, the impact of gender on international assignments is discussed under four main categories: (1) personality traits, (2) family characteristics, (3) host nationals' attitudes towards women and (4) organisational processes.

Personality traits

Motivation

A common myth held by decision makers is that women do not want to go on international assignments. Adler addressed this myth in her research (Adler, 1984b) amongst 1,129 graduating MBA students in Canada, the United States and Europe. Her findings showed that new women graduates expressed as much interest in international careers as their male colleagues. Women, however, saw organisational barriers facing females as greater potential constraints to achieving this goal than did the male sample. A more recent study, by Lowe et al. (1999), amongst graduate and undergraduate business students in the United States, reported however that gender was a significant predictor when specific referent countries were identified. Differences in cultural distance and human development explained substantial variance among males and females in their willingness to accept certain international assignments. Political risk was not deemed to be a significant factor. The authors acknowledge that their findings need further replication to ensure generalisability. However, they do raise issues for organisations in terms of the amount of support needed to assist women to successfully undertake assignments in specific countries.

Personality orientations

Personality traits have been linked to successful cross-cultural adjustment (Mendenhall and Oddou, 1985). Caligiuri et al. (1999) argue that three key personality dimensions are unique in the context of a female expatriate's experience. These are self-orientation (stress reduction, technical competence and reinforcement substitution), others-orientation (i.e. the ability to form relationships and the willingness to communicate with host nationals) and perceptual orientation (i.e. the ability to understand the behaviour of others).

Self-orientation may be particularly important for female assignees due to the need for them to demonstrate exceptional competence in order to be accepted by colleagues. They must also be able to manage the stress resulting from being the only woman in a given work setting. Ability to handle stressful situations and confidence in one's abilities have been found to be positively related to cross-cultural adjustment (Black, 1988, Mendenhall and Oddou, 1988).

Others orientation could provide women with a competitive advantage on global assignments. Women's superior interpersonal skills (see above) should enable them to form relationships with host nationals as colleagues and clients. However, socio-cultural norms can be problematic for women in this respect.

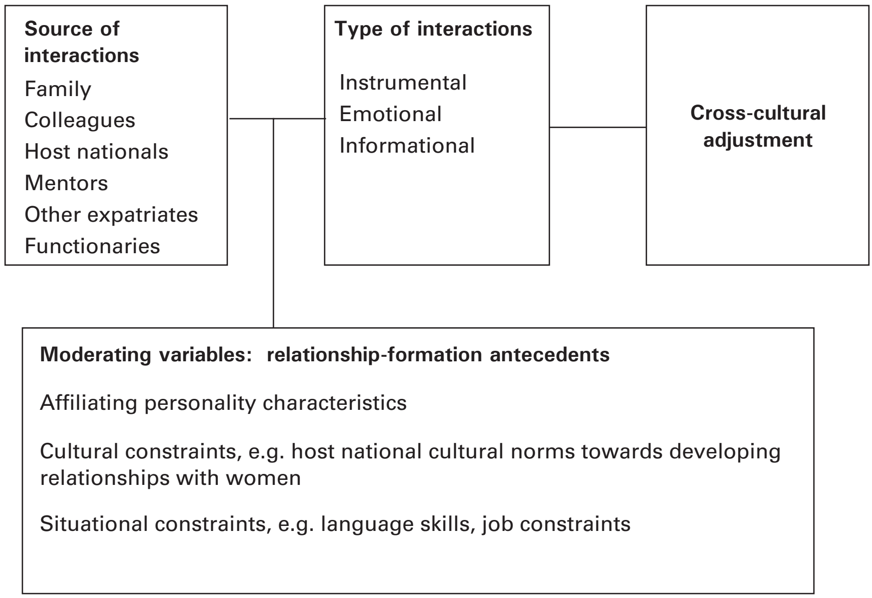
Perceptual orientation of women is important in host countries which have a lower rate of women managers (Caligiuri and Tung, 1998). Understanding both cultural and gender differences in host societies and being flexible in one's attitudes towards these has been seen to be a factor of adjustment (Harvey, 1985; Mendenhall and Oddou, 1985).

Caligiuri and Lazarova (2002) take the concept of social interaction further and suggest that this, together with social support, is a critical determinant of cross-cultural adjustment for women due to their unique position in work and particularly if they are alone on an assignment. Key factors influencing a woman's ability to form relationships during global assignments are seen as her own affiliating personality characteristics; the extent to which host national cultural norms towards developing relationships with women form a constraint; and situational constraints such as language skills and job constraints. Sources of social interaction and support include family, colleagues, host nationals, mentors, other expatriates, and host national functionaries. These interactions can deliver emotional, informational and instrumental support, which is linked to successful cross-cultural adjustment (See Figure 14.1).

Family characteristics

Success in international assignments is a function not just of the individual but also of the partner and family. Increasing problems are being experienced by organisations in trying to resolve dual-career issues in international assignments (Caligiuri and Cascio, 1998; Harvey, 1995, 1996, 1997). Research into dual-career couples undertaking long-term assignments highlights the need to take into account both partners' willingness to relocate in order to ensure a successful assignment (Harvey, 1995, 1996, 1997; Linehan and Walsh, 2000. The disruption caused by geographical relocation has also been seen to create

FIGURE 14.1



Social interaction and social support as antecedents to female expatriates' cross-cultural adjustement (Caligiuri and Lazarova, 2002: 763)

tremendous disruption in the lives of all family members (Guzzo et al., 1994; Munton, 1990; Noe and Barbar, 1993). Work – life issues are amongst the most cited problems associated with international working patterns for those in relationships as well as for single employees (CReME, 2000; Fenwick, 2001; Peltonen, 2001).

Whilst work–family balance has been the focus of a great deal of organisational, governmental and academic interest, it has remained a predominantly domestic-based issue. Work–family conflict is, however, likely to increase in international working scenarios, which may involve the physical relocation of the entire family. In such cases, the boundaries between work and home become blurred due to the involvement of the whole family (Harvey, 1985). In dual-career couples, the partner's career may be disrupted and his or her sense of worth and identity may suffer (Harvey, 1997). The children's education may also be interrupted (Fukuda and Chu, 1994) and their social networks destroyed, which may affect their feelings of security and well-being (Harvey, 1985). In short, in international assignments, family life becomes more important because the whole family is uprooted. Even in the case of short-term assignments and international commuting assignments, where the family may not physically relocate, the additional stressors of the individual living away from home have been seen to exacerbate work–family conflict (CReME, 2000; Fenwick; Peltonen, Suutari, 2001).

Research into the problems facing dual-career expatriates indicates that this is equally problematic for men. However, Adler (1984c) and Harris' (1999) research shows that potential dual-career couple restrictions are seen to be a key entry barrier for women wishing to gain international assignments. This may in part result from traditional socio-cultural norms that identify the dominant gender-role profile of women as homemakers (Lewis and Cooper, 1988; Sandqvist, 1992). From this perspective, it is argued that women will experience greater stress than men when faced with work-related pressures, including mobility requirements, due to the degree of incompatibility between role pressures from work and family domains (Gupta and Jenkins, 1985; Sekaran, 1986; Wiersma, 1994). In addition, it has been argued that male spouses face additional role transition obstacles in terms of adjusting to the role of secondary breadwinner (Paddock and Schwartz, 1986) or homemaker, if they cannot find work in the foreign location. Additional socio-cultural barriers include the likelihood of the male spouse finding himself the lone man in a group of wives and the unavailability or inappropriateness of traditional volunteer activities which wives undertake in foreign locations, thus limiting the extent of productive activities for males (Punnett et al., 1992).

A key additional variable in looking at work–life balance in the context of international working is the adjustment process of the individual and his/her family. The adjustment process has been studied in both domestic and international contexts and is a multi-faceted phenomenon. In international scenarios, adjustment is seen to be a factor of both anticipatory adjustment and in-country adjustment (Black et al., 1991). Accurate expectations of the assignment as a result of previous international experience and/or training, together with appropriate selection mechanisms, are antecedents to successful anticipatory adjustment.

Host nationals' attitudes

A major limiting factor to international management participation for women has traditionally been managers' perceptions of whether women can undertake assignments abroad. In a survey of 60 major North American MNCs, more than 50% expressed reluctance to select female managers for foreign assignments. One of the major reasons given was that foreigners are prejudiced against female managers (Adler, 1984a).

Subsequent research by Adler (1987) amongst US women expatriates working in South-East Asian countries challenges the validity of this assumption by finding a very high rate of success amongst women international managers, largely due to the fact that women were seen as foreigners who happened to be women, not as women who happened to be foreigners – a subtle, but highly significant distinction. Female expatriate managers were therefore not subject to the same limitations imposed on local females.

Examples of interviewees' responses from Adler's study are:

> ***Japan*: 'It's the novelty, especially in Japan, Korea, and Pakistan. All of the general managers met with me. It was much easier for me, especially in Osaka. They were charming. They didn't want me to feel bad. They thought I would come back if they gave me business. You see, they could separate me from the local women.'**
>
> ***Pakistan*: 'Will I have problems? No! There is a double standard between expats and local women. The Pakistanis test you, but you enter as a respected person.'**

More recent research by Napier and Taylor (2002) reiterates Adler's (1987) findings in looking at the experiences of women professionals working on assignments in China, Japan and Turkey. They all reported issues with gaining credibility in the initial stages of working abroad. In this respect, Japan was perceived as more difficult than China. However, most of the women reported that they had found ways to overcome the resistance. They also mirrored Adler's findings in that they found that they were very 'visible' and had more responsibility than they would have had in an equivalent position in their home countries. The need to have and use interpersonal skills was another common feature of their experiences. Interestingly, the women reported most frustration with the non-work parts of their life. As women in these countries, they felt that certain activities were 'restricted' or limited for women. They also felt that there was very little chance of developing a relationship with foreign men, or for that matter with local women as friends. Loneliness was therefore a factor. Many of the women joined associations or women's networks shortly after arriving in the host location as a way of alleviating this problem.

The question of host country cultural prejudices as a major barrier to women's employment in expatriate positions appears to have been debated only from the point of view of women going to traditionally male-dominated cultures. Little research has been carried out into women's experiences when transferring to countries with similar or more relaxed cultural values, for instance British women expatriates working in North America or Europe, or female expatriates from Pacific Rim countries working in Australia or North America, where the literature would argue there should be fewer problems of acceptance for female managers/professionals.

The question of how men are affected by cultural differences in the area of international management is an important issue in this respect. There is increasing research into cross-cultural adaptation and its links to expatriate adjustment and performance. A related question revolves around the subject of culturally determined managerial behaviours and their relationship to performance during assignments abroad. According to the 'cross-cultural' school of thought, the effectiveness of a particular managerial behaviour is a function of the culture in which the behaviour is performed. The basic logic for such a position is that because managerial attitudes and values differ from one culture to another, so do effective managerial behaviours.

Despite conflicting research results as to the extent to which cross-cultural differences can affect expatriate management performance, it is important to note that these issues relate to the expatriate management population as a whole. One can then question the validity of the argument put forward by very many companies that women will not perform successfully in expatriate management positions as a result of host country cultural sanctions against females. It is necessary to examine the exact nature of these claims; for instance, to which countries do they refer, what is the basis for the claims – women's actual experiences, the opinions of host country managers, of existing male expatriate managers or of home country managers? Unless women can be seen to be directly prevented from entering and working in a country as a result of cultural sanctions, it would appear that they would be subject to the same problems as men in terms of cross-cultural effectiveness. Evidence from the literature supports the claim that women are potentially better suited to international management in view of their superior interpersonal and communication skills. However, Adler's survey of women expatriates in the Pacific Rim region found they had experienced numerous instances of corporate resistance to sending them abroad. For example, according to one woman being considered for an assignment in Malaysia:

> **'Management assumed that women don't have the physical stamina to survive in the tropics. They claimed I couldn't hack it.'**

Several women were offered positions only if there were no suitable male candidates for the post:

> ***Japan*: 'They never would have considered me. But then the financial manager in Tokyo had a heart attack and they had to send someone. So they sent me, on a month's notice, as a temporary until they could find a man to fill the permanent position. It worked out and I stayed.'**

Firms often expressed their hesitancy by sending women in temporary or lower-status positions:

> ***Hong Kong:* 'After offering me the job, they hesitated, "Could a woman work with the Chinese?" So my job was defined as**

temporary, a one-year position to train a Chinese man to replace me. I succeeded and became permanent.'

Lack of confidence on the part of organisations can communicate itself to foreign colleagues and clients, thus making it even harder for women to be taken seriously (Adler, 1987). It may well be, therefore, that worries about women being accepted as expatriate managers stem more from male managers in the home country organisation blaming other cultures for their own prejudices, as postulated by Moran (1986), than from a correct interpretation of reality.

Organisational processes

Despite the problems facing women on international assignments outlined in the section above, there is no evidence to show that women fail in significantly larger numbers than men. In fact the evidence is the other way, with significant failure rates (in terms of premature return home) for men. If women are not failing once they are appointed, the low number of women in these positions might well be more a result of processes happening within the organisation. Research shows three potential influencing factors: approaches to increasing diversity; supervisor–subordinate relationship and organisational selection processes for international assignments.

Approaches to increasing diversity

Adler (2002) argues that participation rates of women in international management will depend on companies' assumptions about the value to the company of diversity, the value to the company of men's and women's unique contributions and to the belief, or lack thereof, of the possibility of positive synergies. She identifies four different approaches as follows:

- Identifying with men's approaches to managing internationally;
- Denying differences;
- Identifying with women's approaches to managing internationally;
- Creating synergy – leveraging women's and men's approaches to managing internationally.

The first and third approach acknowledge difference but in a negative way, in that one approach is seen to be better than the other (as we have seen earlier in this chapter). The second approach, in contrast, denies the possibility of differences: it sees women's and men's styles of managing internationally as identical and that they will be perceived as identical by foreign colleagues and clients. The fourth approach, most commonly associated with the transnational type organisation, is premised on a company's ability to create synergy by integrating and leveraging women's and men's unique styles into complementary approaches. It is this approach which Adler advocates as most conducive to sustained, long-term global effectiveness.

This perspective does not provide an explanation as to the reason why so few women are sent. We need to look, therefore, at the role of the home country selection process to see how this might contribute to women's low participation rates.

Supervisor–subordinate relationship

Varma and Stroh (2001) investigated reasons why women might not be made offers on international management assignments. They used the Leader-Member Exchange (LMX) model, which states that because of time pressures, the leader can develop close relationships with only a few of his/her key subordinates (the 'in-group') while maintaining a formal relationship with the rest of his/her subordinates (the 'out-group'). Individual characteristics such as gender, race and educational background may be related to LMX and may determine the quality of the relationship between a supervisor and his/her subordinates. The authors argued that a poor quality relationship between female subordinates and primarily male superiors was the primary cause of the low number of female international assignees.

The results from the study were not conclusive, mainly due to problems with the sample make-up (the survey targeted women who were on an international assignment, together with their current supervisors and hence was unable to address the issues surrounding the LMX of potential women assignees and their supervisors). The focus on the informal interpersonal relationship between potential women assignees and their supervisors is, however, significant in the light of research into the role of the home country selection process as a key determinant of low female participation rates.

Home country selection systems

Until recently, research into women in international management had focused on issues outside of the organisation's control, namely, personality, family and host country national issues. The role of organisational selection processes as a determinant of participation rates was mainly overlooked. However, an extensive body of literature from both North America and Europe highlights the pervasive influence of discrimination in selection processes. This work addresses the issue of 'fit' from both a sociological and a social psychological perspective. From a sociological perspective, selection is seen as a *social* process, to be used by those in power within the organisation as a means of determining the continuing form of the organisation by recruiting and promoting only those individuals who most closely conform to organisational norms. Individuals would therefore be judged more on the basis of their *acceptability* than their *suitability* (Jewson and Mason, 1986).

Social psychological studies explore the role of individual values in perpetuating discrimination in selection through the use of schemata and stereotyping (for example Futoran and Wyer, 1986; Heilman, 1983). Such studies suggest that individual selectors will develop schemata of ideal 'jobholders' and will use them as a yardstick against which all prospective candidates are measured during the process of selection. The less specific the information concerning the vacancy and/or the candidate, the more likely selectors are to use schemata and stereotypes. Given the emphasis on 'fit' as a key determinant of selection decisions in both the sociological and social psychological literature, the 'gender-blindness' of research into expatriate management represents a significant gap for any study trying to assess the role of selection systems for international assignments on women's representation rates. Empirical survey results indicate that over 90% of expatriates are male. Previous research has argued that occupations where there is a predominance of one gender over the other can lead to gender-typed 'job-holder' schemata in the minds of selectors (Perry et al., 1994).

The gender of expatriates is, however, rarely acknowledged as a significant factor in the literature on expatriate selection. Descriptive and prescriptive studies of the features of expatriation therefore tend to perpetuate the profile of an expatriate manager as being male and married with a trailing spouse. Discussions of appropriate selection, preparation and repatriation systems subsequently tend to reflect both a lack of appreciation of gender-related needs and a reluctance to acknowledge the possibility of alternatives to the prevailing model. The 'gender-blindness' of the majority of research into expatriate management is reflected in feminist discussions concerning the patriarchal nature of organisations. They argue that the organisational population has traditionally been predominantly male and that therefore the holders of organisational power, in terms of shaping structures and beliefs, have been almost exclusively male. The need to acknowledge this perspective is critical as gender-role assumptions have been seen to be important components of decisions about 'fit' (Alimo-Metcalfe, 1993, 1995; Rubin, 1997; Webb, 1991).

Harris' (1999, 2002) research into the lack of women in international management highlighted the role of the home country selection process as a critical determinant of participation rates. Through an examination of the literature and interviews with major UK-based international organisations, she developed a typology of international manager selection systems (see Figure 14.2).

The implications of these variations in selection systems for international assignments in relation to women's participation are as follows:

- An *open/formal* system would see greater clarity and consistency in thinking about international managers and a greater link with formal criteria. This system was seen to provide the greatest opportunities for women to be selected for international manager positions.
- A *closed/formal* system was seen to be similar to an open/formal system. However, the lack of personal contact with the candidate and the fact

FIGURE 14.2

	FORMAL	INFORMAL
OPEN	• Clearly defined criteria • Clearly defined measures • Training for selectors • Open advertising of vacancy (internal/external) • Panel discussions	• Less defined criteria • Less defined measures • Limited training for selectors • No panel discussions • Open advertising of vacancy • Recommendations
CLOSED	• Clearly defined criteria • Clearly defined measures • Training for selectors • Panel discussions • Nominations only (networking/reputation)	• Selectors' individual preferences determine criteria and measures • No panel discussions • Nominations only (networking/reputation)

Typology of international manager selection systems

that the field of potential applicants is determined by the selector/s, with the attendant risk of omission of suitable candidates, may enable the use of individual preferences by selectors in terms of nominating individuals.

- An *open/informal* system would decrease clarity and consistency and linkage with formal criteria and was therefore seen to provide less opportunity for women to enter international management positions, as selection decisions would be more subjective.
- A *closed/informal* system was seen to be the worst situation for equality of opportunity in this area, mixing as it does the potential for subjectivity on the part of the selectors and lack of access on the part of potential candidates.

Case study investigations carried out as part of this research indicated that the type of selection system in use for international assignments did affect the number of women in international organisations. In organisations with roughly equal numbers of men and women at entry and junior management levels and operating in similar overseas environments, the main differentiating factor in participation rates for male and female expatriates was the type of international selection system in operation.

4 ADVANTAGES FOR FEMALE INTERNATIONAL MANAGERS

In the light of the many disadvantages faced by women international managers, the advantages are harder to define. Adler (1993) summarises some potential advantages from her research studies as follows:

- *Visibility*. Many of the women in Adler's study of expatriates in the Pacific Rim countries reported their high visibility as an advantage, as foreign clients were curious about them and anxious to meet them. They were also more easily remembered.
- *Interpersonal skills*. The female managers in the study also discovered a number of advantages relating to their interpersonal skills; local men, for instance, appeared to be able to talk to them more easily than to male expatriates about a wide range of topics.
- *Novelty*. Because of the rarity of women in international management positions, many foreign clients assume that the women who are sent must be 'the best'. This situation is likely to change with the appearance of more and more international women managers.
- *Domestic help*. Some of the role overload experienced by female managers in general can be alleviated on international assignments by the availability of domestic help.

Avenues for change

Increased participation for women in international management is a possibility if both organisations and women adopt a flexible approach to international assignments. Evidence that international assignment experience is a prerequisite for progression to senior management makes the minimal representation of women a fundamental equality issue for any organisation operating in the global arena. Equally, from a business perspective, failure to utilise and develop a significant and growing proportion of their human resources in an increasingly knowledge-based global economy will result in organisations losing a vital component of competitive advantage. Evidence of widespread use of closed/informal systems for selection to international management assignments raises serious concerns with regard to ensuring objective and unbiased decision-making in this process. Organisations need to:

1 Become more strategic in their planning for international assignments in order to prevent ad-hoc and informal placements which may replicate an existing expatriate profile and prevent the adoption of alternative approaches.

2 Adopt a sophisticated approach to the determination of criteria for effective international managers. Competencies should be developed and debated in as wide and diverse a forum as possible.

3 Monitor their selection processes for international management assignments to ensure access is not unfairly restricted to specific sections of employees. This includes auditing career development systems leading up to international assignments for potential unintended bias.

4 Run selection skills training for all employees involved in selection for international assignments. This training should include raising awareness of the advantages of using diverse groups of employees on international assignments and challenging existing stereotypes relating to women and other non-traditional groups.

5 Avoid assumptions as to the likely motivation of women to accept overseas assignments and the likely success rate of women expatriates.

6 Provide flexible benefits packages which will cater for single employee and dual-career couples as well as the traditional 'married male with family' expatriate.

7 Define the international assignment in such a way that the chances of success are high: that is, establishing full-status, permanent assignments.

8 Provide full support for alternative arrangements for the domestic aspect of international assignments which might influence women's perceptions of accessibility.

9 Work with relocation companies to ensure the female expatriate's new residence will facilitate the possibility for social interaction.

For women themselves, there are a number of important action points, as follows:

1 Adopt an 'educative' approach to organisational resistance to sending women abroad; do not assume it is the result of direct prejudice.

2 Ensure excellence in the professional field to aid selection. Also, try to be in the right place at the right time.

3 Address private life issues directly.

4 Use networks wherever possible.

5 Ask for international assignments!

The growth of international business is a continuing phenomenon and, by its nature, will need to incorporate the most talented human resources. It is unlikely that these will be found within the ranks of male employees only. Adler (1993) looks to the transnational corporation as a fitting role model in terms of hiring and promoting women to significant international management positions as a result of competitive advantage considerations. These trends indicate that women will take a more active part in international management in the future. The question is: how rapidly and to what extent?

5 SUMMARY AND CONCLUSIONS

This chapter has looked at the process of international management as it relates to women, taking into account individual, organisational, and socio-cultural perspectives. It has examined the impact of increasing internationalisation of business in terms of the types of skills required for effective international managers and has contrasted the theory with the actual practice adopted by many MNCs. The extent to which international experience will become a prerequisite for access to senior management positions has also been debated.

The role of women in international management was reviewed by looking first at major influences affecting female managers' representation and contributions at home country level. Secondly, additional barriers facing potential female expatriates were examined, including host country cultural barriers and problems of dual-career couples.

Opportunities for increased representation of women in international management were highlighted by research evidence contradicting the myth that women would not be successful in international assignments. The extent to which women will participate in this arena depends, however, on the willingness of both the organisation and the individuals involved to adopt a flexible and positive approach to existing constraints.

This chapter concludes the third part of this book. In the fourth and final part, we will change our focus to the collective aspect of the employment relationship by looking at industrial relations in both a comparative and an international perspective.

6 DISCUSSION QUESTIONS

1 What are the key contributing causes of the small number of women on international assignments? How do these interrelate?

2 What type of research could you undertake to identify the organisational and individual factors influencing women's participation rates in international management?

3 Suggest a plan for an organisation to improve the participation rate of women on international assignments.

4 What do you think organisations should do to address dual-career and family constraints to international mobility? Can an organisation implement a standardised global policy in this area? How might an organisation identify and address differing socio-cultural norms concerning men and women's roles in its countries of operation?

7 FURTHER READING

- **Adler, N. (2002) 'Global Managers: No Longer Men Alone', *International Journal of Human Resource Management*, 13(5): 743–760.**

This paper updates Adler's earlier (1987) work on how different models of diversity in organisations affect the participation rates of women in international management. Four approaches are outlined, with the most beneficial being seen as the 'leveraging differences' philosophy. From this perspective, the organisation values the unique contributions of both men and women and believes in positive synergies.

- **Caligiuri, P.M. and Cascio, W.F. (1998) 'Can We Send Her There? Maximizing the Success of Western Women on Global Assignments', *Journal of World Business*, 33(4): 394–416.**

This is a practical article which examines the factors affecting the performance of Western women on global assignments. The authors identify four categories of causal agents that affect female expatriates' success: their individual characteristics, their organisations, their families and the host nationals with whom they work. Each category is subdivided into key factors. Each factor is accompanied with a strategy for multinational organisations to maximise the likelihood of success of their female expatriates.

- **Caligiuri, P. and Lazarova, M. (2002) 'A Model for the Influence of Social Interaction and Social Support on Female Expatriates' Cross-cultural Adjustment', *International Journal of Human Resource Management*, 13(5): 761–772.**

This article looks at an under-researched topic, namely, the way in which female expatriates can develop and use relationships to assist with cross-cultural adjustment. The model developed in the paper includes three predictive components affecting cross-cultural adjustment. The first includes the factors affecting whether a woman is able to form relationships on the expatriate assignment. The second component includes the various sources of social interaction and social support. The third describes the nature of a female expatriate's social interaction and social support. The article also gives practical hints to organisations to help women adjust.

- **Harris, H. (2002) 'Think International Manager, Think Male: Why Are women not Selected for International Assignments? *Thunderbird International Review*, 44(2): 175–203.**

This article summarises research to date on women in international management. It notes that explanations for this phenomenon have centred on women's personal characteristics, home/family circumstances, organisational support and host country nationals' attitudes. This study examines the status of women in international management from a United Kingdom perspective. A key finding arising from the study is the critical influence of selection systems for international assignments where the predominant use of closed, informal selection processes for international assignments was seen to create unintended gender bias in recruitment.

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PART 4

Industrial Relations: A Comparative and International Perspective

15 The Transfer of Employment Practices Across Borders in Multinational Companies

Tony Edwards

CHAPTER CONTENTS

1 INTRODUCTION

This first chapter of Part 4 links our discussion in the other parts of the book to the collective aspect of the employment relation: industrial relations. Research in the area of industrial relations has typically developed in relative isolation from research into comparative and international HRM and international management and business. However, the authors in this part of the book make a conscious attempt to ensure the relevance of their analysis to management of MNCs.

It is commonly argued that one of the reasons why multinational companies (MNCs) are significant is that they have the capacity to implement expertise in their operations in one country that was developed in operations in another. One element of this is the transfer of employment practices across borders. This capacity can be seen as a potential source of higher efficiency in MNCs compared with firms based solely at the national level. However, many of those who work for MNCs, including some managers, may see the transfer of practices as a challenge since the process can cause a shift away from practices that have become accepted at the national level. Employee representatives, in particular, may see their interests as being threatened and may be able to block the introduction of practices that originated elsewhere. Thus the process of transfer can be contested, even blocked in some cases, and can also create fraught relations between different organisational groups.

The troublesome nature of such transfer arises in part from the way in which employment practices are 'embedded' in distinctive national contexts. Employment practices, like any other social custom, are strongly influenced by the context in which they operate. The political system and the dominant political traditions within it shape several key aspects of the employment relationship, notably the strength of organised labour and the nature of employment regulations. The legal system, itself partly the product of the political system, not only constrains the range of courses open to management in devising procedures in areas such as employee representation, but also plays a part in conditioning the expectations of organisational actors in this area. Concomitantly, the nature of key institutions in the labour market also limits the options available to management in employment relations and further contributes towards the creation of a set of norms and values. The existence of a set of values concerning work and organisations – often referred to as culture – is the most commonly cited source of national distinctiveness in employment relations (e.g. Tayeb, 1996, see also Chapter 6). The political, legal and institutional context gives rise to the emergence of dominant values in societies, and these are central to the character of the employment relationship (see Chapter 5 for a more extensive discussion). Given that the context and the values differ markedly from country to country, transferring practices across diverse social systems is bound to be a tense process

In this chapter we tackle several of the key aspects of the transfer of employment practices within MNCs. One initial question is that, given that such practices are embedded in particular national contexts, why do many MNCs seek to transfer practices to quite different national contexts? In addressing this, three broad explanations that are evident in the academic literature are reviewed and the strengths and weaknesses of each of these are assessed. Identifying the weaknesses points to the need for a fourth, integrated approach which can explain a number of aspects of the transfer of employment practices, such as in which countries MNCs' practices that are transferred are likely to originate, how we can explain variations between MNCs in terms of the extent of transfer, and the likely nature of the relations between different groups within MNCs in the transfer process. To this end, the fourth approach elaborated here consists of a framework of four key influences. The chapter ends by examining the consequences of the transfer of practices for national systems of employment, addressing in particular whether they contribute to the convergence of these systems.

2 WHY TRANSFER PRACTICES?

The complex nature of the transfer of employment practices begs a key question: why do many senior managers look to engage in such transfer at all? Why do they not simply take a highly decentralised approach, allowing actors in the various countries in which the firm has subsidiaries to determine the type of employment practices that are compatible with the particular national context? Some do, of course, seeing the pressures of 'multi-culturalism' (Ghoshal and Bartlett, 1998) as significant enough to warrant a hands-off approach from senior management to employment practice. This nationally responsive style was termed 'polycentric' by Perlmutter (1969) more than 30 years ago. Perlmutter (1969: 13) argued that the polycentric style recognises that 'since people are different in each country, standards for performance, incentives and training methods must be different'.

The rational approach

There are three broad categories of explanation that have been used to explain the attractiveness of transfer. The first, which I term the *rational* approach, sees the transfer of employment practices as a potential source of enhanced efficiency. For many writers on HRM in MNCs, the strength of competition in the global product markets that MNCs tend to inhabit means that a firm is missing an opportunity to enhance its own efficiency if it does not engage in the sharing of 'best practice'. One particularly influential book about the multinational company that takes this rational approach is Ghoshal and Bartlett's (1998) *Managing across Borders*. In this work, the authors argue that the mature stage of evolution for a firm which spans many different countries is the 'transnational' form, which is based on an 'integrated network' of plants sharing expertise and knowledge with each other (see Chapter 2 for a further discussion). The transfer of employment practices is a central part of such a firm. The authors go so far as to argue that 'in the future, a company's ability to develop a transnational organisational capability will be the key factor that separates the winners from the mere survivors in the international competitive environment' (1998: 299). The rational approach is also evident in some of the work that examined the transfer of Japanese employment practices in MNCs from Japan as they expanded into Europe and North America in the 1980s and 1990s. Abo (1994), for example, saw the dilemma facing senior managers in Japanese firms concerning the management of employment relations in their foreign subsidiaries as essentially a trade-off between the competitive pressure to utilise those practices that formed a part of successful production at home on the one hand, and the need to adapt to the exigencies of local conditions on the other.

The contribution of this approach stems from the recognition of the potential advantages that can arise from transferring employment practices. However, the rational approach risks downplaying the contested nature of transfer. The balance between adopting policies that are both globally integrated and locally sensitive tends to be portrayed as a technical matter, on which senior managers simply need to come to a reasoned judgement. Where some recognition is given to the possibility that there will be differences of view on the desirability of transferring practices, as in Ghoshal and Bartlett's (1998) work, senior managers are seen as having the ability to resolve any problems through communication and persuasion. Ghoshal and Bartlett talked of the need to create an appropriate 'management mentality', for example. However, as a range of studies of MNCs has revealed, the process of transfer across borders is an intensely political process, in which a number of organisational actors have some influence. A good example of research which emphasises the political nature of transfer is Belanger et al.'s (1999) study of ABB, a company cited by Ghoshal and Bartlett themselves as a 'classic transnational organisation'. Belanger and his colleagues argued convincingly that Ghoshal and Bartlett's account of ABB downplays the tensions between groups which are a key feature of organisational life in multinational companies, and they demonstrated that international coordination is strongly contested within the firm.

The culturalist approach

The *culturalist* approach is the second form of explanation as to the reasons why MNCs transfer practices across their sites in different countries. Many argue that the transfer of practices is not so much a process governed by the forces of competition as one shaped by the legacy of national and corporate cultures. Writers from this approach commonly draw on Hofstede's (2001) much-cited work, originally published in 1980 with an updated version more recently, in which he distinguished a number of dimensions along which national cultures differ (see Chapter 6 for a discussion of this and other frameworks of cultural dimensions). The culturalist approach raises two important points concerning the transfer of practices. First, it provides an explanation, albeit partial, for why MNCs must adapt their desired practices to local conditions rather than adopting common practices across their operations. Hofstede's own study of IBM showed that even in a company with a strong company culture, there were marked variations in employee values at the local level. An extension of this idea is the fact that national cultures inform the behaviour of MNCs in a different sense: MNCs take aspects of a national culture with them when they go abroad. In other words, their corporate culture is informed by the national culture in the original country. Thus some researchers have sought to explain the transfer of home country practices to foreign subsidiaries through this lens (e.g. Ngo et al., 1998).

The value of this approach is in recognising that transfer is more than just a question of competition and rationality. Rather, national cultures differ and these differences endure. However, it suffers from a number of problems. The key problem arising from the heavy reliance on a small number of typologies – primarily Hofstede's but also to a certain extent that of Trompenaars and Hampden-Turner (1994) – means these studies are open to the same criticisms as the original works themselves. In particular, this approach tends to fail to locate cultural values in a convincing social context. As noted above, dominant values and attitudes in a society emerge in a particular political, legal and institutional environment (see also Chapter 6), yet the culturalist approach fails to acknowledge the full force of these influences. Moreover, while the culturalist approach says something about how tensions can arise during the process of transfer, it says little about how political activity is played out within organisations.

The political approach

The third approach, which I term the *political* approach, is one that looks at the way that actors in organisations can be willing to engage in the process of transfer as a way of obtaining legitimacy and to advance their own interests. A range of actors can seek to protect or advance their own positions by initiating or engaging in the transfer of practices. For example, those at the HQ may look to raise their status within the organisation by portraying themselves as key agents in controlling the transfer of practices. For those in senior positions in firms producing a component or providing a service to other firms, ensuring that their operational units are sharing practices with one another may also assist senior managers in their quest to obtain legitimacy – and consequently orders – from potential customers since creating an image of a networked 'transnational' is likely to be viewed favourably by potential customers. Those in key managerial positions in the subsidiaries may be keen to engage in sharing practices with their counterparts in order to portray themselves as key contributors to the network. Acting as 'good corporate citizens' in this way may be a way of advancing an individual's claims for promotion or for a pay rise (Edwards, 1998). Others who work in the subsidiaries of MNCs, particularly employees and their representatives, may be willing to go along with transferring practices if they fear that not to do so would result in their unit being less likely to receive future investment from the HQ. Of course, as we noted at the outset, some actors may also seek to block diffusion if they perceive it as challenging their interests (see Broad, 1994, for a case study of a Japanese transplant in the UK). Hence, diffusion is a contested and political process.

A key contribution of this approach is to recognise that the motivation that organisational actors have to engage in the transfer of practices is more than just a rational assessment of the potential gains to the organisation as a whole. However, the focus on the micro-politics of the organisation on its own does not tell us much about the influence of the wider 'national business systems' which MNCs transcend and, consequently, is not particularly revealing in generating an understanding of where the imperative to transfer practices comes from, nor does it tell us much about the constraints to transfer practices that are external to the firm.

These three approaches all make a contribution to understanding the transfer of practices across borders, but on their own each of them offers only a partial understanding. What is required is a fourth, integrated approach which does three things: first, recognises the competitive pressures on firms in international markets and the way these pressures create a commercial interest in transferring practices (the rational approach); second, analyses the influence of institutions as well as cultures in shaping the behaviour of MNCs (an amended version of the cultural approach); and, third, examines the role of organisational actors in initiating, engaging in, or obstructing, the transfer of practices (the political approach). This integrated approach, which is based on four sets of influences, is elaborated upon in the next section.

3 THE FOUR INFLUENCES FRAMEWORK

The framework consists of four key influences on the nature and form of the transfer of practices across borders. The influences arise from the interaction of, first, the differences between national business systems and, second, the growing internationalisation of economic activity. In some cases the impact of one influence is contrary to those of others, creating a tension; in others, however, the impact is for one influence to reinforce another. Each of the four influences is considered in turn.

Country-of-origin effect

The first influence is an enduring 'country-of-origin' effect in MNCs. That is, the country in which the multinational originates creates a distinctive national effect on management style in general and on the nature of employment practice in particular. A range of sources indicates that even the largest MNCs retain strong roots in their home country. Ruigrok and van Tulder (1995: 168), for instance, examined the geographical distribution of the operations of the biggest 100 MNCs in the world (ranked by foreign assets) and concluded that 'not one of these can be dubbed truly global, footloose or borderless'. Analysis of data from the UN's World Investment Report (2001) suggests little has changed since Ruigrok and van Tulder's study was published: the transnationality index, which condenses the ratios of foreign assets to total assets, foreign sales to total sales and foreign employment to total employment into one ratio, shows that on average around half of the operations of the largest 100 MNCs are located in the home base. While there are a small number of MNCs which have a high degree of global spread – mainly those originally based in small countries such as Nestlé and those formed through a merger of two firms from different countries such as ABB – these tend to be the exception.

The influence of the home country over a multinational stems not just from the concentration of assets, sales and employment but also from other ways in which MNCs are 'embedded' in the country of origin. One such source of a country-of-origin effect is the dominance of home country nationals in senior managerial positions. The CEO of the vast majority of MNCs is a citizen of the original country of the firm, while the management boards are dominated by home country nationals. The significance of this lies in the way that the managerial traditions of the country of origin shape the nature of key decisions. Another source of the country-of-origin effect relates to the way that firms are financed and governed. We know that financial systems differ markedly – for example, the fluid and arm's-length relationship between shareholders and management in Britain and the USA contrasts with the stable and close relationship between the two groups in Germany (O'Sullivan, 2000) – and that MNCs retain close links with banks, stock markets and other financial institutions at home (Doremus et al., 1998). The logic of this is that the differing pressures on firms that the divergent financial systems create are carried over to the international level in MNCs. A further source of the country-of-origin effect is the concentration of key activities in the home base. In particular, R&D activities tend to be very home country focused and since national innovation systems differ this will lead to differences by nationality in the nature of innovations found in MNCs.

There is considerable evidence of the way in which the 'institutional configurations' (Hall and Soskice, 2001) in the country of origin of MNCs influence the style the firm adopts in managing its international workforce. For instance, the primacy of the rights of shareholders in the financial system in the USA and the hostility of management to trade unions have created a clear orientation at the international level towards shareholder interests and a related hostility to unions among American MNCs (Edwards and Ferner, 2001). In contrast, other evidence testifies to the link between the way the German system of corporate governance accords rights to a range of 'stakeholders' and the more consultative management style and pragmatic approach to dealing with unions in German MNCs (Ferner and Varul, 1999). Crucially, the influence of the country of origin also shows up in the preferences of MNCs of different nationalities for particular practices. Japanese MNCs, for example, have made strenuous attempts to transfer the practices associated with 'lean production', such as teamworking, functional flexibility and 'single status' (e.g. Oliver and Wilkinson, 1992). American MNCs, on the other hand, appear to have transferred 'human resource management' practices, such as performance-related pay and forms of direct communication, to their foreign subsidiaries (Muller, 1998). Overall, Ferner's conclusion in his summary of the evidence was that 'MNCs of different national origins behave in significantly different ways' (1997: 33), reflecting the importance of institutions in the home country.

In terms of relations between different groups of organisational actors, the logic of the strength of the country-of-origin effect is that it is actors in the home country that are likely to be key players in the transfer of practices. Thus transfer is characterised by a strong authority flow from the centre to the subsidiaries in different countries. Actors in the subsidiaries may adopt a variety of approaches in responding to this central influence: some may be very willing to learn from the parent company and implement the practices enthusiastically; others may question the appropriateness of 'foreign' practices being transferred but grudgingly accept that they should go along with the demands of the HQ; while yet others may seek to resist the transfer altogether or insist on practices being adapted. Thus the focus on the role of the country of origin is also revealing in understanding the political nature of transfer.

The nature of the country-of-origin effect evolves over time. It tends to fall in significance as a firm engages in international expansion, such as in the case of a cross-border merger which significantly extends the global reach of a firm. Moreover, many actors in MNCs, including some at the HQ, will not see a strong influence from the home country as necessarily an advantage to the firm and, consequently, may look outside the country of origin for 'best practice'. In other words, MNCs do not possess a fixed and rigid national identity which imposes a straitjacket on organisational actors; rather, national origin shapes and constrains the actions of these actors but leaves scope for them to draw on practices operating in other countries.

Dominance effects

Given that actors have scope to observe and implement practices from countries other than the country of origin, what influences how they go about this process? A key factor in this respect is their perceptions of the strengths and weaknesses of economic performance across countries. Strong performance in one country gives rise to interest in the 'borrowing' of elements of that business system by firms in other countries. Smith and Meiskins (1995: 255–256) argue that the hierarchy of economies within the international system gives rise to 'dominance effects'; at any one time, they argue, countries 'in dominant positions have frequently evolved methods of organising production or the division of labour which have invited emulation and interest'. In terms of the impact on the transfer of employment practices, the logic of the 'dominance effects' argument is that such transfer is not solely created by the legacy and force of institutions, but is also shaped by competitive pressures at the international level.

For much of the post-war period it was the American economy which appeared to be the most influential. In a context of political hegemony and industry in the USA, which had emerged from the war relatively unscathed compared with its counterparts elsewhere, the American business system exerted a significant, albeit contested, influence over the form of restructuring in Europe and Japan. During the 1980s and early 1990s, however, the Japanese economy was widely perceived to be the dominant power, and writers and practitioners alike referred to the Japanese model in general, and lean production in particular, as providing the solutions to common organisational problems. Towards the end of the twentieth century, however, the prolonged stagnation in Japan and the resurgence of the US economy arguably led to a renewal of the influence of the American business system.

In its simplest form the use of the concept of dominance is open to a number of lines of criticism. First, it rests on an assumption that there exist marked differences in rates of economic growth between the major developed economies; in fact, these differences are not as great as is often assumed. For instance, while the 1970s and 1980s were seen as a period of economic decline by many in the US, the growth rate of the American economy was actually higher than that in Germany, Sweden and the UK. Only compared with the Japanese economy was there a marked difference and even this was less significant than is often supposed (see, for example, Hall and Soskice, 2001). Second, even where there are significant differences in economic performance between countries, only a part of this can be explained by divergences in forms of economic organisation. Some of the explanation lies in the process of 'convergence and catch-up'. That is, particularly rapid economic growth in an economy is often due in large part to a recovery from an adverse shock or the more intensive use of existing resources rather than the result of key features of the national business system. It is widely accepted that this factor explains part of the rapid levels of economic growth found in the so-called 'Asian Tiger' economies prior to 1997. Third, the notion of dominance might imply that a national business system is characterised by a homogeneous set of structures and practices that operate across firms, and that companies in other countries can identify and seek to emulate these. This is, of course, not the case; all national business systems are characterised by a degree of intra-national variety.

Despite these criticisms, the concept of dominance retains some utility. When thought of as a rough measure of management ideology and the way that the perceptions of actors creates a dynamic for change and diffusion, it adds to the understanding of the process of transfer. Specifically, actors within MNCs can perceive the diversity of employment practices that they experience across national systems as an opportunity to advance the competitive position either of the firm as a whole in relation to other firms, or of the unit in which they work in relation to other units within the firm. There are thus traces here of the rational approach. Moreover, actors can utilise the notion of dominance to advance their own positions within a firm. For instance, managers in the American operations of European MNCs may use their knowledge and familiarity with the current dominant business system to develop an international role within the firm. In other words, dominance effects also shape the politics of transfer.

A part of the significance of the notion of 'dominance effects' is that it suggests that the flow of practices will not only be from the home country to the firm's operations in other countries. As we saw in the previous subsection, there certainly is evidence of the country-of-origin effect leading to transfer occurring in this direction, and we might expect this to be most common in MNCs from a dominant country since the two effects reinforce one another. However, in the case of MNCs from a developing economy, or a developed economy which has been performing poorly, dominance effects will challenge the country-of-origin effect. The possible result is that practices that are transferred across a multinational may originate in the foreign subsidiaries. Indeed, there is a growing body of evidence that such 'reverse' transfer does occur and that it is shaped by the notion of dominance. The case study illustrates this process, and demonstrates the dynamic and competing influence of the country-of-origin effect and dominance effects.

Case study: Swedco

The issue of the direction in which practices are diffused across a multinational's operations is particularly interesting in the case of Swedish MNCs. The small size of the domestic economy has meant that in order to grow, many firms became multinational at a relatively early stage in their development and subsequently became highly internationalised. Thus, compared to MNCs of most other nationalities, the domestic operations of Swedish MNCs comprise a small proportion of their total sales, assets and employment. Moreover, the nature of the Swedish system of employment relations – the relatively highly centralised system of bargaining; the strength of union organisation and high level of density; the structures promoting co-determination and tradition of cooperation between management and labour – raises the issue of how such a distinctive system influences a firm's approach at the international level where the structural supports for such practices are much weaker.

The issue was at the heart of a recent case study of a Swedish multinational. Swedco is a highly internationalised firm providing IT and communications services and equipment for other firms. It employs tens of thousands of employees, approximately half of whom are outside Sweden, while 95% of the firm's sales are made abroad. The case study involved research into the Swedish, Belgian and British parts of the firm and sought to address the influence of the Swedish business system over employment relations in the firm and the role of the transfer of practices in reinforcing or eroding this influence.

There was evidence of a distinctively Swedish element to the management of the firm's international workforce, something which showed up in a number of respects. First, in the international context, Swedish workers operate with relatively little direct supervision; indeed, there is no direct translation in Swedish for the word 'supervisor' (Anderson, 1995: 72). Managers at the HQ of Swedco described attempts to spread a 'democratic' approach to decision making throughout the organisation. As one put it: 'I want to let my guys loose. I don't want to control them and stand behind their backs. This is typically Swedish, to be a coach.' Second, Hedlund (1981) has argued that in Swedish firms it is acceptable to 'bypass the hierarchy' in that organisational actors do not feel constrained by formal authority relationships. Accordingly, one of the British managers claimed that:

> 'the company encourages a Nordic approach to openness. Swedes think nothing of jumping the hierarchy to put forward their ideas.'

Third, the tradition of seeking agreement through compromise and negotiation – what Anderson (1995: 76) refers to as the 'quest for accord' – was also evident at the international level in Swedco. One of the Belgian managers argued that this style clashed with what he was used to:

> 'You cannot always agree or compromise. Sometimes you have to say no. In Belgium, we raise our voices, we explode sometimes. But Sweden says this is something you must not do.'

Fourth, the Swedishness of the firm shows up in the stability of ownership. Unlike most big American and British firms which have fluid ownership structures involving a large number of shareholders each holding a small proportion of the total stock, Swedco has three large shareholders who control nearly three-quarters of the voting shares and have done so for many years. Consequently, in an industry characterised by significant restructuring in recent years involving a number of 'hostile' take-overs, Swedco has expanded internationally by 'greenfield' investments and through a series of collaborative joint ventures and 'friendly' acquisitions.

This evidence of a 'country-of-origin effect' is very significant; even in a highly internationalised MNC the nature of the domestic business system shapes the management of the international workforce. However, the evidence also indicated that the country-of-origin effect is being eroded as senior management seeks to draw on practices originating in other business systems. This process was evident in two areas. The first of these is the development of 'flexible' or 'variable' compensation systems. An international policy-working group involving HR managers from across Swedco has recently introduced bonus systems that are linked to individual and company performance. In addition, for very senior managers, there is a 'Short Term Incentive Plan' which rewards the achievement of immediate goals. Moreover, four years ago all employees were given the right to subscribe to a convertible debenture scheme, something that about 40% of staff world-wide have taken up. Perhaps most significantly, an individual performance-related pay scheme, in which an employee's performance is assessed against specified targets, affects all employees across the group world-wide. These variable forms of compensation appear to have much in common with practices which have become popular in America and Britain during the last two decades.

A similar process of adopting 'Anglophone' style practices was evident in relation to management development. In recent years the HQ has made a concerted effort to develop a cadre of managers recruited from across the MNC. Subsidiaries have been encouraged to submit suggestions for individuals who should be considered for promotion to positions elsewhere in the firm, a group known as 'high potentials'. The identification of such 'high potentials' as part of an international cadre of managers is, according to Ferner and Varul (1999), a common trait of British and American MNCs. More generally, in Swedco the British operations appear to have been particularly influential in the formation of policy on management development. The manager of the firm's 'Management Institute' indicated that the UK subsidiary and UK universities have been influential in developing policy on training programmes and management development:

> 'When I am developing a training programme for managers, I always include the UK. Firstly, it ensures I get the language right but, secondly, there are a lot of good training and management development ideas in the UK that I would like to benefit from. I always bring someone in from the UK site on to the team. We are also developing links with the UK universities such as Cranfield and LSE.'

In summary, while there is evidence of the country of origin being influential over the way Swedco manages its international workforce, there is also evidence that senior managers in the firm perceive the USA and the UK as providing practices in the area of performance management and management development that were seen as being desirable. This process of reverse transfer – arguably reflecting the perceptions of key actors of dominant systems – can be seen as constituting an erosion of the country-of-origin effect.

For a more detailed discussion, see Hayden and Edwards (2001)

International integration

The third element of the framework concerns the extent to which MNCs are internationally integrated, defined as the generation of inter-unit linkages across borders. A number of recent developments has created scope for MNCs to build stronger linkages between their international operations. In relation to product markets, differences in consumer tastes appear to have narrowed – a process to which the advertising and marketing strategies of MNCs themselves have contributed – while there has also been a trend toward deregulation of many markets, making it easier for firms to realise synergistic linkages between their subsidiaries. Coupled with these changes have been improvements in communications and transportation which have facilitated international coordination. Accordingly, many MNCs have strengthened the inter-unit linkages by developing new structures for their international operations. In particular, many have moved away from country-based structures towards organising themselves around global divisions or regional blocks, so that comparable operations are linked together. For example, IBM's operations are not structured along the lines of the various countries in which the firm operates, such as IBM China or IBM Canada; rather they are organised into global divisions, such as software and services, and regional blocks, such as Europe, Middle East and Africa (EMEA) and North America.

The replacement of country-based structures with these types of international management structures appears to have been most marked within Europe. The process of European integration has created a product market which is largely free from formal barriers to trade, while aspects of the regulation of other issues, such as competition, industrial and social policies, have also become harmonised. Perhaps most significantly, the single currency has increased the transparency of costs and prices across Europe and created a large Euro capital market. Thus Marginson has argued that Europe is 'an economic, political and regulatory space whose character and dynamic is distinctive when set against wider, global, developments or those in the other two "triad" regions' (2000: 11). Consequently, many MNCs have created an influential European aspect to the structure, with the potential to develop Europe-wide policies in HR.

The developments described above in relation to the markets are uneven, however. Many sectors remain localised in that they are strongly influenced by nationally distinct customs or regulations. Commonly, these sectors are ones in which MNCs are generally absent, such as the provision of personal care and hairdressing. In some other sectors which are still influenced by national customs or regulations, MNCs are present but tend to adopt management structures based around the countries in which they operate, and there are few inter-linkages between their operations. Examples are electricity and retail banking. In contrast, the scope for achieving a high degree of international integration is much stronger in sectors like textiles, automotive, IT services and investment banking, where units are strongly linked to their counterparts in other countries.

This integration can take two forms, each of which has important implications for employment relations. International integration can take the form of the *segmentation* of operations across countries, with those in one country providing components or services to those in another. Examples of this are the producers of branded sports and fashion wear which subcontract production to nominally independent, but in fact closely controlled, firms mainly in Southeast Asia. These arrangements, through which production is both internationalised and externalised, are often referred to as 'global commodity chains' (Gereffi, 1999). Another set of examples of firms which have segmented the production or service provision process are the airlines which also use bases in Asia, commonly India, to carry out routine IT services such as data entry and processing. In these cases, the various units across the world are performing quite distinct functions, leading to variations in the type of HR practices that the firm deploys. Thus there will be little incentive for such firms to transfer practices across sites. International integration can also take the form of the *standardisation* of operations, with the units in different countries carrying out very similar activities. Examples of this are the automotive and electronic manufacturers, which have developed increasingly standardised products and, relatedly, similar manufacturing techniques. Investment banks, similarly, have sought to develop a unified set of services to clients who are often multinationals themselves. Given that the nature of the operations in different countries have important similarities, there is considerable scope for such firms to transfer practices across borders.

In summary, the pressures to achieve international integration reflect the nature of competition in particular sectors. We have seen that the scope for transfer is constrained in MNCs which operate in sectors that are characterised by nationally specific tastes or regulations. Moreover, in MNCs which have segmented their international operations, there will be little incentive to transfer practices across borders. In contrast, in those sectors in which MNCs have developed standardised operations, the transfer of employment practices is likely to be more attractive to management. It is in such 'standardised' MNCs that the forces of the country of origin and of dominance will be felt most acutely, whereas for the sectors which are constrained by national differences, and those in which MNCs have developed 'segmented' international operations, the influence of the country of origin and of dominance will be more muted. The strength of these forces is not determined only by the extent and form of international integration, however, but also by the characteristics of the various host country employment systems in which MNCs operate.

Host country effects

There are a number of aspects of a national business system which can limit the scope a multinational has to transfer practices. The system of employment law to a greater or lesser degree poses constraints to employers in implementing practices at workplace level. Moreover, the nature of key labour market institutions, such as unions and works councils, presents similar limitations, both directly through affecting the form of employee representation, and indirectly through the impact these institutions are able to exert on other areas of employment relations. There are also cultural barriers to transferring practices to host environments. Broad's 1994 study of a Japanese transplant in the UK, for instance, found that the parent company's insistence that the plant operate the system termed 'High Involvement Management' clashed with the expectations of British managers who were not used to devolving responsibility for operating decisions to shop-floor workers. This illustrates the way in which the institutional and cultural features of national business systems constrain the scope for transfer, and the way in which actors in host countries may be able to block transfer when they see it as challenging their interests.

In other cases, however, the constraints may be only partial. In many cases, a practice may be adapted to fit the new national business system as it is transferred. In this way, a particular practice 'may not operate in the same fashion in the recipient as in the donor unit but, rather, may undergo *transmutation* as actors in the recipient seek to adapt it to pre-existing models of behaviour, assumptions and power relations' (Edwards and Ferner, 2000: 13). One example is the adoption by many US MNCs of Japanese-style lean production. These practices have been implemented in a distinctive system of employment relations, involving a reliance on the external labour market and a pronounced hierarchy-within-work organisation. Maccoby (1997: 165) argues that US companies have concentrated on the use of lean production to eliminate waste and defects, and downplayed the Toyota-style emphasis on the creation of 'trust' and facilitating 'learning'.

While the peculiarities of the host business systems may present constraints to transfer, whether absolute or partial, these constraints will often be open to the influence of large MNCs. By appearing to be mobile rather than dependent on a particular set of operations, senior managers in large MNCs can pressure governments to relax regulations and prevail upon unions to make concessions in collective bargaining. Accordingly, Muller's (1998) study of American and British MNCs in Germany found that a significant number had opted out of the systems of sector-wide collective bargaining and vocational training. In this way, actors in the HQ may be able to break down resistance to transfer from those at national or plant level.

However, the role of host country effects in the transfer of practices is not simply a matter of managers at HQ trying to break down resistance. To operate effectively, a particular practice may be dependent on workers possessing high levels of skills and knowledge. Without these abilities, organisational actors may be unable to operate the practice in question. In this case, the host country is not 'receptive' to transfer, but this lack of receptiveness is not due to any opposition. An example of this is the implementation by Japanese MNCs of amended versions of lean production in Brazil; the amendments reduced the requirements for workers to rotate across a range of tasks since the Brazilian workers tended to lack the breadth of necessary skills (Humphrey, 1995).

Moreover, where resistance to transfer occurs it will not necessarily be confined to the implementation of practices. Resistance can also occur at an earlier stage, namely during the search for practices that have the potential to be diffused. Where managers at HQ set up mechanisms designed to identify practices in one part of the firm able to be implemented in another, and combine this strategy with establishing competitive relations between different units, actors at plant level may be reluctant to share their expertise with their counterparts for fear of undermining their performance within the group. Instead of letting other plants with whom they are in competition use the practices developed in their own plant, some may prefer to keep those practices which they perceive as assisting their performance to themselves. In doing so, they may draw on the peculiarities of the national business system concerned to obfuscate the nature of employment practice in their plant.

Thus since the transfer of practices entails the crossing of 'institutional divides' (Morgan et al., 2001), the process of transfer is evidently a highly political one. Actors at the centre of MNCs may find that the distinctiveness of host country systems of employment relations present constraints to the transfer of practices, although these will sometimes be malleable. Actors at subsidiary level, on the other hand, may be able to use this distinctiveness to block either the implementation of practices or the initial search for them. The way in which these features of host countries complicate the pressure to achieve international integration is clearly demonstrated in the case of General Motors in Spain.

Case study: General Motors in Spain

During the 1980s many large American firms experimented with the practices that appeared to lie at the heart of the strong performance of their Japanese counterparts. In the case of General Motors, a principal way in which the firm learned about these practices was through the collaboration with Toyota which began in the early 1980s. The joint venture between the two firms, termed NUMMI, was significant because it was seen by management at GM as a way in which it could learn about Japanese management practices, and use the joint venture to move away from those practices which had characterised the company's North American plants. One important aspect of this was the emphasis on teamwork, involving groups of operators working flexibly within teams and taking on shared responsibility for the quality of their work (see O'Sullivan, 2000). Apparently persuaded that teamwork had potential benefits across its operations, senior managers sought to transfer it to other locations across the world as part of a standardised production system within the company.

In its Spanish subsidiary, as in many others, GM was faced with overcoming the potential resistance of its trade unions. There are two main union confederations in Spain: the UGT, which has enjoyed close links with the Socialist Party (PSOE) and is considered to be moderate; and the communist-oriented CCOO which has its roots in workplace resistance to Franco's dictatorship (Martinez Lucio, 1998). In addition to union representation, there exists another channel of worker representation known as the *comité de empresas*, or works committees. While formally separate from unions, in many cases the delegates elected by workers to these committees are also union representatives. The dual system of unions and works committees had to be confronted by GM's managers in attempting to implement teamwork.

The form of teamwork favoured by management for its Spanish plant had many common elements with the model operating in its other plants. The key aspects included: work being organised into teams of between 8 and 15 people; operators rotating across jobs within a team; members of a team meeting regularly to discuss possible improvements to their work; and 'the usual rhetoric about fostering a "team spirit" between workers and the company' (Ortiz, 1998: 46). The initial proposals envisaged maintenance workers being required to engage in 'mixed teams' with production workers. Moreover, the appointment of a team leader by the company was significant since he or she was to have a role in the appraisal and promotion of members of the team.

Towards the end of 1992 managers and unions began the process of negotiations concerning the introduction of teamwork. The unions were initially sceptical, expressing concerns about potential job losses, the prospect of work becoming intensified, the danger of unions being marginalised by the identification of workers with their teams, and the possibility that workers would not share in the benefits of the resulting higher productivity. Despite these concerns, and a history of division between the UGT and the CCOO, the two main union groups did cooperate with management and managed to negotiate a number of concessions. For instance, teamworking was to be piloted for a year in the first instance, workers would only join the experiment voluntarily, and maintenance workers were excluded from teamwork. While these concessions ameliorated the concerns of many union representatives, they also saw some possible advantages of the scheme: job rotation could help relieve monotony and avoid the danger of repetitive strain injuries; many workers (particularly those in low grades) could be promoted; teamwork could increase the autonomy that workers enjoyed from supervisors; and it could also result in more information being provided to workers and unions. Moreover, possible opposition from unionists was further eroded by pressure from the company, since managers stressed the multinational character of the company and the competitive position of the plant within it. Many union leaders had been taken to visit other plants implementing teamwork practices, creating a sense of it being an inevitable development in Spain too. For the leaders of the CCOO, now controlled by more 'moderates', opposing teamwork seemed futile and risked marginalising the union since the UGT would probably go along with management. In November 1993 agreement was reached at the works committee.

This shows the way that a powerful company can exert influence over the constraints of national business systems. By instilling competitive relations between plants, and by making concessions on some aspects of their plans, managers were able to break down resistance from unions, resulting in the constraints becoming partial rather than absolute. However, this was not the end of the story. At the end of the pilot scheme in November 1994 there was a call from the minority union, the USO, for a workforce ballot to decide on whether to stick with teamwork. Despite a campaign for ratification from all the unions the workers voted narrowly to reject the proposal. There appeared to be a number of reasons why employees were more hostile to teamwork than were their unions. Some workers, particularly those with scarce skills, were reluctant to engage in job rotation if this meant moving to less desirable jobs, which could also result in a loss of status for these workers. More generally, the adversarial industrial relations traditions of the plant meant that many workers were sceptical about management's motives. While it is likely that many workers in GM's plants in other countries shared such concerns, the Spanish system of employment law presented a distinctive constraint.

Ortiz concludes that many characteristics of national systems of industrial relations shape the attitudes of unions and workers to teamwork, such as the organisational strength of unions and the legal support that they enjoy. He argues, for example, that the British unions were more opposed to teamwork than their Spanish counterparts because it endangered the important role of the shop steward. The peculiarities of these aspects of national systems of industrial relations are key factors impacting on the nature of transfer of practices across borders, particularly for those MNCs seeking to use this as a way of developing internationally integrated operations.

For more detail, see Ortiz (1998)

4 CONCLUSION

The framework set out in this chapter provides a mechanism with which to analyse the transfer of employment practices across borders within MNCs. This approach based on the framework of 'four key influences' has sought to integrate elements of the three approaches outlined at the beginning of the chapter. It recognises the strength of the competitive pressures on MNCs to engage in transferring practices across their operations. In particular, the notion of 'dominance' and the extent of the pressures for firms to achieve international integration capture this dynamic. The 'four influences' framework also attaches great significance to the institutional and cultural aspects of national business systems in shaping and constraining the nature of transfer. The legacy of institutions shows up most clearly in the concepts of country of origin and host country effects. Moreover, the framework accords importance to the political nature of transfer by recognising the way in which organisational actors can use a range of resources – relating for example to 'dominant' ideas in the international economy or to characteristics of the particular systems in which they are located – to initiate, engage in or obstruct the process of transfer. Thus this fourth, integrated approach has sought to use elements of the rational, cultural and political approaches.

By way of conclusion, what do the arguments in this chapter tell us about the consequences for national systems of employment relations? One clear consequence is the way in which the transfer of practices within MNCs will lead to change within national systems as the practices introduced are spread throughout an economy. Some argue that the development of standardised policies on employment practice within many MNCs is a key factor in the convergence of national systems. Cases such as the move by General Motors towards establishing teamworking as the norm throughout their international operations appears to lend some weight to this argument. Yet the logic of this chapter has been that while transfer will lead to change, it will not necessarily lead to convergence because transferred practices often go through a process of transmutation, in that they operate differently in the recipient unit from the way they had operated in the donor unit. While it may be possible to operate some practices in a more or less identical way in different countries, many others will be adapted by management to 'fit' the new environment or will be interpreted in a different way by actors in the recipient country. Indeed, in this respect, the effects of the transfer of practices within MNCs is similar to the more general impact of the internationalisation of economic activity; national systems of employment relations evolve in response to these pressures, but do not necessarily converge. In the next chapter, Richard Hyman expands this analysis by looking at the transnational challenges to national industrial relations systems.

5 DISCUSSION QUESTIONS

1 Does the transfer of practices result in MNCs from various countries becoming more like one another?

2 You have been hired as a consultant to three firms: a British retail bank setting up in Spain; a German textiles firm relocating its production to Vietnam; and an American high-tech electronics firm opening a new site in Britain. You have been asked by all three firms to advise them on the desirability and feasibility of transferring practices to their new locations. How would your advice differ in each situation?

3 You have been appointed as an adviser to an international federation of national unions in the oil industry. The member unions are concerned at the growing tendency on the part of the major companies in the sector to transfer practices across their operations. You have been asked to advise them on how they might seek to block or amend those practices they see as challenging their interests. What would you tell them?

6 FURTHER READING

- **Edwards, T. and Ferner, A. (2002) 'The Renewed "American Challenge": A Review of Employment Practice in US Multinationals', *Industrial Relations Journal*, 33, 2, 94–111.**

This article provides a more comprehensive description of the four influences framework than does this chapter. It also illustrates the uses to which it can be put, in this case to analyse the strengths of previous research in a particular area.

- **Ferner, A. (1997) 'Country-of-origin Effects and HRM in Multinational Companies', *Human Resource Management Journal*, 7, 1, 19–37.**

The sources of the impact that a multinational's original business system on the orientation of the company is detailed in this article. It also discusses a range of methodological problems in researching this issue.

- **Ortiz, L. (1998) 'Unions' Response to Teamwork: The Case of Opel Spain', *Industrial Relations Journal*, 29, 1, 42–57.**

The case study of Opel in Spain and its attempts to introduce teamworking is covered briefly in the chapter but a fuller account can be found in this article. It provides more detail on the Spanish system of employment relations and the various motivations in supporting or opposing teamwork in the different groups within the organisation.

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The four influences framework has been developed with Anthony Ferner and has featured in a recent co-authored article (Edwards and Ferner, 2002). I am grateful to Anthony for encouraging me to use the framework in this chapter.

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16 Varieties of Capitalism, National Industrial Relations Systems and Transnational Challenges

Richard Hyman

CHAPTER CONTENTS

1 INTRODUCTION

This chapter discusses a broad range of issues concerning the past, present and future of employment regulation. Drawing on the recent literature on 'varieties of capitalism', it shows that national economies can be structured in many different ways, and that these differences are associated with varieties of industrial relations systems. The analytical approach has much in common with that which underlies Chapter 5: in any society there is an interdependence, often mutually reinforcing, between the behavioural dispositions of the parties to the employment relationship and the institutional context within which they operate. The discussion in the next section focuses on elements in national business systems – and the broader framework of social and economic regulation – which are more extensive than those discussed in the earlier chapter. In Section 3, we then discuss the conceptual distinctions that most writers on cross-national economic differences have used in their analyses: status and contract, exit and voice and liberal versus organised market economies.

In Europe it has become common to speak of a distinctive 'social model' of labour market regulation: but it is also widely assumed that 'social Europe' may not withstand the challenges of 'globalisation' – another issue examined in Chapter 5. It is important to explore the different (to some extent nationally specific) meanings of social Europe and their implications for employment regulation, and this is done briefly in Section 4. The final sections of this chapter attempt to disentangle the challenges inherent in globalisation, and consider whether they imply convergence towards a more market-driven model, or whether distinctive forms of social regulation are likely to persist.

2 ONE CAPITALISM OR MANY?

What do we mean by 'capitalism'? More often than not, the term is used as a polemical slogan rather than as a 'scientific' category. One definition would point to three inter-related features of the economic order: productive resources are in private ownership; work takes the form of waged employment; and goods and services are allocated through market mechanisms. When the term came into common use in the mid-nineteenth century, capitalism was an emergent and contested system, widely regarded as a bizarre social experiment unlikely to endure. The word 'capitalism' was itself mainly used by critics of the system, in particular Marxists; its defenders usually preferred more anodyne substitutes. For much of the twentieth century, capitalism was challenged by the existence in eastern Europe (and later in China) of a 'communist' alternative, with state ownership of the means of production and resource allocation by central planning rather than the market.

The confrontation between systems often encouraged both opponents and defenders of capitalism to treat it as an undifferentiated socio-economic regime. In the twenty-first century, with the collapse of the Soviet Union and its satellites and the turn to the market in China, the existence of capitalism is now hegemonic. Partly in consequence, there is growing emphasis on the diversity of types of capitalism, linked to a recognition that markets are rule-governed institutions and that rules can vary.

In terms of the definition above, 'pure' capitalism should be understood as an ideal type which nowhere matches empirical reality. In all societies,

- private ownership co-exists with varying degrees of public ownership and state regulation;
- wage-labour co-exists with self-employment and unpaid family work (including in particular women's domestic labour); and
- markets co-exist with different types of non-market allocation mechanisms (such as welfare benefits and public services).

How do we categorise the varieties of ways in which real capitalist societies diverge from the ideal type? And can we map different types of capitalism against different industrial relations systems? There is a rapidly expanding literature on 'varieties of capitalism'. At its core is the argument that markets do not exist in a social vacuum: they are social institutions which are in turn 'embedded' in the broader framework of each society (Granovetter, 1985). Because no two societies are identical, it follows that market economies are differentiated: it may be appropriate to speak of capitalisms in the plural rather than the singular. Modern capitalisms may be conceived in terms of (at least) four different dimensions of social relations. Slightly adapting the categories proposed by Crouch (1999), these may be defined as

- the property regime;
- the production regime;
- the welfare regime; and
- the gender regime.

The property regime

The property regime denotes the system of ownership and economic governance within a society. Private ownership of productive resources can be qualified by the existence of a (perhaps extensive) nationalised sector, and by forms of state regulation and planning which limit the autonomy of private owners. Ownership itself can be concentrated or dispersed: it is a paradox that while neoclassical economic theory assumes that no economic actor is large enough to affect market outcomes by their individual decisions, where economies of scale exist the natural consequence is the growth of monopolies or oligopolies which tend to undermine competition. To differing degrees, most countries possess anti-monopoly legislation; and conversely, many countries provide support and incentives for small businesses. Since nations' rules and practice vary – as do the historical roots of their economic structures – the proportions of employees in companies of different size differ markedly.

Another key factor emphasised by the 'varieties of capitalism' literature is the nature of company financing. An influential classification by Albert (1993) distinguishes between 'Anglo-American' and 'Rhineland' capitalism. In the former, companies obtain a large proportion of their finance from the stock market; company law prescribes that directors are primarily or exclusively responsible to the interests of shareholders; there are few restraints on takeovers; and executive rewards commonly reflect performance as measured by share price. The consequence is a bias towards 'short-termism' (Hutton, 1995), with company policy driven by the need to maximise short-term indicators of 'shareholder value'. The alternative model is one in which a higher proportion of company finance is drawn from institutional investors with a long-term commitment to the firm's success; hostile takeovers face many obstacles; management is permitted, or expected, to take account of a wide range of 'stakeholder' interests; and corporate governance systems reflect this plurality of interests (for example, through the existence of supervisory boards). This dichotomy between 'stock-market' and 'welfare' capitalism (Dore, 2000), like all simple classificatory schemes, neglects far wider patterns of national diversity in property regimes; but it highlights real contrasts in the imperatives confronting managements, contrasts with very important implications for industrial relations.

The production regime

The term 'production regime' refers to the system of organisation of work and workers – which embraces a wide range of themes central to other chapters in this volume. Elements of this regime include the division of labour within the work process, the nature and quality of skills, the ways in which tasks are allocated to different individuals and groups, the hierarchy of pay and the operation of promotion ladders (Marsden, 1999). Here, it has become common practice to draw a contrast between the low skill levels and rigid division of labour associated with standardised mass production, and the more polyvalent skills required in some alternative production systems. Much recent literature sums up this contrast under the labels 'Fordism' (the model of assembly-line production developed by Henry Ford in his car factories) and 'post-Fordism' (for a critical discussion of this dichotomy see Hyman, 1991). Closely related are two central issues for the management of labour: does the employer control performance though close supervision and strict discipline, or seek to encourage initiative and responsibility by cultivating trust (Streeck, 1987)? And are employees treated as disposable resources, to be discarded when costs have to be cut, or do they enjoy a long-term status within the firm (as, at least in theory, with the traditional principle of 'lifetime employment' in large Japanese companies)?

Within any country, production regimes can vary between firms, partly reflecting the requirements of different industries and services, but also in line with employers' strategic choices. To take another familiar distinction, there is a 'low road' and a 'high road' to competitive success: firms may attempt to compete on the basis of low cost or of high quality. Even within companies, different categories of worker (or even individuals) may be subject to different treatment. Nevertheless, there is some basis for speaking of national 'models' of work organisation. For example, property regimes which facilitate a long-term perspective are likely to be linked to greater investment in skill development than where short-termism prevails; or legal systems which make it difficult to dismiss workers thereby obstruct 'low-road' competitive strategies. Hence the societal characteristics under discussion here link closely to the elements of national business systems examined in Chapter 5.

The welfare regime

The welfare regime is the link between the situation of workers as employees and as citizens. In no society is labour simply a commodity to be bought and sold. Not only do workers, to a greater or lesser extent, acquire a *status* which establishes them as stakeholders within the employing organisation or at the very least restricts the employer's ability to dispose of them at will; there are also important processes of what Esping-Andersen (1990) has called the 'de-commodification' of life-chances. So, for example, to varying degrees all governments assume some of the responsibility for the education and training which contribute to an individual's 'human capital'; provide health care which maintains workers' productive capacity; manage systems of social protection which sustain income in case of accident, ill-health or unemployment; and allocate pensions after the end of the working life. All these extra-employment resources have an impact on an individual's situation *within* the labour market. To take a simple (and today politically contentious) example, the availability of relatively generous unemployment benefits strengthens the individual worker's position when deciding whether to accept an offer of employment on terms which appear uncongenial.

There are many different types of welfare regime – indeed each national system is distinctive – but Esping-Andersen suggests that these cluster around three ideal types. The first, the social-democratic model, is highly redistributive, financed largely from general taxation, and provides generous universal entitlements. The second, the conservative model, is also state-provided, largely financed by payments from employees and employers, and with a floor of support which is below that of the social-democratic model but still relatively high; contributions and entitlements are both earnings-related. Finally, the liberal model is insurance-based (often with private providers rather than a public system), offering earnings-related entitlements and a minimal 'safety net' for those who are outside the normal coverage of the system. These different models have contrasting implications for the balance of power in labour markets: it is hardly accidental that the liberal welfare system in the USA is associated with a large volume of employment in low-paid, insecure jobs. A further point to be noted is the varying extent to which the industrial relations actors (or 'social partners') are implicated in the administration of the welfare state. In much of Europe, certainly, unions and employers' organisations have a key role within the welfare system (for French or Italian trade unions, indeed, this function may be more important than collective bargaining with employers). As a corollary, in such countries 'industrial relations' encompasses social policy much more generally than where a liberal welfare regime prevails.

The gender regime

Traditionally, writers on industrial relations and employment practices have regarded the worker in unisex terms: gender relations have been considered irrelevant to the workplace. But increasingly, it has become recognised that the gender regime has to be incorporated in the analysis of the world of work. Economic theory may be gender-blind, but in practice a powerful sexual division of labour is universal. In most countries of the world, the predictions of writers like Marx that female labour would become central to the evolution of capitalist production were not borne out in the century after he wrote his studies. On the contrary, there emerged a stark polarisation between the male 'breadwinner' and the female 'housewife', at least after the age of marriage and childbearing: a division indicated in most countries by a sharp contrast between the proportions of women and men in the 'active' labour force (Gorner, 1999; Rubery, 1992).

But here too, different national capitalisms display very different patterns. Within any country there are many factors which either reinforce or counteract the 'breadwinner/housewife' division. One of the most important is the extent of employment in public services, since these perform functions traditionally assigned to women within the household, enabling more to enter the external labour force. The outcome is not necessarily egalitarian; in Sweden, for example, viewed by many as a model of sexual equality at work, employment in public services is overwhelmingly female (a system for collectivising domestic labour, perhaps?) while most higher-wage manufacturing industries are overwhelmingly male. Another important issue in the gender regime is the unit of welfare entitlement within social protection: 'household' or individual. 'Household' systems tend to reinforce the 'breadwinner/housewife' division; individual systems may support greater sexual equality (though perhaps increasing inequality between income groups) (Lewis, 1992; Sainsbury, 1999).

Gender issues are more directly involved in the employment system. Skill classifications may be gender-biased; the treatment of part-time employment in terms of promotion opportunities and social entitlements may implicitly discriminate against women; career trajectories may be biased against women who interrupt their employment for child-rearing; to the extent that domestic responsibilities are typically distributed unequally between women and men, many women have to manage a double burden of commitments which may be partially mitigated where genuinely 'family-friendly' policies are implemented. Finally, an important issue is the extent to which gender issues are 'mainstreamed' within industrial relations, rather than treated as subsidiary (and perhaps irrelevant?). Undoubtedly there are important cross-national differences in all these respects.

Are there distinctive configurations of these four regimes in different national settings? It seems possible to delineate, albeit crudely, four simplified 'models'. This takes slightly more account of the diversity of national situations than Esping-Andersen's three-part classification, which has been criticised for neglecting important cross-national differences (Arts and Gelissen, 2002: 142–6):

- an Anglo-American model (which applies to a large extent in all English-speaking countries), characterised by a liberal property regime, a Fordist production regime, a liberal welfare regime, and a formally egalitarian but in practice patriarchal gender regime;
- a northern European model, with a strongly regulated property regime, varying degrees of status-based production regime, an extensive (social-democratic or conservative) welfare regime, and in some cases a relatively egalitarian gender regime. This model displays two main variants, considered in more detail below, which may be termed 'Nordic' and 'Germanic';
- a southern European model, with a property regime which is also regulated (though in very different ways), varying degrees of status-based production regime, a less developed welfare regime, and a 'male breadwinner' gender regime (though with recent modifications); and
- a Japanese model, with yet another form of regulated property regime, a distinctive status-based production regime, a conservative welfare regime, and a 'male breadwinner' gender regime.

These are crude stereotypes, indeed caricatures; in the case of Europe they will be refined below. However, they serve to underline the point that capitalisms *are* different, and that the social context of industrial relations varies so greatly between different parts of the world that we cannot assume that the same dynamics necessarily apply. Indeed on the contrary, as Peck insists (1996: xv), 'labor markets…*work* in different ways in different places'.

3 SOME IMPORTANT ANALYTICAL DISTINCTIONS

Status and contract

Writers on cross-national economic differences have often based their analyses on a limited number of conceptual distinctions. Perhaps fundamental to all of these is whether economic actors are perceived primarily as autonomous individuals or as members of collectives which shape their interests and options. One element in this broad distinction between individualism and collectivism is the contrast (dating from the nineteenth century) between contract and status. In pre-capitalist societies, rights and obligations largely derived from the positions and identities which an individual acquired by birth or by achievement. The distinctive feature of the rise of capitalism, for many observers, was that rights and obligations were increasingly defined by market transactions. The degree to which contractual obligations established through economic exchanges pervade social relations was one important criterion for Albert's distinction between Anglo-American and Rhineland capitalism. In the specific case of labour, as already noted, there are important variations within countries (and also firms) as well as between them in the extent to which employees are treated as disposable commodities to be hired and fired at will, or as stakeholders within a social community.

Many nineteenth-century (and indeed later) writers on the transition from status to contract saw this as an enlargement of human liberty. The growing prevalence of contractual relations was however a source of ambiguous freedoms. The dissolution of the previous fixity of rights and obligations based on traditionally defined status offered new opportunities for choice and achievement; but the beneficiaries were principally those with the economic power derived from superior market resources (a thesis as self-evident to Weber as to Marx). For those less advantaged, the principal outcome was accentuated insecurity. And at a macroeconomic level, while the rise of a contract-based economy undoubtedly facilitated an unprecedented expansion of production, it also encouraged an 'opportunism' in economic relationships corrosive of the trust which underpinned former status-based interactions. This posed major difficulties for the new capitalist entrepreneurs: if the relationship with employees was purely market-based, the latter might well prove recalcitrant in providing the desired performance once the employment contract was struck.

Concerns of both social welfare and economic efficiency underwrote resistance – its strength, again, varying cross-nationally – to the pervasiveness of contractual relations. They also led, in the twentieth century, to a reassertion of non-market principles as a basis for regulating employment (Polanyi, 1957). In the phrase made famous by Marshall (1950), the rise of political citizenship was followed by the creation of an 'industrial citizenship' which reinforced workers' status within the labour market and within the employing organisation. To this extent, the shift from status to contract was reversed (though status was redefined in very different forms from the old).

Exit and voice

This distinction between status and contract links to another, that between exit and voice. The concept of voice was used by Hirschman in 1970 as a metaphor for attempts to redefine the terms of a social or economic relationship. In his model, an aggrieved customer, employee or member of an organisation has two main options: either to go elsewhere (exit) or to demand improvements (voice). The more committed an individual to a particular supplier, employer, political party or other organisation – in Hirschman's terms, the stronger their loyalty – the greater the incentive to choose voice rather than exit. In addition – though Hirschman did not fully pursue this issue – an exit decision is typically individual, whereas voice is normally collective: it requires the existence of (usually institutionalised) channels. Hence it is in institutionally embedded societies – where rights of collective association and expression are protected – that voice is a widespread option.

This argument has been developed in the specific context of industrial relations by Freeman and Medoff (1984). They stress that effective voice reduces exit; and because labour turnover imposes costs on the employer (in seeking replacements, providing training, absorbing the lower productivity normal with new employees because of learning-curve effects) there are benefits for managements as well as for workers in institutionalising voice; grievance procedures and seniority systems, in particular, have a stabilising effect on employment. They argue however that the economic benefits are most evident at the aggregate, macroeconomic level; whereas the size of the union wage mark-up entails that for the individual employer, the costs may outweigh the benefits. Hence a favourable legal regime is necessary to underpin institutions of employee voice, obliging employers to adopt industrial relations procedures which may not be in their individual short-term interests though they will benefit employers collectively in the long run.

To an important extent, this analysis reflects a North American perspective: in the USA, company-based certification of trade unions for collective bargaining purposes results in a clear division between union and non-union firms and sectors, with substantial differences in terms and conditions of employment between the two. Twenty years ago, for example, it was common to speak of a 'union wage mark-up': pay rates might be 20% higher in a unionised firm than in an analogous company without union recognition. In many other national contexts the situation is very different. First, the distribution of union membership is typically more extensive: union density in the USA when Freeman and Medoff wrote was only about 20%, and has fallen significantly since then; in almost all of western Europe the figure is much higher (over 80% in many Scandinavian countries), and the American level of unionisation is exceeded in many other parts of the world. Second, bargaining rights in many countries do not necessarily depend on majority membership; in some cases any union officially considered 'representative' has the right to negotiate. Third, the meaning of union recognition (and hence the character of institutionalised voice), a matter of tight legal definition in North America, is elsewhere often diffuse and elastic. Fourth, in the USA (and also Britain) collective bargaining takes place overwhelmingly at company level, giving the individual employer considerable discretion over whether and how to negotiate; but in many countries, multi-employer bargaining is the norm, and this is often accompanied by 'extension mechanisms' (Traxler, 1998) which generalise the terms of agreements across whole sectors; this reduces the advantage to individual employers of union exclusion. Nevertheless, it remains important to note that whatever the industrial relations context, the cost-benefit calculus for individual employers may be very different from the balance of advantage at the societal, macroeconomic level. Streeck (1997) develops arguments rather analogous to those of Freeman and Medoff when he analyses social peace in employment (in his case, as encouraged by the German mechanisms of workplace and board-level codetermination) as a collective good which individual employers may nevertheless consider an unreasonable burden. The collective action problem for employers has, in many countries, in the past been overcome by powerful social norms of solidarity but without statutory underpinning. It is partly for the reason, as is seen below, that there are fears that the institutional framework may not survive the pressures of 'globalisation'.

Freeman and Medoff focus on the institutionalisation of exit/voice at the level of the individual employer (again, reflecting the pattern of US industrial relations). But it is important also to address the macro level. Crouch (1995) has used exit/voice to characterise the dynamics of national employment and industrial relations regimes. At both national and company levels, some institutional frameworks encourage a preoccupation with short-term options; both employers and workers, if dissatisfied with the current cost/benefit balance, will tend to choose exit. In other contexts, exit is more difficult (employers cannot dismiss workers, or at least those with an established employment status, without pursuing a complex, perhaps legally prescribed procedure; employees with seniority are discouraged from leaving because elsewhere they may have to start again at the bottom of the ladder). Where short-term opportunism is constrained, all parties are more likely to seek remedies within the framework of the existing relationship which provides an incentive to voice arrangements.

Liberal and organised market economies

A third, more general distinction which is central to recent analysis of varieties of capitalism is between 'liberal' and 'organised' or 'coordinated' market economies (Hall and Soskice, 2001; Hollingsworth and Boyer, 1997; Kitschelt et al., 1999; Soskice, 1999; Streeck, 2001). In the latter, there is a dense network of institutions – sustained by law, custom or moral values – which subject the decisions of individual economic actors to broader collective, normative imperatives. In the former, by contrast, market participants are far more autonomous (or, one should add, because of the asymmetry of market outcomes, the relatively powerful are freer to benefit at the expense of the relatively weak). Here again, the link with Albert's identification of two contrasting models of capitalism should be obvious.

4 THE EUROPEAN SOCIAL MODEL(S)

From the perspective of this simple dichotomy, it makes sense to regard continental western Europe as a cross-national region with many common features in the organisation of the economy in general and the labour market in particular. The idea of 'Social Europe' has been a key element in the official discourse of the European Union for more than a decade. For critics, particularly in the Anglo-American world, this idea was merely an expression of outdated socialist values. Yet it is noteworthy that the concept can be linked to the German notion of a 'social market economy' which was invented in the 1950s by *conservative* politicians and theorists. It expressed the principle that economic affairs should be primarily dependent on the market, but that market relations should in turn respect underlying social and moral values. This perspective has been highly influential in much of Europe for half a century, particularly in countries where support for capitalism has been qualified by a Christian- democratic ideology critical of unconstrained economic individualism.

It is interesting that, in most of western Europe, the English term 'industrial relations' is commonly understood through the notion of 'social affairs' or some analogue. Similarly, government responsibility for industrial relations is typically vested in a ministry of labour and social affairs. Employment is perceived as a social relation, not a simply contractual issue. Partly as a corollary, industrial relations is an arena for collective actors: trade unions and employers' organisations are described in much of Europe as 'social partners', a term which at one and the same time expresses an aspiration that conflicts of interest should be resolved cooperatively but also an assumption that collective representation is a necessary and important basis for agreement between employers and workers.

Viewed from the outside, there are important common features to industrial relations in most of western Europe (Ebbinghaus 1999). Five of these are of key importance in underpinning status alongside contract, encouraging voice versus exit, and embedding market relations in systems of institutionalised rules. They can be summarised as follows:

- there is broad social and political acceptance of the need for collective regulation of the employment relationship in order to protect the weaker party;
- accordingly, individual contracts are subordinate to collective ones, limiting the freedom of individual labour market actors;

- usually, voice is articulated within standardised systems of workplace representation (established by law or peak-level collective agreement, or both);
- both socialist and catholic traditions have encouraged non-liberal welfare regimes which substantially 'decommodify' labour; and
- the concept of the 'social wage' (which in Britain, for example, has little meaning) is taken for granted: the collective bargaining agenda encompasses social policy and the 'social partners' are key actors in the development and implementation of the welfare regime.

In many cases, the institutional framework of industrial relations is the outcome of past social and economic crises. Austria is a good example: in the 1930s the confrontation between strongly organised employers and trade unions helped precipitate a bloody civil war and paved the way for the Nazi takeover; the institutions of 'social partnership' were subsequently embraced in part as a bulwark against a similar disaster in the future. For Austria, and much more generally in continental Europe, postwar efforts to rebuild a shattered economy also encouraged the institutionalised regulation of economic activity. Moreover, the interwar experience of mass unemployment had widely discredited belief in the virtues of 'free' markets. An additional factor of importance in many European countries is the prevalence of coalition governments: the political system contains an inbuilt bias towards compromise, creating obstacles to radical change in the institutional order once this has become stabilised.

Yet if the organised capitalisms of western Europe share important common features in their industrial relations systems, there are also major differences – to some degree reflecting the different models of capitalism discussed earlier. Crouch (1993) has indeed argued that every national system of industrial relations is distinctive, in that the historical evolution of employment regulation has been shaped by specific national 'state traditions'. This is certainly true; viewed from inside Europe, the diversity of national industrial relations systems is obvious. Nevertheless, it is possible to identify a limited number of national types. Britain is an 'outlier': it possesses neither a tradition of extensive state regulation, nor strong central organisations of unions and employers; consequently it is scarcely possible to speak of a national system, since there is large scope for each company to establish its own employment regime. But in mainland (western) Europe it is possible to identify three main 'models' (though indeed many 'mixed cases' exist):

- a 'Germanic' model, in which economic governance is largely private but subject to strong collective institutions; the actors and procedures of industrial relations are in important respects juridically defined; and in many cases there is significant legal regulation of substantive employment conditions;
- a 'Nordic' model, in which economic governance is also largely private but modified by an extensive, egalitarian welfare system; an industrial relations system

which (as in Britain) is 'voluntaristic' – in other words, not subject to detailed statutory regulation – but coordinated by strong collective organisation among the 'labour market parties'; and

- a 'Mediterranean' model, with (until recently) an extensive nationalised sector and significant state intervention in economic development; elaborate legal regulation of employment contracts; and institutionalised union and employer involvement in the welfare regime.

5 'GLOBALISATION': THE DEATH KNELL FOR SOCIAL EUROPE?

In the past decade, it has been increasingly questioned whether such institutionally regulated industrial relations systems, and indeed the diversity of varieties of capitalism, can survive in the face of growing internationalisation. The argument is widely voiced – by academics, politicians and industrial relations practitioners alike – that 'globalisation' is driving a convergence of capitalisms towards the Anglo-American model, within which status will increasingly give way to contract, exit will predominate over voice (in particular making it easier for *employers* to 'exit' from continued obligations towards employees), and the regulation of labour markets by law or collective organisations will atrophy.

The concept of globalisation has become something of a cliché. Among the pioneers of the idea is Ohmae, who writes (1991) of the emergence of a 'borderless world' or 'interlinked economy' in which the globalisation of production chains, product markets, corporate structures and financial flows makes national boundaries and the nation-state largely irrelevant. Reich (1991: 3) likewise anticipates an era with 'no *national* products or technologies, no national corporations, no national industries. There will no longer be national economies, at least as we have come to understand that concept.' Whether such a prospect is welcomed or deplored, its inevitability is widely agreed.

Recent decades have indeed seen clear trends towards the liberalisation of cross-national trade through the reduction or removal of tariff barriers; and while international trade is nothing new – some indeed argue that the international economy today is no more globalised in this respect than at the beginning of the twentieth century – the cross-national integration of *production* within multinational companies (MNCs) certainly is. Again, while there may be debates concerning how far MNCs are genuinely multinational – in most cases their activities are concentrated close to home – the potential for large firms in particular to move operations across frontiers, partly to escape restrictive industrial relations regimes or to exploit cross-national differentiation, certainly poses new challenges.

Such mobility is facilitated by the liberalisation of cross-national investment and by the more general liberalisation of financial flows across borders. Given the advances in information technology and telecommunications, transactions in shares and currencies have become continuous and instantaneous. 'Finance capital has forged its own instruments of expansion and a momentum of accumulation that are increasingly independent of what is happening in the sphere of production' (Burbach et al., 1997: 67). This destabilises material economies and allows capital-holders to 'punish' economies and governments whose policies fail to match the criteria of rectitude embraced in financial markets. The corollary is that individual companies are increasingly free – and given the pressures of competitiveness, are obliged – to escape the regulatory force of national industrial relations systems and establish employment regimes which meet their distinctive market strengths and weaknesses (Katz and Darbishire, 2000; Kochan et al., 1997). The result is that 'bad' economic systems (those with the least regulated social outcomes) drive out 'good' (the more socially regulated can no longer compete).

Crouch and Streeck (1997) have pointed to the paradox that theories of institutional convergence developed in the early postwar years were disproved by experience; and by the 1970s, academics and policy-makers alike came to recognise that markets (including labour markets) functioned best within the framework of institutional regulation which could take very different forms according to national context. Yet after two decades in which the superior performance of such 'institutional economies' as Germany and Japan was widely recognised, the conventional wisdom of the 1990s was that dense social regulation involves rigidities requiring a shift to market liberalism. With the reconfiguration of product competition and the organisation of production, 'more open economies of the Anglo-American kind that have long learned to operate without the succour of an interventionalist state and in the absence of strong social cohesion' (1997: 14) appear to experience a new advantage. Does this spell convergence towards market liberalism? Streeck himself suggests that this may be the case, at least in Germany. The competitive success of the *soziale Marktwirtschaft* rested on three foundations: a global market for quality production; the capacity of firms to innovate ahead of the competition; and adequate demand for skilled labour. But from the 1980s the pace of innovation in rival economies accelerated, and the differentiation between cost and quality competitiveness broke down, encouraging German firms to shift production elsewhere and resulting in a surge in unemployment. While these challenges pre-dated unification, within the enlarged Germany they have probably become unmanageable. And because 'the institutions which embed its economy and shape its performance are politically negotiated and typically legally constitutionalized' (1997: 36), these are more visible and more open to deregulation than the more informal and internalised arrangements of a country like Japan.

Similar arguments have been applied to the welfare regime: that national competitiveness within Europe is incompatible with generous social provisions financed at least in part by taxation on companies: firms will prefer to locate where they can escape with lower, if any, contributions. Moreover, even within Europe the collectively imposed restraints embodied in the Maastricht 'convergence criteria' for participation in the single currency have required curbs on public debts and government deficits, widely resulting in pressures to cut back the welfare state. Some have seen this as a decisive challenge to the European social model (Hemerijk and Schludi, 2001); or at least as requiring its radical reconstruction (European Commission, 2002). This example indicates that the belief in the potency of global competitive forces may itself acquire a coercive social force: 'whether the globalization thesis is "true" or not may matter less than whether it is *deemed* to be true (or, quite possibly, just useful) by those employing it' (Hay and Rosamond, 2002: 148).

Path-dependence: the case for continuing diversity

There is a counter-argument which challenges the 'globalisation' thesis. The clearest example is that of Hirst and Thompson (1996): they deny that the economic system is significantly more internationalised today than a century ago, and insist that globalisation is not so much fact as ideology. For many employers and governments in recent years, the idea of globalisation has provided a useful excuse: it implies that the fate of national economies is not susceptible to influence by domestic policies, or at best that governments can do no more than impose the most effective forms of adaptation to external forces. Yet in reality, globalisation 'both is authored by states and is primarily about reorganising, rather than bypassing, states' (Panitch, 1994: 63). As Boyer (1996) puts it, the twentieth century is 'still the century of nations'. However, from this perspective the myth of national impotence has provided a powerful rationale for advocates of deregulation – though this is itself a misleading concept since, as Standing (1997) has insisted, the social relations embodied in market forces impose their own disciplines and punishments and thus market liberalism is itself a mode of regulation.

The task must be to disentangle reality and myth. Part of the problem is that the 'G-word' (Ruigkrok and van Tulder, 1995) has many meanings and can serve both as analytical instrument and as rhetorical device (Scott, 1997). All striking (and influential) interpretative arguments tend to involve oversimplification and incautious extrapolation of complex, confused and contradictory trends and relations. What are the industrial relations implications of the cross-national restructuring of production and the shift to a regime of 'flexible accumulation' (Harvey, 1989)? How far do MNCs possess and exploit a capacity to undermine national regulatory systems? Has the regulatory capacity of the nation-state been destroyed by the dynamics of international finance? And if – as numerous writers insist, and as Ohmae (1985) himself has indicated – internationalisation has to date primarily taken the form of growing interconnectedness at a regional rather than a global level (the consolidation of the elements of the 'Triad' of Europe, Japan and North America), does this open up scope for new forms of regulation at a regional level (and notably, of course, by the EU)?

Other authors in this volume address a number of these questions. Here I intend to focus more narrowly on three themes which underlie much of the literature sceptical of the arguments for globalisation-induced convergence: the interconnectedness of institutions; the logic of 'path-dependence'; and the relative autonomy of politics.

The first consideration is that within any society, the evolution of one set of institutions is affected by that of others (see also Chapter 5). For example, labour markets, education systems, welfare regimes and family structures are interdependent in their operation. Hollingsworth and Boyer (1997: 2–3) use the notion of 'social systems of production' to denote a multiplicity of regulatory mechanisms: 'the industrial relations system; the system of training…; the internal structure of corporate firms; the structured relationships among firms…; the financial markets of a society; the conceptions of fairness and justice held by capital and labor; the structure of the state and its policies; and a society's idiosyncratic customs and traditions as well as norms, moral principles, rules, laws and recipes for action'. These, they suggest, may be 'tightly coupled with each other' and thus 'coalesce into a complex social configuration'. Similarly, Dore (2000: 45–7) writes of 'institutional interlock' as typical of national economies and the relationship between the economy and broader society. Of course, in no society are all institutions functionally integrated into a stable whole: there are always tensions and contradictions which contribute to institutional dynamism. Nevertheless, there are two obvious implications of this interconnectedness. First, how an institution actually operates will depend on national context; for example, the economic effects of German works councils are shaped by other features of German society and would not necessarily be replicated in other countries where the institutional ensemble is different. Second, an attempt to change one set of institutions (for example, 'deregulating' labour markets) may require alterations in 'a complete architecture of generally interdependent institutions' (Boyer, 1996: 55). Consequently, even were it generally accepted that the Anglo-American model of capital performs best under conditions of intensified global competition (and this is of course disputed), 'there can be no assumption that the evolution of national systems is guided by a mechanism that selects more efficient arrangements'; 'dysfunctional institutional arrangements' may prove resilient (Wade, 1996: 85).

This links to the thesis of path-dependence. Here, the argument is that past choices constrain future options. Looking at the historical evolution of the German and Japanese varieties of capitalism, Streeck (2001: 30) argues that 'the political economies of Germany and Japan were built by sequences of political decisions, the outcomes of which were far from predetermined'. The concept of path-dependence has also been used in a range of interpretations of developments in central and eastern Europe since 1989: here, the thesis is that the very different types of economic systems which have emerged reflect both significant variations even in the period of 'communism', and the nationally distinctive pathways adopted after the collapse of the former regime. Here too, a cumulation of decisions over time can be seen as biasing subsequent policy options. In the specific context of the globalisation debate, the theory implies that responses to otherwise similar problems of national competitiveness will be shaped by inherited institutional frameworks (and the ways in which these shape the balance of power among different actors), and that these responses will in turn differentially affect the repertoire of future decisions. Path-dependence is not absolute: radical changes of direction are possible, particularly in circumstances of perceived crisis. But these are the exception rather than the rule. Normally, radical change is easier to resist than to implement – particularly, as indicated earlier, in political systems which embody a range of checks and balances and require compromise and accommodation among conflicting interests.

This leads to the issue of the relative autonomy of politics. Many arguments for convergence-through-globalisation rest on a rather simplistic form of economic determinism (ironically a theory often attributed, somewhat misleadingly, to Marxism). But politics have to be considered as in part an independent factor, for at least two reasons (Boyer and Drache, 1996; Streeck, 1996). First, the thesis of institutional interlock implies that there is likely to be a 'fit' between property and production regimes on the one hand and political processes on the other. Thus Hall and Soskice (2001: 57–8) dispute 'the monolithic political dynamic conventionally associated with globalization'. Intensified international competition is likely to evoke one set of political responses in liberal market economies, another in coordinated systems. Second, though related to this point, any attempt to dismantle the protections embodied in systems of 'welfare capitalism' provokes inevitable resistance. 'In all industrial countries processes of economic integration and globalization are generating a backwash of reaction and resistance in national politics. …New political alliances are beginning to coalesce around these issues. …A new politics is in the making' (Berger, 1996: 23–5). The electoral cycle is shorter than the business cycle, and the contradictory interaction between economic analysis and political survival results in significantly different policy outcomes cross-nationally.

6 CONCLUSION: CONTRADICTORY TRENDS

Convergence or continued diversity? If there is a consensus emerging, it is that there is evidence for both tendencies. Some writers suggest that there may indeed be a process of consolidation around two poles. Iversen and Pontusson (2000: 3–8), for example, speak of 'dual convergence' in industrial relations: 'there is a trend toward convergence on the German model of coordinated industry-level bargaining among the coordinated market economies… and…toward convergence on the dual American model of firm-level bargaining and a large non-union sector among the liberal market economies'. One possible explanation, suggest Hall and Soskice (2001: 56), is that 'firms are not essentially similar across nations' and should not be expected to respond to similar pressures in a uniform manner. As Thelen notes, employers in liberal market economies may regard collective bargaining institutions as externally imposed constraints which they are anxious to escape if circumstances permit; whereas in coordinated market economies the 'national-level bargaining institutions have been shored up not just by strong unions, but by employers who realize the extent to which the plant-level cooperation that they seek with labor is *underwritten and sustained* by the collective management of labor markets above the plant level' (2001: 72–3).

One key implication is that even if managements are increasingly in the driving seat, their strategic choices are likely to reflect distinctive traditions and the nationally specific institutional landscape. This is not immutable: financial liberalisation linked to the spread of Anglo-American conceptions of 'shareholder value' (reinforced by the growing hegemony of US accounting protocols) may shift perspectives significantly; and perhaps the spread of US-style MBAs may also be encouraging more standardised management behaviour. Yet different strategies can be expected to persist if one rejects the idea that there is 'one best way' of organising work and workers, whether in the individual firm or at the level of the macroeconomy (Hyman, 1987). Contract-based systems which encourage exit, and status-based systems which foster voice, have their reciprocal costs and benefits for managements, and there can be no decisive measure of their comparative advantage.

As Kitschelt et al. conclude, 'there are undoubtedly trends toward convergence in advanced capitalism, but these do not rule out that regions and countries respond to such challenges in partially path-dependent ways…that reflect the sometimes competitive, sometimes cooperative, search among political actors for new solutions to old dilemmas'. Accordingly, 'we can be certain that the diversity that has characterized the entire history of capitalism will continue. Stable contours of that diversity, however, are not yet in sight' (1999: 428, 460). Lowering our sights to industrial relations institutions and company-level employment regimes, the same holds true. For those who seek clear predictions and straightforward recipes, this may be a frustrating conclusion. For those sceptical of certainties and favourable to human self-determination, it offers grounds for optimism.

In the next chapter Keith Sisson takes this analysis of convergence and divergence one step further by moving to the regional level of analysis and reflecting about the prospects for the 'Europeanisation' of industrial relations.

7 DISCUSSION QUESTIONS

1 Is the labour market a market, and are there any universal rules which govern its operation?

2 If market forces are impersonal, why are men and women so commonly treated differently in employment?

3 Is there such a thing as a European social model, and can it be made compatible with competitive success?

4 Is globalisation a myth or a reality?

8 FURTHER READING

- **Albert, M. (1993) *Capitalism against Capitalism*. London: Whurr.**

A popularly written account of the differences between 'Anglo-American' and 'Rhineland' models of capitalism, and the ways in which the increasing openness of cross-national competition may be undermining what the author considers to be the superior model.

- **Crouch, C. (1993) *Industrial Relations and European State Traditions*. Oxford: Clarendon Press.**

Difficult at times (especially the first chapter) but a valuable account of how national employment regimes in Europe have evolved over the centuries. The final section is particularly stimulating.

- **Dore, R. (2000) *Stock-Market Capitalism, Welfare Capitalism: Japan and Germany versus the Anglo-Saxons*. Oxford: Oxford University Press.**

A very readable account which contrasts Japan, 'a society of long-term commitments', and to a lesser extent Germany with Anglo-American capitalism. Dore concludes that while globalisation may undermine the German model, Japanese distinctiveness is more likely to persist.

- **Katz, H. and Darbishire, O. (2000) *Converging Divergences: Worldwide Changes in Employment Systems*. Ithaca, NY: ILR Press.**

An overview based primarily on two cross-national projects studying employment relations in telecommunications and motor manufacturing. It argues that national systems are becoming increasingly differentiated internally, as major companies develop their own distinctive regimes, but that overall cross-national differences are diminishing.

- **Polanyi, K. (1957) *The Great Transformation*. Boston, MA: Beacon.**

A classic study which argues that the whole idea of a competitive market for labour, associated with the industrial revolution, was deeply flawed: labour is a 'fictitious commodity' and work is inevitably shaped by non-market influences. Polanyi argues that the twentieth century saw increasing social regulation of employment as an essential means to economic and political stability.

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17 Industrial Relations in Europe: a Multi-level System in the Making?

Keith Sisson

CHAPTER CONTENTS

1 INTRODUCTION

The development of the Economic and Monetary Union (EMU) in Europe has led to considerable reflection about the prospects for the 'Europeanization' of industrial relations. Although few present-day commentators refer to him, the grounds for thinking that EMU might create inexorable pressures for an equivalent European industrial relations system stem from the proposition established by Commons (1909) almost a century ago. Essentially, this sees industrial relations systems following developments in the market. Especially important in the European Union (EU) context is not so much the labour market, where there continue to be considerable practical obstacles to mobility, but the establishment of an integrated market for products and services, in which process the introduction of a single currency represents a significant step. Together with a strong political authority, many expected social union to be a 'spill over' effect of economic union, reflecting the so-called 'neo-functionalist' approach associated with such founding fathers of the EU as Schumann and Monnet (Rosamond, 2000: 51–2).

Simultaneously, however, EMU has also fuelled debate about the implications for different national systems of the developments associated with increasingly globalized competition and the highly restrictive monetary regime EMU has ushered in. EMU, it is argued, has increasingly set industrial relations systems in competition with each other, both at the macro level and at the micro level, with policy makers and practitioners in different countries under pressure to make their arrangements as 'competitive' as they can to secure investment (Streeck, 1992). Far from encouraging the development of a coherent European system, EMU is expected to lead to the fragmentation and eventual 'Americanization' of industrial relations. In effect, this means the break-up of the inclusive structure of multi-employer bargaining (i.e. benefits are extended across a country or throughout a sector and are not just the preserve of the well organized), a reduction in welfare arrangements and an emphasis on supply side policies (Martin, 1998).

In the event, in the words of Social Affairs Commissioner Diamantopoulou (quoted in Smith, 2000), rather than the 'two extremes of social union versus a completely deregulated free-for-all', a complex multi-level system appears to be emerging. Like the multi-level governance system of the EU polity itself, this multi-level industrial relations system reflects a history of informal and gradual development as well as deliberate institution building. It has developed and continues to develop relatively autonomously rather than by design, as a range of actors seek to exploit the available means to grapple with the implications of the 'regime competition' that EMU is promoting. Significantly, too, this multi-level system cannot simply be defined in hierarchical terms or as relations between the EU and the member states, with a Community level added on top of national systems and decisions cascading down. Critically, cross-national (horizontal) influences mix with national (vertical) ones and involve the sector and Euro-company levels as well as the community level. Furthermore, this multi-level system is an intervening as well as dependent variable. In other words, it is not just something to be explained in terms of 'globalization' or 'Europeanization'. The system's evolving patterns of regulation, 'policy networks' and opportunities for mutual learning are also having an impact on existing processes and structures. Its particular significance lies in the fact that, in bringing about a measure of convergence *within* companies and sectors *between* national systems, the multi-level system is also simultaneously leading to greater diversity *between* companies and sectors *within* national systems.

The rest of this chapter expands on this argument. Section 2 begins by highlighting the features of the emerging multi-level system of industrial relations. Section 3 then goes on to describe the key effects that such a system is having on the processes of industrial relations within national systems. Section 4 concludes by emphasizing that complexity, uncertainty and instability look set to be the defining characteristics for the foreseeable future, with the forthcoming enlargement of the EU in 2004 the major imponderable.

2 INDUSTRIAL RELATIONS AT EU LEVELS: A GLASS HALF FULL AS WELL AS HALF EMPTY?

For many commentators, the story of EU social policy is one of a failure to develop a vertically integrated system equivalent to that which exists within individual nation states, i.e. one where there is a common and comprehensive system of employment regulation. The list of reasons is extensive (for reviews, see Falkner, 1998; Hay, 2000). It not only includes differences of viewpoint about the role of social policy and the immensely practical difficulties of overcoming the collective action problem of a significant number of sovereign national states reaching agreement, but also fundamental considerations intrinsic to the process of EMU. Essentially, EMU is seen as involving a form of negative integration in which obstacles to a single market were removed rather than positive in which measures were put in place to control its operation. Critically important is the fact that, although the EU has developed a far more extensive political dimension than other regional trading blocs, it lacks a 'strong state protagonist' (Traxler, 1996) to sponsor the development of a comprehensive system. Instead, national governments have been reluctant to cede authority, leading to an affirmation of the principle of subsidiarity in the Amsterdam Treaty. This means that core areas such as social policy are deemed to be the responsibility of member states: 'Europe deals only with matters where an EU solution makes more sense' (European Commission, 2000a: 3–4). In Streeck's (1996: 313) striking words, the European nation state appears 'obsolete and alive at the same time: obsolete as the wielder of effective sovereignty over "its" economy, and powerfully alive as the most effective opponent of the recreation of internal sovereignty at the international level'.

The result is that, although representative organizations of employers (the Union of Industrial and Employers' Confederations of Europe: UNICE), and trade unions (the European Trade Union Confederation: ETUC), have emerged, they have little authority compared to their national equivalents. The same is true of the European-level sector organizations of employers and trade unions.

The EU may not have developed a vertically integrated system. From the point of view of the development of a multi-level system, however, the glass is far from being completely empty. The EU has a social policy framework that can lay claim to principles, a framework of common minimum standards and a process for adding to them. The Treaty of Amsterdam in 1997, which was the first to deal with it in a comprehensive manner, sets out the main tasks of European social policy in Article 136:

> **the promotion of employment, improved living and working conditions, so as to make possible their harmonization while the improvement is being maintained, proper social protection, dialogue between management and labour, the development of human resources with a view to lasting employment and the combating of exclusion.**

The principles are set out in the Social Affairs Commissioner's foreword to the Commission's first ever report on industrial relations published in 2000, and these reflect the conviction that economic and social progress must go hand in hand: 'respect for fundamental social rights in a frontier-free Europe; workers' rights to information and consultation on company operations; social dialogue as a mainstay of good governance and a means of involving citizens in the European venture'. The framework of common minimum standards and the process for adding to them, which together make up the so-called *acquis communautaire*, are considered below.

An *acquis communautaire*

A framework of common minimum standards

Despite the failure of the EU to give birth to a strong state protagonist, a significant 'European' dimension to industrial relations has nonetheless emerged. In terms of legislation, the European Commission (2000b: 24) reminds us that the *acquis communautaire* is now considerable, affecting key areas of industrial relations and social protection. It goes on to suggest that the development of such legislation may be divided into six periods, details of which will be found in Figure 17.1. As Falkner (1998) has argued, much of this regulation was a direct 'spill over' from economic union. Some resulted from initial integration, such as the freedom of movement and the exchange of qualifications. Concerns about 'social dumping' led to measures dealing with health and safety, which were subsequently extended to working time, and the directive on posted workers. Other regulation, such as the directives dealing with information and consultation, stemmed from the pressure to put a 'human face' on the restructuring that EMU has brought about. As has been widely recognized (Keller, 2000; Wendon, 2000), there has been a marked switch in emphasis in the last three periods from 'hard' to 'soft' regulation, reflecting a growing emphasis on the promotion of a 'European social model' 'based on high skill, high trust and high quality' (European Commission, 1997: 11). Such a model, which is contrasted with the low cost, low skill model of some developing countries, is thought to be best achieved by using processes such as 'open co-ordination' discussed below.

FIGURE 17.1

Stage I: the 1960s and early 1970s

The instruments establishing and reinforcing freedom of movement for workers, and the co-ordination of social security schemes for migrant workers, occupied the attention of the European social legislation until the early 1970s. The Treaty of Rome contained a chapter on freedom of movement for workers, Articles 48 ff. (new Article 39 ff.) for freedom of movement, and Article 51 (new Article 42) for social security for migrant workers. In 1972, the basic legal framework for achieving these aims was in place. It was subsequently to be considerably developed and reinforced by the case law of the Court of Justice of the European Communities. It also included a social chapter (Articles 119 ff.) which made no provision for legislative interventions.

Stage 2: the second half of the 1970s

This period is characterized by the adoption of the first directives on labour law, equal opportunities for women and men, and health and safety at work. The institutional framework has remained unchanged, but a number of events led the European legislature to act: for example, the oil crisis and the first major industrial restructuring exercises (the first labour law directive deals with collective redundancies) and the discovery, in the mid-1970s, of the carcinogenic effects of vinyl chloride monomer, a substance used in the plastics industry. These provisions were based on Article 100 of the Treaty, which enabled the Council to adopt unanimously directives for the approximation of such national provisions as affect the establishment or functioning of the Common market, and on Article 235c 'for equal Opportunities for women' and men.

Stage 3: the 1980s

This period enabled the progress achieved in relation to equal opportunities for women and men and health and safety at work to be consolidated. A framework directive adopted in 1980, defining a strategy for dealing with all physical, chemical and biological agents at work, was followed by a series of specific directives. The Single European Act strengthened the legal basis for health and safety provisions. The first indent of Article 137(1) (ex Article 118a of the EC Treaty) enabled the adoption by qualified majority of directives laying down minimum requirements for safety and health at work. The other significant legal innovation in the Single Act in the social field was that the social dialogue was recognized at European level (Article 118b – new Article 139).

Stage 4: 1990–93

The signing in 1989 of the Community Charter of the Fundamental Social Rights of Workers was a milestone in the development of social policy. A number of initiatives followed, some of them legislative. The action programme based on the charter led to the adoption of 15 health and safety directives, one equal

Stage 5: 1994–99

The social protocol attached to the Maastricht Treaty provides an active role for collective bargaining. It enables the social partners to make a direct contribution to the production of Community social legislation. On three occasions (parental leave, part-time work and fixed-term contracts), the directives have

Stage 6: since 1999

The Treaty of Amsterdam consolidates and significantly reinforces the institutional framework and instruments of Community social policy. It ends the UK opt-out and moves Europe forward in four areas: employment, combating discrimination, equal

Continued

FIGURE 17.1

(Continued)

Stage 4: 1990–93	*Stage 5: 1994–99*	*Stage 6: since 1999*
opportunities directive and four labour law directives. However, the experience of this second action programme showed the need for a stronger legal basis for social policy. The entry into force of the Maastricht Treaty and, in particular, its social protocol (currently Articles 136 ff.) extended the use of qualified majority voting beyond health and safety and defined the role of the social partners at Community level.	implemented agreements between the social partners at European level. The protocol also establishes a more favourable political, institutional and legal context and enables proposals pending for the action programme linked to the Social Charter to be followed up. It was under this phase that the European Works Council Directive was adopted in 1994, after a failure to agree by the social partners.	opportunities for men and women, and the role of the social partners (Articles 3, 13, employment chapter, 137, 138 and 141). It enables the European Parliament to increase its involvement (co-decision). A directive dealing with national-level information and consultation was adopted in 2002, after a failure to agree by the social partners.

Main developments in EU labour law (based on European Commission, 2000b: 25)

A social policy process

The EU also has an established process for arriving at social policy. Systematic social dialogue began in 1985 with the *Val Duchesse* process. In 1991, the then members minus the UK agreed to append the so-called social 'protocol' or 'chapter' to the Maastricht Treaty. Subsequently, the protocol became an integral part of the Treaty in 1997, when the UK dropped its opposition. Basically, it obliges the Commission to consult the social partners in advance of adopting legislative proposals in the following fields (Article 137):

- improvement of the working environment to protect workers' health and safety;
- working conditions;
- information and consultation of workers;
- equality of opportunities and treatment at work between men and women;
- integration of persons excluded from the labour market;
- social security and social protection of workers;
- protection of workers where their employment contract is terminated;
- representation and collective defence of the interests of workers and employers;

- conditions of employment for third-country nationals residing in the EU;
- financial contributions for the promotion of employment and job-creation.

Article 138 of the Treaty requires the Commission to consult the social partners in two stages: (a) on the need for and the possible direction of Community action; and (b) on its content. At the end of this consultation process, the organizations can present an opinion to the Commission or inform it of their intention to open negotiations on the subject. In this case, the social partners have an initial period of nine months to reach an agreement. Where the social partners do not take the initiative, or do not reach agreement, the Commission resumes its active role.

Looking back, the European Commission (2000b: 20) records that there have been 34 'joint texts' since the start of the *Val Duchesse* process (see Figure 17.2). Only four of these are noteworthy: the original agreement dealing with the role of the social partners, which underpinned the social chapter to the Maastricht Treaty; and the three 'framework agreements' subsequently given legal status as directives – on parental leave, part-time work and fixed-term, temporary employment.

Wages, employment and 'open co-ordination' benchmarking towards 'Europeanization'?

In recent years, more and more Commission time and effort has been put into the different forms of co-ordination involving the identification of 'best practice' and target-setting based on benchmarking. Indeed, these might be said to be taking over from the traditional community methods of legal enactment and collective bargaining as the main regulatory process. Benchmarking started life as a management tool and continues to be widely used in multinational companies (Sisson et al., 2002). Its attraction for EU policy makers is that it helps to resolve the collective action problems of securing agreement to common or standard templates associated with legal enactment and collective bargaining. Common goals can be identified and countries encouraged to achieve them, but they retain the freedom to decide the means in the light of their own circumstances.

In the case of wages, the process of co-ordination is very informal. Strictly speaking, wage determination remains the province of the social partners in the individual member states. It is nonetheless seen as the third element of the EU's macroeconomic policy mix, monetary policy being in the hands of the European Central Bank (ECB) and fiscal policy remaining the responsibility of national governments. The key messages were taken up in the broad economic policy guidelines adopted by the Council of the European Union in 1998 and updated in subsequent years (European Commission, 2000c). The Council stressed that 'in EMU, with the single monetary regime, the link between wages

FIGURE 17.2

6 November 1986	Joint opinion on the co-operative growth strategy for more employment
6 March 1987	Joint opinion concerning training and motivation, and information and consultation
26 November 1987	Joint opinion on Annual economic report 1987/88
13 February 1990	Joint opinion on the creation of a European occupational and geographical mobility area and improving the operation of the labour market in Europe
19 June 1990	Joint opinion on education and training
10 January 1991	Joint opinion on new technologies, work organization and adaptability of the labour market
5 April 1991	Joint opinion on the transition from school to adult and working life
31 October 1991	Agreement on the role of the social partners in developing the Community social dimension
20 December 1991	Joint opinion on ways of facilitating the broadest possible effective access to training opportunities
3 July 1992	Joint opinion on a renewed co-operative growth strategy for more employment
3 July 1992	Joint statement on the future of the social dialogue
13 October 1992	Joint opinion on vocational qualifications and certification
June 1993	Joint recommendation on the functioning of interprofessional advisory committees
28 July 1993	Joint opinion on the future role and action of the Community in the field of education and training including the role of the social partners
29 October 1993	Proposals by the social partners for implementation of the agreement annexed to the protocol on social policy of the Treaty on European Union
3 December 1993	Joint opinion on women and training
5 December 1993	Joint opinion on the framework for the broad economic policy guidelines
8 November 1994	Joint publication: 'Broad lines of the White Paper on growth, competitiveness and employment in the fields of education and training and responses to the joint opinions'
4 April 1995	Joint opinion on the contribution of vocational training to combating unemployment and reabsorbing the unemployed into the labour market in the light of the new situation created by the White Paper
16 May 1995	Joint opinion on the social partners' guidelines for turning recovery into a sustained and job-creation growth process
21 October 1995	Joint declaration on the prevention of racial discrimination and xenophobia and promotion of equal treatment at the workplace
21 October 1995	Joint declaration of the European social partners to the Madrid European Council on the employment policy arising from the Essen European Council
14 December 1995	Framework agreement on parental leave
29 November 1996	Joint declaration 'Action for employment: a confidence act'
6 June 1997	Framework agreement on part-time work

Continued

FIGURE 17.2

(Continued)

13 November 1997	Joint contribution of the social partners to the Luxembourg Employment summit
17 October 1998	Joint opinion on the draft decision establishing the second phase of the Leonardo da Vinci programme
9 December 1998	1999 Employment guidelines – joint declaration of the social partners to the Vienna European Council
9 December 1998	Joint opinion on the reform of the Standing Committee on Employment
18 March 1999	Framework agreement on fixed-duration employment contracts
18 March 1999	Joint declaration for the Warsaw Conference on enlargement
19 May 1999	Declaration of the European social partners on the employment of disabled people
2 June 1999	Declaration of the social partners to the Cologne European Council

The results of the cross-industry social dialogue (European Commission, 2000b: 20)

and employment will become more evident and stringent'. It invited the social partners in the member states to conclude wage agreements in accordance with four general rules:

- Aggregate nominal wage increases must be consistent with price stability.
- Real wage increases should safeguard the profitability of capacity-enhancing and employment-creating investment.
- Wage agreements should better take into account differentials in productivity levels according to qualifications, skills and geographical areas.
- Wage imitation effects need to be avoided.

Subsequent guidelines said the aim should also be to reduce *de facto* gender wages discrimination.

It was to support these aims that the Council of Ministers launched in 1999 the 'Cologne process'. Basically, the 'Cologne process' introduced a form of 'macro-economic dialogue', involving representatives of the ECB, the EU Council, the Commission and the social partners to improve the interaction between wage development, fiscal policy and monetary policy. The group's meetings, which take place twice a year, are informal and designed to ensure that, if nothing else, the parties are well aware of each others' position.

In the case of employment, the so-called 'open method of co-ordination' prevails, involving what has been described as 'tough monitoring and a real evaluation culture' (Goetschy, 2001). The idea of an EU employment strategy dates back to the Delors White Paper on *Growth, Competitiveness and Employment* (1993) and it was developed, along with provision for a form of monitoring, by the European Council in Essen in December 1994. Member states were asked to establish employment programmes and to report annually to the Commission on their implementation. Article Four of the new Title on Employment of the 1997 Amsterdam Treaty not only institutionalized this procedure, but also introduced two major innovations that provided for more active intervention from above. First, acting by a qualified majority on a proposal from the Commission, and after appropriate consultations, the Council draws up annual *guidelines* on employment consistent with the broad economic policy guidelines. Second, acting by a qualified majority on a recommendation from the Commission, it may also make *recommendations* to member states in the light of its yearly examination of their employment policies.

The Extraordinary Summit in Lisbon in 2000 was especially significant. Substantively, 60 specific targets were set for member states to reach within ten years concerning such criteria as the proportion of the population in employment (70% on average and 60% for women) and average annual growth (3%). Procedurally, Lisbon saw the confirmation of the 'open co-ordination method' whereby national employment policies were put to the test of international comparison, including 'peer review' (i.e. scrutiny by a wide range of EU institutions), and outcomes measured against time-specific targets and recommendations. The subsequent Nice summit required the establishment of a Social Protection Committee to promote co-operation between the Commission and member states on social protection policies.

The sector dimension – the basics for co-ordinated bargaining?

Although the sector is the key level of collective bargaining in most EU countries, developments at the European sector level are more embryonic than at the EU inter-professional level. Even where the sector social dialogue is most developed, in those sectors where the EU has an integrated industrial policy and where encompassing employer, as well as trade union, organization at the European level exists, it deals largely with frameworks and statements of principle. In total, the European Commission (2000b: 17) estimates that there have been more than 150 'joint texts', with a doubling over the last ten years in what the Commission describes as 'dialogue productivity' from 0.7 to 1.4 texts per sector per annum. Unlike the cross-sector level, where most texts deal with employment or employment-related matters, only around 50% of sector joint texts have been so concerned, the other half concentrating on the business or commercial position of the sector in response to proposals or initiatives of the Commission. Elsewhere, such as in metalworking, where the absence of representative employers' organizations willing to negotiate is regarded as the dominant factor, the sector social dialogue has hardly taken off (see, for example, Keller and Sörries, 1998).

Arguably more significant are the initiatives of the ETUC and its industry affiliates aimed at developing co-operation and co-ordination across European borders to combat the intensified regime competition that the creation of the Euro-zone is expected to encourage. At its June 1999 Congress in Helsinki the ETUC adopted a resolution on the 'Europeanization of industrial relations' stressing the need 'for the European trade union movement to act swiftly to put in place instruments and procedures to promote co-ordination of collective bargaining now that the Euro-zone is a reality'. At the sector level, deemed to be 'essential in collective bargaining co-ordination', the ETUC's industry federations are 'to create the requisite structures and instruments, adapted to the needs of the sector concerned'. At the inter-sector level, the ETUC will be 'competent for overall co-ordination, providing the necessary framework to guarantee the overall coherence of the process' (Fajertag and Pochet, 2000: 11–13). To this end an ETUC committee for collective bargaining, comprising representatives of national affiliates and the European industry-level federations, has subsequently drawn up a system for benchmarking settlements concluded by unions across the European Economic Area (EEA) according to a range of reference points (EIRO, 2001).

Initiatives have also been launched by several of the European industry trade union federations, including those for metalworking and financial services, aimed at developing forms of cross-border co-operation and co-ordination of collective bargaining. The initiative of the European Metalworkers Federation (EMF), which dates back to 1993 and thus provided a template for the ETUC, has gone furthest (Gollbach and Schulten, 2000). The EMF has elaborated common bargaining guidelines for negotiators in its affiliates, in the form of its Working Time Charter which specifies a target of 1,680 annual hours and an annual overtime ceiling and a bargaining co-ordination rule for pay negotiations which, as adopted at its 1999 Congress, stipulates that increases should be consistent with increases in the cost of living plus a 'balanced share in productivity gains'. In tandem, EMF has established a comprehensive electronic database of collective bargaining information, aimed at both diffusing information across affiliates and monitoring outcomes of negotiations. The EMF initiative embraces another by IG-Metall to establish regional bargaining co-operation networks with its partner unions in neighbouring countries and regions to each of its bargaining districts. In the banking part of the finance sector, through Uni-Europa, trade unions across the EEA aspire to establish a similar process of bargaining co-operation and co-ordination. Uni-Europa's initiative, which is in its infancy, aims to draw up European-level recommendations, which can be incorporated in the bargaining agenda in national negotiations, and to establish a mechanism for the systematic exchange of bargaining information with the intention of facilitating a benchmarking process across borders.

The Euro-company dimension

As the next chapter by Paul Marginson describes in greater detail, there have also been significant developments at Euro-company level. According to the European Trade Union Institute, by the end of 2001 around 650 MNCs had reached agreements with representatives of their employees to establish transnational machinery for information and consultation under the 1993 European Works Council (EWC) Directive. Moreover, the increasing importance of management benchmarking, above all in sectors such as automotive, is encouraging greater harmonization regardless of the activities of trade unions.

3 NATIONAL INDUSTRIAL RELATIONS SYSTEMS: A CASE OF 'RENATIONALIZATION' *AND* 'EUROPEANIZATION'?

Less obvious, but fundamentally important in the emergence of a multi-level system of industrial relations, have been developments within national systems. National industrial relations systems have always been multi-level to some degree, with national, sector, company and workplace levels interacting with one another. Making the difference is the international dimension that the EU brings. As Richard Hyman's chapter discusses in greater detail, national systems everywhere are under pressure. Arguably, this is especially so in the case of EU countries, as policy makers and practitioners have sought to grapple with the implications of globalization in general and EMU in particular. One result, however, is some striking parallels in the developing patterns of regulation between national systems, reflecting a great deal of 'hybridization' and 'cross-fertilization' – Europe is learning from Europe, in Teague's words (2001: 54). Thus, as well as a rise in company bargaining, there has also been strengthening of the national level through the negotiation of 'social pacts'. Seemingly contradictory – the one involving decentralization, the other centralization – they represent two dimensions of the same problem: the need for policy makers and practitioners to meet the challenge of the 'regime competition' that European integration is helping to promote.

Centralization *and* decentralization

Most EU countries, the exception being the UK, have been characterized by an inclusive structure of multi-employer collective bargaining at national and/or sector level. Indeed, such structures could be said to form a cornerstone of their industrial relations systems. In the face of growing international competition, however, there has been a widespread trend towards more decentralized bargaining arrangements giving management greater scope to negotiate working and employment practices appropriate to the circumstances of the company or its constituent units. The development is long running, but the creation of the single European market and its subsequent deepening through EMU has served to reinforce it by unleashing extensive restructuring and rationalization. The result is a growth in the negotiation of what have been called 'pacts for employment and competitiveness' (PECs), in which management and employee representatives seek to handle the implications of restructuring by agreement (Sisson and Artiles, 2000). Frequently, developments in metalworking have set the pace, reflecting the extent to which the sector is open to international competition and differentiated in terms of products and production processes (Marginson and Sisson, 1998: 523). In recent years, however, sectors such as banking and insurance, where competition has remained nationally bounded, have been affected.

Significantly, however, although decentralization is causing considerable tensions within national systems, more of which below, it has not led to the widespread break-up of multi-employer bargaining. As Ferner and Hyman (1998: xvi–xvii) observe, 'Decentralization has largely taken the form of a controlled and co-ordinated devolution of functions from higher to lower levels of the system', i.e. more and more of the detail of industrial relations practice is being filled out through negotiations at lower levels, especially the company level. In most cases, to use Traxler's (1995) words, decentralization has been 'organized' inasmuch as the company bargaining occurs within the framework of the sector agreement; only in the UK, reflecting the very different form and status of multi-employer agreements, has the decentralization been 'disorganized', with sector agreements disintegrating and being displaced by company-level arrangements. A variety of methods have been used to achieve flexibility, such as 'opening', opt-out and 'hardship' clauses in sector agreements, along with a shift from uniform to minimum standards.

Moreover, at the heart of the 'centrally co-ordinated decentralization' in many EU countries has been a strengthening of higher-level (central) co-ordination. Under pressure to hold back inflation and reduce public sector deficits in line with the convergence criteria for EMU, most national governments have sought agreements with employers' organizations and trade unions – so-called 'social pacts' (Fajertag and Pochet, 2000) – on wage moderation, greater labour market flexibility and reform of the system of social protection. In some cases, such as Italy and Spain, confederal-level agreements have established new procedural roles formalizing the respective competence of the different levels in the collective bargaining structure and simultaneously have conferred greater autonomy on the company level, thereby allowing scope for greater substantive flexibility (Ferner and Hyman, 1998: xvi–xvii). Even where there has been no formal agreement, as in the case of Germany, the macro-social dialogue has been significant in structuring attitudes.

Social pacts can be viewed as promoting 'regime competition' in that they are a form of 'renationalization' with a view to increasing the attractiveness of the national economy as an environment for business and investment (Martin, 1998; Schulten, 2001). Equally, however, they can be seen as an instrument of 'regime collaboration' involving mutual benchmarking of terms and conditions in other countries (Dølvik, 2001), i.e. a key development in the process of 'Europeanization'. For, it can be argued, they both reflect the emphasis at EU levels on social dialogue and collective bargaining as the vehicles for handling economic and social change, and serve to give credibility to the inclusive structure of multi-employer bargaining.

As Traxler (2003) has suggested, meeting the stringent monetary and fiscal convergence criteria for membership of the third stage of EMU (i.e. adoption of the single currency) considerably enhanced the benefits of multi-employer bargaining for governments and employers at the same time as it emphasized the costs of exit. An inclusive structure of collective bargaining made it possible, in the form of 'social pacts' and their equivalent, to make fundamental changes in a number of key areas built, procedurally, around the notion of 'organized' decentralization' and, substantively, around competitiveness. Equally, it drew attention to the very high costs that employers and governments would have had to pay if they turned their backs on such structures. For an inclusive structure of collective bargaining not only helps to legitimize overall frameworks, but also underpins the deep involvement of employers' organizations and trade unions in other key activities such as the administration of training and social protection systems.

Fundamentally important is the fact that a combination of centralization *and* decentralization has great advantages in helping to deal with the complexity of the collective action problem involved in sovereign bodies reaching agreement. It makes it possible for the principals to set a sense of direction and yet to avoid failure to agree on the details which can so easily bedevil the negotiations between them. At the same time, by delegating responsibilities to representatives at lower levels to tailor solutions to their immediate situation, it improves the prospects of member acceptance internally.

Changing patterns of regulation?

Especially critical in understanding the parallel developments within national systems is the fact that policy makers and practitioners have to grapple with an increasingly complex raft of 'new' issues, reflecting the pressures of 'globalization' and 'Europeanization'. To paraphrase the Supiot Report (1999: 140–7), in many EU countries, collective bargaining has traditionally been seen primarily as a means of improving the legal status of employees. In some countries, notably Germany, the very strict legal division of powers between collective bargaining, on the one hand, and the responsibilities of works councils on the other, has reinforced this. Increasingly, however, collective bargaining is assuming a wider range of functions, breaking down the distinction in the process. It is not just that the content of legislation is very often determined by collective bargaining. As well as taking over some of the *legislative function* of the state, collective bargaining has been given greater responsibility for implementing legal provisions (i.e. a *regulatory function*) and has also become an instrument for handling restructuring (i.e. a *flexibility function*). In some cases, it has even involved employees in economic decision making within the company (i.e. a *management function*). The overall effect of the wider roles being assumed by collective bargaining is to bring about a considerable shift of emphasis in the key assumptions, subjects and processes of industrial relations, which are increasingly influential at national as well as EU levels. Figure 17.3 endeavours to capture the emphasis of this shift in contrasting caricatures of the 'old' and the 'new' industrial relations paradigms.

A reorientation of the bargaining agenda

As collective bargaining assumes a wider range of regulatory functions, common changes are also taking place in the other dimensions. Most obviously, there is a widening of the scope. At national level, 'social pacts' can cover employment policy and social protection arrangements as well as issues more traditionally associated with the employment relationship such as wages and working time. At company level, PECs can include fundamental changes in work organization and working time arrangements, the handling of substantial job reductions, guarantees of employment security and detailed investment plans. Significantly too such 'pacts' typically do not just involve a one-off 'agreement'. Many make explicit provision for on-going joint implementation, development and collective administration through 'bilateral bodies' and 'company-wide action teams'.

From distributive to integrative bargaining?

An increase in the subjects and the greater devolution of collective bargaining is also having an impact on the process involved. In the language of Walton and McKersie (1965), collective bargaining has traditionally been associated with distributive bargaining in which there are 'winners and losers' in a 'fixed-sum' or 'zero-sum' game. Yet many bargaining situations are better understood in terms of what they term integrative bargaining, involving a 'positive-sum' game in which the parties seek to integrate their objectives to some degree and in which there can be 'mutual gains' from arriving at an agreement.

There is a strong element of problem solving and 'quid pro quo' bargaining about the process of negotiating 'social pacts' and PECs, which is characteristic of integrative bargaining. Significantly, too, many of the mechanisms of integrative bargaining are to be found, including joint working parties, third-party facilitation and continuous review of progress.

Especially noticeable, however, is the key role played by management. In distributive bargaining, it has tended to be the trade union which takes and is

FIGURE 17.3

The 'old' industrial relations	The 'new' industrial relations
Key assumptions	
• stability	• change
• conflict	• co-operation
• social justice	• continuous improvement
• standardization	• diversity
• a predominant level of activity	• multiple levels of activity
• centralization	• decentralization (subsidiarity)
Subject matter	
• claims/grievances	• information/benchmarking
• rights/obligations	• standards/targets
• pay and conditions	• employment and competitiveness
• inputs	• outputs
Processes	
• distributive bargaining	• integrative bargaining
• agreement making	• social dialogue
• law making	• target setting
• vertical integration	• horizontal co-ordination
• enforcement/sanctions	• monitoring/learning

Changing emphases in industrial relations

expected to take the initiative in formulating claims and demands, while management is largely reactive. This reflects the mutual recognition implicit in the process of collective bargaining and which is often enshrined in the earliest national compromises. In the case of PECs, it is management that very often played the key role, initiating the negotiations and coming to the bargaining table with its own bargaining agenda. Important too is the understanding that, as well as seeking to negotiate changes in the terms and conditions traditionally covered by collective bargaining, management has also often been willing to go further and include items that previously were regarded as falling within its prerogative, such as changes in work organization or future investment.

In many cases, management has not had a great deal of choice in the matter. The practical reality is that many of the changes that it has been seeking to introduce involve the terms and conditions of existing collective agreements and/or works agreements. Arguably even more important, however, is the fact that intensifying competition requires management both to minimize costs *and* promote the co-operation and commitment of the workforce necessary for continuous improvement. In these circumstances, the legitimacy of management decision making can be profoundly important, helping to explain why managers seek the agreement of employee representatives. In effect, local managers and employee representatives are forced into each other's arms, helping to account for the shift in emphasis from distributive bargaining to integrative bargaining.

From compulsory systems to flexible frameworks?

A further consequence of the developments taking place has been a shift in emphasis from 'hard' to 'soft' regulation in terms of output at national as well as EU levels. As the Supiot Report (1999: 145–6) reminds us, it is not just that more issues are being decided by collective bargaining, leading to the tendency to divest laws of substantive rules, which tend to be 'hard' in form, in favour of rules on negotiation, which tend to be 'soft'. In recent years, so-called 'proceduralization' has been affecting collective bargaining as well – there has also been a considerable growth in framework agreements. Typically, the higher the level at which a collective agreement is reached, the more likely it is to take the form of a framework agreement or *accord cadre*, wherein much of the regulation is of the 'soft' or *incomplete* variety. Indeed, a key rationale of much of the higher-level activity – indeed, it is the very essence of 'organized decentralization' – is to lay the way for more detailed negotiations at lower levels that can embrace 'hard' regulation tailor-made to the specific circumstances of individual units. Most social pacts between national social partners take the form of 'framework' agreements, as do many company-level PECs.

Just as the kind of detail involved in the negotiation of PECs cannot be dealt with at higher levels, so too it is much more difficult to pin down in the form of 'hard' regulation. This would be true, for example, of commitments to flexibility and continuous improvement or the involvement of employee representatives in the organization's planning for the future. In these and other cases, delegation of the responsibility for implementation to lower levels, an issue already discussed above, can also mean that the company-level provisions are general in definition. A further consequence is greater informality, which links back to the point about form – collective bargaining begins to look more like social dialogue than agreement making.

4 CONCLUSION: PROSPECTS FOR THE FUTURE

Multi-speed 'Europeanization'?

Evidently, the pace at which these developments are taking place within national systems varies considerably between and within sectors as well as between and within countries. Differences between sectors are inextricably bound up with industrial structure and industrial relations institutions. A comparison of the automotive and financial services sectors will illustrate the point. In automotive manufacturing, cross-national comparisons at company level are already an important consideration; in financial services, they hardly feature except in the case of specialist groups, which tend to be non-unionized. Automobile manufacture is exceptional in the degree of homogenization of activities and the accompanying integration of operations for their delivery, being dominated by a small number of very large MNCs with increasingly integrated European and in some cases world-wide markets and production operations. An internal market for capital has long been a feature and the use of 'coercive comparisons' integral to its operation. Finance services are also increasingly dominated by large MNCs. Yet most of these organizations are involved in an increasingly diverse range of activities embracing both banking (retail, corporate and investment) and insurance. Most importantly, retail banking, where most unionized employees are to be found, remains largely a domestic affair, albeit increasingly influenced by global developments (for further details, see Sisson and Marginson, 2001).

Differences within the sectors can be related to the specifics of the nature and extent of integration, ownership, market, geographical spread, organization structure and the ability of employee representatives to mount their own 'coercive comparisons'. A comparison of Volkswagen and Opel in the automotive sector in Germany illustrates the point. Volkswagen is a German-owned company with an element of public ownership, which has the bulk of its workforce not only in Germany but in one particular area of the country. The acquisitions that it has made in other countries, such as SEAT in Spain and Skoda in the Czech Republic, produce their own marques. Opel belongs to a US-owned company, which has a number of operations across Europe as well as Germany producing the same or very similar products. Volkswagen has been able to achieve a position for itself where demand tends to outstrip supply, whereas Opel (like Ford) has to rely on a high volume approach.

Differences between countries reflect two factors: the extent to which the economies of sub-groups of countries are already more integrated with each other than they are with those of the EEA as a whole; and the similarity or otherwise of industrial relations structures and traditions, which shapes the immediate potential for co-ordination initiatives. Thus, co-operation amongst both employers' organizations and amongst trade unions in the Nordic countries reflects both the comparative depth of the economic integration that already exists between these countries and important similarities in industrial relations institutions and traditions. A similar argument applies, although a little less forcefully, to the countries which were previously part of the unofficial 'Deutsch-Mark zone': Austria, Belgium, Germany and the Netherlands (see Marginson and Schulten, 1999) and which, as noted earlier, have been the focus of pioneering initiatives in bargaining co-ordination on the part of trade unions. An implication is that European co-ordination of bargaining may flow from arrangements that embrace varying geographical configurations of European countries, thereby intensifying the tendency toward multi-speed Europeanization.

An unstable balance?

Like the EU polity's multi-level governance system, the trajectory of the multi-level industrial relations system is uncertain. It is by definition a system 'in the making' and there is no 'pre-assumed end point' for developments. Tensions abound. For example, there is the issue of the balance of responsibilities between the different levels, which 'subsidiarity' deals with only superficially. These involve not only the balance between the EU and member states, but also the responsibilities of Community, EU sector and Euro-company levels. Similarly, within countries there is the balance between national and sector arrangements and between sector and company arrangements. Employers' representatives complain about the costs and time involved in so many levels, whereas their trade union counterparts worry about the 'hollowing out' of higher-level agreements and the resulting diversity at company and workplace levels.

The corollary of the greater convergence across countries is greater diversity within countries. 'Globalization' and 'Europeanization' are intensifying the long-standing differences between 'sheltered' and 'unsheltered' sectors, complicating the achievement of national-level 'social pacts'. At the same time, they are exaggerating the equally long-standing differences between large and small employers, making it more difficult for employers' organizations to achieve the necessary consensus to arrive at meaningful sector agreements. Here the emergence of 'new' sectors and activities associated with 'tertiarization' is creating further difficulties: incorporating these into existing agreements has further significant implications in terms of their scope and form (Hornung-Draus, 2001).

Complicating matters further are the informal processes at work. Perhaps most obviously there is the sharp asymmetry in focus on the part of trade unions and employers at EU levels (Marginson and Schulten, 1999). On the trade union side, initiatives aimed at cross-border co-ordination are focusing on the sector level. At company level, the potential offered by EWCs appears to remain largely unfulfilled. Instances where action has been co-ordinated through the EWC have occurred, particularly in the highly organized automotive sector (*European Works Council Bulletin*, 2001). But a wider tendency, evident in other sectors as well as automotive, is for union representatives to see EWCs as an instrument to gain information to be deployed in their domestic negotiations (Hancké, 2000). Amongst employers, the organizations responsible for sector-level negotiations are strongly opposed to cross-border co-ordination. The management of MNCs, by contrast, is increasingly co-ordinating bargaining over working practices and working time arrangements across countries, reflecting a range of 'isomorphic' pressures. In so doing, the role of headquarters management in enforcing 'coercive comparisons' is becoming increasingly transparent, potentially exposing it to future demands from employee representatives for more European-level negotiations.

Arguably, however, most fundamental of all is the tension at the heart of collective bargaining itself. It is perhaps best summed up in the phrase that policy makers have increasingly used in recent years to seek to maintain a balance, i.e. flexibility *and* security. As the previous section has argued, the multiple roles that collective bargaining is required to play put a premium on flexibility. Yet experience suggests that, to paraphrase Wedderburn (1997: 11), the effectiveness of processes such as integrative bargaining and social dialogue depend on a 'fundament' of 'hard' regulation, be it 'constitutional principle', 'legislative provision', 'tough judges' or collective agreements. It is this fundament of 'hard' regulation that gives employee representatives the confidence to engage in these processes as well as legitimizing them in the eyes of managers.

The forthcoming enlargement of the EU in 2004 is likely to be especially critical in terms of future direction, meaning more of the same or an unravelling of the balance. Self-evidently, enlargement means that the collective action problem cannot fail to grow, making any consensus even more difficult to achieve. The difficulties of reaching agreement have been substantial enough with the original six member countries, let alone the present 15 countries. They will become even greater when the EU expands to embrace 25 countries. Perhaps even more important, though, is the fact that the accession states' institutional framework of industrial relations remains relatively immature and, crucially, the predominant pattern of collective bargaining is single employer rather than multi-employer, reflecting weak or non-existent employers' organizations. Moreover, the accession countries are at very different stages of economic development, with wages and conditions lagging behind those of most EU member states. Not surprisingly, the priorities are very different. Indeed, such is the commitment of some of the leaderships to the neo-liberal position that it has been suggested that the accession countries may turn out to be the 'Trojan Horse' for the much-feared 'Americanization' of industrial relations (Meardi, 2002). Complexity, uncertainty and instability look set to be the defining characteristics of industrial relations in Europe for the foreseeable future.

In the following and final chapter Paul Marginson takes our analysis to the company level by examining the relevance of the concept of the Eurocompany within (European) industrial relations.

5 DISCUSSION QUESTIONS

1 Why do you think most EU member states insisted on the principle of subsidiarity in matters of social policy, and were they correct to do so?

2 What would you say were the main strengths and weaknesses of legal enactment, collective bargaining and benchmarking-type activities such as the 'open co-ordination method' in developing international industrial relations systems?

3 What do you see as the most likely trajectory for industrial relations in Europe – 'Europeanization' or 'Americanization' – and why?

6 FURTHER READING

- **Ferner, A. and Hyman, R. (eds) (1998) *Changing Industrial Relations in Europe*. Oxford: Blackwell.**

The most authoritative overview of European industrial relations departments and the national systems of EU member states.

- **European Commission (2000b) *Industrial Relations in Europe 2000*, Luxembourg: Office for the Official Publications of the European Communities.**

Very useful in its dealing of EU institutions and the relationships between them. It also offers an 'official' view of the significance of many of the developments discussed in this chapter.

- **Fajertag, G. and Pochet, P. (eds) (2000) *Social Pacts in Europe: New Dynamics* Brussels: ETUI.**

The 'social pacts' phenomenon, along with the debates it has given rise to, is dealt with most thoroughly here.

- **Sisson, K. and Marginson, P. (2000a) *The Impact of Economic and Monetary Union on Industrial Relations. A Sectoral and Company View*. Luxembourg: Office for the Official Publications of the European Communities.**

Here is a review of the impact of EMU on industrial relations that adopts a 'bottom-up' as opposed to the usual 'top-down' approach.

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18 The Eurocompany and European Works Councils

Paul Marginson

CHAPTER CONTENTS

1 INTRODUCTION

In the face of the internationalization of markets and production, many commentators argue that multinational companies (MNCs) are becoming increasingly 'global' in nature. Conversely, the specificities of national markets and production regimes, according to which international companies were previously constrained to organize their activities, are seen to be of diminishing salience. This has led some to conclude that MNCs are increasingly 'stateless' organizations, detached from the institutional structures, practices and customs of the particular societies in which they originated (Ohmae, 1990). Others, however, contend that whilst the scope of corporate activity may be becoming more 'global', the competitive advantages that individual MNCs seek to leverage in international markets are crucially shaped by the national 'business systems' (Whitley, 1992) in which they are rooted.

Earlier debate over these two positions tended to polarize the 'global' and the 'national'. More recently attention has turned to sub-global processes of internationalization showing in particular how processes of internationalization are concentrated within the sub-global regions of western Europe, North America and east Asia that comprise the so-called 'Triad' (Dicken, 1998; Rugman, 2000). This chapter conceptualizes the international company as an intermediate form of organization on a sub-global basis and demonstrates the value of doing so for industrial relations analysis. Focusing on one particular region, western Europe, it argues that the 'Eurocompany', a term coined in earlier writing (Marginson and Sisson, 1994), can be differentiated from both the 'global' corporation and the international company as 'national champion'.

The approach taken in this chapter is to examine the Eurocompany from both 'above' and 'below'. The next section argues that from *above*, Europe constitutes an economic, political and regulatory space which can be distinguished from wider, global, processes of internationalization. This forms the context within which international companies develop distinct European dimensions to their forms of (management) organization and coordination of production and market servicing. The third section, whilst recognizing that companies can be differentiated according to their national origins, argues that from *below* the Eurocompany is something more than the simple extension of national companies beyond their borders. Crucially, it also coheres around characteristics which transcend national borders. These comprise the diverse, but overlapping, forms of enterprise found in many national economies and the sector- and organization-specific transnational management practices being forged by MNCs. As such the Eurocompany is a plural rather than uniform construct.

In examining the relevance of the concept of the Eurocompany within industrial relations analysis, the chapter focuses on European Works Councils (EWCs). The evolution of an, albeit limited, European regulatory space in the sphere of industrial relations is briefly reviewed in the fourth section, focusing on developments within MNCs themselves. At company level, the establishment of EWCs represents a major innovation in institution-building at transnational level in MNCs within a global region. Their scope in all save a few cases is European rather than global. Yet it has been argued that these 'European' structures are essentially extensions of national systems of workplace representation; EWCs differ in their structure and operation largely according to the national industrial relations system in which the parent company is headquartered (Streeck, 1997). Drawing on evidence from studies of the provisions of agreements establishing EWCs and of the functioning of EWCs in practice, the fifth section questions this assessment. It highlights the additional, and in some instances pronounced, influence on the structure and functioning of EWCs of factors which transcend national borders. It thereby demonstrates that the concept of the Eurocompany can purposefully be applied within industrial relations.

In its conclusion, the chapter asks whether EWCs are likely to provide a focal point for further developments in European industrial relations, especially collective bargaining.

2 THE EUROCOMPANY DIFFERENTIATED FROM WIDER, GLOBAL DEVELOPMENTS

The structures and institutions of the EU are creating an economic, political and regulatory space whose character and dynamic are distinctive when set against wider, global, developments or those in the other global regions. 'Political institutions have been created which have a capacity to control the process of international economic integration that is greater than in any other region, for example North America' (Martin, 1996: 6). The economic nature of the political project underlying the construction and enlargement of the EU is well established. From the mid-1980s, the programme to create the single market by the end of 1992 was expressly aimed at promoting the rationalization and restructuring of European industry, so as to enhance its competitive position in global markets. Further impetus is given to these processes by the dynamics of the Economic and Monetary Union, launched in 1999: encouraging companies to organize their production and their market servicing on a continental basis. Paradoxically, the emergence of Europe as a distinct economic zone is underlined by the extent to which international companies based outside Europe, concerned to consolidate their presence within a key global market, have also been players in the twin processes of restructuring and rationalization within the EU (Ramsay, 1995). In addition, the European Commission has pursued industrial policies to facilitate the restructuring of particular industrial sectors, such as steel, and competition policies aimed at opening up previously closed markets to European-wide competition, as in energy, telecommunications and airlines.

The distinctiveness of a European economic space within the global economy is sharpened by parallel developments in the other advanced industrialized regions (Dicken, 1998). More recent and less far-reaching than the EU, NAFTA (North American Free Trade Area) currently embraces the economies of North America; enlargement into Latin America is foreseen. Although as yet only in the process of establishing a free trade area, AFTA (ASEAN Free Trade Area) groups the industrialized and industrializing economies of east and south-east Asia. The result is the emergence of a tri-polar international economy, the 'Triad', comprising Europe, North America and Japan and its economic satellites, in which economic exchanges (amongst the countries) within each of these poles are significantly more intense than those between the three poles (Dicken, 1998; Rugman, 2000).

This regional dimension to the process of internationalization has received insufficient attention (Hay, 2000). In their critique of the globalization thesis, Hirst and Thompson (1996, 1999) produce evidence which they interpret as showing that, above all, multinational corporate activity is heavily concentrated in home countries. Yet this same evidence points also to the extent to which European MNCs are regional in the scope of their activities. Their analysis of the geographical distribution of assets and sales in 1992 of MNCs headquartered in France, Germany, the Netherlands and the UK shows significant regional concentration on both counts, a finding echoed by Van Tulder et al. (2001) (see Box 18.1). Differences between 'home' countries are evident too: French- and German-based MNCs are more home, and less extra-European, focused than their Dutch and British counterparts, as Van Tulder et al. (2001) also observe. Even so, Pain (1997) reports that since 1990 UK-based MNCs have oriented overseas direct investment more towards western Europe and less towards the US. Regional concentration of economic activity of European-based MNCs suggests that the construct of the Eurocompany is useful analytically in accounting for developments.

Box 18.1 The European regional dimension to economic internationalization

- In 1997, intra-EU trade accounted for 61 per cent of EU exports and a further 13 per cent of EU exports went to non-EU European countries (Rugman, 2000). Between 1980 and 1998, analysis of the destinations of exports from two different EU member states, Denmark and the UK, indicates a significant Europeanization of trade relations in both cases (Hay, 2001).
- Analysing 200 of the world's largest firms, Van Tulder et al. (2001: 63) remark on the extent to which the European-based companies remain regionally concentrated; in 1997 Europe accounted for some 70 per cent of both assets and sales for these companies.
- In 1997, the largest share of the outward stock of foreign direct investment from EU-based companies, 41 per cent, was located in other EU countries (Rugman, 2000).
- Cross-border mergers and acquisitions by EU-based companies primarily took place within the European region between 1987 and 1999, with the exception of UK-owned companies where North America also accounted for a substantial proportion (United Nations, 2000)

The concept of the Eurocompany also implies a direction of development over time. Most evidently, companies have invested considerable resources in establishing market servicing and production operations on a pan-European basis. This is reflected in the wave of mergers and acquisitions from the mid-1980s in anticipation of the single market, which peaked in 1990, a growing proportion of which were cross-border in scope (Buiges, 1993). The prospect of deeper integration through economic and monetary union reinvigorated the process. Cross-border mergers and acquisitions in the EU surged again from 1995, accelerating towards a new peak in 2000 before declining in the face of an economic downturn (United Nations, 2000; *Acquisitions Monthly*, 2002). Economic and market integration has also led to the creation of new European-scale companies through joint ventures and, more tentatively, strategic alliances; indeed, some commentators have predicted that it will foster the emergence of a 'super-league' of European MNCs (Martin, 1998). In pharmaceuticals, for instance, developments since 1998 have seen the merger of Hoechst's operations with those of Rhone-Poulenc, that between Astra and Zeneca and the combinations of British-based GlaxoWellcome and SmithKlineBeecham and Swiss-based Ciba-Geigy and Sandoz. Importantly, these developments have been far from limited to European-based companies: MNCs headquartered in the other two poles of the Triad have participated strongly in these consolidations (Ramsay, 1995; Van Tulder et al., 2001), in the process creating identifiable European regional units. Effectively integrating the resulting combinations at European level and securing a coordinated approach to the market and/or to the organization of production at European level is, however, contingent on the strengthening of European-level management structures and forms of coordination within MNCs.

More generally, as Tony Edwards demonstrates in Chapter 15, the internationalization of markets and of the organization of production have stimulated the deepening of international forms of management coordination and organization within international companies. Such deepening has also taken on an expressly European dimension, more evident in some sectors than others. Mendez (1994) provides a detailed study of the progressive deepening of Groupe Danone's management structures at European level. Elsewhere in the food industry, Coller (1996) identifies the distinctive coordinating role played by the European management structure of the European foods business of a globally spread European MNC. The development of a regional dimension to the management organization of the European operations of MNCs headquartered outside Europe is also evident. In the automotive sector, both Mueller and Purcell (1992) and Hancké (2000) underline the coordinating role of the European management organizations in the regionally integrated operations of North American MNCs.

Despite the evident regional concentration of stocks and flows of international investment by MNCs, taxonomies in the international business literature typically locate sectors and companies within a matrix which accounts for the relative strength of global and local (i.e. national) pressures operating on the dual logics of marketing and production (Bartlett and Ghosal, 1992, see also Chapter 2). Porter's (1986) distinction between companies operating in 'multi-domestic' industries, where competition is nationally bounded, and those which are 'global' in scope has been particularly influential. Such taxonomies might be usefully refined to incorporate the salience of regional economic influences for marketing strategies and production organization. In a rare empirical investigation of the utility of the 'Porterian' categories, based on in-depth interviews with directors and senior managers in 52 enterprises in ten industries in France, Atamer (1993) found that firms differed in their perceptions of the impact of the creation of the single European market. The impetus to develop European-level marketing and production varied across sectors: respondents in the agro-chemical and food sectors anticipated a strong impact, and hence the need for a European response; those in paper, printing and plastics, currently perceived as essentially national markets, anticipated little impact, and accordingly had plans to formulate a European response in only a few specialist sub-segments; in machine tools, already perceived as European in scope, little further impact was anticipated.

The process of constructing a European economy is driving industrial sectors towards European-level production and/or marketing strategies at varying speed. Reinterpreting the 'Porterian' taxonomy in the light of economic and market integration, in some industries the multi-domestic category is no longer feasible. The 'domestic' market and the 'domestic' scale of production are now regional: Europe is the new 'domestic' context. But neither are such industries necessarily becoming global: they might be appropriately categorized in Porterian terms as 'multi-regional'. Ruigrok and Van Tulder (1995), in arguing that regionally focused internationalization strategies dominated globalization during the 1990s, suggest a similar conclusion.

In sum, Europe exists as a distinct economic space for a growing number of industries and enterprises. It is analytically useful to differentiate the Eurocompany from the global corporation. But empirically this can be more readily discerned in some industries than in others; it is also more apparent in the organization of the business operations of some firms than in others. The implication for the development of transnational industrial relations arrangements in Europe is, first, that they will tend to be European rather than global in scope and, second, that they will be more evident in some sectors and international firms than in others.

3 EUROPEAN COMPANY CHARACTERISTICS WHICH TRANSCEND NATIONAL BORDERS

From below, an important source of differentiation between European MNCs is the variety of national institutional forms within which they are located. Societal contingency approaches, which constitute the prevailing orthodoxy, insist that enterprises are primarily shaped by these nationally specific features. Under the societal approach proposed by Maurice et al. (1986), which is considered in more depth by Arndt Sorge in Chapter 5, the organization of production and work within the enterprise is shaped by the interlocking influences of the institutional forms, specific to each society, governing education and training, the conduct, control and coordination of work and the regulation of conflict. Alternatively, the concept of nationally distinct business systems advanced by Whitley (1992) relates the fundamental differences in enterprises across countries to two sets of institutional features which are elaborated below. Yet national economies across Europe are far from homogeneous: they continue to support a diversity of forms of organization, some of which transcend national borders (Mayer and Whittington, 1996). Moreover, 'organization effects' (Mueller, 1994) involving processes of cross-national diffusion within multinational companies are resulting in convergence of management and production practice across countries. The concept of the Eurocompany amounts to more than an umbrella for a set of nationally differentiated companies: MNCs within Europe also cohere around axes which transcend national borders.

The influence of national business systems on the strategies and behaviour of enterprises is well established (Whitley; 1992; 1996). The first set of features identified by Whitley is the nature and extent of the activities coordinated through authority structures or through external networks and institutions. Considerable national variation within Europe is evident according to this set of factors. Large Anglophone enterprises organized along multi-divisional lines display a strong tendency to internalize activities but to develop new competencies through acquisition; the diversified variant has also shown considerable industrial mobility. Large German enterprises equally display a strong tendency towards internalization within an industrial combine, but a greater tendency to develop new competencies internally and to remain committed to particular products and sectors.

The second is the nature of corporate governance structures, where Whitley (1996) underlines the contrast between the 'insider' systems found in continental European countries and the 'outsider' system characteristic of Anglophone countries. Insider systems, of which the French and German are two main variants, are distinguished by interlinked networks of corporate, institutional or family shareholdings, a financial system based on long-term bank credit, less developed stock markets and constraints on hostile take-over. Enterprises are embedded in networks of relationships in which the ability to act independently is restricted by ties of mutual obligation to and dependence on various stakeholder groups, including employees. In contrast, outsider systems are characterized by dispersed networks of shareholdings, greater reliance on internal sources of finance, highly developed stock markets and an active market for corporate control. Enterprises are largely discrete economic actors primarily accountable to a single stakeholder, the shareholder.

In terms of behaviour, enterprises embedded in insider systems are likely to emphasize longer-run performance, and to pursue investment strategies which involve longer-term commitments to product and process innovation and associated skill development. In contrast, enterprises embedded in outsider systems place more emphasis on short-run financial performance, and adopt investment strategies which are driven by purely financial criteria. Also, under insider systems employees are likely to be regarded as enduring assets who form a potential source of competitive advantage, encouraging an emphasis by management on training and skill acquisition, whereas under outsider systems employees are likely to be regarded as disposable liabilities and to be the focus of short-run cost minimization by management (Marginson and Sisson, 1994).

Whitley (1996: 39) concludes that European enterprises continue to display considerable variation according to the national business systems in which they are located, and that there is little evidence amongst large enterprises of convergence on a single type, such as the diversified multi-divisional form. The implication is that European MNCs remain a collection of differing national types: the national business system remains the essential reference point for international companies. Mayer and Whittington question this conclusion: 'national economies in Europe seem both to be more internally diverse and to have more in common than most societal-contingency accounts can explain' (1996: 88). They propose instead a 'societal choice' approach, which recognizes that business organization within Europe is simultaneously overlapping and fragmented. They argue that institutional environments contain actors – the state, entrepreneurs, families – that may prefer and have the resources to support forms of enterprise organization which do not conform to the dominant model. Such an approach remains sensitive to dominant patterns of business organization, but is also alert to forms that cross-cut national boundaries. Those forms which cut across European countries include family-owned enterprises, state-owned or public enterprises, the traditional holding company structure and the multi-divisional structure (see Box 18.2).

In underlining the scope of intra-societal variation in enterprise forms as well as the potential points of overlap across borders between them, the societal choice approach offers some analytical underpinning in conceptualizing the Eurocompany. Much, however, remains to be specified before this line of argument can be taken further.

Box 18.2 European enterprise-forms which cross-cut national boundaries.

- Family ownership is a persistent feature of a number of European economies, including France, Germany, Italy and the Walloon region of Belgium. Moreover the challenge posed by internationalization does not appear to be insuperable for such companies; some have extended their reach across European markets by acquiring firms in other countries, French-based LVMH for example.
- The state-owned enterprise has, until recent privatization initiatives, been a prominent feature of several economies, notably Austria, France, Italy

and Spain. The parameters within which such enterprises function have differed from their private-sector counterparts: for instance, their role as 'social buffers' in state policies to maintain employment (Ferner, 1994: 57). Also, state influenced strategic direction and massive state financing have underpinned the internationalization strategies of some public enterprises, particularly in France.

- The loosely structured holding company continues to survive in France, Germany, the Walloon region of Belgium and Britain in the face of competition from the multi-divisional form, widely regarded as possessing superior economic properties. In part, this structural form survives for institutional reasons: the holding company provides a way of mobilizing capital resources (through minority stakes, for example) in the absence of supportive capital markets (Mayer and Whittington, 1996).
- The multi-divisional form, the prevalent form of enterprise structure amongst large corporations in the Anglophone economies, is spreading more widely across countries with 'insider' systems of corporate governance too. Internationalization strategies appear to be an important trigger: in the face of market integration in Europe and globalization of markets, German- and French-based MNCs are increasingly adapting their established modes of business operation and management practice towards those associated with the Anglophone model of the multi-divisional enterprise (Ferner and Quintanilla, 1998).

A second problem with the social contingency approach is that it leaves little analytical space in which to recognize that in becoming international, MNCs partially escape the national institutional configurations in which they were previously embedded. As Mueller (1994) argues, MNCs play an active role in determining how they bridge the multiple national environments in which they operate. In response to economic pressures which stretch beyond national boundaries, and in the context of limited forms of supranational regulation, MNCs are developing organization-specific transnational structures and practices. These 'organization effects' (Mueller, 1994) draw on a wider range of institutions and practices than those found in the home country, including practices drawn from the host economies of overseas operations, through processes of 'reverse diffusion' (Edwards, 1998, see also Chapter 15). Ferner and Quintanilla (1998) report evidence of similar developments in structure and control systems amongst MNCs embedded within different national business systems within Europe. Yet they add that this process of 'anglo-saxonization' is one that entails distinctive national variation. Such national variation is underlined by Harzing and Sorge (2003) in respect of the control systems utilized by MNCs based in different European countries, while at the same time identifying cross-border commonalities in the internationalization strategies of companies from different countries of origin.

International notions of best practice at the level of the sector are also influential. Within some sectors a convergence process around a limited repertoire of models of management organization, product strategy, production organization and working practice has been observed amongst major companies based in different countries. Instances include car manufacture and telecommunications (Katz and Darbishire, 2000). Such convergence processes extend also to inter-firm relations which cross-cut national boundaries. As the major car manufacturers internationalize their sources of supply, they are also increasingly imposing common production and work practices down the supply chain. With single sourcing and JIT (just-in-time) management, firms along the supply chain are increasingly dependent on each other, but most particularly on the multinational enterprise that organizes inter-corporate production. 'Eurocompanies' can have Europeanizing consequences beyond their own, directly owned, operations.

In summary, the societal-specific institutions in which enterprises are embedded at national level are a prominent influence on their behaviour and structure. Concomitantly, the diversity which exists within national systems, its overlapping nature across national borders and the convergence of production and management practices within and between MNCs as a result of two-way processes of cross-border diffusion, mean that the Eurocompany is not reducible to a set of national variants. Neither is the Eurocompany a uniform transnational form: rather it signifies a plurality of forms which transcend national borders within Europe. The implication for European-level industrial relations arrangements, such as European Works Councils (EWCs), is, first, that they will not be primarily international extensions of different national industrial relations arrangements and, second, that commonalties between EWCs (and other European-level structures) will be evident according to influences which cut across national borders such as sector and type of enterprise.

4 EUROPE AS A DISTINCT SOCIAL SPACE

Growing economic integration within the European Union stimulated pressures for a 'social dimension', given impetus by the 'social charter' proposed by the Commission in 1989. This was carried forward by the social policy protocol of the 1991 Maastricht Treaty, subsequently incorporated as the social chapter of the 1997 Amsterdam Treaty. Yet, as compared with the progress of economic integration, the development of 'social Europe' has been hesitant and more limited. Although extending European-level regulation of aspects of industrial relations significantly beyond anything that has previously been achieved, the measures involved are nonetheless restricted in their scope. This reflects the limited legal competence of the EU and its institutions to legislate in the industrial relations field (Hall, 1994; Streeck, 1994). The inability of the EU to develop a vertically integrated system of industrial relations, providing comprehensive regulation of the European labour market, which mirrors those of the individual member states has been seen as a policy failure by many commentators. But, as Keith Sisson argues in Chapter 17, from a different perspective an alternative assessment can be reached: a multi-level system has developed in which the EU has a social policy framework that can lay claim to principles, procedures and substantive outcomes. Sisson goes on to review developments at the EU multi-sector and sector levels; developments at company level are addressed here.

Under a multi-level system, account needs also to be taken of pressures from below for integrated approaches to industrial relations across European countries. These are operating on management at sector and, above all, company levels. In most countries pressure for industrial relations and employment practices which reflect the market and business circumstances of specific sectors and companies are reflected in a widespread decentralization of collective bargaining arrangements. Although the nature and extent of such decentralization differ across countries (Ferner and Hyman, 1998), there has been a marked growth in the incidence of collective bargaining within the enterprise, either at company or workplace level. As a result of such pressures, arrangements in a given sector or international company in one country tend increasingly to resemble those in other European countries and to diverge from those in other sectors or companies in the same country (Locke, 1992). MNCs are the critical players involved, leading the trend towards more decentralized bargaining arrangements (Marginson and Sisson, 1994) whilst simultaneously developing transnational forms of coordination of industrial relations policy and practice.

As MNCs deepen their European-level management structures, they increasingly have the capacity to develop pan-European approaches to industrial relations and employment matters. Where production and market servicing are organized on a European scale, companies are looking to secure similar levels of labour performance through implementation of similar employment and working practices across different European countries. International systems of performance control are used to compare the performance of workforces at sites across countries (Coller and Marginson, 1998) and such comparisons are deployed to lever concessions in working and employment practices from workforces deemed to be performing poorly, under threat of disinvestment or closure. In parallel, companies have put in place systems to diffuse best employment and industrial relations practice between operations located in different countries (Coller, 1996; Edwards, 1998). Within more globally organized MNCs these parallel processes of performance comparison and diffusion of best practice extend to sites across the globe, although the intensity of the twin processes involved tends to be greater within the European region than at global level (Coller, 1996; Mueller and Purcell, 1992). However, although the corporate perspective on performance comparison and diffusion processes is European (or wider) in scope, any negotiation over the implementation of such best practices has largely remained at local or national level.

Explicit European-level initiatives in the sphere of industrial relations remain unusual: a small number of MNCs have concluded joint texts with either their EWC and/or with international trade union organizations on employment matters (Carley, 2001).

The combination of a European dimension to corporate activity, the existence of points of convergence within sectors and companies which transcend national borders, together with the EU's social policy measures and new regulatory processes and instruments described in the preceding chapter, constitute the elements around which a distinctively European dimension to industrial relations is emerging.

5 THE CASE OF EUROPEAN WORKS COUNCILS

At company level, the most significant institutional innovation in the development of a European dimension to industrial relations has been the establishment of EWCs. Their emergence is an example of the interaction of pressures from both 'above' and 'below'. From above, proposals for employee rights to transnational information and consultation, which resulted in the directive on European Works Councils, were central to the European Commission's initiative for a social dimension (Hall, 1994). From below – in the face of increasing international integration of production and growing trade union organizational capacity at European level, as well as distinctive political circumstances – a small number of French- and German-owned MNCs had already established voluntary European-level information and consultation arrangements prior to the publication of the draft directive in 1991. Indeed, as Hall (1992) argues, the terms of the directive were both prefigured and influenced by these prototype EWCs.

Originally adopted by 17 European Economic Area (EEA) countries in September 1994, and subsequently extended to the UK in December 1997, the directive requires 'European-scale' companies to establish EWCs for the purposes of informing and consulting with employees and their representatives on matters of a transnational nature affecting employees' interests (see Box 18.3). The framing of the directive, which provides scope for negotiated arrangements to take precedence over the statutory requirements which it specifies, has prompted European-level negotiations between management and employee representatives (frequently trade unions) on an unprecedented scale. To date, some 700 MNCs (or international divisions of MNCs) have negotiated agreements to establish EWCs (ETUI, 2001) (see box 18.4). Of these, no more than 40 were in existence at the time the directive was adopted.

Box 18.3 European Works Councils Directive: key features

- adopted in September 1994 by the EU Council of Ministers under the social policy protocol of the 1991 Maastricht Treaty covering 14 member states (excluding the UK).
- extended to the UK in December 1997 following the UK Government's adoption of the social chapter of the 1997 Amsterdam Treaty; now applies to the 18 countries of the EEA.
- requires 'Community-scale' companies to establish European-level procedures for employee information and consultation on transnational matters, a process triggered by a request from representatives of employees in more than one country.
- 'Community-scale' companies defined as those with 1,000 or more employees in the EEA and operations employing 150 or more in at least two EEA states.
- estimated to cover 1,800 MNCs, including the EEA operations of companies headquartered in the US, Japan and other non-EEA countries.
- gives precedence to arrangements negotiated between management and employee representatives to establish an EWC over the statutory model specified in the directive, which acts as a default option.
- as of late 2001, agreements had been concluded establishing some 700 EWCs at either group or international division level within MNCs; the largest number were in German-based MNCs (125), followed by US- and UK based MNCs (105 and 100 respectively), then French-based MNCs (77). There were 50 agreements in Dutch-based, 45 in Swedish-based, 42 in Swiss-based and 22 in Italian-based MNCs.

Box 18.4 European Works Council: geographical scope and sectoral diffusion

- The precedence which the directive accords to agreements negotiated between the parties to establish EWCs leaves scope for the conclusion of arrangements which extend beyond the EEA in their geographical coverage. First, in almost all cases European-level structures have been established, although management and employee representatives in a handful of MNCs, including Endesa, Renault, SKF and VW, have (also) established world-wide bodies. Second, a considerable minority of EWCs provide for representation from operations in European countries outside the EEA. One in five agreements extends coverage to Switzerland and a similar proportion to one or more of the countries of central Europe (Carley and Marginson, 2000). Considerations of companies' production and management organization within Europe, rather than the political boundaries of the EEA, are driving the way in which 'Europe' is operationalized. These findings are consistent with the concept of the Eurocompany.

- There are considerable sectoral differences in the 'strike rate' of agreements establishing EWCs compared to the number of MNCs covered by the directive. This may be due to a range of factors, including the strength of trade union organization within companies, the effectiveness of their European-level organizations and employer strategy. But also important is the extent to which production is internationally organized and integrated. Overall, the 'strike rate' of agreements in the more internationalized manufacturing sectors is double that in the service sectors, where competition tends to be more nationally bounded (Marginson et al., 1998; Carley and Marginson, 2000). The same factor can explain why, within manufacturing, strike rates in the oil and chemicals sectors are markedly higher than those in paper and printing and textiles, clothing and footwear; and why the strike rate in financial services is considerably higher than in any other service sector. Less evidence is available on differences in the penetration of EWCs according to type of company. However, the findings of a study undertaken before the directive was adopted are suggestive: surveying 100 of the largest MNCs in Europe, Streeck and Vitols (1995) report that the incidence of EWCs was higher where employment was concentrated in operations outside the home country.

Yet the 'European' character of these new European-level industrial relations structures has been challenged by Streeck, who has argued (1997) that EWCs are 'neither European nor works councils'. In suggesting that they are not European, Streeck's contention is that 'one can expect European works councils to be heavily coloured by the national system of their company's country of origin' (1997: 331). This is because employee representatives of the MNC's home country workforce, by dint of their established relations with group management and their numerical dominance, are likely to play a decisive role in negotiations and thereby significantly influence the structure and role of the resulting EWC. 'In effect ... European works councils will be *international extensions of national systems of workplace representation*, instead of European institutions in a strict sense' (ibid., emphasis in original). Streeck's claim is distinctly at odds with the implication of the earlier argument that the Eurocompany is not reducible to a set of national variants. This in turn suggests that EWCs will tend to develop non-nationally specific forms and practices; although some 'country of origin' effect may be identifiable, commonalties between EWCs will also be evident in the form of practices which cut across countries. In the face of such differences in position, and in order to test the proposition that EWCs will tend to have a 'European' as opposed to a 'national' character, the remainder of this section examines evidence first on the agreements establishing EWCs and second on EWC practice.

EWC agreements

Part of Streeck's argument is that in their basic structure EWCs will reflect nationally based structures for employee information and consultation: that, following the French model, EWCs in French-based MNCs are constituted as joint management–employee structures whereas, in accordance with the German model, their counterparts in German-based EWCs are employee-only structures (Streeck, 1997: 331). Findings from analyses of agreements support this, but only up to a point (Marginson et al., 1998; Carley and Marginson, 2000). Whereas virtually all EWCs in French-based MNCs are joint bodies, less than three-quarters of those in MNCs headquartered in Austria, Germany and the Netherlands are employee-only. In other words, a substantial minority break with the established model for these countries and establish joint EWCs. Amongst UK-based MNCs the great majority have opted for joint structures, arguably reflecting the practice of joint consultation arrangements where such exist. Yet in the Nordic countries, a mixed approach is also evident: two-thirds of EWCs in MNCs based in these countries are joint bodies, whilst one-third are employee-only. In part this reflects variations in national practice between the four countries, but in Denmark and Sweden the constitution of a number of EWCs breaks with national traditions (Knudsen and Bruun, 1998: 138–9). National systems, whilst being an important influence on this basic feature of EWCs, do not appear to be an overriding one.

More generally, four influences on the contents of EWC agreements are apparent (Gilman and Marginson, 2002). First, are the terms of the EWC directive itself, or a 'statutory model effect', including both specific requirements detailed in the directive and the terms of the statutory fall-back model appended to the directive which are to be applied in the event that negotiations fail to result in agreement. For example, as compared with agreements concluded in the period before the directive came into force in September 1996, later agreements are more likely to contain provision for the employee side to have access to independent experts and to convene additional EWC meetings should extraordinary circumstances arise. Both these are matters directly covered in the directive. Second is a 'country effect' under which industrial relations arrangements in the European country in which an MNC is headquartered, and particularly those for employee information and consultation, influence the provision of EWC agreements. In addition to the basic structure of EWCs, referred to above, the country effect is evident in the extent to which trade union officials are explicitly acknowledged as having the right to attend and participate in EWCs, something which is more common, for example, amongst MNCs based in France than in their Dutch or German counterparts. The influence of different systems of corporate governance is also evident in the stipulation of confidentiality clauses, which are significantly more widespread amongst EWCs in UK-based MNCs than amongst their counterparts in French, German or Nordic-based companies. More stringent confidentiality clauses, enabling management to withhold potentially detrimental information, are also significantly more evident amongst agreements in UK-based MNCs.

Third is a 'sector effect', which cuts across countries. This arises from the similarities in production methods, employment practices and industrial relations traditions within sectors, but also from the influence of the European trade union industry federations which have played an important role in initiating and coordinating negotiations across MNCs within their respective sectors (Rivest, 1996). Such an effect is evident, for example, in the basic structure of EWCs where, controlling for country, joint structures are significantly more evident in chemicals and food and drink as compared with metalworking, arguably reflecting different industrial relations traditions in the respective sectors. Sector differences are evident too in the incidence with which agreements explicitly provide for trade union officials to participate in the EWC, with such participation being more evident in EWCs in chemicals, food and drink and textile and clothing than metalworking. Following Rivest (1996), this can be attributed to the differing emphasis placed on such provision by the respective European industry federations. Fourth, a 'learning effect' is evident, under which innovations in earlier agreements which come to be regarded by one or other, or both, of the parties as good practice become generalized in later agreements. Like the 'sector effect', the 'learning effect' cuts across countries and is evidenced by the growing incidence of clauses in agreements dealing with training for employee representatives and opportunity for employee representatives to convene their own meeting immediately following the EWC, both matters on which the directive is silent.

Overall, the evidence on the provisions of EWC agreements shows that national systems of workplace representation and consultation do have an influence, as also do systems of corporate governance. But it also points to the salience of sector influences and learning effects which are cross-country in nature. This is at odds with the contention that EWCs are primarily international extensions of national systems: cross-border processes and European-level actors, trade unions and MNCs, also appear to be influential in shaping the provisions of agreements. From this perspective, EWCs represent an *intersection* of country-specific and transnational, sector-specific, influences.

EWC practice

So much for the nature of the agreements which have established EWCs, but what of their actual functioning? Drawing on research on the functioning of eight EWCs in multinationals based in four European countries, Lecher and Rüb (1999) identify three trajectories of development. On the basis of a study of ten EWCs, Stoop and Donders (1998) posit three similar paths of development. Under the first two of these, the operation of EWCs results in bodies which, in contrasting ways, are no more than extensions of national systems. But under the third, the functioning of the EWC is creating a genuinely transnational form of interest representation.

The first path is where the EWC is essentially the meeting point of different national representatives. Each national delegation regards the EWC as an extension of its national system and attempts to use the EWC to promote primarily issues which accord with national priorities. In this scenario, the EWC is no more than the sum of the different delegations. Such EWCs are likely to develop a largely symbolic existence based on an annual meeting, but with little or no independent contact and coordination between members in between meetings and no ongoing liaison with group management. Following Levinson's (1972) classic analysis of the potential for transnational collective bargaining, and echoing Perlmutter (1969), these might be described as 'polycentric' in orientation. Second are those EWCs in which representatives of the home country dominate the functioning of the EWC, providing the secretariat and leading officers. The EWC assumes an active rather than symbolic role, characterized by communication and coordination between employee representatives in between meetings and ongoing contact with group management. But EWC members from operations outside the home country are marginalized in this process and the international agenda is primarily driven by employee representatives from the home country. In Levinson's terms, this equates to an 'ethnocentric' approach to constructing industrial relations at the European level. Third are those EWCs which are developing a new, European, identity distinct from that of the structures of representation in the home country. These correspond to Levinson's 'geocentric' orientation. Continuing communication and activity on the employee side is not necessarily coordinated by home country representatives, who do not have a monopoly of leading positions on the EWC or secretariat. Such EWCs are more than the sum of the national delegations, developing a European agenda which is not nationally driven, and are beginning to regulate some matters at the European level.

Amongst the cases studied, both Lecher and Rüb (1999) and Stoop and Donders (1998) find evidence of all three types of EWC. Moreover, instances of each type are found amongst MNCs headquartered in any given country; it is not the case that EWCs in MNCs based in some countries are more likely to be 'ethnocentric' while those based in other countries tend to be either 'polycentric' or 'geocentric'. Crucially, even though many of the EWCs in question had only been in operation for two to three years, some were already evolving a transnational or 'European' mode of operation. In these EWCs, the 'network of contacts' (Streeck, 1997: 333) and the control of resources is not nationally centred. It remains to be seen whether those EWCs which currently operate as extensions of national structures will, over time, develop a transnational mode of operation. In any case, the proposition that EWCs are primarily an extension of national systems is supported only in a contingent sense, and does not stand as a generalization.

More recent evidence indicates that the mode of operation of EWCs may well be influenced more by the international nature of the company concerned than by features of the particular country in which a given company is headquartered. In a study of EWCs in eight UK- and US-based MNCs (Hoffmann et al., 2001; Marginson et al., 2001), the organization and networking activity of the employee side and, in turn, the capacity of the employee side to influence the outcome of management decisions on transnational business matters, were found to be fundamentally shaped by the nature of companies' business operations and the degree to which they were internationalized. Three considerations are important. First is the extent to which business operations are spread across several countries or concentrated in one country, and therefore whether the EWC is numerically dominated by representatives from a single country. (Indeed, the only instance where the smaller executive committee established by most EWCs was numerically dominated by representatives from the home country, was the situation where the operations where overwhelmingly concentrated in the UK.) The second consideration is the business portfolio of the company, and whether this extends across a range of business activities or is focused on a single business. Where there are multiple business activities, which may be differentially spread across countries, similarities of interest amongst employee representatives are more difficult to establish – even amongst representatives from the same country. Where there is a single business focus, such similarities of interest are more easily established amongst employee representatives from different countries. This second consideration is intensified or attenuated by the third, which is integration of production and other activities across borders. With integrated production across national borders, employee interests are not only similar but become directly interdependent. Accordingly, employee-side organization and networking activity was found to be strongest, and the impact of the EWC on management decision-making greatest, in single business companies whose operations are spread across countries and where production and other activities are integrated across European borders. Conversely, such employee-side organization and networking activity had the least impact, with no evidence of EWC impact on management decision-making, in multi-business companies whose operations tended to be concentrated in one country and/or where there was little or no cross-border integration of production. In a further study of 15 EWCs in companies based in four European countries, Lecher et al. (2001: 85–6) also point to the importance of structural considerations relating to the degree of internationalization of business operations and business focus in distinguishing symbolic from more active EWCs.

The mode of operation of the EWCs in the UK- and US-based MNCs was further shaped by a range of other factors which, with one exception, are also company- rather than country-specific. Management structure and management policy are both important. How far EWCs are 'active' rather than 'symbolic' was facilitated or constrained by whether a central management structure at European level, which provides a direct counterpart to the EWC, exists. Where there was 'fit' (Hoffmann et al., 2001) between the management structure and the EWC at European level, the EWC was more likely to be active and more likely to have an impact on management decisions, than where there was not. And EWCs were more likely to be active than symbolic where management's approach to the EWC was pro-active, seeing it as a mechanism that could be utilized for management purposes – such as improving employee understanding of the rationale for business decisions and hence the legitimacy of management actions – than where management's approach was minimalist, primarily concerned to comply with its legal obligations but strictly circumscribing the activity and influence of the EWC. The existence of an industrial relations platform, in the shape of national group-level industrial relations structures, is a further influence. Where such structures exist at national level within companies they can provide a platform from which EWC activity can develop. In their absence, employee representatives find it difficult to develop their own organization and activity at European level. In this instance only country considerations are relevant, since national group-level industrial relations structures are more widespread in some European countries, such as France and Germany, than they are in others, such as Britain.

Overall, the findings from these studies strongly suggest that company-specific considerations which cut across borders weigh at least as heavily in determining the character of EWCs as do nationally specific features of the industrial relations systems of the countries in which companies are headquartered. Again this is at odds with the proposition that EWCs will be primarily 'national' rather than 'European' in character. From the perspective of practice, EWCs represent an *intersection* of country-specific and transnational, company-specific, influences.

6 CONCLUSIONS

The extent and dynamic of European economic integration, and the development of political institutions to regulate this process, set developments in the European Union apart from wider global trends and from those in other global regions. This chapter has established that a European dimension is evident in the international organization of production and market servicing in MNCs and the management structures which coordinate them. This has given rise to the Eurocompany. At the same time, it has argued that the Eurocompany is not reducible to a set of international organizations which are essentially ethnocentric, shaped by the national institutional environments in which they are based. In their structure and behaviour, MNCs within Europe also cohere around elements which transcend national borders: forms of ownership, types of internal organization and sector. The chapter has located the Eurocompany in economic, organizational and behavioural terms. More than a quarter of a century since proposals were first introduced, the European Company Statute (ECS) will, when implemented from late 2004, give a legal form to the Eurocompany.

The case of EWCs has demonstrated the analytical value for industrial relations of the concept of the Eurocompany. It has been shown that EWCs represent an intersection of company-specific and transnational influences. In their functioning some EWCs are evolving into institutions whose behaviour and practice does not reproduce that of the national system of the parent company but is transnational or European in nature. Are EWCs likely to provide a focal point for the further Europeanization of industrial relations at company level? Ahead of the adoption of the directive, employers voiced widespread concern that EWCs would provide a stepping stone towards European-level collective bargaining over substantive industrial relations matters. Conversely, on the trade union side, there were and are aspirations that EWCs would provide just such a platform. Are EWCs opening the door to European company-level collective bargaining?

The potential of EWCs as a focal point for employee action at a transnational level has already been glimpsed in the European-level mobilization of workforces from different countries. Two examples were forms of protest action following Renault's 1997 announcement of the closure of its plant at Vilvoorde in Belgium and the transfer of production to its Spanish facility (EIRO, 1997) and General Motors' European-wide restructuring plans announced in 2000 (EWCB, 2001). Conversely, the potential of EWCs as a mechanism through which management can secure enhanced legitimacy for its cross-border restructuring decisions and better facilitate their implementation is also evident in the automotive sector (Hancké, 2000). Elsewhere, amongst the large Dutch banks the potential of EWCs to facilitate the promotion of common European-wide approaches to HRM has been recognized by management (Sisson and Marginson, 2000).

If the EWCs directive has promoted substantial negotiating activity towards the establishment of European Works Councils, the remit of most EWCs nevertheless remains confined to employee information and consultation. In line with the intentions of the directive, virtually all agreements define their role as the provision of employee information and consultation (Carley and Marginson, 2000). At present, it seems unlikely that most EWCs will assume a collective bargaining role in the conventional sense, concluding European-level agreements on pay and conditions. Instead, EWCs are prompting forms of 'virtual collective bargaining' at Eurocompany level, embracing two kinds of process (Marginson and Sisson, 1998). First, EWCs may conclude European-level framework agreements or joint opinions on aspects of employment policy. This has already occurred in a small but growing number of situations. Indeed, two of these, dealing with issues of employment status, rights and terms and conditions consequent on particular aspects of restructuring at Ford and General Motors' European operations, come close to traditional collective agreements (Carley, 2001). Second, EWCs may facilitate 'arm's-length bargaining' in which management and employee or union representatives do not negotiate face-to-face at the European level; instead negotiating positions and bargaining outcomes within the different national operations of an MNC are increasingly coordinated across countries. On the employee side, EWCs represent a potentially vital resource for organizing such cross-border coordination: as yet it appears to be developing in only a few instances, amongst which EWCs in the automotive sector are prominent. The Economic and Monetary Union, by making terms of employment across countries more transparent, is likely to accelerate this second process of virtual collective bargaining within Eurocompanies.

7 DISCUSSION QUESTIONS

1 To what extent are large, international companies developing distinctively European dimensions to their business operations, management structures and control systems?

2 In the way they are constituted and in their actual practice, are European Works Councils primarily international extensions of nationally based representative structures for employee information and consultation?

8 FURTHER READING

- **Lecher, W., Platzer, H-W., Rüb, S. and Weiner, K-P. (2001) *European Works Councils: Developments, Types, Networking*. Aldershot: Gower.**

A field-based study of European Works Councils in practice, which grounds differences in the role, influence and development trajectory of these novel transnational industrial relations structures in a robust actor-centred analytical framework.

- **Marginson, P. and Sisson, K. (1998) 'European Collective Bargaining: a Virtual Prospect?', *Journal of Common Market Studies* 36(4): 505–28.**

Considers European-level industrial relations developments within multinational companies alongside developments at the EU sector and inter-sector levels, and speculates on the future Europeanization of industrial relations at company level.

- **Whitley, R. and Kristensen, P. H. (eds) (1996) *The Changing European Firm: Limits to Convergence*. London: Routledge.**

A collection of essays which illustrates the variety of enterprise forms characteristic of different European countries, the extent to which specific enterprise forms cross national borders and the impact of internationalization on nationally characteristic forms of enterprise organization

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