

Management International Review

Marion Festing (Guest Editor)

Strategic Issues in International Human Resource Management

Heinrich v. Pierer

Managing a Global Player in the Age of Information

Arnold Picot

Management in Networked Environments: New Challenges

Peter J. Dowling

**Completing the Puzzle: Issues in the Development of the Field
of International Human Resource Management**

Chris Brewster

**Strategic Human Resource Management:
The Value of Different Paradigms**

Mark E. Mendenhall

**On the Need for Paradigmatic Integration in International Human
Resource Management**

Carolyn Erdener/Ingemar Torbiörn

**A Transaction Costs Perspective on International Staffing
Patterns: Implications for Firm Performance**

Marilyn S. Ferwick/Helen L. De Cieri/Denise E. Welch

**Cultural and Bureaucratic Control in MNEs:
The Role of Expatriate Performance Management**

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Wrona, Thomas

Globalization and Vertical Integration Strategies

Analyses – Empirical Results – Organizational Arrangements
(in German language)

1999, XXVI, 404 pages, Br., DM 168,00 (approx. US\$ 110.–)
ISBN 3-409-11498-X

Strategies to adapt to the globalization of markets are an important area of research within the field of international management.

Thomas Wrona investigates the effects of globalization on the degree of vertical integration with reference to the German textile industry. Newly developed and validated measurement models supply evidence for a firm-specific globalization concern. Several organizational arrangements

of vertical integration strategies are shown in detail within the book.

Globalization and Vertical Integration Strategies addresses lecturers and students of (international) management. Consultants and managers will receive valuable information about global adaptation.

Dr. Thomas Wrona is Senior Lecturer at the Organization & Planning Department at Essen University.

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Guest Editor's Introduction

The field of International Human Resource Management (IHRM) within its current dimensions poses new tasks and problems. Although this field has its roots in psychology, organization theory and business economics, research into the practical implementation of IHRM and theoretical development of this field has remained in its infancy for a long time. The objective of this special issue of Management International Review aims to progress the field of strategic issues in IHRM and to stimulate further discussion.

The papers have been selected from those presented at the Sixth Conference on International Human Resource Management which was held in Paderborn, Germany, in June 1998. The attendance of 250 participants at the conference is an indication of the growing interest in HR problems in an international context. Over 100 papers were submitted for the conference as well as for this special issue. Only a small number of papers have been selected for publication. This process of selecting papers most suitable for publication was very time consuming and would not have been completed in time without many experts in the field of IHRM who agreed to review papers. For their important contribution to the review process we would like to thank the following colleagues:

Iris Bäurle, Catholic University of Eichstätt (Germany), Wilfried Böhrer, University of Paderborn (Germany), John Boudreau, Cornell University (USA), Wolfgang Brandes, University of Paderborn (Germany), Chris Brewster, Cranfield University (UK), Michael Dowling, University of Regensburg (Germany), Peter J. Dowling, University of Tasmania (Australia), Eduard Gaugler, Emeritus Professor, University of Mannheim (Germany), Michael Gilroy, University of Paderborn (Germany), Paul Gooderham, Norwegian School of Economics and Business Administration (Norway), Yvonne Groening, University of Paderborn (Germany), Rüdiger Kabst, University of Paderborn (Germany), Albert Löhr, University of Nürnberg (Germany), Klaus Macharzina, University of Hohenheim (Germany), Wolfgang Mayrhofer, Vienna University of Economics and Business Administration (Austria), Reinhard Meckl, University of Regensburg (Germany), Mark Mendenhall, University of Tennessee (USA), Werner Nienhäuser, Univer-

sity of Essen (Germany), Odd Nordhaug, Norwegian School of Economics and Business Administration (Norway), Michael Poole, University of Wales (UK), Karl-Klaus Pullig, University of Paderborn (Germany), Max Ringlstetter, Catholic University of Eichstätt (Germany), Ewald Scherm, University of Hagen (Germany), Stefan Schmid, Catholic University of Eichstätt (Germany), Karl-Heinz Schmidt, University of Paderborn (Germany), Ursula Schneider, University of Graz (Austria), Wolfgang Weber, University of Paderborn (Germany) and Joachim Wolf, University of Hohenheim (Germany). For support in the organization of the review process the editor thanks Christopher Gramley.

The outcome of the review process was that 13 papers were selected for publication in two special issues which both address the field of international human resource management. There were many other very well-written and high quality papers but due to space limitations, the editors could not include more contributions. For those interested in the other papers of the IHRM-conference we recommend the conference proceedings which are available from the University of Paderborn (Email: MFesting@notes.uni-paderborn.de).

The selected papers can be related to three broad IHRM-approaches which are described below:

- *Cross-cultural management approach*: early work in this field (especially in Anglo-Saxon countries) emphasized a cross-cultural management approach which examines human behavior within organizations from an international perspective.
- *Comparative HRM*: A second approach developed from the comparative industrial relations and HRM literature seeks to describe, compare and analyse HRM systems in various countries.
- *HRM in multinational firms*: A third approach seeks to focus on aspects of HRM in multinational firms, especially expatriate management and HR in subsidiaries.

It is sometimes difficult to classify a paper as representative of one approach. For example, the distinction between the cross-cultural management approach and the comparative HRM approach can be very difficult because the methodology of describing typical issues in one country and comparing them to those of other countries is very similar. It is the unit of analysis which is different: In the first mentioned approach, culture is the focus of analysis while in the second approach the focus is on HRM practices. Papers which can be classified by the first two approaches have been published in Special Issue No. 2 (1998) of **Management International Review**. This special issue is focussing mainly on strategic aspects of IHRM and HRM practices in multinational enterprises.

While in 1986 André Laurent from INSEAD stated in a well recognized paper that the field of IHRM was still in its infancy, the papers selected for this issue show that important progress has been made. Two points may illustrate this proposition:

- 1) Research is no longer dominated by descriptive or normative orientations as theoretical approaches and explanations have become more important. Good theoretical explanations can help to generate helpful practical solutions.
- 2) Furthermore, research not only addresses the HRM function itself but is placed in a broader context. As Wright/McMahan (1992, p. 296) pointed out in their paper about strategic perspectives on HRM: "HRM issues are part of an open system, and research is theoretically bankrupt unless placed in the broader context of organizations."

Following this perspective, the papers in this issue include contextual factors such as globalization, information and communication technology, and country-specific differences as well as organizational performance and HRM measures in order to address strategic issues of IHRM.

The first two papers were opening addresses at the Sixth Conference on International Human Resource Management, one from the perspective of a German multinational and one from a more theoretical perspective involving the management of networks.

In his presentation, *Heinrich von Pierer*, President and CEO of Siemens AG, highlights the challenges of managing a global player in the age of information. The main question to be answered is which human resources strategies will ensure that a global player can succeed in tomorrow's challenging global environment? He identifies five points which are of strategic importance to Siemens: a) A living company is a learning company; b) Global teamwork is the key to developing and using all the potential of the company's human resources; c) Management has to be redefined to meet the challenges of globalization; d) Long-term growth and profitability depend on achieving a balance of interest; e) A climate of mutual respect is the basis of all relationships – within the company and with society. Critical to all of these points is that people are a company's greatest asset.

From a more theoretical perspective, *Arnold Picot*, Head of the Institute of Organization of the University of Munich, identifies new challenges of management in networked environments which may result from globalization. In a first step he identifies the potential of new information and communication technologies. As with Heinrich von Pierer, he also sees information and communication technology as a basis for new forms of work organization independent of location and time, as a prerequisite for teamoriented organizational forms, as a basis for knowledge management and as an opportunity to reduce coordination costs. He illustrates different forms of networked organizations and market structures by using a variety of company examples. New challenges for management and leadership are drawn from this analysis.

Both opening addresses show in different ways the implications globalization and the increased use of information and communication technology may have for the design of human resource strategies. The other papers in this issue aim at

furthering our understanding of the field of IHRM by using different theoretical, conceptual and empirical perspectives.

Peter J. Dowling examines and describes recent developments in the field of international human resource management. Thus, the paper gives an excellent overview of the state of the art in this field of research. The paper consists of three parts: first, the author develops a typology of various approaches taken to the study of IHRM. Then, he identifies variables which moderate differences between domestic and international HRM. In a third part, recent work in the area of strategic human resource management in multinational enterprises is presented. Considering the outlined developments in the field it can be stated that "the multidimensional puzzle at the crossroad of national and organizational cultures" outlined by Laurent in 1986, is being completed and that important progress has been achieved.

In his paper, *Chris Brewster* outlines the value of different paradigms in IHRM, the universalist and the contextual paradigm. The universalist paradigm centers on the argument that research involves using evidence to test generalizations. Thus, the purpose of SHRM would be to improve the way HR is managed within companies and to provide general rules that can be applied. In contrast, the contextual paradigm argues that explanation of difference is more important than firm performance. Both paradigms have strengths and weaknesses. Following the contextual paradigm, the author draws attention to the value of that approach in understanding current developments in SHRM in Europe. With this paper, Chris Brewster suggests a typology of IHRM approaches which is characterized by similarities to the one developed by Dowling in this issue.

Mark Mendenhall also identifies a need for paradigmatic integration in IHRM. He delineates the past and present influence of logical positivism, nonlinear dynamics, and hermeneutics on the IHRM subfield of expatriation. By utilizing the perspectives of the three paradigms together in an integrative fashion when constructing research designs or HR programs, the author identifies a potential for more effective outcomes of IHRM-research. This innovative approach to IHRM leads to new insights in this field of research, e.g. in the field of cross-cultural training as the author shows. The paper provides an excellent basis to understand the different paradigms and possible applications to IHRM.

Another theoretical approach is exploited by *Carolyn Erdener* and *Ingemar Torbiörn*. Their analysis extends the competence-based approach to human resources (HR) by linking transaction cost economics and strategic management to the analysis of HR practices in international firms. The authors develop a framework and apply it to the analysis of specific international staffing arrangements. The basic assumption of the paper is that staffing patterns may reduce cultural frictions and risk. This may help the firm to gain competitive advantage and improve performance. Thus, the focus is not on the causes but on the effects of staffing decisions. According to the authors, certain aspects of staffing have signifi-

cant implications for the cost structure of the firm. The proposed relationships are integrated in a model on HRM staffing patterns in international firms.

Marilyn S. Fenwick, Helen De Cieri and Denise E. Welch present a conceptual paper which examines the role of performance management in the development and maintenance of cultural control in multinational enterprises. In common with Erdener and Torbiörn, the authors also identify a connection between HRM activities and firm performance. A framework using different theoretical perspectives is developed depicting key dimensions of control in the MNE performance management context to illustrate the linking of the individual and organizational interface with achievement of desired outputs. The framework proposes an ongoing socialization role for performance management in MNEs.

Michael Müller discusses the convergence thesis in the area of human resource management. In his paper, he shows the results of an empirical study based on 25 case studies of German-, British- and US-owned banks and chemical firms operating in Germany. Thus, the meaning of the different research paradigms identified in the paper by Chris Brewster in this issue is addressed. The key result is that most firms in the sample largely comply with German labor market institutions. Pivotal HRM elements such as an extensive training and employment security are favoured by the German institutional environment. It exerts pressures to adopt a pluralist approach to HRM. Far from supporting convergence thinking, the German example supports a diversity theory.

As the Guest Editor, I believe that the theoretical, conceptual, and empirical contributions in this special issue have not only shown a qualitative progress in the area of IHRM, but I sincerely hope that this collection of papers will also stimulate further discussion. Following Mark Mendenhall's conclusion, I hope that the competing paradigms and theoretical frameworks identified in the different papers will act as independent aids to achieve a more complete understanding of IHRM and especially of strategic issues in IHRM.

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Hein, Silvia Michaela

International Transfers of Managers

Strategies – Configurations – Success
(in German language)

1999, XVIII, 310 pages, Br., DM 158,00 (approx. US \$ 105.–)
ISBN 3-409-11517-X

German foreign direct investment has been increasing considerable in recent years and thus the necessity of sending managerial staff abroad. Especially high failure quotas have been the reason for increasing interest in this subject.

This dissertation tries to identify typical factors for success or failure by using cluster analysis. Thus, it en-

ables to draw theoretical conclusions concerning success of managerial staff sent abroad.

Ms. Silvia Hein is assistant professor at the Chair of Business Administration and International Management focusing on European Management, Otto-Friedrich University Bamberg.

Heinrich v. Pierer

Managing a Global Player in the Age of Information

Abstract

- The challenges of managing a global player in the age of information are analyzed. The main question to be answered is which human resource strategies will ensure that a global player can succeed in tomorrow's challenging global environment.

Key Results

- Five points are identified which are of strategic importance to Siemens, i.e. global team work is the key to developing and using all the potential of the company's human resources. Critical to all of these points is that people are a company's greatest asset.

Author

Dr. Heinrich v. Pierer, President and Chief Executive Officer, Siemens AG, Munich, Germany.

Opening Address to the Sixth Conference on International Human Resource Management, University of Paderborn, June 23, 1998.

Ladies and gentlemen:

It's a great pleasure to speak here today – and an honor for me, particularly since I'm *not* an expert in the field of human resources. Don't worry though – I will follow the advice of Lord Brabazon who wisely said:

"If you cannot say what you have to say in some thirty minutes, you should go home and write a book about it!"

What I can do today is share with you some personal HR observations which I have made while running a multinational company. Firing intellectual guns, as Professor Weber just said – although this may be a bit exaggerated.

But first of all, let me also welcome all of our international guests to Germany. Although my company sells all sorts of fantastic communications and information technology, I *still* prefer getting together like this for a personal exchange of ideas.

The Chinese say: "*Seeing something once is better than hearing about it a hundred times.*"

While you are here, I hope you will see that many of the reports questioning Germany's competitiveness are quite exaggerated. The facts are: Germany has one of the world's best trained and educated workforces. The country's infrastructures are world class. There is a constructive social climate without major conflicts. Germany offers the best platform for doing business in Central and Eastern Europe. And it has proven time and again that it can *adapt* and *thrive*. Germany – and Europe – will obviously remain a vital part of our global network at Siemens. And the advent of the euro will further underscore the region's importance.

* * *

Ladies and gentlemen:

Someone – probably a human resources professional – once stated:

"Whatever the quality of a company's assets or business, in the final analysis, what counts is people."

I am sure this message will be repeated in many variations at this conference. Without any doubt: *People are a company's greatest asset*. And managing this asset successfully over the long term is perhaps the single greatest challenge facing companies today.

The global business environment is undergoing profound changes – changes which may prove as revolutionary as the invention of the steam engine. Markets around the world are being deregulated and liberalized, reshaped and integrated. Globalization is radically transforming the nature of competition. Secure home markets and national champions are now history. Information and communica-

tion technologies are creating a totally networked, interfaced world. For the first time in history, the vision of a global village is nearing reality.

Siemens is one of the few *true* global players in this new world. Today we have over 400,000 employees working in 190 countries. More than 200,000 of our people – over half of our workforce – work outside Germany. We generate 70% of our sales in international markets – and the share is climbing. We manufacture, do research and development, purchase supplies, train employees, and partner with customers in many countries around the world.

Today the nature of value added is changing radically. Only a few years ago, business at Siemens used to be dominated by production. Today, software, engineering, and services are the backbone of our business – and the key to success. They already comprise over 50% of our value added – and the share is steadily growing.

In this changing environment, the management of human resources plays an ever greater role. As we all know, a company can only be as good as its people. Companies are in fact communities – living entities that must be nurtured, guided, motivated and protected. They must grow, thrive, benefit others – and survive from generation to generation.

Siemens has proven it can be done. We celebrated our 150th anniversary last year as one of the world's oldest industrial companies. It was a perfect occasion to analyze the enduring qualities that helped us survive so long – and identify what we must have to succeed in the future.

Our central question was:

Which human resources strategies will ensure that our people – and our company – can succeed in tomorrow's challenging global environment?

Our answers can be summed up in five points:

First: A Living Company is a Learning Company

Learning must be an ongoing process in our corporate culture. I think Mark Twain offers a perfect definition of life-long learning in his book *Life on the Mississippi*. He wrote:

“Two things seemed pretty apparent to me. One was – that in order to be a Mississippi River pilot – a man has got to learn more than any one man ought to be allowed to know. The other was that he must learn it all over again in a different way every 24 hours.”

Like Twain's Mississippi, the business world is a flowing, constantly shifting environment. To navigate our company successfully in these uncharted waters, we must relearn in *new ways* every single day.

Learning has to be focused. We must *learn from the best* within our company as well as from those outside it – from our most demanding customers, our toughest competitors, from leaders in other industries. Benchmarking, best-practice, best-in-class are the key to survival.

To become the benchmark for others – our goal – we must seek excellence in everything we do. And what is excellence? I like this definition best of all:

“Excellence demands that you be better than yourself.”

Professional learning begins with vocational training. Germany’s proven *dual system* combining theoretical instruction with hands-on training is so successful that we are using it around the world. In the United States the program is off to a great start, and has won praise from all the communities involved and from President Clinton. We have also launched the program in China, and now have over 100 young apprentices. And that’s only the beginning.

Every year, thousands of young people around the world complete training programs at Siemens, equipped with skills that meet today’s market needs – and tomorrow’s. One of our initiatives is to design new job profiles, especially in the field of communications and information technology. We know that jobs will more and more cut across many disciplines. Technical trainees need a background in management, while management trainees need schooling in technology. The goal here is job mobility.

Learning also centers on continuing education. The incredible pace of technical developments and the constantly changing face of our business world require that each of us – like Mark Twain – learn, relearn, and relearn again. Put simply:

“It’s what you learn after you know it all, that counts!”

This is also the key to employability. We must train and educate our people so they always keep up with market needs, wherever they work. The concept of employability is the best answer to the end of guaranteed lifetime jobs.

Learning also means *learning from one’s mistakes*. I recall a nice story on this theme about Thomas Watson, the founder of IBM. One of his vice presidents developed a product. It was a risky venture that ended up a huge failure, costing the company ten million dollars. Watson called the man into his office. Certain he was going to lose his job, the man asked nervously:

“I guess you want my resignation?”

Watson replied,

“You must be kidding! We’ve just spent ten million dollars educating you!”

No one likes to pay for mistakes. But they are part of gaining hands-on experience. Mistakes also happen when people take risks – and exposure to risk is ex-

posure to heavy-duty learning. I like the image of the turtle:

It makes progress only when it sticks out its neck.

My Second Point is: Global Teamwork is the Key to Developing and Using all the Potential of Our Human Resources

Henry Ford expressed it nicely:

“Coming together is a beginning; keeping together is progress; working together is success.”

Today it isn't enough to work for the same company, or even beneath the same roof or on the same floor. Teamwork means breaking down all traditional barriers within the corporate world.

We must learn to work across divisions, across disciplines, across regions. This means understanding the whole process, not just bits and pieces.

Teamwork has another dimension. It is the close interfacing with customers and business partners at *every stage* of the value-added process to ensure we provide maximum benefit.

Globalization has accelerated the worldwide distribution of value added. Today, local value added and local content are a *must* to win – and keep – local customers. Orders are often tied to demands for local commitments: move in and settle, or get out. This calls for direct investments. Move in, settle, build factories, hire local, buy local.

New forms of doing business are gaining importance. Today a company often has to move in, settle, *finance* a project, *operate* it as a type of long-term payment, and then turn it over to the customer. Local presence has been transformed from sales offices to complete local companies offering a full spectrum of activities. These activities may include everything from vocational and management training, to research and development. In short: many of our local companies now do everything once done *only* in Germany.

As we decentralize our activities, we are also decentralizing responsibility. For us, local commitment means local management. This, in turn, means training and developing our people for positions of responsibility. In China, for example, we have about 17,000 employees – and only 200 Germans to provide technology transfers and training. We have opened a Management Institute in Beijing to help shift responsibility to locals.

All this is part of our strategy to build up our global value-added *network*. Ultimately, where a specific task is done in this network depends on the best available know-how, optimal market access, capacity, and – of course – the lowest costs. This flexible, interactive network allows us to optimize resources and combine the best of what the world offers.

Global teamwork requires people who are networked in two senses. First, in the physical sense through *telecommunications* – such as e-mail, the Internet, and our worldwide intranet.

The *virtual company* is certainly not far off. We already have globalized projects, with teams in India instantly linked with partners in Germany, the US or Brazil. Time and space are taking on a new meaning: our people can literally work around the clock, achieving new levels of creativity and efficiency. In a film celebrating Siemens' anniversary last year, we showed a fascinating cyberspace conference of company experts from every part of the globe. It may still be science fiction, but I bet this vision is well on the way to becoming reality.

The second form of worldwide networking and teamwork is *mental*. I am talking about the ability of our employees and managers to think, to feel, and to act in close cooperation. After all, colleagues who work together in the same office or thousands of kilometers apart must have the same basic orientation, the same values, and the same *forms* of communication. Being on the same wavelength is the key to speeding up all processes within the company.

To optimize our global teamwork, we need a strong, unifying corporate identity, a common set of values, mutual goals, and common structures. Our people must have the feeling of belonging. They must be more than an employee of a subsidiary in Argentina or Malaysia: they must be part of a *global family*. Our human resources people are shaping this global family identity in all our locations worldwide.

Global presence requires constant global contact. Every few years we hold the Siemens Conference attended by more than two thousand company managers from around the world. Once a year our corporate management gets together with the heads of all our national companies. Our regional managers hold frequent conferences. And every year, our Corporate Executive Committee meets in a foreign country to assess the regional situation at first hand. This year, for example, we were in São Paulo to focus on South America.

The internationalization of our management has high priority. We are pushing the international experience of managers down to ever lower levels, and making cross-border, cross-cultural experience a must for career advances. We know that cultural diversity strengthens our team.

I strongly feel that international experience is not a one-way street. We eagerly send our German staff around the world. But we also expect our international managers to experience Germany.

They must have a taste of Germany's culture, language, and business practices. They should understand the legal business framework in Germany. Co-determination, for example. It may be problematic at times, but it is a balancing factor that can be quite effective if handled properly.

My Third Point: Management has to be Redefined to Meet the Challenges of Globalization

Globalization is radically changing the character of management. As markets open and the world gets smaller, traditional local business practices and attitudes are being mixed with new ideas.

Nothing stays the same. Yet a global player must have a common culture, common values, instruments and rules. At Siemens, we have put in place a state-of-the-art system of human resources instruments to ensure a strong sense of identity and uniformity throughout the world.

- A clearly formulated set of corporate principles defines the philosophy that guides our thoughts and actions.
- Regular strategic performance assessments encourage each employee to develop his or her potential.
- The Siemens Leadership Framework makes our managerial functions more transparent, and focuses on creating value.
- And our management dialogue process provides regular feedback from the bottom to the top to let our managers know how they are doing – and how they can improve.

Internal systems and processes provide unity in a global organization. But global players grow – and growth often involves acquiring foreign companies, or setting up joint ventures. Here we find that corporate cultures often differ quite a bit.

The American custom of generous stock options is a typical example. What do you do when compensation for the same job is ten or twenty times higher on one side of the Atlantic than on the other? Which corporate culture prevails? Questions like this come up all the time as companies expand beyond their traditional borders. Solving them requires a new breed of global manager.

Fourth: Long-term Growth and Profitability Depend on Achieving a Balance of Interests

For years now, attention has focused on building shareholder value. Without any doubt, profits are the *lifeblood* of companies. Only high profits enable companies to finance their own growth. And naturally shareholders also expect their investment to earn high interest. There is a global yardstick in this respect, and capital markets are also global. We at Siemens know that we have to improve further to meet this yardstick.

But it would be unnatural and harmful to concentrate only on shareholder value and ignore the overall picture. Profits must be seen as part of a carefully

balanced equation of interests. Each part of this equation must be weighed and watched to keep a company healthy.

The equation really is simple. We know we can be profitable only with creative, satisfied, and highly motivated people. In turn, our people will be dedicated to the company only if we can offer them interesting jobs with potential. And this, of course, is possible only if we remain profitable and healthy.

The circle is complete. And the message is clear: we can grow and thrive only *with* the help of our people, and never *against* them.

Keeping this equation balanced is never an easy job. But I think it is the only way to build for the future.

Perhaps my feelings about balancing interests are so strong because of our company's traditions. Werner von Siemens knew that *good people are the foundation for success*. All his life, he took great care to foster a deep sense of loyalty, trust, motivation, and inspiration among his employees. This philosophy is reflected by a comment he made over one hundred years ago: "*I won't sell the future for a quick buck.*" Instead of maximizing the family fortune, he invested in his people.

There is another way to build for the future: invest in youth. We work closely with local universities and institutions around the world, supporting and training promising young talent. Again, our focus is on *people*. We know that our future depends on having skilled, motivated, creative and contented employees.

My Last, and Fifth Point: A Climate of Mutual Respect is the Basis of all Our Relationships – Within the Company and With Society

Our job is to foster a climate of *respect* for the individual. In a company like Siemens, the wealth of nationalities, cultures, languages, and outlooks represented by our people is one of our most invaluable assets. This great diversity demands openness, transparency, and fairness in the way we deal with one another. We must be a multinational in *spirit and deed*, as well as in name.

Respect has another dimension as well. We must be respected as a *good corporate citizen* wherever we operate. This means that each and every one of our employees – no matter where he or she lives – must honor the code of ethics embedded in our corporate culture. It is a code that ultimately stands behind our good company name.

Our job is to see that our people know these values and live and work in a way consistent with them.

* * *

Ladies and gentlemen:

Of all the people in a company, I think HR managers may have the most secure jobs. Technologies may come and go. Companies may go global. The very way business is done could change radically. Jobs could be completely redefined by trends like teleworking.

Yet whatever the changes, and however radical they may be – companies will always be based on *people*. And they will always need people who can *lead* people with great skill, care, insight, and dedication.

Let me wish all of you an enjoyable and productive conference. May you be inspired to find what you are seeking and what companies around the world need – effective human resources strategies designed to master the challenges of the 21st century.

mir New Publication

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Urban, Sabine/Nanopoulos, Constantin (Eds.)

Information and Management

Utilization of Technology – Structural and Cultural Impact

(in English language)

1998, 242 pages, DM 78,-
ISBN 3-409-12264-8

In the seventies, futurologists were predicting the arrival of the information society, seen as a revolution from a technological, economic, social and cultural point of view. Reality has shown that these predictions have been surpassed, bringing about profound changes, in particular concerning the evolution of markets, the management of organizations, training and education systems as well as in ethical and social norms.

“Information and Management” presents fundamental contributions to this subject by renowned academics from six EU countries.

It focuses attention on the following aspects:

- Information and Management
- Future Changes in Statistical Record Keeping
- Impact of New Information and Communication Technologies on Management Control Systems
- Information Utilization by Exporting Firms
- Economic Integration Effects on Market Structure

Students and professors of business administration, research centers and public organizations gain a critical and comparative vision of the European reality in the field of information and communication systems.

Arnold Picot

Management in Networked Environments: New Challenges

Abstract

- The author identifies new challenges of management in networked environments which may result from globalization.

Key Results

- Information and communication technology is seen as the basis for new forms of work organization.
- Different forms of networked organizations and market structures are illustrated by using a variety of company examples.

Author

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Opening Address to the Sixth Conference on International Human Resource Management, Paderborn/Germany, 23. June 1998.

Classical organizational and management concepts, although proven effective in industrial companies, are not unconditionally applicable in increasingly global, networked economic structures. Recent developments in information and communication technology promote organizational forms which are characterized by modularization of value chains, cooperation networks, forms of work independent of location and time, and an increasing virtualization of markets displaying "online response". These new organizational forms confront managers and leaders with new challenges, which are the focus of this article.

Following a short overview of the potentials of new information and communication technologies, several current examples of networked company and market structures will be shown and the resulting new challenges for managing in networked environments will be discussed.

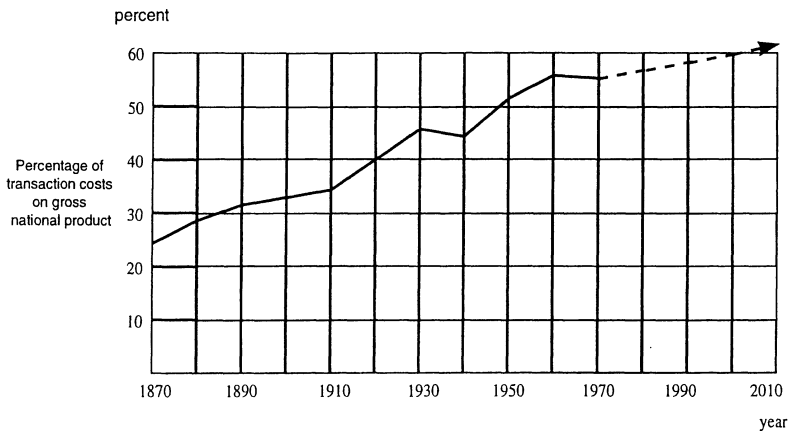
Potentials of New Information and Communication Technologies

New developments in information and communication technology have brought about enormous performance increases coupled with steady improvement in price-performance ratios, increasing technical integration and miniaturization, and worldwide de-facto standardization. These positive trends continually provide new possibilities for more direct and smoother information exchange, communication, and the organization and management of division of labor, which are increasingly taken advantage of in the business and private sector. Here are a few examples indicating the considerable potentials and chances of new information and communication technologies (see Picot 1998):

- Simultaneous exploitation of process and function specialization;
- Basis for team oriented organizational forms;
- Basis for forms of work organization independent of location and time, for example, telecooperation and telework;
- Basis for knowledge management independent of location and time;
- Reduction of coordination and transaction costs; for example, the costs for a three-minute telephone call from New York to London have diminished from \$300 in 1930 to practically nothing today.

The reduction of coordination and transaction costs is a very relevant aspect of new information and communication technologies. Keep in mind that more than half of the national income in developed industrial societies is spent on activities in the fields of information and communication for the purpose of organizing the division of labor within and between companies and households, meaning for transaction costs (Figure 1). The increase in the transaction cost percentage of

Figure 1. Percentage of transaction costs on gross national product (example USA) (Wallis/North 1986, p. 121)



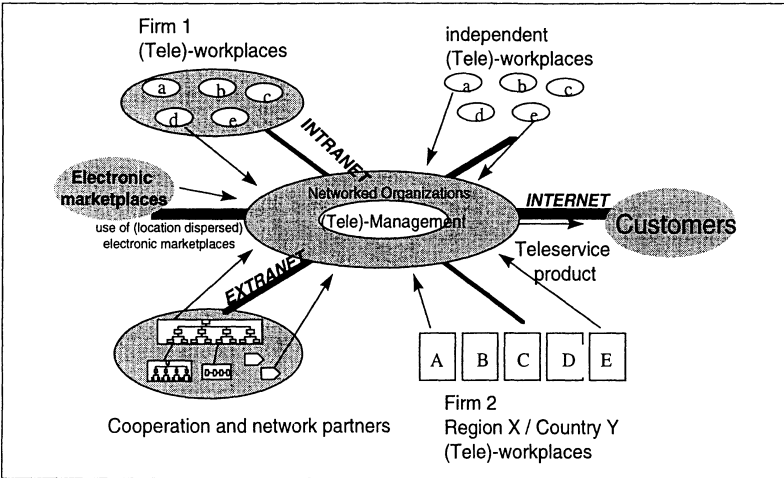
gross national product has possibly already passed the 60% mark in developed economies.

Networked Organizations and Market Structures

Investments in information and communication technologies within a company and in markets reduce the transaction and coordination costs, allowing new configuration in the division of labor. These new forms provide solutions for the division of labor within and between companies which promote increased performance and are more efficient than traditional forms of division of labor. They lead to less dependence upon space and time – a phenomenon known as virtualization – and consequently support the tendency of transforming a company's internal coordination into more market oriented structures, as well as increased integration of traditional market coordination forms. Such transformations lead to boundless, virtual companies, composed of networked modules in the form of companies, business units, teams, and individual workplaces, with each module being able to perform its assigned tasks in the best possible manner (Figure 2).

There are currently a multitude of examples for such company and market structures. There is a large spectrum of telework, ranging from the classical telework taking place in private homes, to neighborhood and satellite offices, to alternating telework, even to location independent mobile telework (Reichwald/

Figure 2. Networked organization structures (Picot/Neuburger 1997)



Möslein/Sachenbacher/Englberger/Oldenburg 1998). Just a few examples: software production for German and American companies in India; the processing of insurance claims, medical, hospital and pharmaceutical bills in Ireland by American companies; BMW designers teleworking; virtual call-centers; order-taking in private households for large mail order houses; the organization and preparation of conventions by teleworkers in German convention planning companies. Exemplary for mobile telework is the countless number of outside sales and service representatives and also the mobile construction site manager, who, independent of location, coordinates the teamwork between architects, contractors and craftsmen.

Further developments identify the shift to networked companies and market structures:

The number of location independent cooperation and network strategies between companies is increasing. Networks and symbiosis evolve, displaying a wide variety of characteristics, depending on the original design. Supplier hierarchies in the automobile industry made possible through extranets, project groups, and service networks are examples. An actual example of the increased use of networks between manufacturer, retailer, and consumer is the approach known as Efficient Consumer Response. This approach is supported by a variety of concepts and techniques (for example, information integration and networks) and allows for a smooth, timely, and demand oriented flow of products between supplier, shipper, retailer, and consumer. Rationalization potential is considerable and can reach 90% at the level of process costs.

Networks and location independency consequently lead to virtual organizations, which are no longer theory, but can easily be found in the real business world. Well-known examples are the Personnel Consultants NEWPLAN, providing the necessary administrative infrastructure for small businesses, EUREGIO, combining several legally independent companies into a company pool, which can be configured into a virtual factory for a predetermined period of time, or the textile company PUMA (see Mertens/Faisst 1997).

Through the shifting of performance exchange and transactions into the information sphere, physical processes are substituted or tightly linked with virtual processes. Especially in the Internet, electronic markets are continually evolving for products like services, information, floppy disks, software, books, etc., creating possibilities for teleshopping and electronic commerce. Famous examples are Dell, reporting daily online sales of over \$100 million; Cisco Systems (market leader for hardware in the field of Internet-networks), selling products worth about \$ 2 billion in 1997; the TPN-register, an Internet-based auction system to which 800 suppliers as well as 20 large and 1400 small and middle sized companies are linked, through which savings of \$500 million to \$700 million are expected over the next three years; or the legendary example Amazon, which has developed into the world's largest bookseller (see for example Achingner 1997).

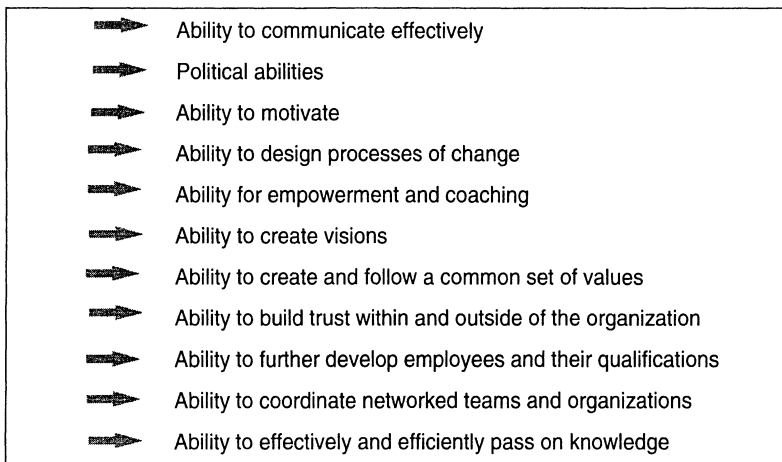
New Challenges for Management

New information and communication technologies, as well as the resulting developments such as networks, virtualization, location independency, and electronic markets, provide management with new challenges. Two countercurrent tendencies are the basis for a new type of management dilemma, which challenges management in networked environments:

- an increase in decentralized freedom of action
- an increase in the possibility of performance measurement and centralized control

On account of reduced management presence, networks and location independency allow for less observation and evaluation of employee and partner activities, clearly imaginable in the above-mentioned forms of telework, virtual teams, or telecooperation. The trend towards the management concept known as "management by wire" (Haackel/Nolan 1993) is easily detectable in the business world. Permanent feedback from the field (for example, short term sales data and forecasts) automatically activate the current production and delivery to the market. Two examples are the distribution system of Ms. Field's Cookies and Point-of-

Figure 3. Networked organizational structures and abilities of managers and leaders



Sale system at the retail level, which are supported by data collected by using scanner registers. Networks and location independency also experience fluctuating partnerships in teams that require flexible cooperation with a variety of cultures. It is obvious that controlling and management must adapt existing structures to these developments. In applying the Principal-Agent-Theory by comparing the networked organization to the classical company structure, the agent's level of influence on results is higher, the observability of the agent's activities by the principal is reduced. Decentralized freedom of action is created in a networked organization, requiring indirect, result-oriented management methods, the development of appropriate incentive systems which consider intrinsic and extrinsic incentives, a strengthening of entrepreneurial abilities and a scope of action for employees at all levels through the right measures of personnel development, more self-controlling, as well as leadership through values and trust. These methods require a variety of abilities from managers and leaders, the most important listed in Figure 3.

A further relevant management task is the adaptation of the methods for the management of knowledge and information with a networked environment. One management requirement for a flexible network of employees, teams, business units, or companies is knowing which competencies are available, where they currently are or possibly being developed, and where the competencies are needed. For example, the shoe manufacturer Nike no longer knows "how to" manufacture shoes, but rather, which manufacturer has the necessary knowledge and how they can be integrated into Nike's virtual company. The development of an appropriate knowledge management system is a necessity and the role of information man-

agement within organizations is continually changing. In comparison to classical organizational structures, problems can arise between the centralized and the decentralized information management tasks assigned to the individual participating partners and modules. In this case, the most sensible form of division of labor is one in which each involved partner is decentrally responsible for tasks of information management relevant to his module and in which a centralized information management unit is responsible for the realization of a frictionless exchange of information and data between the participating modules. In this form of division of labor, information management transforms into a coordination instrument: the scope of tasks is clearly decentralized, but at the same time, is related to inter-module relationships.

An important coordination instrument for successful networked organizational structures is trust (Sydow 1996, Ripperger 1998). Networked organizational structures are highly dependent upon trust, because internal and external cooperations cannot be defined through complete contracts - and, as stated above - decentralized freedom of action is created. At the same time, due to less face-to-face contact, networked structures hinder the building of trust. A dilemma of trust evolves (see Sydow 1996): On the one hand, cooperation in networked organizations requires trust, on the other hand, building trust in networked organizations is difficult. The consequent building up of trusting relationships plays a very important role. Institutions are necessary which guarantee the functionality of trust mechanisms and can be used along with explicit contracts. The design of institutional frameworks for virtual organizational forms must take place in a manner so that reputation mechanisms can be effective and through which third parties have incentives to follow through with sanctions against network parties which choose to break the trust. Values which support trust or "trust rules" can also evolve implicitly.

New information and communication technologies, networks, virtualization, and location independency allow decentralized freedom of action, requiring methods of indirect management. Simultaneously, these technologies and structures provide new methods for the direct supervision and control of processes and employees, clearly seen in the following examples: Transportation companies monitor their employees through satellite systems and mobile technology; decentralized workplaces, for example sales representatives, are monitored through central software administration; customer information on customer cards and credit cards can be analyzed; telephone calls and mailboxes at call centers, telehome-work, and mobile telework can be easily intercepted; electronic mail can be screened at every workplace (according to a study by the American Management Association, every third company in the USA screens its employees' electronic mail); special control software is available for the evaluation of company protocol data and similar software can be used for breaking passwords. All of these examples clearly illustrate one management task which is gaining in importance: The search for a human and efficiency oriented compromise between the allow-

ance of decentralized freedom of action and the application of information and communication technology as instruments of control. Management now finds itself in the difficult situation between "big brother" and trust.

On the one hand, new information and communication technologies and networked structures provide sophisticated technical possibilities for control along with decreasing monitoring costs. Where mistrust, hierarchical management philosophies, the danger of opportunistic abuse of decentralized freedom of action and increasing pressure to reduce costs prevail, new technologies and structures support the tendency towards direct control.

On the other hand, they allow decentralized freedom of action, which leads to an increasing result orientation instead of task orientation, in turn increasing individual responsibility, employee independence, and personnel qualifications. Management methods such as Management by Objectives or Management by Wire replace the tayloristic values, supporting the tendency towards indirect management.

It is necessary for management to succeed in the humane, efficiency oriented integration of indirect management methods with direct control methods, depending upon the related task, incentive systems, participating personalities, corporate culture, etc. and to survive in these networked structures. It will then be likely that networked company and market structures as future innovative organizational forms can be successfully managed on the basis of new information and communication technologies.

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Peter J. Dowling

Completing the Puzzle: Issues in the Development of the Field of International Human Resource Management

Abstract

- The aim of this paper is to examine developments in the field of IHRM. Three issues are examined: first, the various approaches which have been taken to the study of IHRM; second, the variables which moderate differences between domestic and international HRM; and third, recent work which examines the topic of strategic human resource management in multinational enterprises (MNEs).

Key Results

- It is essential to identify the approach which a researcher is taking to the subject as the approach taken influences what is defined as IHRM.
- A model is offered which summarises five variables which moderate differences between domestic and international HRM.
- The model offered by De Cieri/Dowling (forthcoming) aims to assist in the cross-fertilization of ideas to further develop theory and empirical research in strategic HRM in multinational firms.

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Keynote Address to the Sixth International Human Resource Management Conference, Paderborn, Germany, June 1998

Writing in the mid-1980s on the state of the field of International Human Resource Management (IHRM), Laurent (1986) concluded that “the challenge faced by the infant field of international human resource management is to solve a multidimensional puzzle located at the crossroad of national and organizational cultures” (p. 101). The aim of this paper is to examine developments in the field of IHRM and to see if any progress has been made towards completing the puzzle noted by Laurent. In doing so this paper will draw on work which has been completed over the last ten years with a number of colleagues – initially with Randall Schuler (New York University) and more recently with Helen De Cieri (University of Melbourne), Denice Welch (Norwegian School of Management), Marion Festing and Wolfgang Weber (University of Paderborn).¹ Specifically, three issues are examined: first, the various approaches which have been taken to the study of IHRM; second, the variables which moderate differences between domestic and international HRM; and third, recent work which examines the topic of strategic human resource management in multinational enterprises (MNEs).

Approaches to International HRM

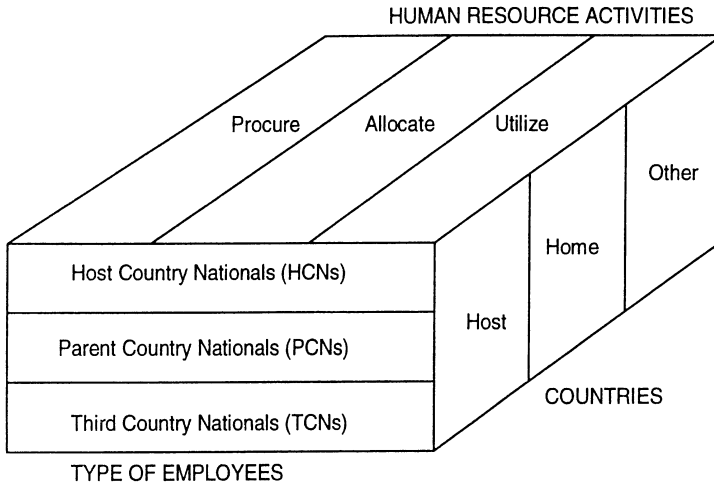
The field of international HRM has been characterized by three broad approaches.² Early work in this field emphasized a cross-cultural management approach and examines human behavior within organizations from an international perspective (Adler 1997, Phatak 1997). A second approach developed from the comparative industrial relations and HRM literature seeks to describe, compare and analyze HRM systems in various countries (see for example, Brewster/Hegewisch 1994). A third approach seeks to focus on aspects of HRM in multinational firms (see for example, Dowling/Welch/Schuler 1999).

The approach taken by the author and his colleagues reflects the third approach and our objective has been to explore the implications that the process of internationalization has for the activities and policies of HRM. In particular, we are interested in how HRM is practised in multinationals.

Each approach takes a somewhat different view of IHRM and in my view it is essential to identify the approach which a researcher is taking to the subject as the approach taken influences what is defined as IHRM. One only has to look at the diversity in the program at the various International HRM conferences to see that there are multiple definitions of what constitutes international HRM.

Defining International HRM from the Perspective of a Multinational Firm

Before offering a definition of international HRM, we should first define the general field of HRM. Typically, HRM refers to those activities undertaken by an or-

Figure 1. Model of International HRM

Source: Adapted from P. V. Morgan, *International Human Resource Management: Fact of fiction*, *Personnel Administrator*, 31, 9, 1986, p. 44

ganization to effectively utilize its human resources. These activities would include at least the following:

- Human resource planning
- Staffing
- Performance management
- Training and development
- Compensation and Benefits
- Labor relations

We can now consider the question of which activities change when HRM goes international. A paper by Morgan (1986) on the development of international HRM is helpful in considering this question. He presents a model of international HRM (shown in Figure 1) that consists of three dimensions:

1. The three broad human resource activities of procurement, allocation, and utilization. (These three broad activities can be easily expanded into the six HR activities listed above).
2. The three national or country categories involved in international HRM activities: (1) the host-country where a subsidiary may be located, (2) the home-country where the firm is headquartered, and (3) “other” countries that may be the source of labor or finance.

3. The three types of employees of an international firm: (1) host-country nationals (HCNs), (2) parent-country nationals (PCNs), and (3) third-country nationals (TCNs).³ Thus, for example, IBM employs Australian citizens (HCNs) in its Australian operations, often sends U.S. citizens (PCNs) to Asia-Pacific countries on assignment, and may send some of its Singaporean employees on an assignment to its Japanese operations (as TCNs).

Morgan defines international HRM as the interplay among these three dimensions – human resource activities, types of employees, and countries of operation. We can see that in broad terms international HRM involves the same activities as domestic HRM: (e.g. procurement refers to HR planning and staffing). However, domestic HRM is involved with employees within only *one national boundary*.

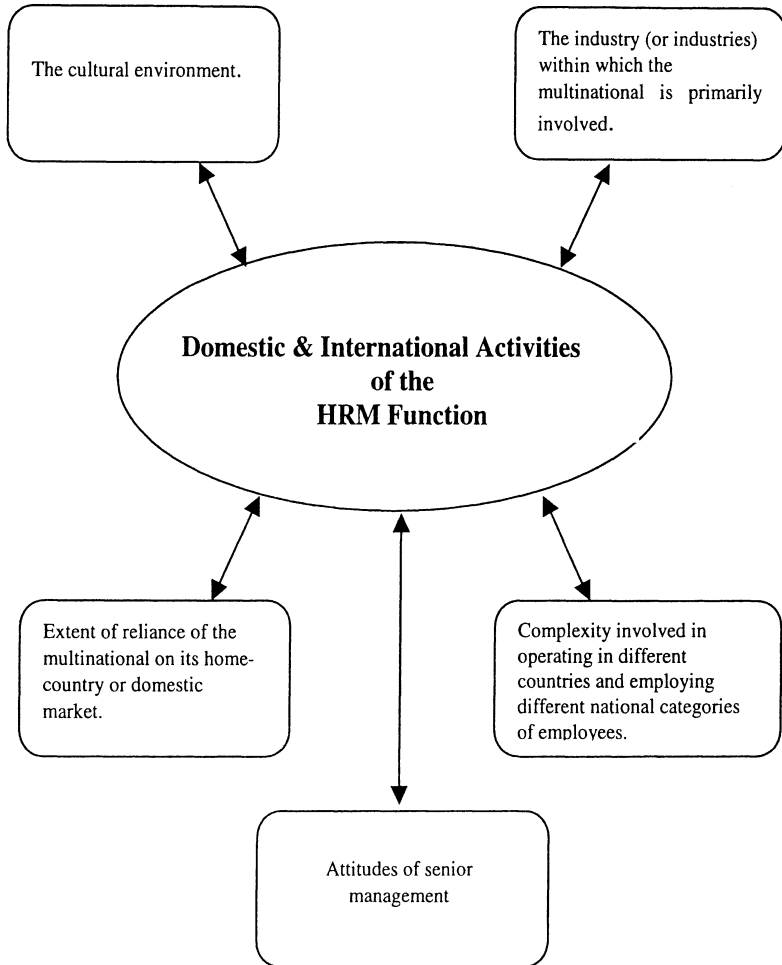
In this paper it is argued that the *complexities of operating in different countries and employing different national categories of workers* is a key variable that differentiates domestic and international HRM, rather than any major differences between the HRM activities performed. Many firms underestimate the complexities involved in international operations, and there is some evidence to suggest that business failures in the international arena may often be linked to poor management of human resources (Desatnick/Bennett 1978).

Increasingly, domestic HRM is taking on some of the flavor of international HRM as it deals more and more with a multicultural workforce. Thus, some of the current focus of domestic HRM on issues of managing workforce diversity may prove to be beneficial to the practice of international HRM. However, it must be remembered that management of diversity within a single national context may not necessarily transfer to a multinational context without some modification. This leads to the second issue examined in this paper, the variables that moderate differences between domestic and international HRM.

Variables that Moderate Differences between Domestic and International HRM

In our discussion so far, we have argued that the *complexity involved in operating in different countries and employing different national categories of employees* is a key variable that differentiates domestic and international HRM, rather than any major differences between the HRM activities performed. In addition to complexity, there are four other variables that moderate (that is, either diminish or accentuate) differences between domestic and international HRM. These variables (shown in Figure 2) are the *cultural environment*; the *industry (or industries) with which the multinational is primarily involved*; the *extent of reliance of the multinational on its home-country domestic market*; and the *attitudes of sen-*

Figure 2. Variables that Moderate Differences Between Domestic and International HRM



ior management. These four additional variables are discussed in this section of the paper.

The Cultural Environment

There are many definitions of *culture*, but the term is usually used to describe a shaping process. That is, members of a group or society share a distinct way of

life with common values, attitudes, and behaviors that are transmitted over time in a gradual, yet dynamic, process. As Phatak (1995) explains:

A person is not born with a given culture: rather she or he acquires it through the socialization process that begins at birth: an American is not born with a liking for hot dogs, or a German with a natural preference for beer: these behavioral attributes are culturally transmitted. (p. 48)

An important characteristic of culture is that it is so subtle a process that one is not always conscious of its effect on values, attitudes, and behaviors. One usually has to be confronted with a different culture in order to fully appreciate this effect. Anyone travelling abroad, either as a tourist or businessperson, experiences situations that demonstrate cultural differences in language, food, dress, hygiene, and attitude to time. While the traveler can perceive these differences as novel, even enjoyable, for people required to live and work in a new country, such differences can prove difficult. They experience *culture shock* — a phenomenon experienced by people who move across cultures. The new environment requires many adjustments in a relatively short period of time, challenging people's frames of reference to such an extent that their sense of self, especially in terms of nationality, comes into question. People, in effect, experience a shock reaction to new cultural experiences that cause psychological disorientation because they misunderstand or do not recognize important cues. Culture shock can lead to negative feelings about the host country and its people and a longing to return home (Harris/Moran 1979).

Because international business involves the interaction and movement of people across national boundaries, an appreciation of cultural differences and when these differences are important is essential. Research into these aspects has assisted in furthering our understanding of the cultural environment as an important variable that moderates differences between domestic and international HRM. However, while cross-cultural and comparative research attempts to explore and explain similarities and differences, there are problems associated with such research. A major problem is that there is little agreement on either an exact definition of culture or on the operationalization of this concept. For many researchers, culture has become an omnibus variable, representing a range of social, historic, economic, and political factors that are invoked *post hoc* to explain similarity or dissimilarity in the results of a study. As Bhagat and McQuaid (1982) have noted,

Culture has often served simply as a synonym for *nation* without any further conceptual grounding. In effect, national differences found in the characteristics of organizations or their members have been interpreted as cultural differences. (p. 653)

To reduce these difficulties, researchers must specify their definition of culture *a priori* rather than *post hoc* and be careful not to assume that national differences necessarily represent cultural differences.

Another issue in cross-cultural research concerns the *emic-etic* distinction (Berry 1980, De Cieri/Dowling 1995, Teagarden/Von Glinow 1997). *Emic* refers to *culture-specific aspects of concepts or behavior*, and *etic* refers to *culture-common aspects*. These terms have been borrowed from linguistics: A *phonemic* system documents meaningful sounds specific to a given language, and a *phonetic* system organizes all sounds that have meaning in any language (Triandis/Brislin 1984). Both the *emic* and *etic* approaches are legitimate research orientations. A major problem may arise, however, if a researcher imposes an *etic* approach (that is, assumes universality across cultures) when there is little or no evidence for doing so. A well-known example of an imposed *etic* approach is the *convergence hypothesis* that dominated much of US and European management research in the 1950s and 1960s. This approach was based on two key assumptions (Hofstede 1983). The first assumption was that there were principles of sound management that held regardless of national environments. Thus, the existence of local or national practices that deviated from these principles simply indicated a need to change these local practices. The second assumption was that the universality of sound management practices would lead to societies becoming more and more alike in the future. Given that the United States was the leading industrial economy, the point of convergence would be toward the US model. Adoption of the convergence hypothesis has led to some rather poor predictions of future performance. For example, writing in the late 1950s, Harbison (1959) concluded the following with regard to the Japanese managerial system:

Unless basic rather than trivial or technical changes in the broad philosophy of organization building are forthcoming, Japan is destined to fall behind in the ranks of modern industrialized nations. (p. 254)

To use Kuhn's (1962) terminology, the convergence hypothesis became an established paradigm that many researchers found difficult to give up, despite a growing body of evidence supporting a *divergence hypothesis*. In an important paper reviewing the convergence/divergence debate, Child (1981) made the point that there is evidence for both convergence and divergence. The majority of the convergence studies, however, focus on macrolevel variables (for example, structure and technology used by firms across cultures), and the majority of the divergence studies focus on microlevel variables (for example, the behavior of people within firms). His conclusion was that although firms in different countries are becoming more alike (an *etic* or convergence approach), the behavior of individuals within these firms is maintaining its cultural specificity (an *emic* or divergence approach). As noted above, both *emic* and *etic* approaches are legitimate research orientations, but methodological difficulties may arise if the distinction between these two approaches is ignored or if unwarranted universality assumptions are made.⁴ The debate on assumptions of universality is not limited to the literature in international management. Recently, this issue has become a topic of debate in

the field of international relations and strategic studies where research from international management is cited (Huntington 1996).

The Importance of Cultural Awareness

Despite the methodological concerns about cross-cultural research, it is now generally recognized that culturally insensitive attitudes and behaviors stemming from ignorance or from misguided beliefs (“my way is best,” or “what works at home will work here”) not only are inappropriate but often cause international business failure. Therefore, an awareness of cultural differences is essential for the HR manager at corporate headquarters as well as in the host location (Tung 1993). Activities such as hiring, promoting, rewarding, and dismissal will be determined by the practices of the host country and often are based on a value system peculiar to that country’s culture. A firm may decide to head up a new overseas operation with an expatriate general manager but appoint as the HR department manager a local, a person who is familiar with the host country’s HR practices. This practice can cause problems, though, for the expatriate general manager, as happened to an Australian who was in charge of a new mining venture in Indonesia. The local manager responsible for recruitment could not understand why the Australian was upset to find that he had hired most of his extended family rather than staff with the required technical competence. The Indonesian was simply ensuring that his duty to his family was fulfilled – since he was in a position to employ most of them, he was obligated to do so. The Australian, however, interpreted the Indonesian’s actions as nepotism, a negative practice according to his own value system (Dowling/Welch/De Cieri 1989).

Wyatt (1989, p. 5) recounts a good example of the fallacy of assuming “what works at home will work here” when dealing with work situations in another culture. HR department staff of a large firm in Papua New Guinea were concerned over a number of accidents involving operators of very large, expensive, earth-moving vehicles. The expatriate managers investigating the accidents found that local drivers involved in the accidents were chewing betel nut, a common habit for most of the coastal peoples of Papua New Guinea and other Pacific islands. Associating the betel nut with depressants such as alcohol, the expatriate managers banned the chewing of betel nut during work hours. In another move to reduce the number of accidents, free coffee was provided at loading points, and drivers were required to alight from their vehicles at these locations. What the managers did not realize was that betel nut, like their culturally acceptable coffee, is, in fact, a stimulant, though some of the drivers were chewing it to cover up the fact that they drank beer before commencing work. As Wyatt points out, many indigenous workers used betel nut as a pick-me-up in much the same way as the expatriates used coffee.

Adjusting to a new cultural environment can cause problems for both the expatriate employee and the accompanying spouse and family members. Coping with cultural differences, and recognizing how and when these differences are relevant, is a constant challenge for the expatriate employee. Helping to prepare expatriates and their families for the cultural environment has now become a key activity for HR departments in those multinationals that appreciate (or have been forced, through experience, to appreciate) the impact that the cultural environment can have on staff performance and well-being.

Industry Type

Porter (1986) suggests that the industry (or industries if the firm is a conglomerate) in which a multinational firm is involved is of considerable importance because patterns of international competition vary widely from one industry to another. At one end of the continuum of international competition is the *multidomestic industry*, one in which competition in each country is essentially independent of competition in other countries. Traditional examples include retailing, distribution, and insurance. At the other end of the continuum is the *global industry*, one in which a firm's competitive position in one country is significantly influenced by its position in other countries. Examples include commercial aircraft, semiconductors, and copiers. The key distinction between a multidomestic industry and a global industry is described by Porter as follows:

The global industry is not merely a collection of domestic industries but a series of linked domestic industries in which the rivals compete against each other on a truly worldwide basis. . . . In a multidomestic industry, then, international strategy collapses to a series of domestic strategies. The issues that are uniquely international revolve around how to do business abroad, how to select good countries in which to compete (or assess country risk), and mechanisms to achieve the one-time transfer of know-how. These are questions that are relatively well developed in the literature. In a global industry, however, managing international activities like a portfolio will undermine the possibility of achieving competitive advantage. In a global industry, a firm must in some way integrate its activities on a worldwide basis to capture the linkages among countries (Porter 1986, p. 23).

The role of the HRM function in multidomestic and global industries can be analyzed using Porter's value-chain model (Porter 1985). In Porter's model, HRM is seen as one of four support activities for the five primary activities of the firm. Since human resources are involved in each of the primary and support activities, the HRM function is seen as cutting across the entire value chain of an firm. If the firm is in a multidomestic industry, the role of the HR department will most likely be more domestic in structure and orientation. At times there may be considerable

demand for international services from the HRM function (for example, when a new plant or office is established in a foreign location and the need for expatriate employees arises), but these activities would not be pivotal—indeed, many of these services may be provided via consultants and/or temporary employees. The main role for the HRM function would be to support the primary activities of the firm in each domestic market to achieve a competitive advantage through either cost/efficiency or product/service differentiation (Schuler/MacMillan 1984). If the multinational is in a global industry, however, the “imperative for coordination” described by Porter would require a HRM function structured to deliver the international support required by the primary activities of the multinational.

The need to develop coordination raises complex problems for any multinational. As Laurent (1986) has noted:

In order to build, maintain, and develop their corporate identity, multinational organizations need to strive for consistency in their ways of managing people on a worldwide basis. Yet, and in order to be effective locally, they also need to adapt those ways to the specific cultural requirements of different societies. While the global nature of the business may call for increased consistency, the variety of cultural environments may be calling for differentiation (p. 97).

Laurent proposes that a truly international conception of human resource management would require the following steps:

1. An explicit recognition by the parent organization that its own peculiar ways of managing human resources reflect some assumptions and values of its home culture.
2. An explicit recognition by the parent organization that its peculiar ways are neither universally better nor worse than others but are different and likely to exhibit strengths and weaknesses, particularly abroad.
3. An explicit recognition by the parent organization that its foreign subsidiaries may have other preferred ways of managing people that are neither intrinsically better nor worse, but could possibly be more effective locally.
4. A willingness from headquarters to not only acknowledge cultural differences, but also to take active steps in order to make them discussible and therefore usable.
5. The building of a genuine belief by all parties involved that more creative and effective ways of managing people could be developed as a result of cross-cultural learning.

In offering this proposal, Laurent acknowledges that these are difficult steps that few firms have taken:

They have more to do with states of mind and mindsets than with behaviors. As such, these processes can only be facilitated and this may represent a primary mission for executives in charge of international human resource management (Laurent 1986, p. 100).

Implicit in Laurent's analysis is the idea that by taking the steps he describes, a multinational attempting to implement a global strategy via coordination of activities would be better able to work through the difficulties and complex trade-offs inherent in such a strategy. Increasingly, multinationals are taking a more strategic approach to the role of HRM and are using staff transfers and training programs to assist in coordination of activities.

Reliance of the Multinational on its Home-country Domestic Market

A pervasive but often ignored factor which influences the behavior of multinationals and resultant HR practices is the extent of reliance of the multinational on its home-country domestic market. When for example, we look through lists of very large firms (such as those that appear in *Fortune* and other business magazines), it is frequently assumed that a global market perspective would be dominant in the firm's culture and thinking. However, size is not the only key variable when looking at a multinational – the extent of reliance of the multinational on its home-country domestic market is also very important. In fact, for many firms, a small home market is one of the major motives for “going international”.

The United Nations Conference on Trade and Development (UNCTAD) in its annual survey of foreign direct investment calculates what it refers to as an “index of transnationality” which is an average of ratios of foreign assets to total assets; foreign sales to total sales; and foreign employment to total employment.⁵ Based on this index of transnationality, the most foreign-oriented multinational is Nestlé, with 87% of assets, 98% of sales and 97% of employees located outside of Switzerland. The “top ten” multinationals are as follows:

1. Nestlé (Switzerland)
2. Thomson (Canada)
3. Holderbank Finacière (Switzerland)
4. Seagram (Canada)
5. Solvay (Belgium)
6. Asea Brown Boveri (Sweden/Switzerland)
7. Electrolux (Sweden)
8. Unilever (Britain/Netherlands)
9. Philips (Netherlands)
10. Roche (Switzerland)

There is not a US firm in the first fifteen multinationals listed and Coca-Cola and McDonald's are ranked 31st and 42nd respectively. The reason for this is as obvious as it is important – *the size of the domestic market for US firms*. A very large domestic market influences all aspects of how a multinational organizes its activities. For example, it will be more likely to use an international division as

the way it organizes its international activities and even if it uses a global product structure, the importance of the domestic market will be pervasive. A large domestic market will also influence the attitudes of senior managers (discussed in more detail in the next section) and will generate a large number of managers with an experience base of predominantly or even exclusively domestic market experience. Thus, multinationals from small advanced economies like Switzerland (population 7 million), Belgium (10 million), Sweden (9 million) and The Netherlands (15 million) are in a quite different position to US multinationals based in the largest single national market in the world with over 250 million people. The demands of a large domestic market present a challenge to the globalization efforts of many US firms. As Cavusgil (1993) has noted in an important book on internationalizing business education, the task of internationalizing business education in the United States is a large one. So too, is the task facing many US firms in terms of developing global managers.

Attitudes of Senior Management to International Operations

The point made by Laurent that some of the changes required to truly internationalize the HR function “have more to do with states of mind and mindsets than with behaviors” illustrates the importance of a final variable that may moderate differences between international and domestic HRM: the attitudes of senior management to international operations.

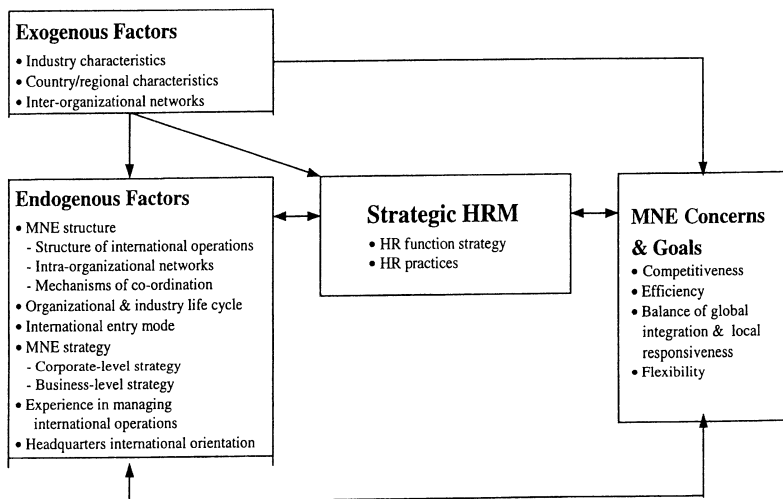
It is likely that if senior management does not have a strong international orientation, the importance of international operations may be underemphasized (or possibly even ignored) in terms of corporate goals and objectives. In such situations, managers may tend to focus on domestic issues and minimize differences between international and domestic environments. They may assume that there is a great deal of transferability between domestic and international HRM practices. This failure to recognize differences in managing human resources in foreign environments—regardless of whether it is because of ethnocentrism, inadequate information, or a lack of international perspective—frequently results in major difficulties in international operations (Desatnick/Bennett 1978). The challenge for the corporate HR manager is to work with top management in fostering the desired “global mindset.” This goal requires, of course, a HR manager who is able to think globally and to formulate and implement HR policies that facilitate the development of globally oriented staff (Bartlett/Ghoshal 1992, Pucik 1997).

Theoretical Developments: A Framework of Strategic HRM in Multinational Firms

An integrative framework of strategic international HRM has been presented by Schuler, Dowling and De Cieri (1993). Since the publication of Schuler et al.'s framework, developments have brought the need to consider revision of the framework and De Cieri & Dowling (forthcoming) have developed a revised framework of SHRM in multinational firms which is shown in Figure 3.

As depicted in Figure 3, multinationals operate in the context of worldwide conditions, including the exogenous contexts of industry, nation, region, and inter-organizational networks and alliances. For example, the removal of internal trade barriers and integration of national markets in the European Union has brought a new range of inter-organizational relationships. In addition, the introduction of the European Monetary Union from January 1999 has the potential to hold significant implications for inter-organizational relationships. Exogenous factors exert direct influence on endogenous factors, SHRM strategy and practices, and multinational concerns and goals. If we were to examine the impact of

Figure 3. A Model of Strategic HRM in Multinational Enterprises



Source: De Cieri, H/Dowling, P. J., Strategic Human Resource Management in Multinational Enterprises: Theoretical and Empirical Developments, in Wright et al. (eds.), *Research and Theory in SHRM: An Agenda for the 21st Century*, Greenwich, CT: JAI Press forthcoming.

economic difficulties in the Asia Pacific region since 1997, we would be likely to see examples of this influence.

Endogenous factors are shown in order of most 'tangible' to most 'intangible'. Multinational structure refers to both the structure of international operations and 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 endogenous factors are experience in international business and headquarters' international orientation. Following developments in the literature and Taylor, Beechler and Napier's (1996) integration of resource dependence and resource-based perspectives, the model suggests that there are reciprocal relationships between endogenous factors, SHRM, and multinational concerns and goals.

With regard to HR strategy and practices, reciprocal relationships between strategic issues and SHRM strategy and practices have been highlighted by research taking a resource-based perspective (Taylor et al. 1996, Kamoche 1997). In addition, several studies have shown that HR activities such as expatriate management are influenced by both endogenous and exogenous factors. Effective SHRM is expected to assist the firm in achieving its goals and objectives. This view is influenced by the emerging body of SHRM literature that examines the relationships between endogenous characteristics, SHRM strategy and practices, and firm performance or competitive advantage (Becker/Gerhart 1996, Dyer/Reeves 1995). While some research has suggested that multinationals will gain by utilizing and integrating appropriate SHRM strategy and practices, to enhance firm performance (Festing 1997, Kobrin 1994), there remains inconclusive evidence and important questions about the nature of this relationship (Caligiuri/Stroh 1995, Peterson/Sargent/Napier/Shim 1996, Sparrow/Schuler/Jackson 1994). The model offered by De Cieri/Dowling (forthcoming) aims to assist in the cross-fertilization of ideas to further develop theory and empirical research in strategic HRM in multinational firms.

To summarize, this paper has endeavored to meet three objectives: First, to outline the various approaches which have been taken to the study of IHRM; second, to discuss the variables which moderate differences between domestic and international HRM; and third, to briefly outline recent work which examines the topic of strategic human resource management in multinational enterprises. Attention to these three points will, I believe, take us some way to completing the puzzle of International HRM which Laurent has described.

Endnotes

- 1 A summary of this work appears in Dowling/Welch/Schuler (1999).
- 2 This section is based upon various presentations by the first author and the following paper: De Cieri/Dowling (forthcoming).
- 3 While it is clear in the literature that PCNs are always expatriates, it is often overlooked that TCNs are also expatriates. See De Cieri/McGaughey/Dowling (1996), for further discussion of this point.
- 4 See Ricks (1993) for a comprehensive collection of mistakes made by multinational firms which paid insufficient attention to their cultural environment in their international business operations. For further literature on this topic see the following: Kirkbride and Tang (1994), Tayeb (1994), Sparrow, Schuler and Jackson (1994), Morishima (1995), Delery and Doty (1996).
- 5 This section is based on a short article on Multinationals which appeared in *The Economist* (1997). The UNCTAD index uses 1995 data.

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Chris Brewster

Strategic Human Resource Management: The Value of Different Paradigms

Abstract

- This paper argues that discussion of the strategic management of human resources has been limited by a confusion over the analysis of SHRM and an inadequate conception of the field for SHRM. By separating out the universalistic and contextualist paradigms, the paper clarifies the differences in approach and how these affect views of the nature, levels and actors in the subject area. Siting itself in the contextualist paradigm, the paper draws attention to the value of that approach in understanding current developments in SHRM in Europe.¹

Key Results

- The universalist paradigm of strategic human resource management (SHRM) is widespread, particularly in the United States, but also amongst those academics in other countries who have come under the US influence. It essentially centres around arguing that research involves using evidence to test generalisations of an abstract and generalist nature; that the purpose of SHRM is to improve the way that HR is managed within companies; and that general rules can be applied generally. The contextual paradigm argues that research is about drawing understanding from complex data; that explanation of difference is more important than firm performance and that there are different views and perspectives on HRM depending on the nature of what is being studied; the levels at which it is studied and the actors included. The contextual paradigm provides a more powerful explanation of HRM in Europe (and perhaps elsewhere) where the role of the state and European Union bodies, of the public sector, of significant unionisation and employee participation are extensive.

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Introduction

There are two features of discussions of strategy and human resource management which frequently irritate readers: one is the tendency to spend a substantial part of the article in defining the terms human resource management (HRM) and strategic human resource management (SHRM); and the other is the assumption that there is no need to define terms. This paper argues that, particularly in an international context, it is possible to explain the different definitions and approaches there are to the subject of SHRM and to learn from them. To do so the paper takes the first source of irritation and pushes it to the extreme of devoting the whole piece to defining the terms....

The paper argues that there are different paradigms underlying the analysis of SHRM and that these explain some of the differences in interpretation of the terms involved. Exploring two of the main paradigms used in the debate in Europe allows us to identify the importance of clarifying the nature, the levels and the focus of the subject. This enables us to move beyond the debate about definitions to identify key issues for researchers and practitioners.

Paradigms

Things are done differently in different countries. In the area under consideration in this text this includes both differences in the way human resource management (HRM) and strategic human resource management (SHRM) is conducted and the research traditions through which it is explored. These differences result in two different (ideal type) paradigms for research into HRM. These can be termed the universalist and the contextual paradigms. The term paradigm is used here in Kuhn's (1970) sense as an accepted model or theory, but with the clear implication that different researchers may be using competing models or theories. It is to some degree the difference between these paradigms which has led to the confusion noted by many (Conrad/Pieper 1990, Guest 1992, Singh 1992, Storey 1992, Boxall 1993, Dyer/Kochan 1994, Goss 1994, Martell/Caroll 1995) in the appropriate subject matter of HRM.

The attempt to distinguish different paradigms is not unique to this paper: it mirrors those developed in Delery and Doti (1996) – and perhaps unfortunately shares a similar sounding, though differently defined, terminology – and in Wright and McMahan (1992). It is distinguished from them by contrasting a firm-internal with a firm-external perspective and by the linkage with methodology (see below). The aim here is not to categorise the different research perspectives used in studying SHRM, but to identify the different paradigms which underlie these perspectives.

The universalist paradigm, which is dominant in the United States of America, but is widely used in many other countries, is essentially a nomothetic social science approach: using evidence to test generalisations of an abstract and law-like character. As in other related areas of the social sciences the universalist paradigm tends towards acceptance of convergence. In the organisational studies area, for instance, the Aston School argued strongly that context made little difference and only organisational characteristics mattered (Hickson et al. 1974, Pugh/Hickson 1976, Hickson et al. 1979, Hickson/Macmillan 1981). Closer to our own area of interest, Locke and Kochan (1995, pp. 380–381), who will be claimed for the contextual paradigm later in this paper, ask whether national systems still exist or whether sector or company systems are taking over as industrial relations, for example, is increasingly decentralised.

This paradigm assumes that the purpose of the study of our area of the social sciences, HRM, and in particular SHRM (Tichy/Fombrun/Devanna 1982, Fombrun/Tichy/Devanna 1984, Ulrich 1987, Wright/Snell 1991, Wright/McMahan 1992), is to improve the way that human resources are managed strategically within organisations, with the ultimate aim of improving organisational performance, as judged by its impact on the organisation's declared corporate strategy (Tichy/Fombrun/Devanna 1992, Huselid 1995), the customer (Ulrich 1989) or shareholders (Huselid 1995, Becker/Gerhart 1996, Becker et al. 1997). Further, it is implicit that this objective 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" (1992, p. 298). The value of this paradigm lies in the simplicity of focus, the coalescing of research around this shared objective and the clear relationship with the demands of industry. The disadvantages lie in the ignoring of other potential focuses, the resultant narrowness of the research objectives, and the ignoring of other levels and other stakeholders in the outcomes of SHRM (Guest 1990, Poole 1990, Pieper 1990, Bourniois 1991, Legge 1995, Brewster 1995, Kochan 1998).

Methodologically, the mechanism generally used to research this form of SHRM is deductive: to generate carefully designed questions which can lead to proof or disproof, the elements of which can be measured in such a way that the question itself can be subjected to the mechanism of testing and prediction. Built in to this paradigm is the assumption that research is not "rigorous" unless it is drawn from existing literature and theory, focused around a tightly designed question and contains a structure of testing that can lead on to prediction. The research base is mostly centred on a small number of private sector "leading edge" exemplars of "good practice," often large multinationals and often from the manufacturing or even specifically the high tech sector.

The strength of the approach is that good research based upon it tends to have a clear potential for theoretical development, it can lead to carefully drawn research questions, the research tends to be easily replicable and research metho-

dologies sophisticated, and there is a coherence of criteria for judging the research. Of course, in any particular case, inappropriate techniques or dubious lines of causality can negate much of the value of this form of research (see Gerhart 1998). Even where the data and analysis are sound, however, a disadvantage of this paradigm, perhaps of the US research tradition in particular, is that the pressure to publish and the restricted nature of what is acceptable has led to much careful statistical analysis of small-scale, often narrow, questions whose relevance to wider theoretical and practical debates is sometimes hard to see. This has been summed up, by an American commentator, in the notion of the “drunkard’s search” – looking for the missing key where visibility is good, rather than where the key was lost.

The contextual paradigm² by contrast is idiographic, searching for an overall understanding of what is contextually unique and why. In our topic area, it is focused on understanding what is different between and within SHRM in various contexts and what the antecedents of those differences are. Amongst most researchers working in this paradigm, it is the explanations that matter – any link to firm performance is secondary. It is assumed that societies, governments or regions can have SHRM as well as firms. At the level of the organisation (not firm – public sector organisations are also included) the organisation’s objectives (and therefore its strategy) are not necessarily assumed to be “good” either for the organisation or for society. There are plenty of examples where this is clearly not the case. Nor, in this paradigm, is there any assumption that the interests of everyone in the organisation will be the same; or any expectation that an organisation will have a strategy that people within the organisation will “buy in to.” It is argued here that not only will the employees and the unions have a different perspective to the management team (Kochan et al. 1986, Barbash 1987, Keenoy 1990, Storey 1992, Purcell/Ahlstrand 1994, Turner/Morley 1995), but that even within the management team there may be different interests and views (Hyman 1987, Kochan et al. 1986, Koch/McGrath 1996). These, and the resultant impact on SHRM, are issues for empirical study. As a contributor to explanation, this paradigm emphasises external factors as well as the actions of the management within an organisation. Thus it explores the importance of such factors as culture, ownership structures, labour markets, the role of the state and trade union organisation as aspects of the subject rather than external influences upon it. The scope of HRM goes beyond the organisation: to reflect the reality of the role of many HR departments, particularly in Europe: for example, in lobbying about and adjusting to Government actions, in dealing with equal opportunities legislation or with trade unions and tripartite institutions etc.

This paradigm is widespread in the UK and Ireland, Australia and New Zealand and in many of the northern European countries, but has some adherents in North America. Furthermore, if one were to judge by the journals and newsletters put out by the HR societies and consultancies, the interests of many HR practitioners in the States are in many of the same legislative and labour market areas as those in Europe. This seems to apply particularly to the US public sector where,

perhaps, the pressures of compliance are greatest. Interestingly, there are increasing calls from North Americans for a contextual paradigm or, to be precise, approaches which have considerable resonance with this paradigm, to be used in the USA (see, for example, Dyer 1985, Schuler/Jackson 1987, Dyer/Kochan 1995 and, powerfully, in the companion to this volume, Kochan 1998).

Methodologically, the research mechanisms used are inductive. Here, theory is drawn from an accumulation of data collected or gathered in a less directed (or constrained) manner than would be the case under the universalist paradigm. Research traditions are different: focused less upon testing and prediction and more upon the collection of evidence. There is an assumption that if things are important they should be studied, even if testable prediction is not possible or the resultant data are complex and unclear. The policies and practices of the “leading edge” companies (something of a value-laden term in itself) which are the focus of much HRM research and literature in the universalist literature are of less interest to contextualists than identifying the way labour markets work and what the more typical organisations are doing. Much more work in, for example, Europe is, therefore, based on finding out and understanding what is happening. There is a stronger tradition of detailed idiographic studies and of large-scale survey work, both of which lend themselves to analyses of the different stakeholders and the environmental complexity of organisations. Similarly, research in Europe is more often focused on the services sector or the public sector of employment than is the case for HRM research work in the USA which seems to evidence an interest in the manufacturing sector which is not only wholly disproportionate to its share of employment, but is often discussed as if it is the whole of the economy – or at least the only sector of interest to specialists in SHRM.

In Europe much of the research is located squarely in the contextual paradigm, concerned to develop a critique of the relationship between owners and/or managers and the employees and the society in which the organisations operate; and there is less likelihood of the researchers assuming that the purposes of the powerholders in the organisation are unchallengeable and that the role of research is to identify how their HRM contributes to those purposes.

The universalist and contextualist approaches are true paradigms in Kuhn's sense that they are in general unchallenged and are often held to be unchallengeable. Those researching in these paradigms are themselves often unaware of any alternatives. Like the fish's knowledge of water, these researchers not only see no alternatives but do not consider the possibility that there could be any. Thus, as a small example, many of the papers published in the European journals make almost no reference to US texts – and vice versa. Some of those who become aware of the alternative paradigm respond, as the students of paradigms would expect, by denying the value of the alternative: universalists arguing that “if it doesn't lead us to be able to say something that will help firms to become more effective, what use is it?” and “if you can't measure it, you can't research it;” contextual-

ists arguing against “managerialist sub-consultancy” and “the narrow, overly statistical, chase for tenure.”

This is particularly unfortunate: just as the debate between the two paradigms can be depressingly sterile, or can lead to research which combines the worst of both, so the alternative can be stimulating and challenging. Insights from one paradigm can be powerful in the other; research in one paradigm can lead to lines of development in the other. In discussion of the closely related nomothetic and ideographic concepts of research Galtung (1990, p. 108) argues that “although dramatically different, these should not be seen as antithetical, irreconcilable or mutually exclusive.” Thus, not only do we get different insights and findings from each paradigm which overall strengthens our understanding of HRM and SHRM, but the possibility that the challenge provided by these alternative paradigms can improve research in both is exciting. So the universalist tradition can include more important questions, take greater note of the environmental constraints and be more challenging in its approach to the multiple stakeholders within the organisation and beyond. And the contextual paradigm has much to learn from the tighter definition of research questions, more careful measurement and the more extensive use of statistics.

On the methodological front, the debate between these two leading paradigms in the field informs the rationale for research but says little about methodological tools. From either perspective the key question in research is what the research is trying to explain: different kinds of methodologies will be appropriate for different issues and there is much to be gained by drawing insights from different techniques (Jick 1979).

This is not to argue for a melding of the two paradigms. Such a development is not only impossible, but also undesirable. There are different strengths in each paradigm and we can learn most by drawing in the best of both traditions.³

Of Nature, Level and Actors

Contrasting these two different paradigms affecting the study of HRM and SHRM highlights three issues: the contested nature of the concept (what we are studying); the levels at which it can be applied (the range of our studies); and the actors concerned (who is involved).

The Nature of HRM

Arguably, there is less room for debate in the universalist paradigm about the nature of what is being studied: there is greater coherence amongst the US univer-

salist, for example, about what constitutes “good” HRM: a coalescing of views around the concept of “high performance work systems.” These have been characterised by the US Department of Labor (1993) as having certain clear characteristics: careful and extensive systems for recruitment, selection and training; formal systems for sharing information with the individuals who work in the organisation; clear job design; local level participation procedures; monitoring of attitudes; performance appraisals; properly functioning grievance procedures; and promotion and compensation schemes that provide for the recognition and financial rewarding of high performing members of the workforce. It would appear that, whilst there have been many other attempts to develop such lists, and they all differ to some degree, the Department of Labor list can be taken as an exemplar of the universalist paradigm: few researchers (or commentators or consultants) in the universalist tradition of HRM would find very much to argue with in this list.

The list is drawn from previous attempts to identify good practice in HRM. Mahoney and Deckop (1986) identify six elements that constitute HRM. In Europe, Beaumont (1991) finds five; and Storey (1992) identifies fifteen different practices. Many of the items in these lists are similar or are subsets of each other. Guest (1987) was one of the first to summarise his conception of what makes HRM distinctive (integrated into the general co-ordinating activity of line management; bottom line emphasis; management of corporate culture) and these lists still contain much in common with this outline. Later he expands this list to be more explicit (“innovative techniques of the sort typically associated with HRM” including such practices as flexible working, quality circles, training in participative skills and job enrichment: Guest 1990, p. 385) – the soft version of HRM.

In many countries, however, where the contextual paradigm is more widespread, almost every item on these lists would be the source of debate amongst both practitioners and theorists. Thus, in much of southern Europe recruitment and selection schemes rely heavily on the network of family and friends (the *cunha* in Portugal for example). HRM experts in these countries would argue that this is a cheap and effective method of recruitment, and gives the organisation an extra means of motivating and controlling employees (“this behaviour will cause a lot of embarrassment to X and Y – perhaps members of your family – who persuaded us to employ you”). Formal systems for sharing information with individuals at their workplaces are significantly different from sharing information at the strategic level with trade union representatives skilled in debating the organisational strategy – a common requirement in Europe. Clear job design (which can presumably be linked with the performance appraisal and incentive schemes for the individual job holder) can be inimical to the need for flexibility, team work and responsiveness to the pace of change seen as important by most European organisations. And so on through the list...

The universalist paradigm also assumes that HRM is concerned with the aims and actions of management within the organisation. In countries like the USA, which has as an avowed aim of most politicians the objective of “freeing business from outside interference,” or amongst commentators who share that approach, it makes sense to develop a vision of human resource management which takes as its scope the policies and practices of management. (Though here too it is worth pointing out, so that the argument is not misunderstood, that there are American commentators who do not accept this limitation on their analysis).

There is indeed a school of authors in the universalist tradition who start from the premise that what distinguishes HRM from other approaches to employment is mainly that it is a set of policies and practices which are intended to be integrated with organisational strategies and objectives (Fombrun et al. 1984, Eaton 1990, Schuler/Jackson 1987, Guest 1987, Lengnick-Hall/Lengnick-Hall 1988, Hendry/Pettigrew 1990, Schuler 1992, Wright/McMahon 1992, Storey 1995). These authors see HRM as a particular set of practices which may or may not be appropriate depending upon the situation and the corporate strategy of each different organisation. This approach tends to follow one main strand of seminal US writing, the “Michigan” school, initiated by Fombrun et al. (1984). For this school, business strategy, organisational structure and HRM are the three crucial, interactive, elements of strategic management. Other authors have referred to the need for HR strategy to be “an integral part of business strategy, with labour utilisation approaches reflecting production and marketing priorities” (Ramsey 1992, p. 233).

Boxall (1992) has used the instructive term “matching” to encompass such an approach to HRM. Hendry and Pettigrew (1986) have summarised the approach clearly. They focus on HRM as strategic integration, defined by:

- “1. the use of planning;
2. a coherent approach to the design and management of personnel systems based on an employment policy and manpower strategy, and often underpinned by a ‘philosophy’;
3. matching HRM activities and policies to some explicit business strategy; and
4. seeing the people of the organisation as a ‘strategic resource’ for achieving ‘competitive advantage’” (Hendry/Pettigrew 1986).

Later they say explicitly, “We see HRM as a perspective on employment systems, characterised by their closer alignment with business strategy” (Hendry/Pettigrew 1990, p. 36).

In the hands of a different strand of the strategic HRM literature (Fombrun/Tichy/Devanna 1984, Ackermann 1986, Staffebach 1986, Besseyre des Horts 1987, 1988, Miller 1989), this approach can lead to what might be characterised as “contingent determinism”. The elements of the corporate strategy that dominate the HR strategy vary. Thus Purcell (1987) argues that certain organisational forms will find it virtually impossible to adopt strategic HRM, whilst Marginson et al.

(1988) believe that foreign companies are more likely to adopt it. Other authors have linked HR strategies to different factors: Schuler has indicated that they should be based on the type of market, as defined by Porter (Schuler/Jackson 1987), or on a particular position in a company's life-cycle (Schuler 1989). The market approach has also been propounded by others (Baird/Meshoulam/Degive 1983, Dertouzos/Lester/Solow 1989), whilst others have supported the life-cycle approach (Fombrun/Tichy 1983, Kochan/Barocci 1985). Cohen and Pfeffer (1986) argue that sector and type of organisation are the determining factors, with public sector and large, high visibility organisations more likely to adopt strategic HR practices.

What have been separated out here as distinct definitions can be, and often are, overlapping. Many of the texts assume that a focus on employee commitment or careful communication or employee development must, inevitably, be strategic. One of the problems in the literature is that individual texts either do not specify which of these broad definitional levels they are addressing, or assume mutual inter-linking, or drift between them.

Theoretically it is quite possible that a closely integrated, strategic approach to HRM will involve nearly all the specific HRM objectives and practices and hence drive all aspects of the way labour is managed. Equally however, it is possible that the close integration of HRM with corporate strategy could, in some sectors for example, lead to a heavy emphasis on cost-reduction, eliminating all "people frills" such as training, communication with employees or employee benefits and making extensive use of outsourcing.

In Europe, however, many researchers find that the universalist paradigm, ironically, because it excludes a contextual element, inevitably excludes much of the work of HR specialists and many of the issues which are vital for the organisation. They are uncomfortable studying a subject in a way which excludes such areas as compliance, equal opportunities, trade union relationships and dealing with local government for example. Hence the development of a more critical, contextual paradigm based on increasing criticism of the universalist model of SHRM common in the USA. Looking at the UK, Guest sees "signs" that what he calls "the American model is losing its appeal as attention focuses to a greater extent on developments in Europe" (Guest 1990, p. 377); the same author is elsewhere sceptical of the feasibility of transferring the model to Britain. The inapplicability of the universalist approach in Europe has also been noted in Germany: "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, p. 26). Another German surveying European personnel management, similarly concluded that "a single universal HRM concept does not exist" (Pieper 1990, p. 11). Critiques of any simplistic attempts to "generalise" the concept, so that our view of HRM is essentially the (original US) universalist model have also come from France (see, e.g. Bournois 1991a, 1991b). European authors have argued that "we are in culturally

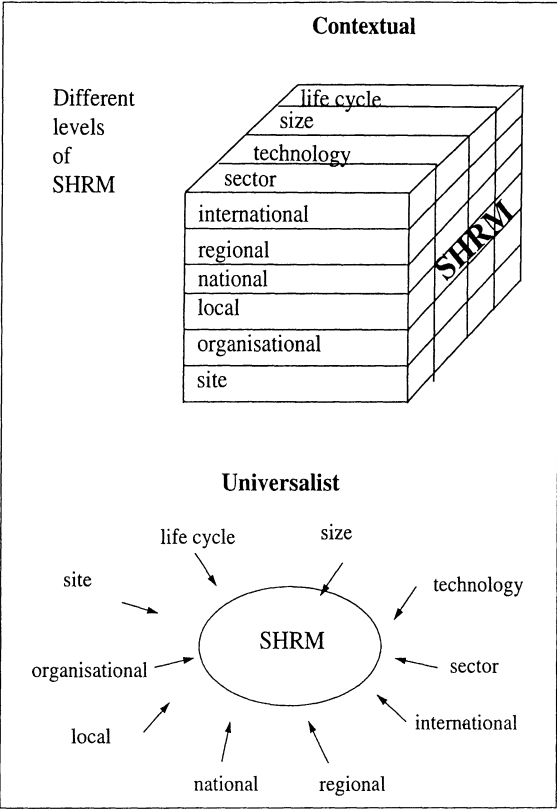
different contexts” and, that “rather than copy solutions which result from other cultural traditions, we should consider the state of mind that presided in the search for responses adapted to the culture” (Albert 1989, p. 75 translation in Brewster and Bournois 1991).

The nature of SHRM assumed in the universalist paradigm provides for a more detailed examination and explanation of the policies and practices of the management of the organisation in their approach to their labour force. In the contextual paradigm the nature of HRM and SHRM is seen more broadly, providing better explanation of the potential differences in views about the topic and a better fit with the concerns of the specialists, by including national institutional and cultural issues such as the trade union movement, national legislation and labour markets as not just external influences but as part of the topic (Brewster/Bournois 1991, Brewster 1995). This involves, necessarily, a view of SHRM which includes these factors as part of the subject matter. As a by-product, the universalist paradigm paradoxically is better able to deal with the increasingly ephemeral and porous nature of the organisation as the growth in the extent and spread of flexible working practices is more widely recognised (Brewster/Mayne/Tregaskis 1997, Brewster/Mayne/Tregaskis 1996, Brewster et al. 1996, European Commission 1995, Standing 1997).

The Levels of HRM

A second key question concerns the levels of HRM. The universalist paradigm works with the organisational, or in some cases the suborganisational (e.g. business unit) level of analysis. The contextualists assume that SHRM can apply at a variety of levels: i.e. that the scope is not restricted to the organisational level. Thus, in Europe there are discussions of the strategic human resource management policies of the European Union or of particular countries or sectors. There are increasing debates about SHRM policies between groups of member states (Mayrhofer et al. 1997). National governments have SHRM policies (for example, reducing unemployment, encouraging flexible working practices) and indeed, the strategy literature is increasingly locating the economic success of organisations, as well as that of the economies as a whole, at the national level (see, as recent examples, Aoki 1988, Porter 1990, Sorge 1991, Lundvall 1992, Nelson 1992, Kogut 1993) and arguing for a careful understanding of national contexts. Within the country local areas can have SHRM policies and practices (raising training standards to attract inward investment, establishing local employment opportunities etc). All these levels, which might be seen as exogenous factors impinging upon SHRM in the universalist paradigm, are seen in the contextual paradigm as within the scope of SHRM (Figure 1).

Figure 1.



It can become complicated to discuss more than one level of analysis at a time and even more difficult to research more than one. It is often the case that in both research paradigms, but particularly in the universalist paradigm, researchers and commentators resolve this problem by simply ignoring it. Thus many of the seminal texts in our field draw their data from one level but are written as if the analysis applies at all levels: what Rose (1991) has called “false universalism”. Many of these texts are produced in one country and base their work on a small number of by now well-known cases. As long as they are read by specialists in the relevant country with interests in these kinds of organisations, this may not be too much of a problem. But the world, and especially the academic world in our subject, is becoming ever more international. This is a major problem in relation to the US literature. The cultural hegemony of US teaching, publishing and the US journals mean that these texts are often utilised by other readers. For analysts and

Table 1. Union density and coverage

	1994 Union density rate	1994 Bargaining coverage
Austria	43	98
Belgium	53	90
Denmark	76	90
Finland	81	95
France	9	95
Germany	30	92
Italy	39	82
Netherlands	26	81
Norway	58	74
Portugal	32	50
Spain	22	66
Sweden	91	93
Switzerland	26	50
United Kingdom	36	47
Japan	24	22
United States	16	18

Source: OECD 1996

practitioners elsewhere, and with interests in different sectors, countries and so on, many of these descriptions and prescriptions fail to meet their reality. Our task, therefore, is not necessarily to change what we write or believe, but to specify the level at which we can show it to be true.

An example is provided by those who write about the link between HRM and performance. They tend to make statements about those links that make three assumptions: That: the practices they have chosen to measure (usually of the kind

included in the Department of Labor list of high commitment practices) can be referred to as positive HRM and any alternative approaches to these practices will be, by implication, negative; the measures of firm performance will be universally applicable, ignoring the different ownership patterns, stock market pressures, accounting systems etc.; and the findings about the particular measures of HRM can be applied to all circumstances and cases.

Gerhart (1998) points out that there are technical problems with many of these analyses, and beyond that, these wider assumptions are inadequate: but the point tends to be lost in the reports on this research which often fail to acknowledge even that their results are limited to the one country from which the evidence is drawn. The argument of this paper is that as the international and comparative element of SHRM comes increasingly to the fore, researchers and analysts have to be ever more careful to position their work at the appropriate level of analysis if they are not to be guilty of commentaries which are confused, inapplicable or just plain wrong. The relevant level of analysis will depend upon the question being asked. The important point is not that any level is necessarily correct or more instructive than the others, but that the level needs to be specified to make the analysis meaningful. This would also argue, *inter alia*, for comparative and international research programs to be carried out by networks of researchers based in, and with a deep understanding of HRM in, each country, rather than in the commonly found "vacation reports" on HRM in other countries.⁴

The Actors in HRM

Similarly, if in the contextual paradigm the nature of the topic is contested and widened beyond the organisation, and the levels of analysis need to be carefully specified, the question of the focus of SHRM is also raised. Is it a subject concerned with how human resources within organisations are managed? or is it a subject concerned with the interaction between people at various levels? To put it bluntly, are we analysing the cost-effective management of people to ensure that the top management's organisational objectives are met; or are we critically analysing the way human resources are managed, affected by and affect the management of organisations? A strong stream of neo-Marxist theorising (Braverman 1974, Burawoy 1979, Hyman 1987, Friedman 1997) has focused on managerial approaches to controlling potential dissidence. Whilst the influence of this stream of writing appears to have waned, the contextual paradigm within which it fits, and the willingness to challenge managerial objectives and actions, remains relevant.

The contextual paradigm contrasts with the universalistic paradigm in its insistence on going beyond the immediately declared corporate strategy and ap-

proach to HRM laid down by senior management to asking whether these have deleterious consequences for individuals within the organisation, for the long-term health of the organisation and for the community and country within which the organisation operates.

Some of this literature (in both paradigms) is flawed by rather simplistic notions of strategy. The formal “predict and prepare” or “command” models have been discounted by the serious strategy theorists but are still used in some SHRM discussions. Alternative approaches to strategic management have been characterised as either algorithmic or experiential in emphasis (Gomez-Mejia 1992). Quinn (1980) established the notion of strategy as “logical incrementalism;” with real strategies evolving “as internal decisions and external events flow together to create a new, widely shared consensus for action among key members of the top management team. In well-run organisations, managers proactively guide these streams of action and events incrementally towards conscious strategies” (Quinn 1980, p15). In the last few years the notion of incrementalism itself has been examined and seen as incorporating different interpretations (Mintzberg 1990) and as having a number of different functions (Joyce 1986).

“Strategy” as a concept has been used, whether recognised or not, in at least five separate ways (Mintzberg 1987) – as: plan; ploy; pattern; position; and perspective. These definitions can be inter-related and in the real world strategic management “inevitably involves some thinking ahead of time as well as some adaptation en route”: effective strategies will encompass both (Mintzberg 1994, p 24). More recently still, it has been argued that control systems are the key means of managing and changing patterns in organisational activities (Simon 1995).

Collins and Porras (1994) found that amongst their 18 high performing “visionary” US companies there was no evidence of brilliant and complex strategic planning. Rather, their companies “make some of their best moves by experimentation, trial and error, opportunism and – quite literally – accident. What looks in retrospect like brilliant foresight and preplanning was often the result of ‘Let’s just try a lot of stuff and keep what works’” (p. 9). Behn (1988) had already found similar results in the public sector. None of this would have come as a surprise to Lindblom (1959) whose prescient article pointed out much the same thing many years ago, but which fell into disuse over the years of dominance of the “command” model. Lengnick-Hall and Lengnick-Hall (1988) also challenged the assumption that strategic decisions were taken at a particular point in time such that the influence of HRM on that process could be measured.

If the literature generally tends to assume that HRM is brought into the strategy through some link to a formal “predict and prepare” mode of strategy formulation, it makes two further assumptions: first that this is solely a management issue; and second that, despite the debate about the role of line managers, HR issues are brought in to the strategic discussion by the HR specialists.

On the first issue, it has been pointed out that the rhetoric of the integration of the HR specialist function at the Board level has outpaced the reality (Legge 1995). It has been argued, in contrast, that HRM participation can take many forms, from full membership of the Board to the design of implementation plans for the delivery of strategic goals (Caroll 1987). Evidence from a substantial number of European countries has been used to assess the range of these forms (Brewster/Soderstrom 1994, Brewster 1995, Brewster/Larsen/Mayrhofer 1997). The conclusion has been that previous discussions, mainly in the US but including significant examples from Europe too, miss important issues at the European level and at the European country level. Here, in a number of countries - most clearly, but not exclusively, Germany and the Netherlands - HRM issues are bought into the strategic level discussions by the presence of between one third and one half of the Board being representatives of the employees. In many organisations in these countries the HRM function is largely confined to an administrative role. In other cases, the presence of legally required Works Council on which employee representatives have significant power, or pervasive unionism, mean that in practice the interests of the employees feature in all major operational decisions.

The debate about the growing role of line managers in strategic (and indeed in operational) HRM is widespread in Europe. Is human resource management, as some would argue, now so well understood to be central to the well-being of an organisation and its ability to perform effectively that the subject has to permeate the responsibilities of every manager? Or is it the case that without a knowledgeable, experienced and influential human resource management department the organisation will be unable to give the subject the prominence that is needed? Perhaps more realistically, between these two extremes, what is the role of the HR function and how should its responsibilities be shared with line managers? In Europe the trend is clear: to give line managers more responsibility for the management of their staff and to reduce the extent to which human resources departments control or restrict line management autonomy in this area (Brewster/Hoogendoorn 1992, Brewster/Soderstrom 1994, Brewster/Larsen/Mayrhofer 1997). This has created problems, with both personnel specialists and line managers unhappy about the way things are moving (Brewster/Hutchinson 1994). The trend towards increased line management authority in this area, however, remains undeniable.

Conclusion

It has not been the purpose of this paper to argue that either paradigm is a wrong or inadequate way to study SHRM; rather the purpose has been to argue that the

understanding we have of HRM and SHRM can be enhanced if we utilise the best of both.

One value of the contextualist paradigm can be seen in the “test-bed” situation of the ex Communist states of Central and Eastern Europe (CEE). Our research into these countries (Brewster 1992, Koubek/Brewster 1995, Hegewisch/Brewster/Koubek 1996, Hegewisch 1997a, 1997b) indicates that whilst all of them have moved significantly away from the old models, the rate of change in the different countries has been very different. The greater explanatory power of the contextual paradigm in such cases at least is manifest; the poverty of attempts to explain developments there by contrasting them with the universalist conception of SHRM is clear.

There is much to play for if we are to develop our understanding of HRM and SHRM. The two paradigms should steer, direct and limit our research: we have to be more ambitious in our inter-organisational, cross-sectoral and cross-national research – and more careful about our findings and our analysis.

Notes

- 1 The paper draws on recent and current research by the author and colleagues. More details are available in:
 - Brewster, C., Different paradigms in Strategic HRM: questions raised by comparative research in *Research in Personnel and HRM*, CN: JAI Press, Greenwich (1998 forthcoming).
 - Larsen, H. H./Brewster, C./Mayrhofer, W., Integration and Assignment: A Paradox in Human Resource Management, *Journal of International Management*, 1997, 3, 1, pp. 1–23.
 - Brewster, C./Mayne, L./Tregaskis, O. (1997), Flexible working in Europe: a Review of the Evidence, *Management International Review*, Special Issue 1997/1, pp. 85–103.
- 2 I have previously referred to the contextual paradigm as “European HRM” (Brewster/Bournois 1991, Brewster 1994, 1995a) but this has led some commentators to assume that the discussion is merely about the difference in practice between Europe and the USA. The key difference lies in the way the concept is understood and researched – and this is not a question of nationality. There are also some, whom I assume have not read far beyond the title, who have understood the term European HRM as an argument that HRM is similar across Europe – for an explanation of the geographical levels of analysis see Brewster (1995b). The use of the term “the contextual paradigm” is also, I fear, open to easy assumptions, but perhaps there are no titles which are risk-free.
- 3 I do not mean to imply in this that there are not other equally powerful paradigms. Many of these will, like the two ideal types explored in more detail in this paper, have originated in particular geographical areas; though like them they will have adherents now in many countries. Thus, within this authors knowledge, there is a strong Latin paradigm which, building on the French sociological and Marxist traditions and the focus on Roman law, is concerned with the establishment of large-scale concepts, societal level and political interactions and the nature and detail of the law. A lack of knowledge of languages (and many other inadequacies) mean that this author is unaware of other research traditions and paradigms in SHRM research, but I would guess there are likely to be others in Japan, the Pacific Rim and the CEE countries for example.

- 4 Cranet-E consists of HRM experts from a leading business school or university department in each of 22 European countries (for historical reasons there are two institutions in Germany, one in the east and one in the west of the country). The network is co-ordinated by the Centre for European Human Resource Management at Cranfield School of Management in the UK. Further details can be found at <http://www.tu-dresden.de/www/lepew/cranfield/index.htm> or in a brochure available from the author. These colleagues work together on a three yearly cycle to collect comparable data from the senior HR person in a representative cross section of organisations in each country and to work together to understand the differences they have identified. So far there have been four rounds of the survey with more countries involved in each round: over 20,000 responses have been collected including over 6,000 in the latest round. In addition, smaller groups within the network carry out other comparative research programmes, funded by Research Councils, the European Commission, the British Council and related bodies, major consultancy organisations and groups of employers. In the last few years these projects have examined a range of different topics: national differences in management styles; flexible working practices (three projects: one analysing the statistical data from 14 countries; one in depth ideographic study in 3 countries; one study of short-term employment); the role of the line manager in human resource management; communication and consultation in European organisations; training, development and learning in Europe; the effects of the changing organisation of the European postal sector on employment.

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Mark E. Mendenhall

On the Need for Paradigmatic Integration in International Human Resource Management

Abstract

- This paper examines three paradigms that influence both management research and management practice today: logical positivism, nonlinear dynamics, and hermeneutics. Their past and present influence on the IHRM subfield of expatriation is delineated.
- The paper also discusses the tendency of paradigmatic balkanization in the IHRM field among scholars and practitioners, and argues for the necessity of the integration of these paradigms in IHRM practice and research.

Key Results

- By utilizing the perspectives of the three paradigms together in an integrative fashion when constructing research design or HR programs, more effective outcomes can be fashioned by IHRM scholars and practitioners. Examples of such approaches in the field of expatriation are delineated in the paper.

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The purpose of this paper is to delineate the evolutionary forces – both past and present – that are driving research and practice on management issues generally, and to discuss how those forces may profitably be combined to push the field of international human resource management (IHRM) forward in an efficacious manner. An in depth analysis of how each sub-discipline of IHRM may be affected in the next millennium by the convergence of these evolutionary forces is beyond the scope of this paper; however, for illustrative purposes, the sub-discipline of “expatriation” will be used as an example of how an IHRM sub-discipline may/should evolve in the next millennium.

Scholars in the field of management generally, and IHRM in particular, have not, until very recently, explored the phenomena in their fields from a variety of paradigmatic perspectives. The transcendent paradigm from which research has been conducted in IHRM has been that of logical positivism. Before reviewing emergent paradigms that are becoming influential in management thought, it will first be necessary to review the predominant paradigm that has, and continues to drive, the lion’s share of research in the field – logical positivism.

The Lens of Logical Positivism

From their inception, the social sciences drew upon logical positivism for their philosophy of science. Giddens notes that it was taken as “a given that the social sciences should be modeled upon the natural sciences: that the aim of the former should be to parallel, in the study of human behavior, the achievements of the natural sciences (Giddens 1984, p. 216).”

Von Wright (1971) has defined the idea of logical positivism as being “a philosophy advocating methodological monism, mathematical ideals of perfection, and a subsumption-theoretic view of scientific explanation (Von Wright 1971, p. 9).” Methodological monism refers to the assumption that “the methodologies appropriate to the cultural and natural worlds are essentially one (Howard 1982, p. 31).

This assumption flows out of a more fundamental belief that if ... the social disciplines are (or, more realistically, can be) sciences, then the philosophical problems of social science are those of all science ... That the answers to these and related questions are essentially the same, whether we are studying the stars or mice or men ... (Brodbeck 1968, pp. 1–2).

The essence of the subsumption-theoretic view of scientific explanation is that through positivistic inquiry, one can eventually isolate the laws that cause behavior in any system or organism, be it human or otherwise. An illustration of a theoretical manifestation of this tenet of logical positivism is Hempel’s covering law model

which [contends] that ... laws can in principle be discovered for the behavior of individuals and of societies ... His theory ... holds that an historical event is explained when a set of circumstances antecedent to it can be subsumed under a general law, established from other studies, so that a deductive combination of statements of the law and statements of the circumstances would trigger a statement predicting the event, if not absolutely then with a high degree of probability (Howard 1982, pp. 26-27).

The goals of traditional social science research are to delineate linear, "cause and effect" laws or principles that exist in logical, theoretical frameworks, and to test the derived propositions of those frameworks through hypothesis testing, using mathematical tools. Scholars have noted that the vast majority of management theories created in the 19th and 20th centuries have been based upon positivistic assumptions, which has led to the study of management phenomena from reductionistic, deterministic, and equilibrium-oriented perspectives (Capra 1983, Capra 1996), that have as their ultimate aim the prediction of human behavior (Doo-ley 1997, Hayles 1991, Wheatley 1992). Wheatley (1992) summarized this way of thinking about social systems when she wrote:

Each of us lives and works in organizations designed from Newtonian images of the universe. We manage by separating things into parts, we believe that influence occurs as a direct result of force exerted from one person to another, we engage in complex planning for a world that we keep expecting to be predictable, and we search continually for better methods of objectively perceiving the world. These assumptions ... are the base from which we design and manage organizations, and from which we do research in all of the social sciences (p. 6).

It is from this paradigm that research in IHRM has been conducted and the fruits of this research literature are substantial; for example, positivist-based research has yielded much useful information about, and has significantly increased our understanding of the phenomenon of expatriation. It is impossible to comprehensively review the past three decades of work in the field in this paper; the following is a brief summary in order to provide perspective of where the field has been, how far it has come, and where it is today.

In the 1970s, the field was in a nascent state; articles began to appear that pointed out that expatriation was carried out in a haphazard, illogical, and often irrational way by large North American MNCs (Baker 1971, Baker 1976, Edstrom/Galbraith 1977, Franko 1973, Misa/Fabricatore 1979, Snodgrass/Zachlod 1977/1978). Throughout the 1980s various scholars operationalized key constructs of expatriate productivity and gathered empirical data using those constructs. This, in turn, provided a clearer understanding of the multidimensionality of the dynamics of expatriate productivity and failure. This trend has continued throughout the 1990s (Adler 1991, Black 1988, Black/Gregersen/Mendenhall

1992, Dowling/Schuler 1990, Harvey 1983, Mendenhall/Dunbar/Oddou 1987, Mendenhall/Oddou 1985, Torbiorn 1985, Tung 1981).

Some scholars in the field, using the exploratory work previously discussed, began creating theoretical models of expatriate productivity – especially in the areas of expatriate adjustment and cross-cultural training. These models gave a sense of structure and intellectual coherence to the burgeoning empirical findings appearing in the field, and also provided the field with the ability to begin the real work of traditional social science: theory development and hypothesis testing (Black/Mendenhall 1990, Black/Mendenhall/Oddou 1991, Boyacigiller/Adler 1991, Gregersen/Black 1990, Tung 1981). This empirical and theoretical development was driven almost entirely by the assumptions and methods of logical positivism.

The superimposing of the logical positivist paradigm upon expatriation research efforts has yielded much fruit; for example, it has: 1) facilitated the unearthing of variables that significantly influence expatriate productivity and failure; 2) delineated the multidimensional complexity of the dependent variable of expatriate adjustment; 3) provided solid evidence for the efficacy of the roles that selection and training play in expatriate productivity and failure; and 4) driven scholars to look critically, beyond anecdotal musings, to attempt to unearth the undergirding theoretical dimensions that account for, explain, and ultimately help in predicting, expatriate productivity and failure.

However, looking at expatriation only through the lens of logical positivism may not provide us with a complete comprehension of the phenomenon of expatriation; it may only aid us in understanding certain dimensions of the phenomenon. Two alternative paradigms will be introduced in this paper that I believe have much to offer IHRM scholars in their continuing efforts to more fully comprehend the phenomena of the field: “nonlinear dynamical systems” and “hermeneutics.”

The Lens of Nonlinear Dynamical Systems

If the world is made up solely of linear systems, with cause and effect relationships where “a given cause has one and only one effect, and a given action has one and only one outcome (Parker 1994, p. 12),” it is wise to construct positivistic theoretical frameworks. However, throughout the twentieth century, discoveries were being made in the physical and natural sciences, simultaneous to the acceptance of logical positivism in the social sciences, that would eventually call into question the paramount status of logical positivism as a comprehensive paradigm for the sciences (Capra 1996, Horgan 1996, Wheatley 1992).

The foundational principles of these new fields in the sciences are often counterintuitive to the traditional social scientist because they are in opposition to the

foundational assumptions of logical positivism. Findings across a variety of scientific disciplines have found that much of nature is made up of systems that are inherently nonlinear in their constitution (Arthur 1990, Capra 1996, Gleick 1987, Horgan 1996, Lorenz 1963, Prigogine/Stengers 1984, Waldrop 1994).

One can begin a study of any social phenomenon with an assumption that the relationships between variables in a social system are inherently linear or nonlinear in nature; heretofore the field has conducted research based on the former rather than the latter assumption. Thus, the paradigmatic perspective of nonlinear dynamics is a new lens through which the field of IHRM can investigate and perceive its phenomena.

For the purposes of this paper, I place research in the sciences that does not reflect the assumptions of logical positivism, and which investigates nonlinear systems, under the general rubric of "nonlinear dynamical systems." This is an unfortunate oversimplification of the many fields that study nonlinear systems, yet it is necessary, as a thorough review of all these fields is beyond the scope of this paper (for introductory reviews see: Capra 1996, Gleick 1987, Gregersen 1990, Waldrop 1994, Wheatley 1992). Only some of the fundamental principles inherent in nonlinear dynamical systems will be reviewed in summary fashion: nonlinearity, sensitive dependence on initial conditions, and deep-order principles/laws. Application of these principles to IHRM research will be discussed later in the paper.

Nonlinearity

Within a system, when outputs are out of proportion to the inputs that created them, that system is said to evince nonlinearity (Lichtenstein/Mendenhall/Macomber 1997). The idea of "nonproportionality of input to output" is a part of our daily experience and our common-sense: eight aspirin are not eight times as effective as one; and 140 degrees F is not twice as pleasant as 70 F! (Goerner 1994) Another way to understand nonlinearity is as follows:

In algebra, we define linearity in terms of functions which have the property $f(x+y) = f(x) + f(y)$ and $f(ax) = af(x)$. Nonlinear is defined as the negation of linear. This means that the result f may be out of proportion to the input x or y . The result may be more than linear, as when a diode begins to pass current; or less than linear, as when finite resources limit Malthusian population growth. Thus the fundamental simplifying tools of linear analysis are no longer available (Meiss 1995).

The condition of nonlinearity occurs due to the interdependence that exists between variables in a nonlinear system (Lichtenstein et al. 1997). This interde-

pendence occurs when groups of elements mutually affect and are affected by each other, such that causality is not unidirectional but can only be understood through the complex interconnections between all the elements of the system in its environment (Lichtenstein et al. 1997). In other words:

In nonlinear systems, the relationships of the parts within the system are so mutually intertwined that one cannot simply tear out a subsystem of a larger system and study it. It cannot be done because each element of the system is too richly interconnected with other elements of the system (Mendenhall/Macomber 1997).

Thus, nonlinear systems are made up of interwoven, interconnected feedback loops between numerous variables, that are fundamentally connected in mutually causal relationships. These systems of relationships display nonproportional effects in some or all of their interactions.

Sensitive Dependence on Initial Conditions

Because variables in nonlinear systems interact in conditions of mutual causality, they are subject to being highly “sensitive to initial conditions,” which means that

some tiny error to a number of decimal places, some imperceptible ‘noise’ in the system, can escalate into major qualitative changes in the behaviour of that system. In such systems we cannot safely assume that small errors are unimportant. Errors are not distributed in the way statistical theory assumes; instead, variances are infinite so that standard estimation techniques break down. The range of effects to which a single cause can lead may well be huge. In fact, links between cause and effect disappear in the complexity of interactions. In consequence, the long-term future of the system is inherently unpredictable (Parker/Stacey 1994, p. 13).

Nonlinear systems thus evince long term unpredictability, due to the fact that small perturbations in such systems can send ripple effects that cause the system to take new directions, the end result of which cannot be accurately foreseen or predicted. Sometimes this characteristic of nonlinear systems is termed, “the butterfly effect,” after the notion that due to the interdependence and mutual causality in weather systems across the planet, the flapping of a butterfly’s wings on one continent interacts with the local weather system, which then acts as the input that, with other inputs, act as a nonlinear amplifier to create a domino effect resulting in a storm on another continent (Gleick 1987).

The complexity of nonlinear interactions that are always existent in any nonlinear system allow such systems to be highly adaptive to changing circumstances and situations; thus, they are often termed in the literature, “complex adaptive systems.” A complex adaptive system is inherently self-organizing, it adapts, learns, and responds in order to survive and thrive in its environment. The adaptation, learning, and responses take place at each hierarchical level in the system, with sometimes adaptations at one level rippling throughout the entire system, causing further adaption across all levels: a kind of “internal butterfly effect.” It is through such internal nonlinear dynamics that complex adaptive systems continually recreate themselves in order to survive.

Deep-Order Principles/Laws

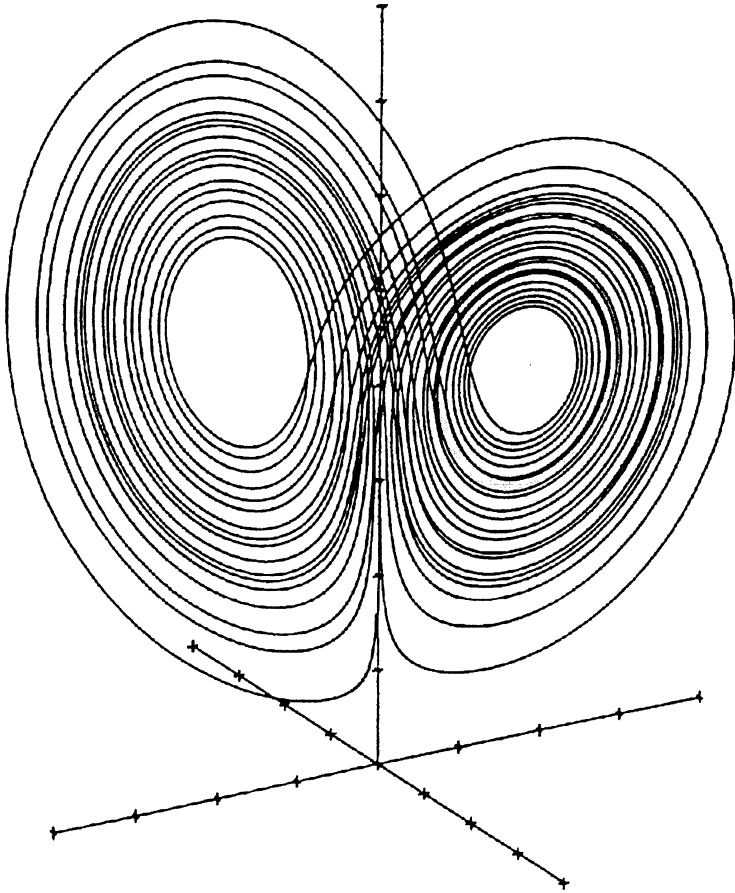
Nonlinear dynamicists conduct research on nonlinear systems by using the concept of “phase space.” In phase space, numerical values are transformed into geometrical representations by using the numbers as coordinates in an imaginary space that has been termed phase space (Stewart 1992). For example:

the interaction between a population of foxes and the population of rabbits they prey on might be represented by a dynamic system whose two variables are the number of foxes and the number of rabbits. If we think of those two numbers as coordinates on a two-dimensional graph, we can use them to draw pictures of how the two populations vary ... over time the populations of foxes and rabbits rise and fall, and so the point that represents them in phase space moves around (p. 61).

The actual behavior of the system at any one point in time is displayed as a point in “n” dimensional phase space (Capra 1996, Stewart 1992). This approach allows for the solution of nonlinear equations that describe natural phenomena in graphical and geometrical modes, thus the results of these methods are not formulas, but graphical representations of a system’s behavior over time (Capra 1996).

In nonlinear systems, it is impossible to predict where each point will next be in the system’s evolution; however, despite this seeming randomness in nonlinear system behavior, post hoc observation of phase-space studies reveals that the points are not randomly distributed. After numerous iterations over time, the dots in phase space form distinct patterns of overall system behavior. There seem to be “deep-order dimensions” within the system itself that set certain bounds, and which guide the overall pattern of the system’s behavior. These trajectories or patterns have been termed “attractors” because they seem to “attract” system behavior to exhibit itself in certain guided complex patterns (Capra 1996, Gleick 1987, Gregersen/Sailer 1993, Stewart 1992). Capra notes that

Figure 1. The Lorenz Attractor



one striking fact about ... attractors is that they tend to be of very low dimensionality, even in a high-dimensional phase space. For example, a system may have fifty variables, but its motion may be restricted to ... [an] attractor of three dimensions, a folded surface in that fifty dimensional space. This, of course, represents a high degree of order (p. 133).

Perhaps the most famous attractor was discovered by Edward Lorenz in 1960. It was produced from a study where he created a rather simple model of weather conditions that consisted of three coupled nonlinear equations. His attractor is shown in Figure 1.

As with all nonlinear systems, it is impossible to predict “which point in phase space the trajectory of the Lorenz attractor will pass through at a certain time (Capra 1996, p. 135), “but the Lorenz attractor’s behavior does not randomly produce itself throughout phase space because it has governing “structures that describe and dominate [it] during its evolution” (Kiel/Elliott 1996, p. 28).” From the findings of Lorenz and others, Stewart (1992) concluded that “we now know that rigid, predetermined, simple laws can lead not only to predictable, everlasting pattern but also to behavior so complex and irregular that it appears to all intents and purposes random (p. 58).”

Increasingly, management scholars are utilizing concepts from nonlinear dynamics to expand their understanding of organizational behavior (Capra 1996, Cutright 1997, Dooley 1997, Elliot/Kiel 1996, Gregersen/Sailer 1993, Holland 1995, Kiel 1994, Kiel/Elliott 1992, Lichtenstein et al. 1997, Parker/Stacey 1994, Waldrop 1994, Wheatley 1992), and the implications of nonlinear dynamics’ concepts on the fields of management and IHRM are interesting and important (Mendenhall/Macomber 1997):

1. Organizational behavior that is complex arises out of the nonlinear interaction of variables that are not easily apprehendable through the traditional methods of analysis of social science.
2. Organizational behavior may be governed by deep-ordered principles/laws, but these often can only be discerned via post-hoc analysis.
3. Organizational behavior may be only predictable in very short futures, if at all, and long term predictability is likely impossible.
4. Organizational behavior is highly susceptible to being powerfully influenced by the inputs of extraneous, seemingly insignificant variables.

The implications of these ideas for expatriation are equally interesting; for example, in our current models, independent variables are always viewed as being independent of each other, and are seen as only influencing dependent variables. There is little, if any, treatment given to issues of mutual causality between independent variables. For example, it has been hypothesized that both “level of self-efficacy” and “willingness to communicate” positively influence expatriate adjustment (Black et al. 1991). However, does the independent variable, “high self-efficacy” also influence the independent variable, “willingness to communicate”? And vice versa?

From a nonlinear perspective, it is quite possible that as one’s level of self-efficacy increases, that one is also more likely to be disposed to attempt to communicate with host-nationals to a greater degree and with a more positive attitude; likewise, forcing oneself to communicate with host-nationals, and finding that the outcomes from such attempts elicit beneficial outcomes, heightens levels of general self-efficacy. Thus, these two independent variables can be seen as being in an ongoing, mutually causal, “chicken-egg,” relationship, which

also simultaneously influences other independent and dependent variables as well.

In the same vein, it can also be asked: "Do dependent and independent variables mutually influence one another?" A nonlinear dynamics perspective would hold that, "high self-efficacy likely enhances degree of adjustment, but degree of adjustment as it increases or decreases likely influences an increase or decrease in self-efficacy within the expatriate as well (Mendenhall et. al. 1998, p. 13)."

Nonlinear dynamics challenges scholars to view system variables as being mutually causal, inextricably intertwined, and in constant movement and adaptation. Mary Parker Follett summarized well the challenge of viewing social phenomena in this manner; in her view, scholars must approach the phenomenon they study from a stance of ascertaining

a varying thing in relation to a varying thing, taking into account that these are affecting each other simultaneously. We must therefore in the social sciences develop methods for watching varying activities in their relatings to other varying activities. We cannot watch the strikers and then the mill-owners. We cannot watch France and then Germany ... the activity between mill-owners and strikers is changing the activity of mill-owners, of strikers ... France is not responding to Germany, but to the relation between France and Germany ... The interweaving which is changing both factors and creating constantly new situations should be the study of the student of the social sciences (Follett 1951, p. 68–69).

The nonlinear perspective poses new and interesting theoretical, empirical, and applied questions to IHRM scholars; some of these potential questions will be discussed later in this paper.

The Lens of Hermeneutics

Another paradigm that has emerged and taken root in the intellectual life of twentieth century thought is that of hermeneutics. Hermeneutics evolved as a discipline over the centuries from interpretation efforts in theology, classical philology, jurisprudence, and philosophy, and can be generally defined as the study, practice, and theory of interpretation (Mueller-Vollmer 1988, Thistleton 1998). The etymology of the term derives from the mythic messenger of the Gods, Hermes. To be successful in his vocation, Hermes had to be able to perfectly understand the messages that the Gods gave him, and then reconstruct those messages in such a way that mortals could comprehend their true meaning (Mueller-Vollmer 1988).

In this century hermeneutics has evolved to become a “theory of understanding in the broadest sense ... It currently also relates to views of contextual theories of meaning and truth, in contrast to formalist approaches” (Thistleton 1998, pp. 389–390). Howard (1982) notes that the growth of hermeneutics in this century as a paradigm has been fueled by the ongoing tension between the sciences and the humanities.

The heart of this debate has always been the question, To what degree do the purposes and intentions of the individual affect the experiences he has, and consequently the shape of the reality he apprehends, and consequently the knowledge he claims to acquire? ... [S]cience ... answers in general that teleology and purposiveness must be rejected as elements in an explanation; neutrality and objectivity require that the role of the individual be discounted as much as possible. Spokesmen for the humanities, on the other hand, are prone to insist that there are some fields of study – history, for example, or literature – where the individual’s goals, perceptions, and imagination are so intrinsically involved in the shape of the reality apprehended that discounting these would be equivalent to denying that these fields of study exist at all and would amount to an arbitrary impoverishment of the world we hope to render intelligible (Howard 1982, p. ix).

It can thus be argued, as Lord Snow did in his 1959 address, “The Two Cultures,” that positivistic science strives to provide humans with “explanations” of phenomena, whereas hermeneutics has to do with the “understanding” of phenomena. One of the founders of modern hermeneutics, Wilhelm Dilthey (1914) noted that “nature we explain, the life of the soul we understand” (Howard 1982, pp. 143–144).

The process of coming to “understand” social phenomena involves the engagement of the process of the “hermeneutic circle.” First developed by Schleiermacher and expanded by Dilthey, Heidegger, Gadamer, Habermas, Ricoeur, and Derridas, the essential idea of the hermeneutical circle is that one brings preconceptions, biases, and a specific worldview to the object one desires to understand. This is termed a state of “pre-understanding,” or “*vorverständnis*.”

As one begins to investigate a topic, a more fuller understanding of it subsequently develops, and this new knowledge is fed back into one’s pre-understanding, creating it anew. The topic is then restudied, but this time from the stance of a more refined pre-understanding. The result is that one is able to ask more cogent questions, and to investigate new aspects of the topic than one could have done before with a more limited pre-understanding. In a circular fashion one goes from pre-understanding, to greater understanding, back to pre-understanding, and on to greater understanding in a circular process that does not end (Thistleton 1998).

The hermeneutical circle can also be understood as beginning with an understanding of a part of some larger, complex whole. By investigating the relation-

ship of the part to the whole, one develops a greater understanding of the whole of the phenomenon. Once gained, the greater understanding of the whole becomes a partial understanding of an even greater complex whole, one that previously could not be seen. As before, the process continues, in a circular fashion, promoting an ever deeper and ever changing understanding of the meaning of the phenomenon (Thistleton 1998).

A comprehensive review of the field of hermeneutics cannot be done in this paper; the field is simply too vast, with its own opposing camps and variant sub-paradigms (Howard 1982, Mueller-Vollmer 1988, Thistleton 1998). However, a common theme in hermeneutics is the building of process models that aid in "understanding" phenomena, of surfacing the "meaning" of experience.

In its broadest sense, hermeneutics can be said to be the theory of interpretation or understanding. And it is in that broadest sense that I desire to use it as a term to describe an emerging perspective by which IHRM phenomena can be studied. In traditional hermeneutics, much attention was given to the practice of interpreting theological and classical texts. Some of the basic principles of traditional textual criticism can be summarized as follows (Goble 1997):

1. The meaning of the text should be determined as much as possible from the text itself.
2. External traditions should not be imposed upon a text.
3. The meaning of a text is partially dependent upon the linguistical structure of the text.
4. New concepts can be created in a text that did not exist in the historical context.
5. A text's meaning is partially determined by what is psychologically significant to the author as well as by what is grammatically significant.

At the risk of overextending application from one field to another, I would like to suggest that these principles can be fruitfully applied to the study of expatriation, and will then give an example of just such an application. Perhaps the best way to illustrate how these principles can be applied to our field is to simply list them again, only this time with some slight rewording:

1. The meaning of expatriation should be determined as much as possible from expatriates' themselves (as opposed to vice presidents of HR, host nationals, and other observers of the expatriates' behavior).
2. External theoretical models should not be imposed upon expatriates as templates to guide their statements of their experiences.
3. The meaning of an expatriate's experience is partially dependent upon the expatriate's worldview.
4. New insights can be created by expatriates from post hoc musings on their expatriate experiences that they did not understand while in those experiences.

5. An overseas experience's meaning is partially determined by what is psychologically significant to the expatriate as well as by objective measurement.

The utilization of hermeneutical principles such as these in the field is perhaps best illustrated by the work of Osland (1995). In her work, she began with the assumption that it is important to understand how expatriates interpret their experiences of expatriation. She sought, in part, to discover the meaning they gave to their experiences and the meaning they derived from those experiences.

Through in depth interviews where she listened intently to what expatriates had to say about their experiences, she detected a pattern of meaning – a picture of interpretation – that emerged from the accounts of her subjects. The pattern correlated closely with Joseph Campbell's codification of the hero's journey in mythology. Using that as a conceptual template, her writings on expatriation provide fresh insights into expatriation that have expanded the field's view of what takes place inside the individual expatriate – the meaning he/she gives to the experiences of expatriation – and how expatriates can be effectively supported in their overseas assignments.

The voice of expatriates, and the meaning and interpretation they have of their experiences as they live them, are not easily unearthed via survey questionnaires, directed interviews, standardized tests of adjustment, or speaking with other observers of their behavior, such as vice presidents of HR, host national subordinates and peers, or headquarters personnel. This is not to say that the observations gained through these methods and people are not useful; however, the general approach of listening to the understanding, meaning, and interpretation of the overseas experience from expatriates themselves can generate unique and practical results for both companies and researchers. The work of Osland (1995) illustrates that great insights and practical recommendations can come from employing a hermeneutical perspective to the study of expatriation.

Discussion

Each of the three paradigmatic perspectives discussed above engenders unique results which are beneficial to a more complete understanding of the dynamics of the phenomena of IHRM. However, in my view, the IHRM field faces a danger in this regard as it enters the new millennium: paradigmatic balkanization. The worst thing that could happen would be for IHRM scholars to divide themselves into camps of their preferred paradigms, and expend strength and focus in arguing about whose paradigm is "right."

Rather than being frozen in a petrification of intolerance towards alternative research perspectives, IHRM scholars must realize that each paradigmatic per-

spective can, and should, inform our understanding of the complexity of the dynamics of the phenomena of our field. The degree to which this petrification occurs or does not occur will proportionately reflect the degree to which the field progresses in the next millennium.

How can/should fruitful paradigmatic integration take place in the field? In order to map terrain, surveyors use triangulation as a method for finding a geographic position by taking bearings from two fixed points (Merriam-Webster 1998). Similarly, in order to bring our understanding of IHRM issues into a more complete focus, we too need to take bearings on the given phenomenon under study from differing fixed perspectives. Only by fixing our gaze on the dynamics of the issue under study from differing perspectives can we come to understand the object that we study in its actual dynamic reality.

Though the triangulation metaphor is not a completely clean one when applied to our field, it nevertheless provides scholars with an intriguing heuristic that can create new possibilities – possibilities that can drive the field forward in creative and robust ways in terms of research and practice. The permutation of these possibilities are too numerous to discuss, but for illustrative purposes, two hypothetical examples will be offered, both from the sub-discipline of expatriation.

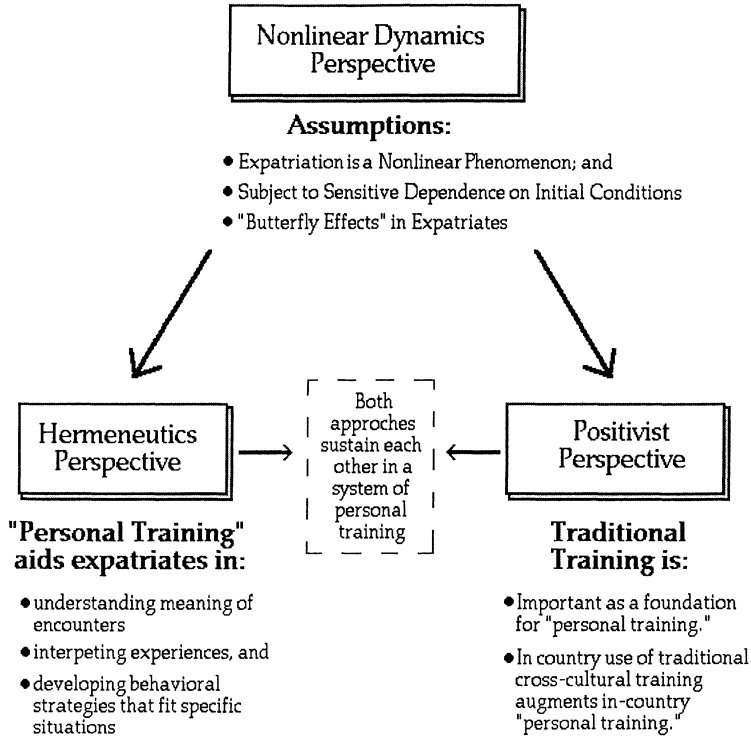
Integration of Paradigms and Cross-Cultural Training

For illustrative purposes, let us begin with the assumption that expatriation is inherently a nonlinear phenomenon, though one does not have to begin with a nonlinear dynamics bias in order to maximize the triangulation of perspectives in either research or practice (see Figure 2).

Operating from this perspective, the expatriation experience would be viewed as one that is highly complex and unpredictable in nature, and one in which no two expatriates will experience the same reality. Also, the adjustment process would be viewed as an ongoing, never-ending, nonlinear process that is subject to “sensitive dependence on initial conditions.” The implication of sensitive dependence on initial conditions on expatriates’ lives is that one – just one – negative or poorly handled cross-cultural experience can send an expatriate’s life – and the company’s business – careening into unproductive and dysfunctional paths.

Another implication of this perspective is that an ongoing interaction with host-nationals induces changes in the expatriate’s mindset, values, and worldview, and that these changes are often induced by small, seemingly insignificant cross-cultural encounters. These experiences will influence in either a positive or negative fashion, expatriates’ self-efficacy, self-confidence in their business acumen, future career options, family life, and self-image.

Figure 2



Given this perspective of the expatriate experience, how should training be conducted for expatriates? Due to the power of the "butterfly effect of cross-cultural encounters," a logical conclusion presents itself: expatriates need cross-cultural training in "real-time." They need to be able to form answers and response strategies immediately to questions and issues that arise from confusing cross-cultural encounters, so that the effects of negative ripple-effects can be dampened quickly, and relationships with host-nationals re-sustained in rapid and appropriate ways.

Currently, companies fortify expatriates for what will perhaps be the greatest challenge of their business career with pre-departure training programs that are relatively low in rigor, programmatic in format, and content that assumes that "one size fits all" (Black et al. 1992, Tung 1982)."

After receiving such traditional predeparture training, expatriates subsequently experience unique cross-cultural encounters which require creative appli-

cation of the principles they learned in their training programs in order to fit the specific situation in which they find themselves. When confronted with situations that do not neatly fit the examples they remember from training, frustration occurs, and they often exhibit knee-jerk behaviors that worked for them in their home culture. Traditional cross-cultural training cannot cover all the principles, all the norms, all the “cross-cultural gray areas,” or all the answers to specific situations that an expatriate will encounter during his/her overseas assignment.

Traditional training may be the most cost effective way to relay important information and principles of cross-cultural interaction, but it will not significantly assist expatriates over the long term in their overseas stay. It is not useless to do this type of “positivistic” training, for everyone in any expatriate cohort needs to know foundational principles of cross-cultural effectiveness; there is nothing wrong with traditional predeparture programs. However, a nonlinear perspective on predeparture training broadens the view of the scope of the training that is necessary, with existing predeparture programs being only the foundational thread in a “tapestry of training” strategy (again, see Figure 2).

Training as a Tapestry

Expatriates need more than just emotional support systems (though such systems are important), they need continual education that occurs via “real-time” delivery. Mendenhall and Macomber have noted that such a delivery system would involve training that is highly personalized:

A concept more akin to “personal trainers” in the health and fitness field would be a possible model. Personal trainers would focus heavily on helping expatriates to develop personal strategies of how to maximize the learning potential of cross-cultural encounters. Such a genus of training would also necessitate that it take place “in-country” as opposed to being offered before departure. Concepts and principles learned before departure are difficult to comprehend outside of the context in which they operate, namely, the host culture (p. 57–58).

There are essentially two ways in which companies can conduct real-time education for their expatriates: resident “cultural consultants” or long-distance “cultural consultants.” Both types of cultural consultants would need to be experts on the host culture’s business and societal norms/processes who would essentially be “on-call” and available for private tutoring for the expatriate cohort that live in the host culture.

Much like personal fitness trainers, one does not need them every hour of every day, only on a consistent or “as needed” basis. Some expatriates may de-

sire to schedule consistent meetings with the cultural consultant to talk over incidents they have encountered and to get the consultant's perspective on those incidents. Other expatriates may desire simply to call on the cultural consultant only as questions arise from their interactions with host nationals.

The role of the cultural consultant would be to listen to how expatriates interpret their experiences, and to share with the expatriates how the host nationals might be interpreting the same experiences. Together, they form a meaning of the experience in the expatriate's mind that will lead the expatriate to respond with productive rather than dysfunctional behaviors. Thus, the cultural consultant plays a hermeneutical role in assisting the expatriate in constructing functional interpretations and meanings from the expatriate's overseas experiences.

If the cultural consultant perceives a common pattern of questions or needs amongst the cohort of expatriates, he/she can organize more traditional training formats where the group is brought together and where the cultural consultant educates them using traditional, positivistic methods of training. The give and take between individual and group training methods thus cycles back and forth, continually enhancing the cross-cultural education of the expatriate cohort.

Placing a cultural consultant on retainer would not require exorbitant budgetary expenditures, and would be a great aid to expatriates. If no one can be found locally to act as a cultural consultant, the role could be conducted via long distance over the phone, though this would be a less ideal solution. Occasionally, the long-distance cultural consultant could be flown over to meet with the expatriates to conduct formal training if the need arose.

There are likely more training options that could be created from "triangulating" the three perspectives on the issue of cross-cultural training effectiveness. What was proposed above should not be considered the ideal policy option available to all companies; rather, it is given simply to illustrate that when multiple perspectives are focused on an issue, new and creative solutions are likely to emerge, solutions that might not emerge if the issue were addressed by only one perspective.

Integration of Paradigms in Research

One of the intriguing implications of nonlinear dynamics is that social and organizational systems may have fundamental governing principles associated with them (termed "attractors" in nonlinear dynamics), that when obeyed, cause productive organizational evolution, and when discounted, cause the organization to evolve dysfunctionally, possibly even to the point of demise. This notion is similar to what Ohmae called "key factors of success (KFS)." In his work on strate-

gists (Ohmae 1982), Ohmae observed that excellent strategy is based on an understanding of what the KFS are for any given industry. He contends that: "in any business situation, a handful of the myriad factors present will basically determine the outcome, and strategy will be successful if these factors can be controlled or applied skillfully (p. 83)."

In essence, he contends that good strategy is based on understanding what the underlying governing principles are for an industry. If those core principles are the constant point of focus on the part of management, sound strategy will tend, all else being equal, to naturally evolve. It is important to note that if two companies in the same industry both knew what the KFS were for that industry, they would evolve differing programs, policies, strategies, and methods in their pursuit of their maximization of those KFS. Though they would evolve differing methods, in principle they would both be more successful than other companies in the industry who follow strategies that evolved out of a focus on factors different than actual industry KFS.

A recent study done by a team of German researchers illustrates how productive organizational behavior evolves out of compliance to core, governing principles (Rommel/Kluge/Kempis/Diederichs/Bruck 1995). They studied two industries, mechanical engineering (machine-tool, textile machinery, and white goods makers) and component manufacturing, and found that in both industries there were similarities between highly productive companies and less productive companies.

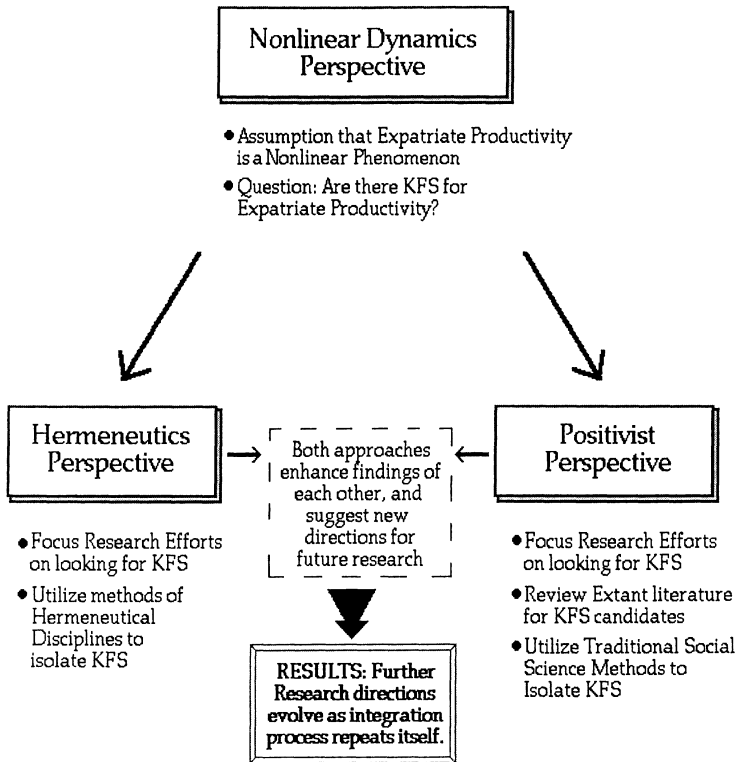
The over arching factor that differentiated the level of success in both industries was that of "simplicity." They stated that "the analysis uncovered this success pattern in the 'boom' period of 1985-1989; it was seen again in the recession that we have experienced since 1990. Although the average return on sales of the segment fell from 8 percent in 1989 to about 2 percent in 1991, the 'simple' companies still had a return on sales three times higher than firms afflicted with over-complexity (Rommel et al. 1995, p. 1)."

The researchers used the term "simplicity" to describe the phenomenon of being aware of the principles that are truly critical to a company's business success and what is ancillary to that success. The productive companies in their study kept their focus riveted on specific KFS and maintained a vigilance to eliminate any tendency to put resources into ancillary activities.

Nonlinear dynamics and the above research suggest that when managers do not understand clearly what is crucial to productivity, they build systems that institutionalize activities that are ancillary to success and productivity. When things subsequently don't go so well, they try to refine the system, but only wind up adding to its inherent dysfunctionality. Success depends in part on knowing what the core, governing principles are for one's industry, and then organizing from those principles.

How does this apply to expatriation? A scholar who looks at expatriation through nonlinear dynamics lenses would assume that expatriation is inherently

Figure 3



a nonlinear phenomenon, and a natural extension of that assumption would be to wonder if there are deep-order, governing principles (KFS) of expatriate productivity. This core perspective and question is at the apex of the triangulation of perspectives illustrated in Figure 3. From this point, a multitude of methodological permutations could flow; thus, only a few general directions will be outlined here.

From the positivistic perspective, our scholar already has much information to draw from—an entire literature exists. Those already working from this perspective have published papers that have delineated many variables that influence expatriate adjustment, variables that can act as prime candidates for being potential KFS. One line of research would thus be to focus more intently on delineating which variables—or combination of variables—account for the lion's share of the variance in adjustment. This is still an area in the field of which little is known. Currently, a legion of variables that influence adjustment have been cat-

egorized and linked to adjustment, but there is little sense of which are the most critical to adjustment. The isolation of the possibilities for KFS is a critical work that needs to be done.

Also, searching for the KFS of expatriate productivity will likely be aided by the use of methods from the hermeneutic perspective. This type of research approaches the sorting through of variables that we know have relationship to adjustment in ways different from positivistic methodologies. Both approaches can inform and enhance each other in the goal of finding KFS. For example, after listening to expatriates tell of their experiences, a commonality may emerge in the researchers' analysis, one that may have the potential to be a KFS. That emergent theme or dimension can then be further researched utilizing methods from the positivistic perspective to dig more deeply into the specifics of its relationship to adjustment. Once some linear causal links have been found, the researchers might then turn to a nonlinear perspective, and look for mutual causal links between the variables of the dimension outlined.

A variety of tools can be employed in order to flesh out whether mutual causality exists or not (Elliot/Kiel 1996, Kiel 1994, Kiel/Elliott 1992). If the dimension seems to be a fruitful candidate for a KFS, expatriates who focus on that dimension in their overseas experience can be targeted and studied, using both positivistic and hermeneutical methods, over a long time horizon, in order to map how the application of that dimension has evolved higher levels of productivity in their overseas assignment compared to expatriates who do not focus on that specific KFS.

It is my contention that the interaction of paradigmatic perspectives in research pursuits can potentially tell us much more about expatriation than we currently know; "triangulation" in research extends the horizon of the knowable, and diminishes the tendency to conduct research studies that are merely variations off of old, well-worn themes. Paradigmatic integrative approaches to research have the potential of exposing the entire phenomenon, in all its complexity, to our view.

Conclusion

As the field of IHRM enters into the new millennium, scholars and practitioners have essentially two options available to them: 1) continue to conduct research and practice as usual or 2) broaden their views to include alternative paradigmatic perspectives in their work. There is tremendous pressure to maintain the professional status quo: tenure decisions, reputation, publication success, and personal preference all combine to motivate researchers to continue to do things as they always have been done.

However, it is my view that the profession is evolving toward more openness in each of these dimensions; in the US, tenure is more often now becoming institutionally-specific in its requirements compared to the past, which is beginning to allow for more diversity in one's professional work, depending on what category of institution one is at. Similarly, more journals are open to publishing alternative theoretical and empirical approaches to research than ever before. The tectonic plates of the profession are shifting, but how far and how fast they will continue to shift cannot be known.

The tension between these competing paradigms will continue to heighten in the next millennium in the broader field of management; I hope that the tension becomes nonexistent in the field of IHRM, and that we as a collective body of scholars will rather view these three paradigmatic perspectives as interdependent aids to our quest for a more complete understanding of the phenomena of our field.

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A Transaction Costs Perspective on International Staffing Patterns: Implications for Firm Performance

Abstract

- This paper develops a model of the relationship between staffing patterns and firm performance in international firms. According to the logic of transaction cost economics, staffing patterns that reduce cultural frictions and risk can help the firm to gain competitive advantage and improve performance. The implications of various staffing patterns for international firm performance depend on the underlying basis for competitive advantage, and on the type of international strategy pursued.

Key Results

- Relationships are developed in an integrative model among HRM staffing patterns, risk reduction, transaction cost economies, distinctive competence, competitive advantage, and performance in international firms.

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Introduction

The central versus local dilemma, or how to reconcile pressures for local responsiveness and customization with countervailing pressures for global centralization and coordination, is a source of problems and opportunities for the international firm. "The most difficult challenge management faces is administrative: the structuring of the company's internal decision-making process to allow the organization to sense, interpret and respond to tensions and the resolution of the often contradictory demands for global competitiveness and national responsiveness" (Doz/Bartlett/Prahalad 1981). A number of organizational and strategic issues take on additional complexity as a result of this dilemma. Finding the right balance between competing interests – corporate versus business unit, headquarters versus field, strategic versus operational – can be problematic for any firm, and all the more so for the international firm (Torbiörn 1997).

International human resource management (IHRM) is particularly sensitive to the central vs. local dilemma. Within this general area of concern, one important consideration is the staffing practices of multinational firms, and their impact on firm performance. Certain aspects of staffing have significant implications for the cost structure of the firm, either decreasing or increasing overall costs. If these effects can provide a basis for gaining significant competitive advantages, they may enable the firm to outperform its competitors.

Our objective in this paper is to identify some of the risks associated with particular kinds of international staffing decisions. These risks are defined in terms of the strategy of the firm, and can be evaluated in terms of its strategic priorities. How the firm manages them can greatly enhance or diminish its long-term performance.

The analysis presented in this paper extends the competence-based approach to human resources (HR) strategy, by linking transaction cost economics and strategic management to the analysis of HR practices in international firms. However, it is not a review paper per se. Building on the conceptual work of others, we develop a model and apply it to the analysis of specific international staffing arrangements (Erdener/Torbiörn 1997).

The discussion of strategy in this paper closely follows the comprehensive analysis by Hill and Jones, 1995 (drawing on Bartlett/Ghoshal 1989). The discussion of the competence-based approach to HR strategy is based on the integrative synthesis of the literature on that topic by Torbiörn (1997). This paper builds on conceptual foundations that have not been previously integrated and applied to HRM issues in the management literature. Concepts from competitive strategy and competitive advantage, transaction cost economics, intracultural management, and international firm strategy provide the foundation for analysis.

Competence-Based HRM

One important basis for sustained competitive advantage is through the coordination of resources (Henderson/Cockburn 1994, Marino 1996). Human resources are one component of the firm's capabilities, in that they can be combined in unique ways to enhance the overall competence of the firm.

The competence-based approach places HRM issues within the larger context of strategy and strategic management. This provides a conceptual framework that is broad enough to encompass the full range of the firm's activities, core competencies, strategic objectives, etc., on the one hand, and its Human Resource (HR) practices and concerns on the other. HRM strategy is analyzed and evaluated in terms of its relevance to the competitive advantages and competitive strategy of the firm. In essence, the competence-based approach requires that HR objectives and strategies be derived from the firm's corporate and business level strategies and goals, and also that they support the strategies of its other internal functions and operations. In as much as it helps to overcome deficiencies in the HRM academic literature, which has been described as fragmented and overly focused on problems that are isolated and narrowly defined, the competence-based approach may be considered a step forward in the development of the discipline (Torbiörn 1997).

The theoretical explanation for this argument lies in the analysis of transaction costs. When an organization is under threat, it tends to respond with measures to reduce the threat, thereby increasing costs in terms of time, energy, and resources. One way to reduce such transaction costs is to reorganize the firm's activities, so as to remove the underlying risks that drive them.

Competitive Advantage

"Effective strategic management requires an understanding of organizational resources and competencies as well as how each contributes to the formation of organizational strengths and ultimately to the development of a competitive advantage" (Duncan/Ginter/Swayne 1998). Developing and sustaining a meaningful advantage over competitors is widely regarded as a crucial determinant of successful firm performance (Barney 1991, 1995, Peteraf 1993, Wernerfelt 1995).

Firms competing in the global marketplace typically face pressures for cost reductions and pressures for local responsiveness (Hill/Jones 1996). These pressures place conflicting demands on the firm. Competitive pressures for cost re-

ductions generally require efforts to minimize unit costs of production and operations – e.g. by basing manufacturing in the best low-cost location, or by standardizing products for the global marketplace. Competitive pressures for local responsiveness, on the other hand, require tailoring products and marketing to each country – e.g., to accommodate national differences in consumer tastes and preferences, business practices, distribution channels, competitive conditions, government policies, and so forth. In addition, strategies for cost reduction and local responsiveness impact one another: differentiation of products and marketing across countries tends to raise unit costs through the duplication of effort and loss of scale economies; and standardization across countries with very different markets tends to negatively affect demand because of local market differences. Some industries simultaneously experience high pressures to reduce costs and also to be locally responsive.

Competitive Advantage and International Activity

In order to manage its international activities, the firm develops arrangements for organizational structure and control that support its overall strategy. Each type of strategy has its own objectives, issues, and priorities, as well as its own preferred organizational structure, reflecting differences in the need to coordinate and integrate global task activities (Hill/Jones 1995).

Structure and controls for managing internationally depend on three considerations. First, they depend on how responsibility and authority are divided between domestic and foreign managers, to maintain effective control over a company's foreign operations. Second, they depend on how foreign operational tasks are grouped with domestic operations to use resources and serve foreign customers. Third, they depend on the organizational mechanisms and culture through which the structure functions.

One of the benefits of international expansion is that it enables the firm to increase the return on core competencies, by capitalizing on capabilities that it has already developed in the parent country. Distinctive core competencies can permit a firm to differentiate and obtain premium prices for its products. Companies with valuable distinctive competencies can maximize returns by applying them in foreign markets where the competition is weak. This is a major source of competitive advantage.

A second benefit of international expansion is the opportunity to place an activity in a location that lowers costs. If the firm's costs are lower than its competitors', location advantages support a low-cost leadership strategy. Location advantages can also support a strategy of differentiating products and/or services, if the operational activities are located in places where value-added can be maximized. Location strategies that minimize costs while maximizing value-

added enable the company to pursue low-cost and differentiation strategies simultaneously. This can be an additional major source of competitive advantage.

A third benefit of international expansion is that it speeds up experience benefits to firms whose global market is significantly larger than their domestic market. Serving a global market from a single location facilitates the expansion of production volume. The advantages of serving the world market from a single location are greatest if scale economies and location economies can be combined.

Transaction Costs

Transaction costs theory links the study of organizations to economics, to explain the origins of certain types of costs and the implications of managing them through one governance structure versus another. The main components of transaction costs analysis include the human factors of *bounded rationality* and *opportunism*, the environmental factors of *uncertainty/complexity* and *small numbers*; and the condition of *information impactedness*, which results from interaction of *uncertainty/complexity* and *opportunism* (Williamson 1975).

The more common application of transaction costs theory is in providing an explanation for the firm's decisions on which activities to internalize, and which to carry out or procure on the market. It can be advantageous for the firm to bring certain types of activities under direct managerial control by internalizing them within the organization.

"Transaction cost theory argues that the ex ante costs of operating in another country include the costs of establishing a physical presence and of learning a new culture and market (Hill/Chan 1988)" (Horton 1994, p. 140). In the international firm, the extent to which internalization does in fact reduce risks and costs is influenced by staffing decisions regarding the use of Parent Country Nationals (PCNs), who are expatriates sent from the country of the parent corporation to the foreign country operation, Host Country Nationals (HCNs), who are foreign country nationals hired by the parent corporation to staff its foreign country operation, and Third Country Nationals (TCNs), who are expatriates from yet another country employed by the parent corporation and sent to work in its foreign country operation.

Bounded rationality refers to physiological and linguistic limitations on the capability to handle information. "The physical limits take the form of rate and storage limits on the powers of individuals to receive, store, retrieve, and process information without error" (Williamson 1975, p. 21). In the international firm, this has a direct parallel in the ability of individuals to function effectively across cultural systems (Torbiörn 1994).

Information impactedness can also arise in the international firm from the interplay between *bounded rationality* and *uncertainty/complexity*. This is due to the additional information-processing requirements of managing across different cognitive frameworks when crossing national and cultural borders. Asymmetries in the complexity of various cultural systems and the associated skill level needed to function effectively across cultural systems also contribute to the problem (Torbiörn 1994).

Remediable Frictions

An important underlying concept in transaction cost theory is that of remediable frictions (Williamson 1975, p. 20). These include all manner of frictions which are associated with one mode of organization rather than another. Transaction costs originate in the firm's efforts to reduce these frictions, by changing the way it organizes exchange activities. To the extent that certain frictions can in fact be reduced by such reorganization, firms that carry it out stand to obtain competitive advantages and superior performance.

International HRM strategies can be regarded as one component of the firm's effort to reduce remediable frictions. Since managerial and organizational systems are not directly transferable from one country to another, international strategy implementation inevitably generates a certain amount of tension and friction, adversely affecting firm performance. As pressures build up, there is often an effort to reduce them. This can be accomplished by reorganizing those activities experiencing stress, e.g. by externalizing an activity that was previously carried out within the firm, internalizing an activity previously conducted outside the firm, changing certain aspects of the firm's internal organization, or changing certain aspects of its relations with external organizations. Staffing decisions are an integral part of these measures.

Determining the appropriate balance of parent-country/host-country cultural accommodation in the foreign operations of the MNE is one example. Cultural frictions can arise in two ways. First, since each individual represents a distinct combination of behavioral norms, judgments, etc., reflecting the norms of his or her own culture, internal friction can be generated among staff members as a result of staff composition. Second, the actions of these persons as representatives of their own cultures can generate external frictions in interacting with the local environment. If these frictions can be modified by varying the mix and ratio of PCNs and HCNs, they are remediable frictions in the transaction cost paradigm.

Cultural Environment

Cultural risk is a potential source of transaction costs for the firm operating in an international environment, particularly if it is also unfamiliar. Cultural distance and cultural barriers are two related components of the problem of cultural risk.

Cultural distance refers to both the nature and the degree of difference in the norms of two cultures. Cultural distance in those aspects of culture that are objectively relevant to company success can generate transaction costs. The greater the cultural distance between the firm and its international environment, the more risk and uncertainty face the firm. Just as cultural distance exists independently of individual perceptions of cultural differences, this cultural risk and uncertainty exist independently of whether or not they are recognized by the organization.

Individual perceptions of risks and uncertainty due to cultural distance are mediated through cultural barriers. These barriers, which arise in the culture but operate at the level of the individual, increase in height with cultural distance. They correspond to patterns of culture-specific limitations in the ability of members of one culture to understand, accept and adapt to certain norms of a given foreign culture, particularly those which differ or conflict with the norms of these persons' own culture (Selmer/Torbiörn/de Leon 1998, Torbiörn 1988). Transaction costs may be affected by cultural barriers through perceptions of risk, both at operational levels in the local foreign environment, and at corporate headquarters in the parent country.

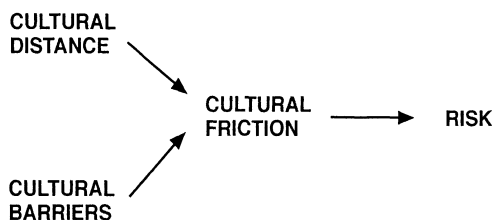
In addition to affecting reciprocal interactions in company operations across particular cultures, cultural distance and cultural barriers also affect non-reciprocal relations, separately in each direction. Accordingly, the distance and barriers between cultures A and B may not be the same as between B and A. This is because of cultural differences in what is regarded as central, relevant, acceptable, and understandable with respect to the specific interaction at hand. This is often a significant source of transaction costs for the firm operating in a foreign environment. Multiple distortions in perception and interpretation can occur when information that has been generated in one culture is received and applied in another culture.

Cultural Frictions

Cultural distance – mediated through cultural barriers – creates frictions that contribute to risk. One major type of cultural risk is associated with tendencies to use the wrong norms in judgments, decisions and action, etc. It can result from applying one's own norms inappropriately (ethnocentrism), or refraining inappropriately from using one's own norms.

Cultural risk is also evident when decisions taken at monocultural headquarters are transformed as they are being transmitted to international operations. This can occur due to the mediating effects of past experience, through chains of consequences shaped by idiosyncratic elements of corporate culture that have evolved in a particular foreign context. If such idiosyncratic elements introduce distortions into the cultural system of the parent organization, then the internalization of foreign operations may incur unanticipated new risks.

Figure 1



Some of the risk which cultural distance presents for the firm may diminish with the passage of time, due to a gradual reduction in the influence of cultural barriers for particular organizational members. This can occur as key individuals from the parent organization gain a foothold in the foreign culture, based on increasing familiarity and experience with the local environment, or as local employees gain a deeper understanding of the corporate culture of the firm. It can also occur as local consumers come to accept the foreign product or service. As the influence of cultural barriers on key organizational members diminishes, the firm may be able to modify some aspects of organization in keeping with the reduced risk and uncertainty.

Figure 2



International Staffing and Transaction Costs

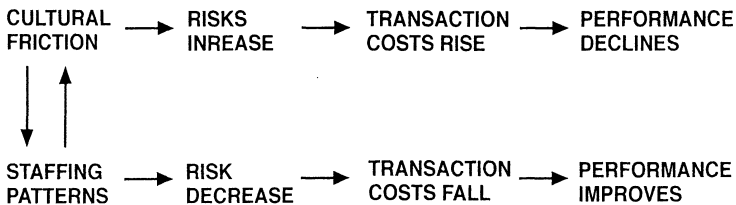
Staffing forms one branch of a general concept of HRM along with three other branches, which are rewards, appraisal, and development (Fombrun/Tichy/Devanna 1984). According to Festing (1997) the aspect of costs is often neglected

in HRM research; her pathbreaking work demonstrates that a transaction cost perspective can be usefully applied to a wide range of IHRM issues. Like other HRM measures, staffing can be viewed as a way of organizing internal and external transactions, which in turn affect costs. Thus staffing strategies are likewise amenable to interpretation in terms of transaction costs.

A transaction cost analysis of international staffing strategies suggests that in the long run, firms gravitate towards staffing patterns that represent the lowest risk and costs of transaction. Theoretically, attaining the lowest possible transaction costs requires that cultural differences or distance cause no problems for intercultural transactions, i.e. there is no risk or friction due to cultural factors. Then the issue of internalizing or externalizing specific activities would depend on the technical functioning of the external local market.

However, as noted above, every person within or outside the firm who is involved in making and carrying out decisions on matters relevant to company success – whether at headquarters or in foreign markets – is a representative of his or her own culture, and thus a potential source of friction in intercultural exchanges. In selecting among categories of staff, i.e. PCNs and HCNs, a firm may be able to gain competitive advantage by choosing that mix which is least risky in terms of the potential for generating intercultural friction in areas that are critical to the success of its strategy. (See figure 3.)

Figure 3



Use of PCNs typically reduces risks and costs of intrafirm transactions between the parent firm and its overseas operations. (It may possibly add to risks and costs of transacting with external environments, including the local culture.) This is by virtue of the PCN's understanding of the national culture of the parent firm, as well as its corporate culture. PCNs can also reduce risk by virtue of their mastery of the application of certain kinds of knowledge. Insofar as such knowledge is firm-specific, cannot be embedded in organizational systems, and is not held by HCNs, then PCNs are the less risky alternative and are therefore preferable. In addition, PCN staff may contribute to risk reduction by performing on-

site supervisory or control functions which cannot be duplicated by financial or administrative measures. Conversely, use of HCNs typically reduces some of the risks the firm faces vis-a-vis the foreign external environment. (At the same time, however, it may also increase some of the risks of intrafirm transactions.) Current trends to staff locally, i.e. using HCNs, can also be understood in terms of transaction costs. This reflects the increasing importance of mastery of foreign external environments, as a consequence of greater competition from the globalization of markets.

Staffing, Competence, and Transaction Costs

The primary motives for using PCNs are coordination, control, and knowledge transfer, whereas the primary motive for using HCNs is mastery of the external environment. Although a company's needs with respect to these motives may vary according to its phase and scope of internationalization, type of activity and products, type of organization, strategic importance of markets, etc., experience shows that staffing patterns among European firms largely correspond to this profile (Torbiörn 1997).

This usage of PCNs versus HCNs is based on operational strategic considerations, rather than on business level or competitive strategy as the competence-based approach to HRM requires. However, such considerations do contribute to the gradual realization of an emergent competitive strategy (Mintzberg 1987) that is not planned in advance, but takes shape in the accumulation of many ad hoc responses to problems and opportunities. Eventually, the pattern of successful and unsuccessful operational decisions provides a basis for more deliberate competitive strategy formulation.

From a competence-based view, emergent strategies arising from a series of practical, ad hoc decisions may not be optimal (Torbiörn 1997). A competence-based view focusing on the procurement and allocation of competence, be it internally or externally derived, emphasizes gaining competitive strength from investments as the basis for gaining competitive advantage. This may or may not include an emphasis on costs. For example, if the competitive advantage of the firm is based on a strategy of cost leadership, then minimizing total costs – including costs of transaction – contributes directly to distinctive competence and thus to competitive advantage. However, if the competitive advantage of the firm is based on a strategy of product or service differentiation, then minimizing costs may be only indirectly related, or even unrelated, to distinctive competence and competitive advantage. If the competitive advantage of the firm combines cost reduction or cost leadership with differentiation, then tradeoffs must be made in terms of cost minimization.

The competence-based approach and transaction costs perspective may sometimes be contradictory in the short to medium term, when competitive advantage based on competence is necessary for survival, irrespective of transaction costs. However, they should be complementary in the very long term. This is because in the long run, after non-competitive firms have dropped out, strategies have stabilized, and the industry has attained a general equilibrium, overall minimization of costs – including costs of transacting – eventually does become the decisive element in competitive advantage. Therefore, in the very long term the competence-based approach and transaction costs minimization tend to converge.

In the short term, it is not clear which staffing combinations may produce the lowest net risks and costs of transaction. Ethnocentric decisions in favor of using PCN staff may raise net transaction costs, for example by limiting the foreign operation's ability to handle the local environment, or by triggering internal communication frictions with local staff. The use of HCNs can also raise internal risks, while reducing external risks posed by the unfamiliar foreign environment. Thus a firm may forsake advantages in internal transactions, if HCNs do not understand, accept or agree with the corporate culture. The theoretically best solution would be an HCN who has mastered the firm's national culture and corporate culture, or conversely, a PCN who has mastered the local foreign culture. If neither of these is available, a TCN who has at least partially mastered either the firm's national and corporate cultures, or the local foreign culture, or both, may be the least risky alternative.

Strategies of the International Firm

Companies generally use one of several basic strategies to enter and compete in the international environment. In the following discussion, strategies are categorized as international, multidomestic, global, and transnational strategy. The ownership alternatives of franchising and wholly owned subsidiary are also discussed. The strategic implications and requirements of these alternatives are described thoroughly in Hill and Jones (1995). Each has certain advantages and disadvantages that can be enhanced or diminished by the decision to staff with PCNs, HCNs, or TCNs.

International Strategy

A major requirement of international strategy is to retain tight control at corporate headquarters over operational strategies in the marketing and manufacturing functions that are centered abroad. Managers in the foreign country report to and

are under the direct control of PCN managers in the parent company's international division or foreign unit. This has important implications for the decision to use HCN versus PCN managers in the foreign country subsidiary. Advantages of using HCN managers depend on how amenable they are to strict centralized control. Advantages of using PCN managers in the foreign subsidiary depend on the ability of PCNs to extend central control over the local foreign operations, if HCNs are not amenable to centralized control. The relative advantages of PCNs and HCNs depend further on the cultural distance between their respective cultures, on individual cultural barriers, and on the extent to which frictions at the interface between these cultures affect company operations.

Multidomestic Strategy

Heavy emphasis on local responsiveness as the basis for competitive advantage means that individual country managers must be very knowledgeable about the local operating environment. This has a number of important implications for HR strategy and practice. In general, it will be more advantageous for the firm to use HCNs or very experienced PCNs as local country managers.

However, these implications are not the same for all multidomestic firms, but vary according to the situation. Critical variables within the firm include the specific sources of the firm's competitive advantage, nature of its production technology, and characteristics of its managerial employees. Critical variables outside the firm include the workforce characteristics, government regulations, and state of infrastructure in the local country environment.

If the firm's production technology is not too difficult, proprietary, or central to product quality, then there is relatively less need for Parent firm control over the local country operations, and relatively less need for PCN managers in the foreign subsidiary. Difficult production technologies introduce transaction costs because of problems of bounded rationality. Proprietary technologies incur transaction costs due to asset specificity and opportunism. Centrality of technology to product image and quality incur transaction costs of opportunism.

The availability of actual or potential managerial talent in the local country is another important consideration. If talent is not available in the local workforce, then using HCN managers will tend to increase transaction costs due to the need for training, supervision and control of HCNs by the parent firm. However, assigning PCNs to the foreign country can also incur training costs to enable them to function effectively in the new environment.

The particular sources of a firm's competitive advantage also shape the implications of the multidomestic strategy for HRM. While the multidomestic strategy is characterized by local responsiveness and customization, the difference between customization of product, customization of process, and customization

of marketing can be significant. For example, if a competitive strategy of local responsiveness is based largely on customization of advertising to local customer preferences, then there is little advantage in internalizing this into the foreign division by hiring HCNs. Assuming availability of local talent, it may be easier to contract with a local advertising agency.

On the other hand, if a competitive strategy is based on customization of product characteristics to local customer preferences, and these are unknown because it is a new market, then the firm may wish to internalize its market research effort so as to prevent or at least inhibit the information from leaking to potential rivals. To the extent that organizational and managerial controls can be exercised more effectively than market controls in this situation, the transaction costs of externalization are higher than for internalization, and it will be advantageous for the firm to develop its own inhouse market research capability. Since this requires managers and staff who have intimate knowledge and understanding of the local environment, it tends to favor the employment of HCNs. However, the need for control suggests possible advantages to placing them under the supervision of PCNs (or perhaps TCNs) who have assimilated corporate priorities and concerns. Since the multidomestic strategy does not require centralized coordination and integration of international activities, it does not need a common corporate culture across international divisions or between individual country divisions. Linking mechanisms are minimal. Managerial functions can be increasingly assigned to HCNs with time. However, centralized monitoring of financial, manufacturing, and marketing performance by corporate headquarters requires standardization and accuracy of reporting. This can be addressed by temporary assignment of PCNs from corporate headquarters in a control capacity.

Global Strategy

Global coordination and integration require managers who have the skills to function effectively across many cultures. Transaction cost issues arise out of the need for control, because of asset specificity and opportunism, and the presence of uncertainty, necessitating better communication and information exchange. Managers who can lower the firm's transaction costs of coordinating across cultural barriers and cultural distance represent a potential source of competitive advantage. Recruiting and developing this managerial capability is a major task for HRM. Expatriate assignments can enhance the individual managers' cross-cultural knowledge and skills with respect to a particular country. Rotating assignments in different countries facilitates the development of multicultural knowledge and skills. However, if multicultural managerial capability can be acquired by recruitment, without sacrificing organizational effectiveness or managerial control, that is a more efficient alternative for the firm, since it economizes on transaction costs.

Transnational Strategy

Successful implementation of a transnational strategy requires a strong organizational culture. One way to develop this is by sending HCNs to corporate headquarters for training. While there, HCNs are exposed to the corporate culture and can be assimilated into it. This should be followed up with other opportunities to maintain personal contact with headquarters managers and staff, after the HCN has returned to his or her home country. Another way to support and extend the corporate culture in foreign divisions and units is through extensive use of third country nationals (TCNs) rather than HCNs. Increased use of TCNs would also follow from the expansion of scope in recruitment and staffing attributed to transnational organizations (cf. Adler/Bartholomew 1992), i.e. away from vertical staffing from headquarters to subsidiaries (or the reverse) into lateral rotation across markets and cultures. Practical obstacles to such a handling of matters may, however, come from ethnocentric views at headquarters, i.e. bounded rationality, and from the apprehension of opportunism due to limitations in trust from headquarters vis à vis TCNs (cf. Zeira/Harari 1977).

Maximization of cost efficiencies, global learning, and local responsiveness require a high level of managerial competence. Managers must have excellent professional qualifications, international experience, and cross-cultural skills including relevant linguistic and cultural proficiency.

The matrix organizational structure requires that managers have good teamwork skills. Thus the corporate culture must also support teamwork. Since national cultural environments vary greatly in terms of teamwork values and teamwork skills, HCNs and TCNs from some countries may be better prepared for this aspect of organizational performance than those from certain other countries.

Firms incur certain costs in developing or acquiring managers who combine good teamwork skills, cross-cultural interaction and communication skills, and professional skills – all of which can significantly lower the transaction costs of transnational strategy. Those firms that can best economize on these costs will have an advantage over their competitors.

Franchising

One way to address the quality control problem of international franchising is for the company to place its own managers in the host country to oversee the franchisees on site. These managers would have to be sufficiently knowledgeable and experienced to maintain standards at the level of parent country operations. This suggests that they should include PCNs with extensive background in the parent company, as well as in foreign franchise management. However, TCNs or HCNs who have been through a thorough training program could also be assigned in this capacity.

Joint Venture

The main HRM implication of a joint venture strategy is that representatives of the parent company must be able to function within the culture context of the joint venture partner. The complexity and difficulty of managing the interface across cultures increases with cultural distance; however, the problem is less critical if individuals who can function at a high level of competence in both contexts are available. Without such individuals, whether PCNs or HCNS, the effectiveness of the international joint venture is seriously constrained.

As cultural distance implies cultural barriers, i.e. problems in understanding or accepting norms of the IJV-partners, this may ultimately mean a bilateral lack of trust between them, one of the most common reasons why IJVs fail (cf Killing 1988, Kogut 1988). Such lack of trust may also produce incentives of the parties to staff key positions by their own people, i.e. PCNs on the part of the internationalizing firm, and HCNs on the part of the local stakeholder. Such motives may actually be irrelevant for the efficiency of ongoing operations, i.e. intended synergies or transfer of knowledge are not obtained, etc. This will raise transaction costs, as will parallel staffing of key positions by PCNs and HCNs which is sometimes used (cf. Koot 1988).

Wholly-Owned Subsidiary

Ownership of a fully autonomous foreign subsidiary does not entail significant HRM implications for the parent company. However, acquisitions that require the merging of different organizational cultures, across different countries, can be difficult to manage. Most or all organizational members would need to have some understanding of both societal cultures. In addition, a new synthesis of organizational cultures would have to be formed.

In addition, the norms or modes of operation of the internationalizing firm may be said to consist of its own national culture's norms, as well as norms that are company-specific rather than national. (These two sets of norms together make up the corporate culture of any firm.) Thus norms of the acquired firm are made up of local national culture norms and local company-specific norms. Again, efficient cross-cultural interaction after the merger may require mutual adjustment based on understanding, acceptance and trust on both sides as a precondition for gains from reduction of transaction costs. Among other things, this should take time, adaptation of leadership styles, and empathetic staffing, e.g. not signaling to HCNs that careers are blocked as PCNs may be installed in key positions, etc., all in order to establish a balance between "central and local" that economizes on costs of transaction (cf. Doz/Prahalad 1984). This would require the involvement of individuals possessing an unusually high level of cultural sophisti-

cation and sensitivity, which would be emphasized in recruitment and in training.

Conclusion

There is generally a trade-off in international management between transaction costs associated with the risk of uncertainty on the one hand, and those associated with the risks of asset specificity and opportunism on the other hand. The first are related to organizational problems of coordination and transaction cost limitations of bounded rationality and information processing, which in the international context are a function of cultural barriers and cultural distance. The second are related to organizational problems of control, which are influenced by cultural and individual variables. Use of PCN managers tends to address issues and problems of control. Use of HCN managers tends to address issues and problems of coordination.

Problems of bounded rationality and information impactedness increase with cultural distance. Cultural barriers can be greater for those individuals who are moving in one direction between cultures than for those who are moving in the opposite direction. Both the occurrence and the perception of opportunism are influenced to some extent by culture. International interaction involves not only aspects of understanding and technical communication, but also of trust, e.g. between headquarters and HCNs or TCNs, between partners in international joint ventures, etc.

Firms can reduce the managerial costs attributable to cultural distance and cognitive limitations in a variety of ways. One means of reducing the costs of managing human resources across cultural systems is to vary the mix and ratio of economic to organizational incentives (Hennart 1993, 1994). Another is to guard against ethnocentric fallacies of perception and lack of trust through systematic exposure of decision makers at headquarters (and elsewhere in the firm) to intercultural experiences, and to enhance the effectiveness of individual managers in functioning interculturally, by paying more careful attention to the proper sequence of training (Selmer/Torbiörn/de Leon 1994).

Unfamiliarity, unpredictability, and complexity of the foreign environment create a need for cultural mediators who are knowledgeable about the host country culture. From the perspective of transaction costs, the issue is whether to internalize or externalize the function of cultural mediation. Internalization would be consistent with employing HCN managers in the foreign unit or division; it would also be consistent with providing appropriate cross-cultural training to PCN managers. Externalization would be consistent with contracting out certain tasks to a local firm, e.g. advertising, distribution, government liaison, etc.

Unfamiliarity, unpredictability, and complexity associated with the parent firm create a need for cultural mediators who are knowledgeable about the corporation. The issue in terms of transaction costs is whether to bring HCNs to corporate headquarters (as is sometimes done so they can absorb the corporate culture), or conversely to send PCNs from headquarters to the foreign subsidiary (as is often done in transferring technology).

Unfamiliarity, unpredictability, and complexity related to foreign markets create a need for cultural mediators who are knowledgeable about the product and also about the relevant market(s), whether in the parent country, host country, third country, or global. Transaction cost considerations revolve around the issue of whether or not to house this capacity within the firm. (If not, then hybrid arrangements such as joint ventures, licensing, or franchising may be viable alternatives.)

A competence based view of IHRM, focusing on the acquisition and development of competence for the firm, indicates that certain frictions and costs may accompany different IHRM strategies. In terms of staffing international operations, the most significant costs are not necessarily those of international transfers. The most significant costs may instead result from inconsistent or contradictory use of the HRM parameters of rewards, appraisal criteria, and staff development, which impedes the goals of building competence (e.g. finding, developing and maintaining talent) and moving competent staff to where it is needed. If IHRM measures have the effect of disfavoring certain categories of staff by blocking career paths, narrow or obscure perspectives in talent tracking, discriminatory use of rewards or criteria for appraisal, etc., this will generally cause frictions and raise costs of transaction.

Thus the choice of PCNs, HCNs, and/or TCNs greatly affects the level and type of uncertainty facing the firm, as well as the firm's capability to deal with that uncertainty. In general, PCNs reduce uncertainty effects with respect to the parent firm culture, export markets, and new technologies. HCNs are generally more effective in reducing uncertainty effects with respect to the host country operating environment, including the market. However, it is important to note that individual firms can also moderate the effectiveness of PCNs and HCNs in these regards.

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Cultural and Bureaucratic Control in MNEs: The Role of Expatriate Performance Management

Abstract

- This conceptual paper examines the role of performance management in the development and maintenance of cultural control in multinational enterprises. It employs a multilevel, multidisciplinary approach to synthesize the dimensions of the control mix, and examines their underlying assumptions.
- We present a theoretical framework depicting key dimensions of control in the MNE performance management context to illustrate the linking of the individual and organizational interface with achievement of desired outputs.

Key Results

- The framework proposes an ongoing socialization role for performance management in MNEs. Implications for control in MNEs are discussed and research questions posed for empirical investigation of the framework

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Introduction

Organizational control is an important component of the managerial function: it is responsible for ensuring that the organization's strategic goals are met and that deviations from standards are corrected for effective performance outcomes (Jaeger/Baliga 1985). For managers in multinational enterprises (MNEs), control is a complicated balancing act. On the one hand, close monitoring from the centre is required to ensure minimum levels of duplication, wastage and ineffective processes. On the other hand, a degree of autonomy is necessary at the subsidiary level to allow for local market flexibility and customer responsiveness. The MNE control function must therefore cope with the tensions inherent in the simultaneous need for global integration and local sensitivity in an increasingly diverse and complex international business environment. (Bartlett/Ghoshal 1987, Doz/Prahalad 1984). How to achieve the required 'control mix' (that is, the level of centralization along with appropriate control mechanisms) remains a perennial MNE challenge.

It would seem that, in practice, MNEs attempt to achieve an optimal mix, with bureaucratic (formal) control supported by cultural (informal) control (Pucik/Katz 1986). Some authors suggest that the way control is achieved in practice appears to be changing from a bias towards direct mechanisms to reliance on more informal methods, such as staff transfers¹ (see, for example, Martinez/Jarillo 1991, Roth 1995, Torbiörn 1994). Given recent emphasis on devolution of responsibility, cultural control becomes an important supporting mechanism (see Marschan/Welch/Welch 1996). As the trend towards indirect methods become more widespread, issues surrounding MNE control over behavior and outcomes need to be re-examined. Of particular concern is the feasibility of corporate culture as an MNE control mechanism, given its reliance on members' internalization of shared values and the notion of self control (see for example, Ghoshal/Bartlett 1995). As Welch and Welch (1997, p. 680) argue, "despite what overt behavioral displays and verbal utterances might indicate, people are bound to differ in the extent to which they internalize the company's values and are thereby committed to upholding them". Indeed, a review of extant literature reveals that aspects related to MNE cultural control, such as the use of expatriate assignments, still rest on untested assumptions (Nasif/Al-Daeaj/Ebrahimi/Thibodeaux 1991, Redding 1994).

Further, it would seem that *performance management*, integrated with other management policies and practices is an essential, complementary bureaucratic control mechanism in a strategy of cultural control (Evans 1992, Gregersen/Hite/Black 1996, Harvey 1997). There has been substantial research on individual and organizational control and on organizational commitment (for example, Child 1973, Mathieu/Zajac 1990, Mowday/Porter/Steers 1982, Palich/Hom/Griffeth

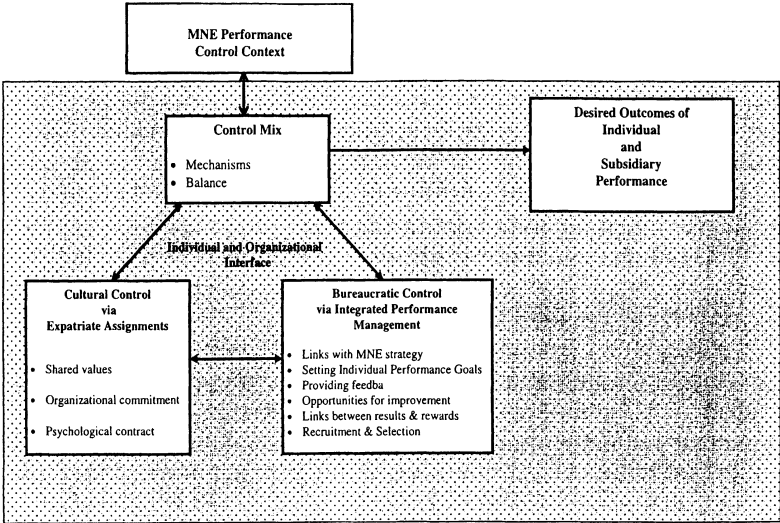
1995). However, little has been done to explore the way in which the interaction between individual and organizational policies and practices occurs, and the desired performance outcomes are achieved. Nor has the role of performance management been discussed as part of the process of cultural control. Yet, to restate Jaeger and Baliga (1985, p. 118), “control systems do not exist in ‘isolation’ in the organization. Rather, they are embedded in an overall organizational system which fits with the control system being used.” Given the pivotal role played by the human resource function in the overall control process, there is a need for fit with the HRM system², specifically in terms of the performance management activity. As expatriate assignments are assumed to play a key role in MNE cultural control, one could expect that how their performance is managed would be an important factor in terms of MNE outcomes.

Performance management in MNEs is recognized as a significant challenge for researchers and practitioners. In this article, we synthesize research from the fields of psychology, sociology and management in order to develop an integrated approach to performance management in MNEs. A theoretical framework depicting key dimensions of the control concept in the MNE performance management context guides our discussion as we attempt to clarify underlying assumptions, and identify relevant constructs. As we focus on the use of expatriate assignments as a key dimension of MNE cultural control, we also address related gaps in the expatriate management literature through an exploration of the contribution that an effective performance management system can make to the MNE’s control balance dilemma. The article concludes with suggestions for future research.

The MNE Performance Control Context

In the control process, according to Ouchi (1977), there are two phenomena that can be monitored and evaluated: behavior and output. In other words, it is possible to design and implement control mechanisms that measure and monitor performance. This is particularly pertinent for the MNE, in its quest for coordination, consistency and compliance of behavior and outcomes throughout its global operations: at headquarters and at each subsidiary level. As mentioned earlier, the challenge is how to do this in an effective way. Pucik (1985) suggests five major features summarize the MNE performance control challenge. First, MNE management must focus simultaneously on global performance (the ‘whole’ of the MNE) and subsidiary or regional performance (the ‘parts’). Second, performance data obtained from one subsidiary/region may not be comparable with that obtained from another due to local differences. The third feature is that separation

Figure 1. Control in Multinational Enterprises: The Role of Expatriate Performance Management



by time and distance further complicates judgments about the degree of fit between subsidiary performance and the long-term strategy of the MNE. Fourth, success may be defined differently according to the economic or political volatility of the system in which the subsidiaries operate. Finally, the level of market maturity may vary between each subsidiary and the parent organization and more time may be required to generate results in some subsidiaries. Obviously, as illustrated in Figure 1, how the MNE responds to these interrelated features of its performance control context will be partly determined by its control mechanisms and the way in which these are utilized in the quest for desired outcomes: consistent individual and subsidiary performance.

The MNE Control Mix

It is generally accepted that the object of control is to measure and monitor performance so that behaviors and outputs are aligned with the organization's goals. The MNE management issue is the balance between *cultural* and '*bureaucratic*' control mechanisms, as shown in Figure 1. The attraction to MNEs of cultural control as a mechanism is that direct supervision can be tempered with self-man-

agement, as the desired behavior and output is guided and controlled by shared values regarding performance. It is still necessary, though, to have some level of bureaucratic control in the form of rules, regulations and procedures, budgets, reporting systems, and formal structure. The issue is “how much”. For example, formal, regular reporting requirements may be perceived by subsidiary staff as onerous, even unnecessary, in a climate of espoused self-management. However, despite the body of literature on MNE control, little has been said about *how* the two forms of control interact in the management of individual and organizational performance. In this section, we attempt to delineate cultural and bureaucratic control in order to explore this interface, and the likely outcomes in terms of individual and subsidiary performance.

Cultural Control Via Expatriate Assignments

As mentioned previously, a common approach for MNE management to achieve its desired level of organizational and individual performance is through increasing emphasis on *cultural control*, defined as a combination of personal control and control by socialization (Baliga/Jaeger 1984). Proponents of this view argue that self-managed performance will contribute to overall MNE performance by mitigating the control problems of coordination, consistency and compliance inherent in MNEs. For example, Bartlett and Ghoshal (1987, 1992) identified a clear, shared understanding of the company’s mission and objectives; the visible behavior and public actions of senior management; and the organization’s personnel policies, practices, and systems as three important tools affecting the culture of the organization. In their concept of a “differentiated network structure”, network relationships are characterized by a shared superordinate vision, individual self-control, and the capacity to negotiate individual differences.

MNE staff transfers have long been recognized to serve as a control mechanism in MNEs³. For example, Edström and Galbraith (1977) hypothesized that managers in some organizations are transferred in order to develop a control process based on *socialization*: “the process by which an individual comes to appreciate the values, abilities, expected behaviors, and social knowledge for assuming an organizational role and for participating as an organization member” (Lois, in McDonald/Gantz 1991, p. 72). Socialization of staff provides what Bartlett and Ghoshal (1987) termed the “coordination glue” that binds the organization together.

The assumption here is that expatriates, highly committed to headquarters’ way of doing things, will inculcate subsidiary staff with the required organizational values and practices. There are qualifications to this assumption. Naturally, expatriates themselves must first be socialized before they can socialize others. Therefore, one could assume that a MNE pursuing a cultural control strategy must

have available a pool of suitably socialized staff, though Welch and Welch (1997) question the *degree* to which a person needs to be socialized in order to be effective in ensuring the compliant behavior of others. As well, socialization is a time-consuming process of transforming newcomers to insiders (Louis 1980). A further limitation is that socialization must be ongoing as MNE management adapts strategies and practices in anticipation of, or response to, changes in their exogenous and endogenous environments (Schuler et al. 1993), as indicated in Figure 1 by the use of bi-directional arrows between the boxes 'cultural control', 'control mix' and 'MNE performance control context'.

Our review of relevant literature also indicates that the role played by expatriate assignments has yet to be rigorously tested, especially in mature, geographically dispersed MNEs (see, for example, Kamoche 1997). Therefore, in order to understand how and to what extent expatriate assignments contribute to the control mix, it is necessary to articulate and synthesize several previously unstated assumptions. As shown in Figure 1, the use of expatriate assignments as a mechanism for enhancing cultural control implies reliance, first, upon the development of shared values and organizational knowledge through the socialization of the expatriate. Second, it relies upon a high level of expatriate commitment to the MNE. Third, it relies upon the expatriate's ability and willingness to diffuse the requisite values to others in the organization. These underlying assumptions are discussed below.

Shared Values

Given the increased diversity of values inherent in international operations, an examination of the literature focusing on the extent to which individuals can and do adopt and share values is fundamental to any discussion of cultural control. A value has been defined as a lasting belief that "a specific mode of conduct or end-state of existence is personally or sociably preferable to an opposite or converse mode of conduct or end-state of existence" (Rokeach 1973, p. 5). Strong organizational value systems have often been linked with higher levels of employee commitment through internalization and identification (Schein 1992, Zeffane 1994). At the same time, inconsistencies in values are allowed for, and these may not necessarily undermine or prevent cultural control (Schultz 1990, cited in Stahlberg 1992).

Unstated assumptions concerning the sharing of values are that this aspect of organizational culture can be managed, and that individuals can be infused with organizational values. The extent to which the value-sharing aspect of organizational culture can be managed is related to whether culture is viewed as something an organization is or something it has. Practices may be seen as one aspect of the 'culture' Gestalt – something that an organizational culture has – and therefore, as somewhat manageable (Hofstede 1992). We suggest this implies that be-

havior can be controlled through socialization in the workplace, provided that the requirement to engage in appropriate organizational practices falls within members' zones of indifference. The zone of indifference is the range of contributions an individual is willing to make without subjecting these to critical evaluation - that is, to which the person is indifferent. Practices falling into the zone are agreed to, those falling outside the zone may or may not be agreed to, or may precipitate exit from the organization (Barnard 1936). The distinction between shared values and shared practices is therefore an important one, as it influences the members' zone of indifference. For example, a commitment to shared values may require a broader zone of indifference, as it effectively requires agreement to more than work practices.

The issue here is whether expatriates must adopt the MNE's values in order to facilitate cultural control. It may be that shared perceptions of daily practices may suffice, provided that observable behavior is consistent with corporate values (such as ethical behavior), and at a consistent level and standard of activity. The key word here is *observable*. Behavior can be observed, whereas shared values are not directly observable by outsiders and are, therefore, uncontrollable (Hofstede 1992). Contemporary performance management systems, with their focus on behaviorally-based approaches, perhaps are an indication that organizations are cognizant of this difficulty.

Organizational Commitment and the Psychological Contract

Organizational commitment has been defined as: "the relative strength of an individual's identification with and involvement in a particular organization" (Mowday/Porter/Steers 1982, p. 27). A widely held view in international HRM literature has been that expatriate managers are more committed to the MNE than host country nationals. In a sense, this is a logical belief given the role that expatriate assignments are assumed to play in MNE cultural control. However, a review of extant literature indicates a paucity of studies that examine expatriate commitment. One of the few studies in this area investigated loyalty of expatriate managers compared with that of HCNs and found no significant difference between the two groups (Banai/Reisel 1993). However, the concern here is again the *degree* to which expatriates need to be committed to the MNE in order to perform as a tool for cultural control. In addition, we question how effective expatriates are, or need to be, in generating commitment to the MNE within the subsidiary? From a research perspective, what complicates the issue of organizational commitment in the MNE context is that the constructs 'commitment' and 'loyalty' may be culturally determined and thus have different behavioral outcomes across cultures (see, for example, Baligh 1994, Mathieu/Zajac 1990, Palich et al. 1995, Randall 1993, Rokeach 1973).

The development of organizational commitment is related to the notion of a psychological contract. This term is used to describe an employee's belief regarding the terms and conditions of a reciprocal exchange agreement between that employee and the employer (Robinson/Rousseau 1994). Psychological contracts may be transactional (based on economic exchange theory) or relational (based on social exchange theory). The latter form has been linked to organizational commitment (Rousseau 1989, 1995).

Psychological contracts recognize that most people seek to balance their contributions (what they put into an organization) and their inducements (what they get from the organization in return). "Within the boundaries of the psychological contract therefore, employees will agree to do many things in and for the organization because they think they should" (Schermerhorn/Hunt/Osborn 1982, p. 480). This implies that adherence to organizational practices, an essential outcome of cultural control, requires the individual to operate within a relatively narrow zone of indifference (Baliga/Jaeger 1984). Interestingly, while psychological contracts are by definition subjective and therefore different for each individual, employers may reflect organizational values, goals and objectives during the negotiation process. Thus, a certain degree of standardization can often be found (Shore/Tetrick 1994). However, the subjective nature of the psychological contract makes it highly susceptible to perceived violation, and may act as a moderator between expatriates and commitment to their organizations (Guzzo/Noonan/Elfron 1994). Yet, while the concept of the psychological contract is widely known in organizational psychology and HRM fields, there has been little investigation of its role in terms of cultural control, particularly in relation to the MNE. One of the unanswered questions is, what are the control implications of perceived violations of the psychological contract between the expatriate and the MNE?

The above discussion highlights the potential of, and limitations to, cultural control via expatriate assignments. On balance, it would appear that socialization is the motif for cultural control in MNEs, representing the individual-organizational interface. In Figure 1, we indicate this through a shaded box depicting socialization as part of the MNE's internal environment. We consider it as both the outflow of the control mix and a key driver of expatriate and subsidiary performance, as it is the *process* by which expatriates, themselves socialized to the organization's ways of doing things, facilitate control throughout the MNE. It is recognized that consistent performance across cultural and functional boundaries might be difficult to achieve in organizations opting for cultural control (Meyer/Allen/Gellatly 1990). Further research into the nature of MNE organizational commitment, how it is formed, and its relationship with performance is indicated.

Performance Management as a Bureaucratic Control Mechanism

Considering the complexity surrounding the use of cultural control, the MNE is likely to find that expatriate socialization prior to the international assignment may not be sufficient to maintain the necessary level of commitment. In practice, some MNEs limit the duration of an expatriate assignment to three years to minimize the risk of the expatriate losing 'attachment' to headquarters concerns. Others use home visits as a way of giving the expatriate a "culture fix" (Welch/Fenwick/De Cieri 1994, p. 485). A more formal strategic alternative would be to introduce bureaucratic control that reinforces socialization and commitment.

Over the last decade, there has been growth in the number of scholars and practitioners who advocate the incorporation of human resources into the strategic formulation process. This view has been extended to the international arena, so that there is now a body of literature emerging around the theme of strategic international human resource management (SIHRM), defined as MNE strategies and practices that are parallel to the relationship between HRM and strategy in domestic (single-country) organizations (Schuler et al. 1993). In the context of MNE control, it is expected that the development of high commitment levels would be influenced by senior management's acknowledgement of organizational commitment as a critical variable in terms of global strategy. We further argue that the implementation of human resource management practices that consider individual employees' different needs and preferences would be worthwhile, given recent HRM research exploring the notion of fit between strategy, HRM and organizational outcomes (Becker/Gerhart 1996, Wright/Sherman 1998). A systematic and pervasive HRM program, rather than the addition of random interventions such as a new benefit or a new training program, can best influence commitment levels (Ogilvie 1986).

Mindful that the control process is predominantly 'people treatment' (that is, screening through selection; training staff in values as well as skills, and monitoring behavior and output – Ouchi 1977), we suggest the use of performance management as a viable component of bureaucratic control (as Figure 1 shows). Performance management, as an element of SIHRM, is the process of transforming strategic objectives into action, monitoring progress, and rewarding results (Fenwick/De Cieri 1995, Hitchcock 1992). Definitions of performance management as a holistic, or integrated, strategic approach, thus extending the concept beyond performance appraisal, are now in common use. For example,

a process for establishing shared understanding about what *is* to be achieved, and approach to managing and developing people in a way which increases the probability that it *will* be achieved in the short and longer term (Armstrong 1994, p. 23).

Performance management reflects several aspects of socialization. As Louis argues (1980, p. 231): "Ideally, during socialization, especially during the encounter stage, the newcomer's role-relevant abilities are identified, others' expectations are conveyed and negotiated, and incentives and sanctions are clarified, with the aim of enhancing motivation to perform". Such content areas are contained in a performance management system.

The characteristics of an HRM performance management system are: links to the organizational strategy; setting individual performance goals; providing feedback on progress towards goal achievement; providing opportunities for improvement through appraisal feedback and training and development; and, links between results and rewards (Armstrong 1994, Bevan/Thompson 1991, Hitchcock 1992). Each of these characteristics, and attendant dilemmas concerning implementation in MNEs, is briefly outlined below.

Links with MNE Strategy

The necessity for strategy to be clearly articulated and communicated throughout the organization as an ongoing activity has been emphasized in management literature (see for example, Mintzberg 1994, Wright/McMahan 1992). It is regarded as a critical aspect in developing the shared vision of the organization's objectives. Communicating strategy in MNEs is more complicated due to their competitive arena and the latitude, inherent in their strategies, to respond to competition differently, both strategically and organizationally (Bartlett/Ghoshal 1992, Schuler et al. 1993). Even with recent advances in information technology, face-to-face communication is still necessary to assure and monitor understanding of HRM strategy as part of the MNE strategy. Language is an important dimension. The ability to diffuse values depends on communication skills, including the ability to communicate in the language of the subsidiary *and* the common company language (Marschan/Welch/Welch 1997).

Setting Individual Performance Goals

This process should occur with extensive employee involvement and in the context of both the immediate position and the whole organization (Bevan/Thompson 1991, Hitchcock 1992). The identification of relevant, practical and reliable performance criteria upon which performance goals are based is difficult enough in domestic organizations. Therefore, performance criteria in MNEs must recognize the constraints on strategy-level performance appraisal and management, as shown in Figure 1. The emerging literature in SIHRM stresses the need for both quantitative and qualitative criteria, and a behaviorally-based approach is widely

supported (see Kaplan/Norton 1992, Schuler et al. 1991). We reiterate that such a technique reinforces behaviors rather than values.

Providing Feedback on Progress Towards Goal Achievement

Feedback provided through the performance appraisal activity is central to performance management and to socialization. It has two distinct purposes, evaluation and development (Cascio 1991). In addition to generating a consistent set of performance standards, better performance appraisal systems can enhance productivity by giving ongoing feedback (Day 1989) and by assessing performance and not personal characteristics (Fox 1987). The extent to which the process is interpreted with distrust or as an insult differs across cultures (Dowling et al. 1999, Imada/Van Slyke/Hendrick 1985).

In addition to the international environment and performance criteria that have been discussed above, great physical distance, which often exists between subsidiaries and the parent organization, can result in lack of meaningful, effective observation, support and supervision of expatriates. Opportunities for thorough headquarters performance reviews may also be minimal due to both distance and time-zone differentials (Dowling et al. 1999, Harvey 1997). Failure to provide such feedback might violate the psychological contract between the expatriate and the MNE, in addition to preventing corrective action in the event of ineffective performance. These problems highlight the difference between domestic and international performance management in terms of being able to deliver timely, relevant, and therefore effective, feedback (Cascio 1991, Harvey 1997). Issues of who conducts the appraisals, how and based on what data, remain high on the research agenda, reflected in recent developments such as 360-degree feedback and competency-based appraisal techniques (see for example, Albright/Levy 1995, London/Smither 1995, Murphy/Cleveland 1995). Again, the emphasis is on behavior, not values.

Providing Opportunities for Improvement Through Appraisal Feedback and Training and Development

As previously mentioned, performance appraisal feedback has a developmental purpose. A great deal of training and development has focused on developing expatriates' ability to adjust to a new culture. Certainly, cross-cultural adjustment has been shown to influence performance (see for example, Black/Mendenhall 1991, Mendenhall/Oddou 1985, Tung 1982). However, providing opportunities for improvement through appraisal feedback and T/D is an ongoing performance management activity aimed at continuous improvement and socialization to de-

sired organizational practices. In the context of socialization and support, ongoing access to training and development for expatriates appears necessary to manage performance both within headquarters and in the overseas location. This is particularly relevant when organizational development requires 're-socialization' as policies and practices change. Again, the role of such re-socialization is questioned by Welch and Welch (1997) who comment that it may be psychologically difficult for those who are 'true believers' to modify or alter value systems.

A significant control issue in international performance management is the issue of conflicting expatriate loyalty to the subsidiary and headquarters. 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 MNEs. It has been suggested that training and development may also facilitate the development of dual allegiance in expatriates, thus ensuring balanced bonds with both headquarters and subsidiary (Black/Gregersen/Mendenhall 1992).

Links Between Results and Rewards

Linking expatriate rewards to performance has been problematic due to difficulties in establishing valid and reliable performance criteria, as outlined earlier. For MNEs, additional problems in rewarding expatriates have concerned internal and external equity; taxation and the cost of allowances; relocation; housing and education (De Cieri/Fenwick 1998, Harvey 1993). An important performance management requirement for MNEs which exemplifies the difference between intra- and inter-national performance management is the need to ensure that individuals are not financially disadvantaged by accepting an international assignment, moving to another location or re-entering headquarters (Crandall/Phelps 1991, Dowling et al. 1999). In terms of performance management, the major concern about this imperative is that there is often no link to expatriate performance.

The above discussion of performance management as a bureaucratic control in MNEs has highlighted particular examples of constraints on this activity. The inter-relationship between bureaucratic control and the MNE's performance control context is shown in Figure 1 by bi-directional arrows. Despite the constraints, we have been able to argue that an appropriate MNE control mix of cultural control, complemented by performance management as a bureaucratic control, is feasible. In relation to the individual-organizational interface shown in Figure 1, we have emphasized that performance management is a socialization mechanism within MNEs - a theme omitted from other expatriate management literature which largely focuses on the staffing and training and development functions, with regard to expatriate adjustment (see, for example, Katz/Seifer 1996).

Desired Outcomes of Individual and Subsidiary Performance

The view that positive organizational commitment of individuals tends to improve organizational effectiveness and efficiency has been one of the most contentious in this field (Zeffane 1994). However, Naumann has concluded that, at least, the contention that performance leads to satisfaction has generally been supported in research. "Therefore, an individual's performance level is generally thought to be positively associated with satisfaction, commitment and involvement" (1992, p. 512). In their discussion of the relationship between organizational commitment and organizational adaptability, Angle and Perry (1981) suggested that there is some ideal or optimal level of commitment required for effectiveness. That is, enough commitment to elicit necessary employee behaviors beyond explicit role requirements, but not so much as to provoke the hiatus of individual judgment in favor of organizational principles.

In terms of expatriate management, this optimal level has been identified as "dual allegiance"; a simultaneous, balanced commitment to both the headquarters and the subsidiary (Black et al. 1992). However, we believe that this raises the question of whether dual allegiance is desirable and or achievable in all circumstances. Black et al.'s (1992) view seems to conflict with the notion of cultural control that implies commitment to the headquarters as the priority; the tension typified as the 'think global – act local dilemma'. However, from a control perspective, the concept of dual allegiance does not preclude adherence to headquarters' policies and practices or sensitivity to local conditions. Rather, the critical issue is whether the expatriate can successfully generate commitment to organizational values and practices that will contribute to the desired subsidiary outcomes.

A related point is that, in MNEs applying cultural control, the performance management concept might require broadening to include recruitment and selection. When hiring, an organization may select members on the basis of skills and existing personal work-related values – that is, buying values; or it may hire people and attempt to socialize them towards a set of required values – that is, making values (McDonald/Gandz 1992). In this way, HRM managers play a critical role as 'gatekeepers' for the organizational culture. They may consciously maintain hero models for the organization which are then reflected in HRM practices such as recruitment and selection. Selecting those with the 'right' values, or the potential to acquire those values, is a strategy for preserving the culture (Hofstede 1992). Again, the process is not unidirectional – an individual may also select an organization on the basis of its perceived 'right' values. Whether a 'make-values' or 'buy values' approach is adopted during the selection process, an organization requires some degree of socialization, and training programs may be used to achieve this. Recruitment and selection is only one aspect of the HR staffing role.

Placement of staff is also a factor - that is, matching individuals, skills and job requirements – and this is critical when the organization has diverse operations in different countries.

Concluding Remarks and Implications for Future Research

The central argument of this article has stemmed from a suggestion in extant literature of a trend towards increasing emphasis on informal control mechanisms within MNEs, as a means of dealing with fluctuating external environments, movement into emerging markets, changing organizational forms and increasing diversity. The resultant realignment of the control mix, it seems, aims provide a more flexible way to achieve the desired outcomes throughout their global operations, in terms of consistency, coordination and compliance of behavior and outcomes. We conclude, however, that a reliance on cultural control, particularly one that places the use of expatriate assignments in a primary role, should be tempered with an integrated performance management system.

Throughout the article, we suggest a number of areas requiring attention in future research for two reasons. The first, in order to make clear previously unstated assumptions concerning the role of expatriates in the implementation of cultural control. The second reason is to propose one way in which SIHRM socializes organizational members in order to build commitment and control. Also, we are cognizant that the relationships between the dimensions and constructs presented in our framework, require further investigation. For example, research in progress aims to determine how, specifically, performance management might facilitate an appropriate mix of cultural and bureaucratic control in MNEs. It involves case studies of Australian MNEs which will generate data to exploring the following broad research questions:

1. To what extent is cultural control explicit in the control strategies of MNEs?
2. What is the role of IHRM policies and practices such as performance management in the control mix of MNEs?
3. How is cultural control achieved and maintained in MNEs?

Future research might also explore the implications for expatriates and their career development of meeting the performance management expectations of both headquarters and host country superiors. In addition, while management literature advocates the desirability of shared values, the definitions of socialization and performance management do not address this. Rather, all that seems necessary is a shared understanding or appreciation of the values related to successful performance in their roles as organization members. The distinction has impor-

tant implications for empirical research into MNE cultural control as observable behaviors are more readily identified and measured than values. A further issue concerns the extent to which realignment of expatriate performance goals and objectives with the type of performance management system might be necessary to eliminate tension between a values-focused desired performance outcome and a behaviorally-based approach to observation and measurement.

In developing the conceptual framework presented in this article, we have tried to draw attention to the complex yet interrelated dimensions of the formal (bureaucratic) and informal (cultural) control mechanisms available to MNEs. Our articulation of hitherto unexplored assumptions upon which much of the MNE control literature rests is an important first step in examining the MNE control mix and its link to individual and subsidiary outcomes.

Notes

- 1 Following the bulk of the extant IHRM literature, we use 'staff transfers' as interchangeable with 'expatriate assignments'.
- 2 While we acknowledge its relevance, it is beyond the scope of this paper to further develop the somewhat contentious "HR-strategy fit" aspect of MNE control. For discussion of the issue, see for example, Lengnick-Hall/Lengnick-Hall (1988), Wright/Sherman (1998) and Wright/Snell (1998).
- 3 We recognize the range of expatriates to include parent country nationals, as well as host country nationals transferred to headquarters, and to other subsidiaries as third country nationals.

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Michael Müller

Unitarism, Pluralism, and Human Resource Management in Germany

Abstract

- This paper examines human resource practices in Germany. It aims to find out whether there is a convergence towards a more unitarist US type of human resource management (HRM).
- The study is based on 25 case studies of German-, British- and US-owned banks and chemical firms operating in Germany.

Key Results

- Although over the last decade many of the techniques associated with HRM have been introduced, most firms in the sample still largely comply with German labor market institutions.
- Pivotal HRM elements such as extensive training and employment security are favored by the German institutional environment. This exerts pressures to adopt a pluralist approach to HRM. Far from supporting convergence thinking, the German example supports a diversity theory.

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Introduction

This paper discusses the convergence thesis using the example of human resource management in Germany. Convergence theories dominated social sciences in the 1950s and 1960s. Arguably the most influential contribution to this discussion was Kerr et al.'s "Industrialism and Industrial Man" (1960). They suggested that technology will, over an extended period, lead to the development of similar economic, political, social and organizational aspects in all industrialized societies. It assumed that there is a link between the development stage of an economy and its dominant managerial practices. Kerr et al. saw technology as the driving force behind convergence. Today competition and globalization are more often given as the main reasons for a convergence of managerial practices (Mueller 1994).

Over the last two decades the concept of HRM (Human Resource Management) has emerged as one of the most important prescriptions for a world-wide convergence of managerial practices. Like most other management concepts it originated in the US. However, HRM (1) not only offers a range of modern management techniques in much the same way as lean production and re-engineering, but is also about values. "More than any of the other innovations, it impacts directly on culturally specific ways of doing things buttressed by national institutions and values systems" (Hendry 1991, p. 416). The values of HRM are essentially unitarist and individualistic. The philosophy underlying HRM becomes apparent, if one has a closer look at the case studies that form the empirical basis of the American HRM literature. Most of the successful and innovative companies which have been studied as HRM models in the USA are non-union and use sophisticated human resource management techniques targeting the individual employee (Foulkes 1980). They do not recognize trade unions and employee relations are determined unilaterally by management. It has been questioned whether US type HRM prescriptions should be imported to Europe, because the values of HRM run counter to European traditions of pluralism and collectivism as well as a stronger regulated environment for companies (Brewster 1995, Ferner/Hyman 1992, Guest 1994, Kirkbride 1994, Müller 1999b).

A particularly interesting case for a convergence towards HRM is Germany. In contrast to the free market US economy, companies in Germany have to operate in an elaborate institutional environment (Ebster-Grosz/Pugh 1996, Lane 1992, Warner 1998, Wever 1995). The three main German labor market institutions of co-determination, collective bargaining and initial vocational training, in particular, restrict managerial autonomy and therefore might hinder the application of a unitarist type of HRM. To be more precise, companies in Germany usually have a works council. This body has extensive co-determination rights and plays a crucial role whenever there are organizational changes affecting the workforce. In addition more than 80 per cent of German employees are still covered by multi-

employer collective bargaining. This means that their salaries and conditions of employment are standardized to a high degree (for a more detailed overview of the German system of industrial relations see Baethge/Wolf 1995, IDE 1993, Jacob/Keller/Müller-Jentsch 1998, Müller 1997, Streeck 1993, Visser/Ruysseveldt 1996). Furthermore, about five per cent of the German workforce take part in an initial vocational training. This training is governed and regulated by a tripartite system that involves the state, employers' organizations and trade unions and therefore also reduces organizational autonomy (for recent descriptions of the German system of initial vocational training see Géhin/Méhaut 1995, Steedman 1993). Given this strong institutional environment one could imagine that it exerts pressures for a convergence of human resource practices towards a German model.

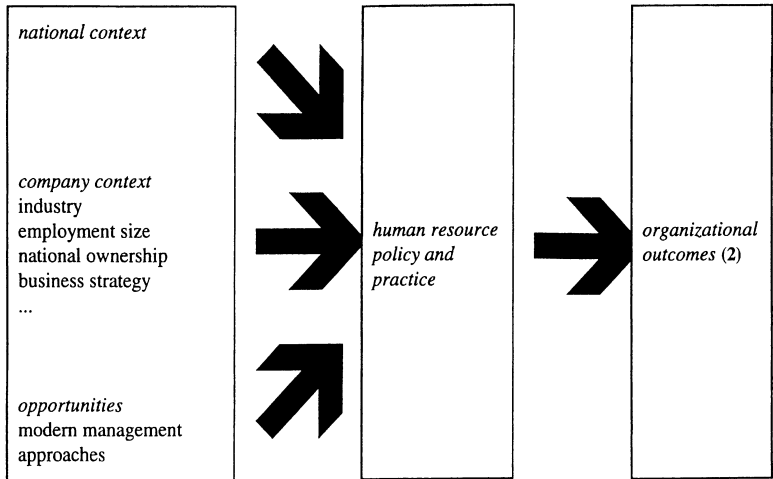
The next section will present the context of the research conducted to examine the above issues. The following two parts analyze some of the data collected. Then a typology will be introduced that helps to classify the human resource approaches of firms operating in Germany.

Research Context

The analysis so far raises the question whether there is a convergence about international forms of management such as HRM or a divergence centered around national institutions. However, human resource policies and practices at the company level are influenced not only by national institutions and opportunities offered by modern management approaches, but also by factors in the organizational context (for context factors having a potential influence on human resource management see Jackson/Schuler 1995, Sparrow/Hiltrop 1997). Consequently the conceptual framework guiding this research assumes that human resource policies and practices of individual organizations are influenced by the national context, the opportunities created by modern management approaches and the organizational context (see Figure 1).

On the basis of the conceptual framework, three hypotheses can be developed that will help to sharpen the focus of this paper. Firstly, a precondition for national labor market institutions having an influence on human resource practices is that firms comply with their requirements. Therefore one can formulate the hypothesis that *all firms operating in Germany should comply with the requirements of the three key labor market institutions of centralized collective bargaining, co-determination and initial vocational training*. A company complies fully with the German system of multi-employer collective bargaining, as long as it is a member of an employers' association and follows the rules set out by the association's agreement. If it has a company collective bargaining agreement, it only partly

Figure 1. The Conceptual Framework



complies. Similarly, a firm fully complies with initial vocational training as long as it has a significant percentage of apprentices (e.g. more than 3 per cent of the total workforce). Those with only a few apprentices are considered to partly comply. Finally, all those companies which have works councils in all major establishments and which do not avoid board level co-determination fully comply (Müller 1998).

Secondly, a related hypothesis is that *HRM is incompatible with German labor market institutions*. Thus we want to find out whether German firms use HRM techniques and if this fostered by the institutional environment. In order to do this, it is necessary to define and operationalize what we mean by HRM techniques. The classic statements by Beer et al. (1984) and Walton (1985) mention a number of HRM practices. Since then various lists of human resource practices associated with HRM have been drawn up (for recent lists by US researchers see Huselid 1995, MacDuffie 1995, Pfeffer 1998, Youndt et al. 1996; and by UK researchers see Brewster/Hegewisch 1994, pp. 247–273, Guest/Hoque 1994, Storey 1992, Wood/Albanese 1995, Wood/Menezes 1998). Although some of the indicators presented in these check lists, such as employment security, single status and high investment in training appear to be commonly accepted by most academics that have drawn up inventories of HRM practices, there is, as Guest (1997, p. 266) points out, still a lack of “a coherent theoretical basis for classifying HRM policy and practice.” HRM still appears to be an academically constructed stereotype that is a convenient shorthand for a number of practices. In the absence of a commonly agreed list of HRM techniques this research will use Guest’s (1987)

human resource policy goals of commitment, flexibility, quality and strategic integration to judge whether a particular human resource practice is a HRM technique or not. Hendry (1994) and Legge (1995) have used the same route to examine HRM in the UK. Particularly in the European context, where organizations have to operate with restricted autonomy (Brewster 1995), such a normative approach seems to be appropriate.

Thirdly, as mentioned before, HRM is not only about techniques, but also about values. There is a potential clash of culture between the unitarist ideology of HRM and the collectivist pressures exerted by German labor market institutions. If companies operating in Germany largely comply with the requirements of these institutions, then the question is what other HRM approach is or can be followed. One which may be compatible with the German system is to achieve the HRM outcomes of commitment, flexibility, quality and strategic integration with a pluralist style of management. Hence, the third hypothesis is that *the German system fosters the development of a pluralist type of HRM*. The term 'pluralist HRM' was coined by Guest (1989) to describe the combination of a high HRM priority and a high industrial relations priority. Other terms used to express that HRM and trade unionism are compatible are "the new realism" (Guest 1995, p. 119), "the motivated competence model" (Heller 1993), "pragmatic eclecticism" (Regini 1993, p. 567), or "mutuality" (Walton 1985). For the UK, survey evidence indicates that the presence of trade unions has a positive impact on the introduction of HRM techniques (Guest/Hoque 1996, Millward 1994). If this is so, one would expect this to apply even more strongly for Germany. The co-operative style of industrial relations thought to be a pivotal part of the German system makes it possible for employees in this country to have a dual commitment to both the company and the trade union. This at least was shown by a comparative study of workers in the electronics industry (Guest/Dewe 1991). Hence, the case of Germany could show that HRM and unions can coexist.

Methods and Data Collection

The research presented here is built on case studies of twelve German-owned, four British, and nine US companies operating in Germany (see Table 1). Foreign-owned firms were included as they are thought more likely than indigenous firms to challenge national labor market institutions (Ferner 1997). Therefore, their example could help to illuminate the pressures on the German system. This particularly applies for US multinationals, as they are renowned for deviating from national industrial relations and human resource practices (Chi-Ching/Keng-Choo 1995, Müller 1998, Tayeb 1998). In order to facilitate a comparison between the foreign-owned firms which have a world-wide workforce of at least five thousand employees, only large German companies were included in the sample (see

Table 1. The Firms in the Sample (Employment Size and Compliance with Key Labour Market Institutions (✓ Full Compliance, x Partly Compliant, – No Compliance))

	Approximate number of employees in Germany (in 1993)	Multi-employer bargaining	Co-determination	Initial vocational training
<i>German companies</i>				
Big Bank	60,000	✓	✓	✓
Universal Bank	40,000	✓	✓	✓
Regional Bank	15,000	✓	✓	✓
State Bank	5,000	✓	✓	x
Cooperative Bank	2,000	✓	✓	✓
Savings Bank	500	✓	✓	✓
Big Chemical	90,000	✓	✓	✓
Consumer Chemicals	20,000	✓	✓	✓
Big Pharmaceutical	10,000	✓	✓	✓
Applied Chemicals	5,000	✓	✓	✓
Oil Company	5,000	✓	✓	✓
Pharmaceutical Firm	1,500	x	✓	✓
<i>US subsidiaries</i>				
US Branch Bank	4,000	✓	✓	✓
US Merchant Bank	300	-	-	✓
US International Bank	200	-	x	-
US Investment Bank	100	-	-	-
US Commercial Bank	100	-	-	-
US Consumer Chemicals	9,000	✓	✓	x
US Chemical	3,000	-	x	x
US Oil	2,000	x	✓	✓
US Pharmaceutical	500	✓	-	x
<i>UK subsidiaries</i>				
UK Merchant Bank	1,000	✓	✓	x
UK Oil	4,000	x	✓	✓
UK Chemical	2,000	✓	✓	✓
UK Pharmaceutical	1,500	✓	✓	x

Table 1). Among these were well known firms such as Deutsche Bank, Hoechst, and Henkel. This sample selection was somewhat biased, as the US subsidiaries in particular were relatively small, and this has to be taken into account in the following analysis. Due to sectoral factors having an influence on the behavior of multinationals in their host country, only banks and chemical firms were chosen. One reason for selecting these industries was that in both of them a number of UK and US firms were operating. In the chemical industry I selected pairs of compa-

nies with similar businesses such as oil companies and pharmaceutical firms. In banking this was not possible, as German banks are usually universal banks which offer all types of banking services, whereas most foreign banks in Germany are merchant or investment banks. It is also important to acknowledge that the analysis only applies to former West Germany, as all firms visited were based there.

The company case studies are based on multiple sources of evidence. Primary and secondary evidence such as company newsletters, annual reports and works agreements were collected. Between 1991 and 1994 the sample firms were visited at least twice and more than 150 face-to-face and phone interviews were conducted. Most of the respondents were personnel managers. When possible the researcher also talked to line managers and employee representatives. The interviews were conducted in a semi-structured style. For each sample firm a case study report was written and fed back to the key informant. The respondent validation helped to find out if the understanding of particular company facts and situations was correct. The case studies contained general information such as legal form, organizational structure; data about the compliance of sample firms with German labor market institutions; and details about the use of human resource instruments such as appraisal and remuneration systems. The researcher inquired about the instruments used, what they looked like, whether they had changed and when they were implemented for the first time. The first part of the data presentation will now discuss the compliance of the sample firms with German labor market institutions.

Compliance with German Labor Market Institutions

In regard to compliance with the major German labor market institutions of collective bargaining, co-determination and initial vocational training, the sample firms can be divided into two groups. The first group consists of all German firms, the British subsidiaries and three of the US transplants (US Branch Bank, US Consumer Chemicals, and US Oil). They either fully or partly comply with the German labor market institutions studied (see Table 1).

In contrast to these firms, six of the nine US subsidiaries generally do not comply with German labor market institutions. US Pharmaceutical and US Chemical avoid at least one of them entirely. It is worth noting that US Chemical is one of the few large companies operating in Germany that has no collective bargaining at all. The non-existence of a works council in a company as big as US Pharmaceutical's German subsidiary is also worth noting. The four smallest US banks deviate even more from the majority of the sample. None of them is subject to collective bargaining. Only one deals with a works council and only one

offers initial vocational training. Employment size is clearly important. German institutions leave more choice for smaller than for large firms. Nevertheless, unlike the six US firms in the sample, the majority of firms of similar size in these industries, do comply (Müller 1998). Furthermore, although employers are dissatisfied with elements of the German system, there are so far no serious attempts by them to challenge it. For example, although the German system of multi-employer bargaining is blamed for causing inflexibility and a too high wage burden, there is no widespread trend to leave employers' associations. Adjustment and adaptation largely occurs within the institutional framework (Müller 1997). Hence, the six deviant companies in the sample do not appear to provide a model that is likely to be widely followed.

The second hypothesis, that HRM is incompatible with the requirements of German labor market institutions, is linked to the first one. Arguably companies that want to follow a unitarist HRM policy cannot at the same time comply with co-determination, collective bargaining and/or initial vocational training. German labor market institutions restrict management's right to manage. For example, in those companies that have works councils, management has to negotiate with employee representatives about the introduction or change of most human resource instruments and sometimes even has to accept that works councilors control their operation. Therefore, as the majority of companies in the sample comply with the requirements of the above institutions, they cannot follow a unitarist policy. However, six US subsidiaries appear to pursue an avoidance strategy. Nevertheless, this does not necessarily mean that they have a unitarist HRM approach, as they could be high or low users of HRM practices. Similarly, although the majority of firms in the sample comply with the requirements of the German system, they could still use some of the techniques associated with HRM. Therefore the following sections will examine the extent to which HRM is practiced by the sample firms in the key areas of human resource flow, communication and rewards.

Human Resource Practices

Human Resource Flow

We start with human resource flow. Companies that practice HRM should select new employees carefully, monitor their development with regular appraisals and also offer them extensive training and employment security to achieve the human resource outcomes of commitment, flexibility and quality.

In terms of selection and induction most sample firms put a special emphasis on the recruitment of school and university graduates. Apprentices are selected with written tests and management trainees often with an assessment center. The

initial vocational training offers apprentices a structured induction into the organization, as well as a training in occupational skills. Newly recruited graduates usually also receive some form of structured induction. In contrast to apprentices and management trainees, tests and assessment center are hardly used for other groups of employees, even for managers. This finding is confirmed by the more representative Cranet-E data (Brewster/Hegewisch 1994, Table 3.6). Only a few of the sample firms offer any form of structured induction for this group of employees.

Turning to training, most sample firms offer an initial vocational training (see table 1). Employees can then acquire further vocational training qualifications. Almost all sample firms support those who want to get this qualification financially as well as with time off. In addition to these general qualifications, technical and non-technical company specific training is usually extensively provided. In the sample firms, some change was observed not such much in the extent of training, than in its form and focus. There are attempts to integrate on-the-job and off-the-job training more closely, as there is a perception that off-the-job courses do not necessarily result in behavioral changes, especially if the environment does not facilitate this process. One example is team training for all employees working together in a department, branch or project. Whereas in the 1980s three of the sample firms offered such training, seven introduced it in the early 1990s. There also seemed to be a bigger emphasis on job rotation between functions.

Most of the sample firms regularly operate a written performance appraisal system. Whereas in the past this was usually based on a trait rating, in recent years most of the companies studied have extended their appraisal system by introducing new elements. In the 1990s, seven of the sample firms introduced goal appraisals, five regular career development talks and three management development assessment centers. The main reason for this appears to be a dissatisfaction with the traditional personality and trait rating system's ability to assess accurately performance and career development prospects. Career development talks, management development assessment centers and development schemes are also introduced to identify candidates with leadership skills and/or develop these skills. This is a break with the past where progression has depended more on technical skills than leadership qualities. Whereas the traditional rating appraisal systems tended to cover all staff, the new elements are often targeted at managers only (Müller 1999a).

The evidence presented so far indicates that most sample firms follow an internal labor market policy. This is also supported by the fact that they have a system of job posting, usually advertise all vacant positions in the establishment first and have committed themselves in written documents to a policy of internal promotion. It is also reflected in outflow policies. Starting in 1992, several of the banks and chemical firms had to reduce their workforce significantly. The reductions were achieved by a combination of halting recruitment, early retirement and voluntary redundancies. Compulsory dismissals were only used in exceptional cases.

A similar picture emerges from the data of the 1992 Cranet-E survey (Brewster/Hegewisch 1994, Table 9.6).

So far, similarities between the sample firms have been emphasized. Nevertheless, there were also differences. One was that modern human resource techniques such as assessment centers, team training and management development schemes were more widespread in some firms than in others. A probably more important difference was that a minority of the organizations, the three smallest US banks, did not follow an internal labor market policy. They offered little training, had no internal job posting system, no written commitment to internal promotion, a relatively high labor turnover and compulsory redundancies were not avoided at all costs. Their practices resembled their affiliates in London and New York, rather than those of the indigenous sample firms.

Rewards

In terms of reward, companies practicing HRM will have a systematic system of pay, will have only minimal status differentials and will reward good performance in order to achieve the outcomes of commitment and quality.

The major determinant for individual salaries in the collective bargaining firms are multi-employer or in the case of three firms company level collective bargaining agreements. These agreements prescribe certain job grades into which employees have to be fitted. To facilitate the grading they also define benchmark jobs and give an indication of the formal qualifications required. The works council usually takes an active part in the grading process. On an annual basis, wage increases and many fringe benefits are determined by collective bargaining negotiations. Others are negotiated at the company level between management and works councils and thus also apply collectively to the whole workforce. Furthermore, in banks as well as in the chemical industry there are the same wage grades for blue and white collar workers and employment conditions are also equalized. This reward system only applies for tariff employees, 'exempts' are only indirectly affected. Exempts (Außertarifliche Angestellte) are all those employees who earn significantly more than those in the highest wage group of the collective bargaining agreement. This group normally accounts for about 15 to 20 per cent of the total staff. Traditionally, the pay system used for tariff employees was, by extending the number of job grades, transferred to exempt positions (Müller 1999a).

All in all, the collective bargaining firms in the sample seem to have a systematic pay system which, as it is governed by management and works council, can help to foster commitment and reduce grievances about pay. The traditional dominance of job-based pay means that performance-related pay is less important in Germany. Nevertheless it appears that the ideology of performance-related pay

has had some impact on German managers. Several of the firms in the sample have attempted to link pay more to performance by introducing analytical job evaluation for exempts, by changing fixed bonuses into variable ones and by linking merit increases and bonuses to an appraisal scheme. A growing importance of performance-related pay in German firms also emerged from the 1992 and 1995 Cranfield surveys (Brewster/Hegewisch 1994, Table 4.2a, Weber/Kabst 1996, p. 32). However, the question is how much performance related pay fits into the more collectivist German culture (Trompenaars 1993) or whether it makes sense at all. This may explain why works councils are critical of performance-related pay and sometimes prevent its introduction.

Again there were only minor differences between the majority of sample firms. For example, in the 1980s and 1990s, some of the firms had introduced analytical job evaluation systems to determine exempt pay, whereas others did not have a formal system. The most important difference emerged between some of the US-owned firms and the rest. The five US subsidiaries that avoid collective bargaining appear to pay more performance related, e.g. salary increases are sometimes not paid and annual bonuses are directly linked to individual performance. This also applies to the non-works council firm US Pharmaceutical. Interestingly, US Oil has a plant agreement with its works council that assures each manager a certain minimum increase.

Communication

An important element of HRM should be intensive employee communication. The assumption is that this leads to a greater commitment of the workforce which in turn is expected to enhance motivation and performance (Guest 1987, p. 513). The following analysis will look separately at indirect and direct communication.

In the past the German-owned firms, all of which have works councils, relied mainly on indirect communication. The co-determination law assures that works councils play an important role in employee communication. It not only stipulates that management must share information with employee representatives, but also gives them several means, such as works meetings, to communicate with the workforce. This system provides an employee voice system and could explain why company journals and suggestion schemes were in many of the German-owned sample firms the only direct communication instruments used. This changed in the 1980s and 1990s. All but one of the indigenous firms started to use attitude surveys. Again with one exception all German-owned chemical companies and one of the banks introduced quality circles. A further development was that in most firms management started to organize regular employee meetings. Before, only works meetings, which are called by the works council and chaired by its leader, took place. However, this example shows that the increase in direct com-

munication has not been at the expense of indirect communication, a finding confirmed by the 1992 Cranet-E survey (Brewster/Hegewisch 1994, Tables 6.4, 6.6). The employee meetings organized by management are usually confined to organisational units that do not have their own works meetings such as small branches or departments.

Not surprisingly, direct communication instruments were more widespread in some sample firms than in others. It is worth noting that foreign-owned firms such as US Oil, UK Oil, US Chemical and US Pharmaceutical have introduced direct communication devices such as attitude surveys much earlier than the indigenous companies. Nevertheless, there were also differences among the foreign firms. Whereas the non-works council firms US Pharmaceutical and US Chemical, which has no works councils in its headquarters, extensively use direct communication methods, the four smallest US banks do not operate any sophisticated employee involvement instruments. The findings presented so far will now be summarized with the help of a typology.

A Typology of Human Resource Management Approaches

The classification presented in Figure 2 is intended to summarize the data and to show the options for human resource management in the German context. Being aware of the problems associated with the construction of typologies (for a summary of this critique see Kitay/Marchington 1996) and the small sample, this simplification does not entirely represent a more complex and less clearly defined reality. However, it helps to group otherwise unique cases for the purpose of comparison. The typology was inspired by Guest (1995, p. 118) and contrasts the sample firms compliance with German labor market institutions with their HRM priority. HRM priority is defined here as the extent to which HRM prescriptions are implemented. The classification results in four different quadrants. Each is now discussed starting with the first option 'traditional personnel management.'

Companies in the first quadrant 'traditional personnel management' largely comply with the key German labor market institutions examined, but at the same time practice little HRM. This represents the stereotypical view of human resource management in Germany in the comparative HRM literature (see for example, Begin 1997, Sparrow/Hiltrop 1994). It is mainly based on a 1982 study by Lawrence (1991) which suggests that German labor market institutions prevent German companies from using sophisticated human resource techniques. As many of the companies have only recently introduced modern human resource instruments such as attitude surveys, development assessment center and performance-related pay, Lawrence's findings may well have been valid at the time of

his research. In the early 1990s, only two of the sample firms fall into this category. However, the use of instruments may well be less important than broad human resource policies, as even they fulfil major HRM prescriptions such as providing extensive training, employment stability and offering an employee voice system.

The companies in the second quadrant, 'pluralist HRM,' practice HRM, but at the same time comply with German labor market institutions. Most British- and German-owned firms, as well as all but one of the large US subsidiaries, fit into this category. Such a human resource approach fits well with the high cost, high quality business strategy pursued by German industry (Porter 1990). It is worth noting that in the 1990s some of them have started to use human resource techniques such as goal-based appraisal, attitude surveys and performance-related pay. This development suggests that there is room for the introduction of HRM elements that are not clearly supported by the German system. Firms can apply techniques associated with HRM and at the same time comply with the requirements of the German system. As discussed in more detail later, employment size may at least partly explain whether firms pursue this option for the management of their human resources. Again it depends on the importance one attaches to the use of human resource instruments as opposed to broad policies whether one perceives the predominance of a pluralist HRM approach among the sample firms as a recent development encouraged by the opportunities created by modern management approaches or something already applied for a long time. Even in the 1950s,

Figure 2. A Typology of Human Resource Management Approaches

"Compliance" with German labour market institutions	high	Traditional Personnel Management One German company One British subsidiary	Pluralist HRM Eleven German companies Three large US subsidiaries Three UK subsidiaries
	small	Market-type Personnel Management Three small US banks	Unitarist HRM Two medium-sized and one large US subsidiary
		low	high
		HRM-Priority	

labor management in large German firms was characterized by internal labor-market type training, good promotion prospects, the existence of internal employee voice systems and job security (Gospel 1999). On similar lines, some German academics suggested that there has traditionally been an orientation in personnel management in German firms which is in line with many HRM prescriptions (Garnjost/Wächter 1996, p. 805, Staehle 1988, Streeck 1987, Wächter/Stengelhofen 1992).

Turning to the third quadrant, three of the firms in the sample, US Pharmaceutical, US Chemical and US Merchant Bank, have a 'unitarist HRM' strategy. These US subsidiaries show little compliance with the requirements of German labor market institutions and seem to follow a non-union policy. They also have a relatively high HRM priority. Their example demonstrates that a unitarist US-type HRM can be applied in Germany and thus they contradict the second hypothesis. Nevertheless, there appear to be only a few companies operating in Germany that follow such an approach. Although in the absence of more detailed empirical data one could speculate about how widespread the unitarist HRM approach is, it is interesting that neither the three US subsidiaries in this quadrant nor any other company operating in Germany with such an approach has emerged as a model for a unitarist HRM. Even the German subsidiary of Hewlett Packard, which is widely known for its excellent human resource management, is not associated with or described as a model for a unitarist management approach. For example, it is not generally known that it is one of the largest companies in Germany without collective bargaining. This is different to the UK or the US where a number of large, well known companies have been presented as successful models for a unitarist HRM. One reason for this could be that the costs of such a deviant strategy are too high in the German context. It is worth emphasizing at this point that three of the four large US subsidiaries in the sample, US Branch Bank, US Oil and US Consumer Chemical, follow a pluralist HRM strategy. This is of particular interest as their parents are known in the US as models for a unitarist HRM. Therefore, at least for large firms, the German system appears to leave little room for maneuver.

Organizations that avoid both German labor market institutions and HRM are classified in the fourth quadrant, 'market-type personnel management.' The three smallest US firms are in this category. In comparison to the other sample firms they have a more market-type employment system (Delery/Doty 1996) by extensively using external labor markets, offering little training and strongly emphasizing performance-related pay. As all three banks are big international firms, each employing at least 5,000 people world-wide, a conscious strategy rather than employment size is more likely to account for their behavior. Nevertheless, for small firms operating in Germany a market-type personnel management rather than the pluralist HRM approach may be the dominant human resource strategy. Survey evidence shows that only a minority of firms with less than 100 employees have a

works council (Mendius/Semlinger 1991, Table A3.15), many of them are not subject to collective bargaining (Kohaut/Bellmann 1997, p. 323) and they are also less likely to offer initial vocational training (Mendius/Semlinger 1991, Table A3.17). In regard to human resource policies, large firms are much more likely to offer further training, to use a written performance appraisal and to have an internal job posting system than small firms (Mendius/Semlinger 1991, Tables A3.06, 3.09, 3.18). Therefore, even in the institutionally strong German context, at least for small firms that want to follow a low cost, low quality strategy, it is possible to opt for a human resource approach that fits.

Conclusions

The research presented here examined the management of human resources in Germany. In contrast to previous research which suggested that companies operating in Germany are low users of HRM, this research found that several of the policies and techniques associated with HRM are widely used. It seems that the German system even fosters the use of some HRM practices. For example, initial vocational training contributes to a relatively high emphasis on training. Co-determination exerts pressure on German companies to guarantee employment security and offers a significant mechanism of employee involvement. Over the last decade the companies that participated in the case studies introduced HRM techniques such as development assessment centers, performance-related pay and attitude surveys that were not used in the past. Such attempts can meet with resistance by employee representatives who have the power to stop the introduction or change of human resource instruments.

This observation directly leads to the second main finding. The German system favors a pluralist approach to HRM. Medium and large sized firms operating in Germany can hardly avoid the labor market institutions of collective bargaining, co-determination and initial vocational training. Hence, their autonomy is restricted in several pivotal human resource management areas. Either decisions made by external bodies such as the collective bargaining parties, the state and the chambers of industry and commerce are imposed on them, or the introduction and operation of human resource instruments has to be negotiated with employee representatives. Therefore, although German companies can use practices associated with HRM, they can generally not adopt the unitarist values of HRM. Consequently, a unitarist type of HRM can hardly be followed in the German system. This suggests that the case of HRM in Germany does not support convergence theory. Nevertheless, the data presented indicate that German firms are relatively open to managerial ideas originating from the US. The sample firms already ap-

ply or are currently introducing many of the techniques associated with HRM. However, this is a "constrained convergence" rather than a full convergence. Far from supporting convergence thinking, the human resource management of companies in Germany remains distinctively different from US practices.

A number of HRM scholars are critical of the unitarist ideology of the HRM model. They suggest a pluralist HRM model as an alternative. The case of Germany, where at least among large firms pluralist HRM seems to be the dominant model of human resource management, illustrates that such an approach can work in practice. Despite high unemployment rates, German companies have remained competitive and the German system, which is in many respects a refined version of the European Union's Social Model, remains robust. Nevertheless, as the German model limits organizational autonomy, it might threaten rather than appeal to employers. It is not unreasonable to assume that only if there is institutional pressure on companies will they follow a pluralist HRM approach. Such a condition may well be fulfilled in Europe, as European concepts of HRM need to reflect key values such as pluralism and tolerance, a balanced stakeholder philosophy and the concept of social partnership (Brewster 1995, Guest 1994, Sparrow and Hiltrop 1997, Thurley and Wirdenius 1991). A pluralist model of HRM may well become the preferred option for European companies that follow a market strategy based on high quality and could offer a serious alternative to the unitarist US type HRM model.

Although differences between the human resource practices of individual companies might as a result of the relatively strong institutional framework not be as marked as in other countries, this research found some diversity. Firstly, the US subsidiaries in the sample show that it is possible to transfer to Germany techniques developed and applied in their home country. Some of them even manage to follow a unitarist HRM approach. This makes them different not only from the German-, but also from the British-owned firms studied. Secondly, small firms appear to be under less pressure to comply with German labor market institutions than medium and large sized companies. They are less likely to have works councils, to be involved in collective bargaining and are under less public pressure to employ apprentices. Thirdly, in contrast to ownership and size, industrial sector seems to be less important. Hardly any differences between banks and chemical firms emerged in regard to their compliance with collective bargaining, co-determination and initial vocational training.

The study inevitably has limitations. One problem is the lack of good outcome data that would have enabled an assessment of the success of different human resource approaches in the German context. In particular, it would have been interesting to find out whether companies that comply with the requirements of German labor market institutions exhibit better outcomes than those who follow an unitarist HRM or a black hole approach. A second limitation is that on the basis of the data collected it has not been possible to distinguish between those com-

panies that merely comply with the requirements of the German system and those that are committed to it. A final weakness is that there are hardly any UK and US banks operating in Germany that from their size and the type of their business can easily be compared to indigenous banks. Hence, it was somewhat difficult to assess which differences are accounted for by national ownership and which by other factors and in particular employment size.

Emerging from this study, there appear to be four priorities for future work. Firstly, findings that at least among large firms the pluralist HRM model is predominant in Germany need to be tested by more representative survey data. Secondly, insights about the future direction of HRM in Germany could also be gained from more detailed studies of the human resource and industrial relations practices of German firms abroad. How do they behave when they are 'freed' of institutional constraints (Ferner/Quintanilla 1998)? A third valuable area of further research would be to study the human resource management of small companies in Germany, whose practices will in several ways be different from large firms. It is widely assumed that such companies are one of the main factors accounting for the success of German industry (Porter 1990). A fourth priority for research would be to collect similar data in other countries to contribute more directly to the theory of comparative HRM. To build such a theory, there is a need to study models of human resource management in different countries and to analyze how these are shaped by actors such as the state and labor as well as cultural traditions (Boxall 1995, Müller 1999b). In line with these recommendations it would be of particular interest to study the dominant options for the management of human resources in other European countries to find out if a European model of HRM is emerging.

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Notes

- 1 In the following the abbreviation HRM is only used when there is a reference to the HRM debate or a specific HRM concept. In contrast, the term human resource management is used as a modern expression for personnel management.
- 2 Originally it was aimed to include organizational outcomes as a further dependent variable to test the effectiveness of the human resource management practices identified. During the course of the study the researcher realized this was not feasible. Information about outcomes such as labour turnover, absenteeism and profits was not available in all sample firms and/or not possible to compare across them. Furthermore, there is a range of factors that influence these outcomes.

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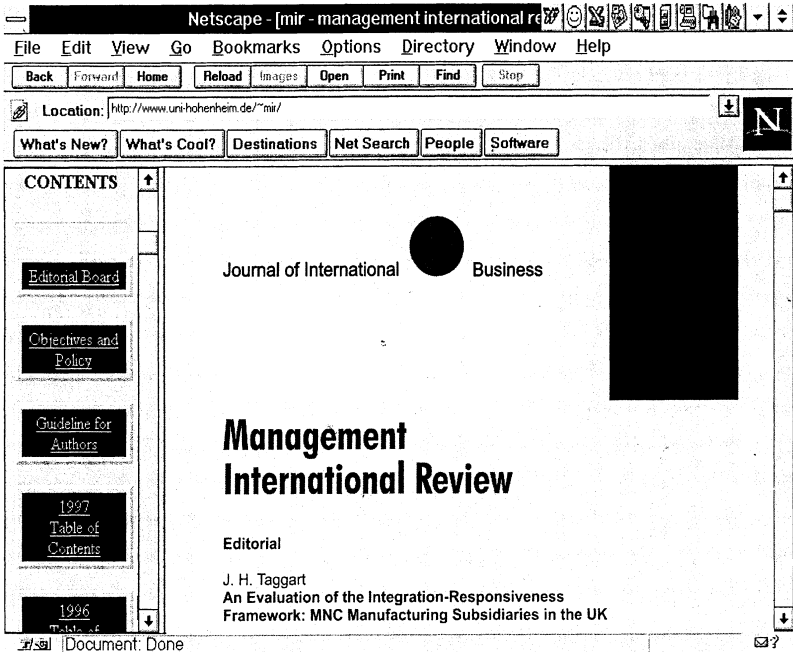
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