

Research Focus
in part of the
Requirements Leading to a Ph. D.
in Workforce Education
HR-Organization Development

Can Spiritual Leadership turn “leavers” into “stayers”?

THEORETICAL FRAMEWORK

Essential to Fry's Spiritual Leadership Theory are key processes:

1. Creating a vision wherein **LEADERS** and **FOLLOWERS** experience a sense of calling so their lives have meaning and make a difference.
2. Establishing a social/organizational culture based on the values of altruistic love whereby **LEADERS** and **FOLLOWERS** have a sense of membership, feel understood and appreciated, and have genuine care, concern, and appreciation for both self and others.

- Fry & Slocum, 2008, p. 90

THE PROBLEM

Employee turnover is major problem for employers. The problem is particularly acute in the hospitality industry, exceeds 50% (Source: Bureau of Labor Statistics 2010). Despite efforts to reduce turnover in the industry, little progress has been made. Spiritual leadership has been identified as one way employers can improve employee engagement and reduce turnover.

THE PURPOSE

The purpose of this study is to determine if employees' perceptions of spiritual leadership in the workplace has an effect on turnover and if employees perceptions of spiritual leadership mediated by the employees' sense of inner life, connectedness, and meaning the workplace. Also, we want to find if any dimension of spiritual leadership has a stronger influence than another on turnover.

INSTRUMENTATION

Three survey instruments will be used in this research, focusing on spiritual leadership, workplace spirituality, and voluntary turnover. The well-validated surveys on spiritual leadership and workplace spirituality were found in the literature (Ashmos & Duchon, 2000; Duchon & Plowman, 2005; Fry, 2003, 2005, 2008), and the constructs are composed of multi-item scales that follow the 5-item Likert scale.

METHODS

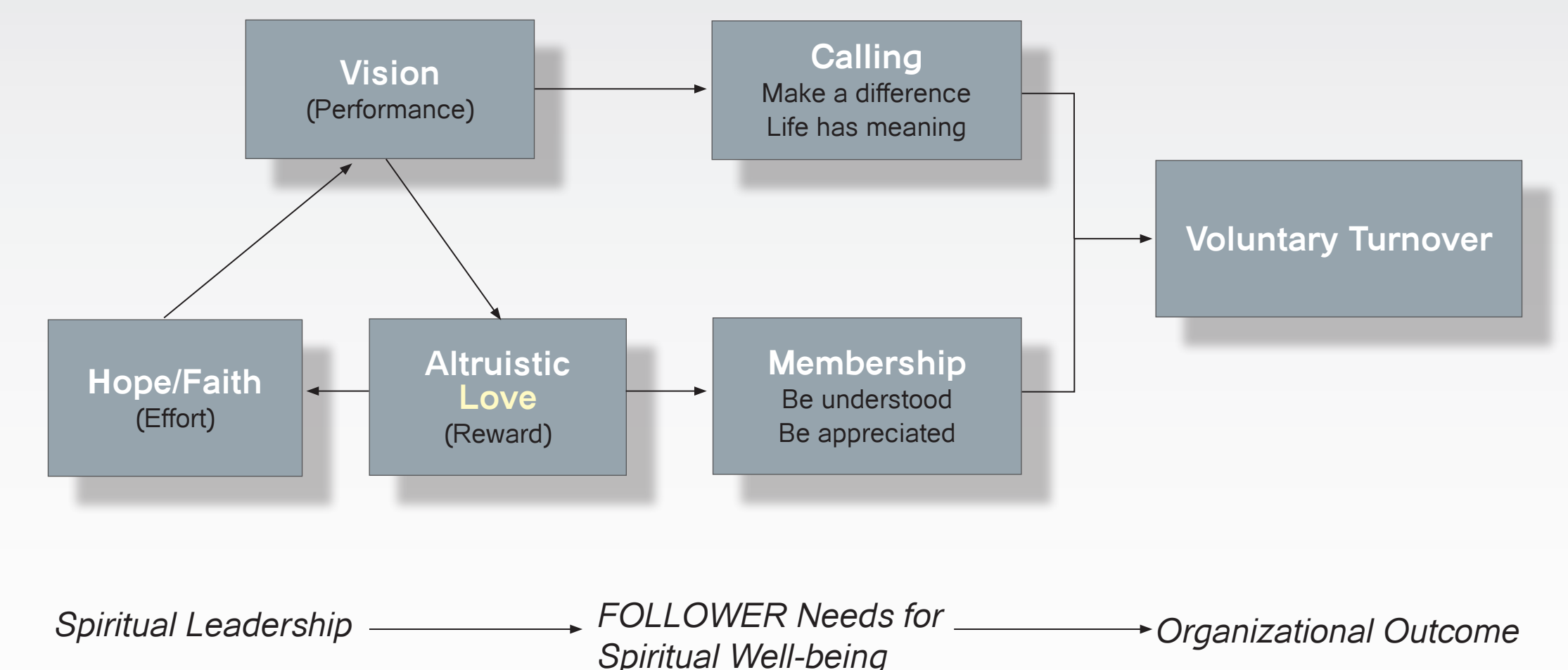
Survey over 300 hourly employees across all departments, in areas including rooms operations, food and beverage operations, sales and marketing, human resources, accounting, and engineering, from a luxury resort located in Palm Beach, Florida. These employees will be surveyed using Fry's 2008 Validated Spiritual Leadership

EXPECTED OUTCOMES:

Spiritual leadership will have a negative relationship with TURNOVER.

Spirituality in the workplace will mediate the relationship between Spiritual Leadership and TURNOVER.

Some dimensions of Spiritual Leadership will have a stronger negative relationship with TURNOVER than others.



Personal Research Focus:

Impact of Spiritual Leadership on Business Outcomes in a Hospitality Setting

Submitted as a component of the Workforce Education Doctoral Candidacy Examination

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Introduction/organization

This paper outlines my personal research focus and includes the following sections: Introduction (including organization), body, and references to date. The body is organized into four areas. They are: Desired career goal, Knowledge/skills required, Acquiring knowledge/skills, and Personal fit.

The subject of my research is spiritual leadership and its impact on customer outcomes in a hospitality setting. In my reading I found that there was much written about the positive impact that spiritual leadership has on empowered teams. Empowered teams are the subject of many articles relating to guest satisfaction in hospitality settings. Leadership in hospitality organizations presents special challenges especially with respect to involvement of the customer in virtually all processes and the intangible nature of service as a product. I would like to explore what facets of spiritual leadership are particularly effective in this unique setting.

Body

Desired career goal

I currently hold a faculty position as the Director of the Hospitality Leadership Institute at Penn State. I am interested in earning a Ph.D. in the field of Human Resource Development/Organization Development to enhance my credentials in this field. My academic background is entirely in Finance, but for the last 15 years I have been working with Penn State colleagues in Executive and Management Education in the Smeal College, Outreach, and the School of Hospitality Management.

I have been very successful in establishing Corporate/University educational partnerships but realize that I have been learning “on the job” and have very little theoretical background in this field. Further, I have become very interested in doing some research related to different models of leadership. I want to continue as a teaching faculty and Director of the Hospitality Leadership Institute at Penn State and use my dissertation research to add to my understanding of Organizational Development (OD) so that I can develop new products for OD consulting with a specialization in the hospitality industry. As I work

through the degree requirements I will also seek input from colleagues in the School of Hospitality Management. Dr. Anna Mattila and Dr. Michael Tews, two very renowned researchers in hospitality, have both expressed their interest in collaborating with me. So rather than to seek a new career goal, this degree is an opportunity for me to improve myself and my expertise in my present position.

Knowledge/skills required

- Structure – The field of practice that I wish to make a contribution to is Organization Development (OD). Within this field of practice I would like to focus on leadership in the hospitality industry, and specifically look at spiritual leadership theory as it relates to positive customer outcomes in hospitality operations. Leadership in hospitality operations has some unique features stemming from the simultaneous nature of consumption and production, and the intangible nature of service as a product.

Simply put, the overarching goal of hospitality is happy, repeat customers. Every system and process is built to exceed guest expectations and positively impact the intent to return. To understand all the aspects of leadership and service quality will require knowledge in the disciplines of industrial psychology, social psychology, operations management, consumer behavior, quantitative and qualitative research methodology, and learning theory.

- Nature - Leaders of Hospitality and other service organizations have unique challenges as compared to their counterparts in other industries. Food may be the primary product of a restaurant, but most of the “manufacturing” is done right in the same place that offers the service. Workers are expected to be friendly and cheerful toward both the customer (guest) and their co-workers. They are expected to care about what happens to the customer. The product is really the guest experience, which is not easily measured, and all leadership functions have to be performed in conjunction with the customer. Also a very high level of flexibility, coordination, and communication among labor-intensive systems and processes must converge to create a positive guest experience. While continuing to make sure that all systems and processes are aligned to drive guest satisfaction, the leader must also assure that the operation makes a profit.

Strategies for designing a process will be quite different depending on whether a service is being provided or a product is being manufactured and the degree of customer contact lies at the heart. The degree of customer contact in service organizations is higher because the customer takes an active role in the process itself. The level of contact is the extent to which the customer is present, involved, and receives personal attention during the service process. This contact, often referred to as *the moment of truth*, brings the customer and the service provider together. Therefore the leader must make sure that all employees are empowered to address customer needs in a real time basis because it is at that time customer attitudes about the quality of service are shaped. (Krajewski, L.J., Ritzman, L. P., & Malhotra, M. K., 2010)

Many studies have proved a positive correlation between happy employees and happy, loyal customers. Leadership theories have long tried to explain the best ways leaders can facilitate a motivated, engaged workforce. For the purpose of my research I want to explore ways in which spiritual leadership in particular, impacts employee commitment and in turn customer satisfaction in a hospitality specific service setting. Duchon and Plowman (2005) investigated work unit spirituality and performance in a large hospital and found there is a relationship between the climate of work and its overall performance. Workplace spirituality is defined as a workplace that recognizes that employees have an inner life that nourishes and is nourished by meaningful work that takes place in the context of community. This definition has implications for how leaders can enhance work unit performance by nurturing the spirit at work. Reave (2005), in her review of 150 studies is showing a clear connection between spiritual values and practices and effective leadership. Values that have long been considered spiritual ideals, such as integrity, honesty, and humility are demonstrated to be connected to leadership effectiveness and success. According to Fry (2011), a person's spirit is the vital force traditionally believed to be the intangible, life affirming energy in oneself and all human beings. Today, people as part of their spiritual journey are struggling with what that force means for their work. The model of spiritual leadership incorporates vision, hope faith and altruistic love, theories of workplace spirituality. The purpose of spiritual leaderships is to create vision and value congruence across the strategic, empowered team to foster higher levels of organizational commitment and performance.

Scholars have noticed a rising interest in workplace spirituality. This is not surprising since it has long been established that people have the intrinsic drive and motivation to learn and find meaning in their work and to be a member of a group in which they feel valued in return to their contribution to the group's performance (Giacalone & Jurkiewicz, 2003). Employee involvement is a key tactic for improving processes and quality. One way to achieve employee involvement is by the use of teams. Teams involve the use of employee empowerment that moves the responsibility for decisions further down the organizational chart.

In theorizing spiritual leadership, we focus on the collective social influence process that engages everyone and enables groups of people to work together in meaningful ways (Day, 2000). Spiritual leadership emphasizes this less leader-centric approach, focusing on engaging all group members to meet spiritual needs and enhance organizational commitment and performance. The positive relationships found between membership and organizational commitment, attest to the practical importance of establishing membership in groups through spiritual leadership. Indeed, we know that high quality relationships can serve to facilitate learning and action in groups (Balkundi & Kilduff, 2005).

According to Allen and Meyer (1990), organizational commitment has been conceptualized and measured in various ways. Many studies have been conducted to test aspects of a three-component model of commitment which integrates these various conceptualizations. The *affective* component of organizational commitment, proposed by the model, refers to employees' emotional attachment to, identification with, and involvement in, the organization. The *continuance* component refers to commitment based on the costs that employees associate with leaving the organization. Finally, the *normative* component refers to employees' feelings of obligation to remain with the organization. Allen and Meyer (1990) further demonstrated that occupational and organizational commitment contributes independently to the prediction of professional activity and work behavior.

Many findings suggest that instilling a sense of calling and membership in groups will foster high levels of team-member social exchanges. These recurring positive group interactions would have both individual and collective effects, as demonstrated, on performance outcomes. Individuals in empowered teams have a sense of ownership of the work and are

completely engaged in its tasks, which require their best thinking and creativity. They take pride in their work and are excited in having a sense of progress and seeing the results of their efforts. Empowered teams and their leaders should also establish a culture and ethical system that embodies the values of altruistic love where group members are challenged to persevere, be tenacious and “do what it takes,” to pursue excellence. Empowerment provides the basis for manifesting and experiencing the organizations culture that is centered on altruistic love. The purpose of spiritual leadership is to create vision and value congruence across the individual, empowered team and organization levels and, ultimately, foster higher levels of spiritual well-being whereby organizational commitment and organizational performance can not only coexist, but be maximized (Fry & Slocum, 2008).

This suggests that for better outcomes one should lead and manage by using values that drive fear and abuse out of the workplace and engage the hearts and minds of people. Support for autonomy and decision-making responsibility through self-managed, empowered teams and trusting people and letting them be who they are to use and develop their gifts and skills is essential. It is through this process that individual and team vision and values become integrated with the organization's vision and values. In sharing power, strategic leaders actually increase the total amount of power in the organization, thereby freeing people from leadership through fear, coercion, and over control. This allows them to utilize their talents and abilities in new ways.

Past research suggests that increased organizational commitment strengthens motivation and reduces turnover (Mowday, Porter, & Steers, 1982) and that organizational productivity is at the heart of the total quality management movement. So one of my questions is if spiritual leadership improves the outcomes of empowered teams and empowered team improve customer satisfaction, is there a relationship that can be proved between spiritual leadership and customer satisfaction, and does that imply consideration of new service business models in hospitality organizations?

The conceptual distinction between spiritual leadership theory variables and other leadership theories and constructs needs to be explored some more. Empirical research is just beginning to examine the relationship between the qualities of spiritual leadership and organizational outcomes in some settings and finding a positive correlation (Fry, 2003).

Therefore is spiritual leadership a valid theory that can be widely applied as a model of organizational/professional development (Fry 2003)?

Acquiring knowledge /skills

Through the coursework identified in the Workforce Education Doctoral Program and additional coursework to be determined by my committee, I hope to acquire much of the needed skills set for researching. It is my hope to undertake both a qualitative and quantitative approach to this research topic. After some preliminary interviews of current industry professionals, a framework will be established which will lead to surveys of a population of current hotel CEO's, managers, employees, and customers. While I have taken extensive statistics during my MBA program, it was 25 years ago, and I will need to learn more advanced statistics in order to better understand scholarly articles and the appropriate methodologies for this research project. Additional courses in Research Methods, Psychology, Leadership, and Religion will be helpful in exploring my topic. A faculty internship in a hospitality organization and also a research paper and presentation will allow me to look at my topic through both academic and industry lenses.

Personal fit

During the past 15 years I have collaborated with subject matter experts on a portfolio of manager and leader development programs for the hospitality industry. This effort became an outreach delivery unit at Penn State called the Hospitality Leadership Institute (HLI) and can be visited at www.hli-psu.com . The HLI has secured over \$15mm in contracts and delivered 154 weeks of programs to professional audiences, whose enrollments total over 5,400. In the process of building these educational partnerships, I have become fascinated with the unique challenges of leadership in hospitality and am interested in making a contribution to the field by providing additional leadership options, development models, and perhaps new business models that are responsive to employees need for meaning at work, and thus produce better business outcomes.

References

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HRIM 490

Strategic Management

SYLLABUS
HRIM 490W
Strategic Hospitality Management (3 credits)
Spring 2013

Course Instructor: Ruth Ann Jackson
Office Location: 225 Mateer Building
Office Hours: Wednesdays 2:00– 4:00
or by Appointment

Phone: office: (814) 863-5437 Text: (814) 933-9128 (Best way to reach me)

E-mail: rjack@psu.edu

COURSE OBJECTIVES

1. Define and give examples of key concepts in the corporate strategy literature.
2. Define and understand the roles of managers at all levels of an organization in the strategic management process
3. Identify opportunities and threats in the various sectors of hospitality through extensive research of current publications.
4. Evaluate strengths and weaknesses in the functional areas of business (management, marketing, finance, etc.) for hospitality companies.
5. Compose persuasive written and verbal communications related to current hospitality strategic issues.
6. Demonstrate an awareness of strategic leadership skills necessary to be successful in a changing world economy.
7. Develop hospitality business strategy by using strategic tools and frameworks, and applying critical thinking skills to complex hospitality business problems.

PRE-REQUISITES:

HRIM 365, 435, and 442 Student is allowed to take 490W and either HRIM 435 or HRIM 442 concurrently as long as it can be demonstrated that student will graduate in Spring 2011.

METHODS FOR ACHIEVING OBJECTIVES

1. Readings from the general business and hospitality literature.
2. Critical written and verbal discussions of assigned readings and case studies.
3. Individual and/or team presentations and/or written analyses of several major hospitality firms' strategic planning issues.
4. Evaluation of persuasive written and oral presentations.

REQUIRED TEXT/RESOURCES

1. *HOSPITALITY STRATEGIC MANAGEMENT: Concepts and cases* (2nd edition) by Cathy A. Enz. Please make sure you bring your textbook to class!
2. Access to the most recent copy of business periodicals (i.e. *Business Week*, *Wall Street Journal*, *Time*, *US News and World Report*) and current hospitality publications (*Hotel-Motel Management*, *Restaurant Business*, *Nation's Restaurant News*, etc.) Most available through the University Library's Website at:
http://www.libraries.psu.edu/psul/business/bus_databases_azlist.html
3. Subscriptions to the following daily e-mails publications (these are free):
 - a. www.smartbrief.com/ahla/
 - b. www.smartbrief.com/nra/

WRITING

The "W" suffix to this class means that this is a writing intensive class. Expect that you will be required to write papers that meet professional standards. See Purdue's "Owl" Website. Also prior to turning in any written assignments I strongly suggest that you review your paper at the writing lab in Boucke or with a peer. If your assignment has more than three grammatical or spelling errors, I will assign you an "F" and return it to you to correct with a deadline.

CLASS ATTENDANCE

Class attendance is required for lectures. Each student will be allowed THREE absences. TEN POINTS will be deducted from the final grade for each absence beyond the three allowed. It is NOT necessary to contact the instructor prior to the absence.

The instructor reserves the right to have UNANNOUNCED QUIZZES/IN CLASS ASSIGNMENTS throughout the semester and there will be no make-up quizzes for those students absent from class on the day that they are given. To accommodate absences, the lowest score will be dropped. These points will be part of the participation grade.

If students are absent or late to class, it shall be their responsibility to make themselves aware of any and all class announcements, assignment instructions, date and/or classroom changes, course material covered in class, etc.

MANDATORY ATTENDANCE DATES

There will be **NO** absences permitted on group presentation and guest speaker dates. Your instructor will provide advance notice when a class is required. If you miss a required class, TEN POINTS will be deducted from the final grade.

OUT-OF-CLASS MEETINGS

Individual and/or team meetings may be scheduled with the course instructor for the purpose of discussing progress and to provide guidance and support needed by the individual and/or teams.

GRADING**ALLOCATION TO TOTAL GRADE:**

Exam 1	100 points
Exam 2	100 points
Exam 3	100 points
Written Assignments #1-7 (50pts each)	350 points
Written Assignment # 8 Case Study	150 point
Oral presentation	100 points
Daily Class Participation/Quizzes	<u>100 points</u>
TOTAL	1000 points

HRIM 490 Grade Scale

A	1000	940	4.0
A-	939	900	3.7
B+	899	870	3.3
B	869	830	3.0
B-	829	800	2.7
C+	799	770	2.3
C	769	700	2.0
D	699	600	1.0
F	599	0	0.0

GENERAL GRADING RUBRIC FOR WRITTEN ASSIGNMENTS

Each assignment will be graded based on the assessment of two factors, writing and content.

The following rubric is meant to give you a general guideline of the grading scale used in the class. Please make sure to ask for editorial assistance if you are not sure of your writing skills.

If your assignment has more than three grammatical or spelling errors, I will assign you an “F” and return it to you to correct with a deadline. Please note that written assignments will be submitted in for “Turnitin” software analysis. Duplication or plagiarism will be subject to the rules listed on the final page of the syllabus.

	Grading Rubric
Grade	Criteria
A	<ul style="list-style-type: none"> Outstanding explanation, superior supporting information Insightful, thoughtful, creative and original analysis and thoughts Goes well beyond minimum required for assignment
A-/B+	<ul style="list-style-type: none"> Excellent reasoning, solid support from examples, figures and text Substantial, interesting and original analysis and thoughts Goes beyond minimum required for assignment
B/B-	<ul style="list-style-type: none"> Average job, does what the assignment asked Decent reasoning or explanations and supporting material References are accurate and documented correctly

C+/C	<ul style="list-style-type: none"> • Generally correct but some inaccuracies and misunderstandings • Coverage is accurate but cursory. References are out of context • Does not meet the minimum required for a complete answer
D/F	<ul style="list-style-type: none"> • Unclear explanation; vague; inadequate understanding; major flaws in reasoning or explanations; lacks supporting information • Doesn't effectively address the assignment • Multiple spelling and grammatical errors • Reads like a first draft
No Credit	Missing or Plagiarized

COURSE SCHEDULE

WEEK 1 Jan 7, 9	<ul style="list-style-type: none"> • Course Introduction/Syllabus/Schedule/Expectations • Chapter 1 Intro to Strategic Management, read pages 1-33 • Writing Assignment #1 page 34-35 Questions 1-5. Due Jan 14.
WEEK 2 Jan 14, 16	<ul style="list-style-type: none"> • Chapter 2 - The Environment and External Stakeholders, read pages 36-76 • Writing Assignment #1 page 34-35 Questions 1-5. Due Jan 14. • Writing Assignment #2 pages 78 -79 Questions 1-3. Due Jan 23.
WEEK 3 (1/21-23) ON-LINE	<ul style="list-style-type: none"> • Writing Assignment #2 pages 78 -79 Questions 1-3. Due Jan 23. • Chapter 3 Strategic Direction. Read pages 80-112.
WEEK 4 Jan 28, 30	<ul style="list-style-type: none"> • Chapter 4 Organizational Resources and Competitive Advantage. Read pages 114-160 • Writing Assignment #3, page 162 questions 1-11 AND Page 163 question 2. Due Feb 4.
WEEK 5 Feb 4, 6	<ul style="list-style-type: none"> • Written Assignment #3, page 162 questions 1-11. Page 163 question 2. Due Feb 4. • February 6 guest speaker in 117 Mateer • EXAM I – CHAPTERS 1-4. TAKE HOME : HAND IN TO ME IN CLASS ON FEB 11
WEEK 6 Feb 11, 13	<ul style="list-style-type: none"> • TAKE HOME EXAM 1 DUE IN CLASS FEB 11 • Chapter 5 – Strategy Formulation. Read pages 164-201 • Written Assignment #4 page 203 question 2. Due Feb 13. Changed to Feb 15
WEEK 7 Feb 18, 20	<ul style="list-style-type: none"> • Chapter 6 – Corporate-level Strategy and Restructuring. Read pages 205 to 247 • Oral presentation Assignment page 250-251 question #3. Due February 25 or 27
WEEK 8 Feb 25, 27	<ul style="list-style-type: none"> • Oral presentations Assignment page 250-251 question 3. Due February 25 or 27

WEEK 9 (3/11-13) ON-LINE	<ul style="list-style-type: none"> • Chapter 7- Strategy Implementation. Read pages 252-296 • Writing Assignment #5 pages 297-298 Questions 1-11. Due March 13.
WEEK 10 Mar 18, 20	<ul style="list-style-type: none"> • Exam II Review • EXAM II – CHAPTERS 5-7. MARCH 20
WEEK 11 Mar 25, 27	<ul style="list-style-type: none"> • Chapter 8 – Strategy Implementation. Read pages 299-351 • Writing Assignment # 6 page 355 Question 3. Due April 1
WEEK 12 April 1 ,3	<ul style="list-style-type: none"> • Writing Assignment # 6 page 355 Question 3. Due April 1 • Chapter 9 –Strategies for Entrepreneurship. Read pages 356-393 • Writing Assignment #7 Skellar and Spats Strategy Suggestions. Due April 10
WEEK 13 ON-LINE	<ul style="list-style-type: none"> • Writing Assignment #7 . Skellar and Spats Strategy Suggestions Due April 10
WEEK 14 April 15, 17	<ul style="list-style-type: none"> • Chapter 10 – Global Strategic Management Read pages 399-427. • Web Portfolio
WEEK 15 April 22, 24	<ul style="list-style-type: none"> • Writing Assignment # 8 Web Portfolio due April 24 <p style="text-align: center;"><i>EXAM III – Chapters 8-10. Finals Week</i></p>

COLLEGE STATEMENT ON ACADEMIC INTEGRITY

Academic Integrity (Senate Policy 49-20)

Definitions and expectations: Academic integrity is the pursuit of scholarly activity in an open, honest, and responsible manner. Academic integrity is a basic guiding principle for all academic activity at The Pennsylvania State University, and all members of the University community are expected to act in accordance with this principle. Consistent with this expectation, the University's Code of Conduct states that all students should act with personal integrity, respect other students' dignity, rights, and property, and help create and maintain an environment in which all can succeed through the fruits of their efforts. Academic integrity includes a commitment not to engage in or tolerate acts of falsification, misrepresentation or deception. Such acts of dishonesty violate the fundamental ethical principles of the University community and compromise the work completed by others. To protect the rights and maintain the trust of honest students and support appropriate behavior, faculty and administrators should regularly communicate high standards of integrity and reinforce them by taking reasonable steps to anticipate and deter acts of dishonesty in all assignments. At the beginning of each course, it is the responsibility of the instructor to provide students with a statement clarifying the application of University and College integrity policies to that course.

Academic and disciplinary sanctions (ACUE Policy G-9) The University procedures provide for two types of sanctions: academic and disciplinary. Academic sanctions range from a warning to removal from the academic program, and include deductions of points or alterations in grades. Academic sanctions are determined and assigned by the instructor or by the instructor together with the College Academic Integrity Committee. Disciplinary sanctions may be recommended by the instructor, the College Committee, or the Associate Dean, and are assigned by the Office of Judicial Affairs. The SF grade is a disciplinary sanction that is only assigned with the concurrence of the instructor, the College Academic Integrity Committee, and Judicial Affairs.

To implement the University policy on academic dishonesty, the College of Health and Human Development will encourage the following procedures to minimize dishonest behavior by students. These procedures include practices for faculty that will foster honest scholarship and defines dishonest actions and provides a standard protocol to be used by all instructors in handling cases of suspected academic dishonesty.

Faculty Conduct

Although students should be aware of the fact that they are expected to be honest, faculty are responsible for stating their expectations for academic honesty as part of the grading policy for every course. All course syllabi will be required to contain a statement on this topic. In addition, the instructor will be responsible for clearly stating to students expectations for such issues as group work, take-home assignments and exams (if used), for supporting information or assistance devices if allowed in examinations. It is the responsibility of the instructor to provide sufficient proctoring for examinations.

Student Conduct

All course work by students will be done on an individual basis unless an instructor clearly states that an alternative is acceptable. Any reference material used in the preparation of an assignment, whether quoted or paraphrased, must be explicitly cited. In an examination setting, unless the instructor gives explicit prior instructions to the contrary, regardless of whether the examination is in-class or take-home, violations of academic integrity shall consist of any attempt to receive assistance from any person or papers or electronic devices, or any attempt to give assistance. Other violations include, but are not limited to, any attempt to gain an unfair advantage in regard to an examination such as tampering with a graded exam or claiming another's work to be one's own.

DISABILITY ACCESS STATEMENT

The Pennsylvania State University encourages qualified persons with disabilities to participate in this programs and activities and is committed to the policy that all people shall have equal access to programs, facilities, and admissions without regard to personal characteristics not related to ability, performance, or qualifications as determined by University policy or by state or federal authorities. If you anticipate needing any type of accommodation in this course or have questions about physical access please tell the instructor as soon as possible.

CASE NOTES

CASE STUDY MATRIX

Case Title	Chapters	Topics Covered	Industry Segment
1 The Fun Ship Experience At Carnival Cruise Lines	2, 4, 5, 7	Vision and Mission Five Forces Competitive Advantage Core Resources Business Level Strategies	Cruise Industry
2 Building Capabilities At The Westward Hilton	3, 4, 5, 7, 8	Vision and Mission Five Forces Competitive Advantage Core Resources Business Level Strategies Corporate Strategy Organizational Design and Control Innovation and Entrepreneurship	Ownership Group and Individual Hotel
3 Intercontinental Hotel Group's Entry Into China	2, 7, 9, 10	Environmental Analysis Competitive Advantage Core Resources Corporate Strategy Stakeholders and Partnerships Global Strategy	International Chain of Hotels and Partners
4 The Summer Of 2006 Union Negotiations: Unite Here's Strategy	3, 4, 5, 7	Vision and Mission Environmental Analysis Competitive Advantage Core Resources Corporate Strategy Stakeholders and Partnerships Organizational Design and Control	Hospitality Union
5 Banyan Tree: Sustainability Of A Brand During Rapid Global Expansion	2, 3, 6, 9, 10	Vision and Mission Environmental Analysis Five Forces Corporate Strategy Competitive Advantage Stakeholders and Partnerships Organizational Design and Control Innovation and Entrepreneurship Global Strategy	Regional Chain of Hotels

6 Starwood Hotels And Resorts Brings Aloft T6 India	2, 5, 6, 7, 10	Environmental Analysis Competitive Advantage Corporate Strategy Stakeholders and Partnerships Innovation and Entrepreneurship Global Strategy	International Chain of Hotels and Brand Introduction
7 The Commoditization Of Starbucks	3, 5, 6, 9, 10	Five Forces Competitive Advantage Core Resources Business Level Strategies Corporate Strategy Organizational Design and Control Innovation and Entrepreneurship	Restaurant Industry
8 The Movement of Travel Services Online: Intermediaries and Branded Distribution	2, 4, 6, 7, 9	Environmental Analysis Five Forces Competitive Advantage Corporate Strategy Stakeholders and Partnerships	Online Travel Intermediaries and travel suppliers

TOPICS BY CHAPTER

TOPICS	Case 1	Case 2	Case 3	Case 4	Case 5	Case 6	Case 7	Case 8
Environmental Analysis			x	x	x	x		x
Five Forces	x	x			x		x	x
Vision and mission	x	x		x	x			
Competitive Advantage	x	x	x	x	x	x	x	x
Core Resources	x	x	x	x			x	
Business Level Strategies	x	x					x	
Corporate Strategy		x	x	x	x	x	x	x
Stakeholders and Partnerships			x	x	x	x		x
Organizational Design and Control		x		x	x		x	
Innovation and Entrepreneurship		x			x	x	x	
Global Strategy			x		x	x	x	

ON-LINE CASE RESOURCES

You can obtain a variety of additional cases by going to the Cornell Center for Hospitality Research website (<http://www.hotelschool.cornell.edu/research/chr/research/cases.html>), and review the following on-line case studies. These case studies were prepared for instructional purposes, not for publication. Many of the cases were prepared by graduate students and can serve as an example if you ask students to prepare case studies of companies in the industry.

Please do not use a case without the permission of the case author. For permission to cite or reproduce any of The Center for Hospitality Research case studies, you can contact the author(s) directly. Below is a list of cases.

[A Marketing Partner . . . Or a Threat?](#) - S. Lo

[Accor SA - A Case Study](#) - B. Gomez, K. Marshall, B. Patel, P. Patel, H. Schiller, and A. Tam

[Continental Airlines - A Case Study](#) - S. Duchenne, C. A. Fisher, C. Leas, Y. Krishna, M. Rugema, and Y. Yang

[Coyote Loco - Evaluating Opportunities for Revenue Management](#) - S. E. Kimes, J. Wirtz, and C. Lovelock

[Coyote Loco Hot Sauces](#) - M. Murphy

[Fairmont Hotels and Resorts - A Case Study](#) - C. A. Fisher and C. F. Leas

[Four Seasons - A Case Study](#) - J. A. Fantaci, S. Halici, M. Stathokostopoulos, V. Trapenard, P. Ullberg, and E. Willars

[Hilton Case Study](#) - S. Wu, P. von Bodman, and R. Saab

[Hotel Spas as Independent Profit Centers](#) - A. Foster and A. Wohlberg

[Jet Blue - A Case Study](#) - C. Boyens, J. Cha, R. Livneh, and V. Singh

[McDonald's Corporation - A Case Study](#) - M. Benvenuti, A. Dusija, V. Georgiev, N. Shah, and W. Wu

[Multiunit Restaurant Productivity Analysis: Integrating Satisfaction Into a Holistic Model](#) - D. Biel

[One-Night Stands and Long-Term Relationships - A Case Study of Satisfaction and Loyalty](#) - J. A. Siguaw, P. M. Simpson, and A. Kasikci

[Six Continents - A Case Study](#) - A. Baru, Y. Hou, V. Patel, B. Spinnenweber, A. Talera, and K. Wilson

[Starbucks in China - A Case Study](#) - Helen Chang, Corina Gauthier, Todd Jeorchel, Jorge Nervarez, Amy Wong

[Starwood Hotels Case Study](#) - M. Cox, E. Jacobs, and J. Mayer

The Accra Beach Hotel - Block Booking of Capacity During a Peak Period - S. E. Kimes, J. Wirtz, and C. Lovelock

Tourism in Muang Sing A Summary of Tourists' Perspectives - K. Shum

Understanding Menu Psychology: An Empirical Investigation of Menu Design and Consumer Response - S. Daniels

Wait List Management at the Boatyard Grill: A Simulation Study - K. McGuire and K. Rohlf

CASE 1: The Fun Ship Experience at Carnival Cruise Lines

SYNOPSIS

This case chronicles the birth of Carnival Cruise Lines and highlights its efforts to redefine the leisure cruise industry. The birth of the modern cruise industry can be traced to the 1960s. Princess Cruises (1965), Norwegian Caribbean Line (1966, now Norwegian Cruise Line, NCL), Royal Caribbean Cruise Line (1969, now Royal Caribbean International, RCI), and Carnival Cruise Lines (1972) were early entrants. In the early years a cruise was an expensive, formal, and relatively lengthy vacation—seven to 14 days on average—factors that contributed to the product’s snobby image and limited appeal. That view began to change with the 1977 launch of “The Love Boat” TV series, an external event that both romanticized and popularized cruising for mainstream America.

While *luxury* brands once held sway (at least in the public’s perception), less than 5 percent of current cruise capacity serve this market. With the exception of Cunard’s *Queen Mary 2*, luxury lines tended to use smaller ships. Cruising is dominated by brands that serve the “contemporary” segment, a clever label used by cruise marketers to describe the mass market. These cruise lines featured ever-larger ships that accommodated 2,000 to 3,400 guests and charged reasonable rates.

Around the turn of the 21st century the competitive structure in the cruise industry changed dramatically. Price wars and soft demand decimated the budget sector, and consolidation began. The cruise market in the 1970s and ’80s was served by 30 brands, but by 2005 only 10 brands owned by three corporations controlled 90 percent of the market. Carnival Corp. emerged as the largest cruise company in the world with 52% market share and at least one brand positioned in each of the four main segments.

The case shifts from looking at the corporate growth of Carnival Corporation to the business-level strategies of Carnival Cruise Lines. Carnival Corp.’s flagship brand developed a formidable cost-leadership competitive strategy that enabled Carnival to deliver a good-value vacation. With a theme of “Fun Ships” and low pricing, Carnival appealed to the diverse mass market. In contrast to the typical cruise customer, the Fun Ships theme attracted a relatively young, middle-class clientele. Carnival offered an entertainment experience, with the industry’s first full casinos, live music, discos, and wild daytime activities—including belly-flop, beer-chugging, and hairy-chest contests—that were a complete change from the image of cruising as shuffleboard and afternoon tea. Carnival’s hardware, in particular the new ships built in the 1980s, were visual bonanzas, with bright colors and neon lighting unlike anything before seen in a cruise ship (shocking to some ship traditionalists).

Under pressure from increasing competition, Carnival Cruise Lines was challenged to refine its Fun Ships experience without damaging the considerable equity contained in the brand. As cruise lines were becoming less differentiated in the customers' view, Carnival sought to set itself apart with upgraded product features, service, and other guest amenities, as well as a more sophisticated brand message. Carnival’s vice president of marketing services, Christine Arnholt summed up the challenge the brand is facing:

One of the single most difficult things to do is change perception. Our product has changed so much! And we don’t get credit for that in the marketplace. We’ve been incredibly successful over the years, but from a brand standpoint, there are still these lingering perceptions. Some people

hear “Carnival,” and think, oh, that’s the party ships with all the 20-year-olds. How do you change these perceptions? After all, we are the Fun Ships. We’ll always be the Fun Ships.

TEACHING OBJECTIVES

This case provides a look at both corporate and business-level strategies within a highly consolidated industry.

1. To introduce students to a highly consolidated industry that is faced with both corporate and business level challenges.
2. To explore in detail the business-level challenges of changing consumer perception of the flagship Carnival Cruise brand product.

SUGGESTED TEACHING APPROACH

You can begin your discussion of this case by talking about the structure of the cruise industry. A five forces analysis is one way in which you can engage students. When examining competitive rivalry this case allows students to examine the competitive dynamics of a highly consolidated industry. You can ask students if having two major players in the Cruise Industry makes it more or less competitive. The Cruise Industry is not unlike the soft drink industry in which two major players are highly competitive and dominate market share in an arguably oligopolistic industry structure.

The case also allows students to explore both corporate level strategies like the acquisition of the Cunard Line and Princess Cruises, and business-level strategies like the differentiation of the experience for Carnival Cruise Lines. When acquiring Cunard, some were shocked that the American company powered by the Fun Ships would now operate the venerable, upscale 150-year-old British line. You can ask students to explore the question of synergy between these different brands. Ask students to identify the strengths and weaknesses associated with Carnival Corp.’s related diversification strategy.

Particular attention is given to the cost-leadership strategy of Carnival Cruise Lines and its recent efforts to differentiate. Is this cruise line trying a best value strategy? Why or why not? Students can explore various aspects of cost-leader and differentiator strategies to determine how Carnival can move forward.

North American Cruise Lines and Brand Positioning

	Ships	Double Occupancy	Market Share	Market Positioning
Carnival Corporation				
Carnival Cruise Lines	21	47,908	24.2%	Contemporary
Princess	13	28,820	14.5%	Premium
Holland America Line	12	16,978	8.6%	Premium
Costa Cruises (U.S. market)	2	4,224	2.1%	Contemporary
Cunard Line (U.S.)	2	4,411	2.2%	Luxury
Windstar Cruises	3	604	0.3%	Destination
Yachts of Seabourn	3	624	0.3%	Luxury
Total:	56	103,569	52.2%	
Royal Caribbean International				
Royal Caribbean International	19	44,108	22.3%	Contemporary
Celebrity Cruises	9	16,118	8.1%	Premium
Total:	28	60,226	30.4%	
Star Cruises				
Norwegian Cruise Line	9	16,734	8.4%	Contemporary
Orient Lines	1	826	0.4%	Destination
Total:	10	17,560	8.9%	
Other CLIA-Affiliated Brands				
Crystal Cruises	3	2,960	1.5%	Luxury
Disney Cruise Line	2	3,508	1.8%	Contemporary
MSC Cruises	3	4,410	2.2%	Contemporary
Oceania Cruises	3	2,052	1.0%	Premium
Radisson Seven Seas Cruises	5	2,604	1.3%	Luxury
Silversea Cruises	4	1,356	0.7%	Luxury
Total	20	16,890	8.5%	
Grand Total	114	198,245		

DISCUSSION QUESTIONS

1. Are consolidated industries like the cruise industry more or less competitive than fragmented industries? Why or why not?
2. Is the structure of the cruise industry more likely to resemble pure competition, duopoly, oligopoly, or monopoly? Explain your choice.
3. Do the various brands operated by Carnival Corp. have synergies? If so what are the synergies? If not, was it wise for Carnival to acquire brands outside of the contemporary market niche?
4. Who are Carnivals *core* guests? What do they want in a Fun Ship experience?
5. How should the existing customer information influence brand strategy in the future?
6. Can Carnival change existing customer perceptions of the brand? Should it?

ANALYSIS / SUMMARY POINTS

Industry Structure - You can use the case to discuss industry structure and conduct a five forces analysis. What makes this industry interesting is the high level of consolidation that has emerged over the last decade due to acquisitions by the two leading players. You should have some lively discussions of the competitive dynamics present with two major players who hold 82.6% of the market share.

Corporate Strategy vs. Business-level Strategy – This case allows you to look at the growth strategy of Carnival Corporation and the Business-level strategy of Carnival Cruise Lines. Students can debate how the corporation should grow in the future. Is organic growth preferable to growth via acquisition?

Competitive Advantage and Core Resources - The efforts to build a differentiation strategy by this mass-market cruise line gives student the opportunity to explore what tangible and intangible resources are powerful tools for building competitive advantage. The role of intangibles like Brand is highlighted in this case.

CASE 2: Building Capabilities at the Westward Hilton

SYNOPSIS

This case describes the efforts of Hiller Hotels to turnaround the operating performance of the Westward Hilton, a hotel they purchased out of bankruptcy when the previous owner was forced to sell the property. The general manager charged with the turnaround, Peter Green, began by developing a clear strategy and then innovatively devising human resource activities to implement his vision. Peter Green is now the executive vice president of operations and oversees the dozen-plus mid- and upscale hotels, owned and operated by the hotel subsidiary of the parent firm, Hiller Enterprises. Before Green and the other corporate officers is a business decision to sell the Westward Hilton. As Green wrestles with this opportunity he worries about the impact of the decision on the hotel staff of Westward, and wonders how this decision might alter the culture and employee morale of the entire hotel group.

In the seven years Hiller Hotels has owned and operated the Westward Hilton, it has become a high performer with outstanding employee loyalty and commitment. The hotel itself is a physically undistinguished property that has been transformed from an under performer into the top performing midscale hotel in the Phoenix market. The vision of Peter Green, embodied in the values and beliefs of the people were developed, espoused, and lived, first at the Westward Hilton, and later spread to the rest of the organization. Hiller's vision, "making people's lives better through business" was crafted by Green and transformed the Westward Hilton into an exciting, fun, familial work environment that engendered employee commitment to the organization and its vision. A total of five General Managers came and went from the Westward Hilton after Green moved into his corporate position, but the vision and high performance remained in place. After briefly describing the company background, the case traces Peter Green's path at Hiller Hotels, focusing particularly on his role at the Westward Hilton and the development and implementation of Hiller's vision and mission. The case concludes as Green struggles with the Westward sell decision, weighing the conflicting interests of owners and employees as he and Hiller's other officers decide on a course of action.

TEACHING OBJECTIVES

1. Organizational Culture - The Westward Hilton case provides a good example of the evolution of an organization characterized by a strong culture.
2. Vision Creation - The case illustrates the methods used to create and implement systems and "the way we do business" synchronous with the espoused values of the organization's leader(s).
3. Human-Resource Strategies - This case provides evidence that bottom line success and valuing people need not be viewed as conflicting organizational goals. Management at the Westward is happy to share credit for its success, and the associated profits, with the front line employees who make the hotel "the friendliest place to visit." The high level of general manager turnover at the Westward Hilton raises intriguing questions about the role of leadership in creating and sustaining a vision. It also allows for a discussion of the challenges for a manager who follows a strong vision-creating manager such as Peter Green.
4. Market Economics vs. Competitive Advantage - Finally, this case is structured around a strategic decision, the potential sale of the Westward Hilton, into which the decision-makers must factor market economics and Hiller's values-based mission. Students are introduced to the notion that people matter as Peter Green struggles with the sell decision because of its human implications,

not for short-term financial reasons. It is important to note that although the case may be examined from a unit level perspective, one of the objectives is to help students to be more sophisticated in their thinking and analysis. This sell decision has significant short- and long-term strategic implications for Hiller Hotels as a company. Students can observe the conflicts between the corporate and the hotel (business-level) strategy.

Immediate Issue

Peter Green and the other Hiller executives must decide whether to sell the Westward Hilton. As a group, they do not expect the property will be worth more as an asset than at present. The Phoenix market has numerous new hotels coming on board leading to heightened competition and the Westward Hilton is an aging physical facility. They have an interested buyer and, strictly from a financial perspective, it may make sense to sell the property when it is at the top of the current market. However, this decision is complicated by the corporate culture, which is based on the notion that the needs of the organization's three constituencies—employees, owners, and customers—must be balanced. How will the decision to sell affect the lives of employees (those at the Westward and at Hiller's other properties)? Should the company care about the futures of the Westward employees? Will the people who work in their other hotels see the Westward's sale as an assault on the organizational culture, thereby reducing their commitment to living Hiller's vision and mission? Alternatively, will holding on to the property ultimately be financially detrimental? Will not selling compromise the owners' needs in favor of the employees'? Finally, do market economics, on their own, dictate selling or holding this property?

SUGGESTED TEACHING APPROACH

The case is best used with the material on strategic direction from chapter 3 and the discussion of resources in chapter 4. In addition the concepts in chapter 7 on strategy implementation are relevant because the case illustrates vision in action through the implementation of specific HR initiatives. Since the case requires the students to consider the corporate and unit-level ramifications of the sell decision, and some rather advanced strategic tools (i.e., portfolio planning in chapter 6) are appropriate, the greatest benefit is derived from having students wrestle with the concepts and strategic decision midway through the course. Though used successfully as an individual assignment, this case has been classroom tested as a group assignment with terrific results. The case's complexity produces good group discussion outside of class as the groups determine which position they feel most comfortable defending. This active, sometimes heated, discussion occurs in class as well, as groups' stake out and defend their positions.

Case processing can take anywhere from 50-75 minutes, depending upon the method used by the instructor. In addition to a more classic processing approach, the case has been used in a debate format. The class is first divided into two groups based on the decision to sell/hold. The groups are given 20 minutes to amass the strongest arguments they can in support of their decisions. Finally, each group selects two representatives who participate in a "tag team" debate moderated by the instructor. The audience members remain active in that they may pass notes up to their representatives during the debate.

The debate is structured as follows: (1) each side makes a 3-minute opening statement in which they state their positions and provide the highlights of their supporting arguments, (2) the teams alternate 3 sets of 2-minute rebuttals, and (3) each team makes a 3-minute closing statement. Following the debate, the entire class participates in a discussion during which any gaps are filled in and the instructor may highlight the "take home" points. The entire process takes approximately 75 minutes.

Depending on the class purpose, a different approach to discussion of the case can be followed. The instructor can ask students to list all of the competitive advantages of the Westward Hilton. A list usually

includes a host of human resource based initiatives. Each item listed on the board can then be accompanied by a + if it is sustainable or a – if it is not sustainable. This activity leads to heated discussion and disagreement. After pushing students to make a choice on a + or a -, the instructor can help students to defend the sustainability of each initiative. The discussion that follows usually has students who argue strongly that none of the advantages is sustainable because they are all based on people and could change at any point in time. Other students argue that one does not need systems alone or at all to have a sustainable advantage through people. The complexities of using human capital for competitive advantage frequently surface in this discussion.

Students often critique the vision itself as superficial and unmotivating. This leads to a discussion of who should judge the quality of a vision, outsiders or those for whom the vision is lived. Often the role of Green as a manager also comes into question with some finding him too directive, arguing that he never “let go” of managing the hotel. Others use the five general managers who came after Green as evidence that human resource advantages do not need to be leader driven. Executive audiences in particular are critical of Green and tend to express the view that without strong leadership from the current general managers, the culture of the Westward could be destroyed. An exciting discussion can be facilitated about the fragility of employee based competitive advantage. This discussion can be tied to the purchase decision later by exploring whether the new owners could sustain what Green built. You may wish to refer to Lundberg’s article (see reference) for additional suggestions and ideas on how to use cases.

Tools for Analysis

- Porter’s Five Forces Model: Applying this model requires students to perform an industry analysis, which enables them to understand the environment in which existing firms compete.
- Strategic alignment: Applying the idea of strategic alignment requires students to assess whether the different facets of the strategic process fit well together. For example, the operational objectives of units/departments should flow from the organization’s strategic objectives, which flow from the mission, which should flow from the vision. In addition, this case provides an opportunity to discuss the degree to which strategy, organizational structure, and strategic controls are aligned.
- Portfolio Planning: In determining whether to pursue a particular business opportunity – whether the opportunity involves purchasing a major asset (such as a hotel), divestiture, or maintaining control of an asset – one may apply several strategic tools. Both the Boston Consulting Group Matrix and the McKinsey Matrix can be of use in analyzing this case. In addition, one might choose to examine Hiller as a portfolio of competencies as Hamel and Prahalad suggest. Doing so also serves to shed light on the direction an organization may choose to move given a set of business opportunities.

It is worth noting that the case has been used quite successfully in executive education settings. Hotel general managers and corporate executives have responded very affirmatively to the case, citing its pertinence and the importance of the issues it raises. Many of these senior executives have reported that they have faced similar decisions. Students react quite positively as well. Groups, whether students or executives, are often split down the middle as to whether Hiller should sell or hold the property. The result is lively discussion, during which the more sophisticated thinkers teach their colleagues.

DISCUSSION QUESTIONS

1. Human resources as a source of competitive advantage.
 - Are any of Westward's advantages sustainable?
 - Are the human resource practices and corporate culture easy for competitors to imitate?
 - What is the role of the hotel manager in creating or destroying the culture of the Westward Hilton?
2. Competitive position
 - Prepare a Five Forces Analysis and make a determination as to whether Hiller can sustain the Westward's competitive advantage (should it choose to retain the property).
 - Where does the Westward fit on the Market Economics and Competitive Position Matrix (see Appendix 3)?
 - Where is the Westward positioned on the Boston Consulting Group's (BCG's) Growth Share Matrix?
 - For which course of action do these analyses provide more support?
3. Strategic actions have both intended and unintended consequences.
 - What are some of the ramifications of choosing to sell the hotel?
 - What are some of the consequences of choosing to retain the hotel in the portfolio?
 - Approach these questions from the perspectives of the Westward's employees, other Hiller employees, and the Hiller Hotel group as a whole.
4. The compatibility of strategies at the corporate, unit, and functional levels.
 - Are Hiller's general business strategy (buying distressed, undervalued properties and turning them around for eventual sale) and their human resource (HR) strategy compatible?
 - Are the general business strategy and the mission statement compatible?

ANALYSIS / SUMMARY POINTS

1. Are any of the Westward's (and Hiller's) human resource advantages sustainable? Are the human resource practices and corporate culture easy for competitors to imitate? What is the role of the hotel manager in creating or destroying the culture of the Westward Hilton?

In determining whether one's competitive advantages are sustainable, one must consider their durability and imitability. Will the Westward's advantages quickly depreciate or become obsolete? Can competitors easily duplicate the core competencies Hiller developed at the Westward? The evidence is mixed. However, one could argue that since Hiller's greatest advantage seems to derive from its relations with its employees—and from the employees themselves—its service quality advantages are not easily imitated and appear relatively durable. Green's vision, adopted by Hiller, and the culture he established are ultimately the source of the group's competitive advantage. If the hotel is sold can another manager keep the culture going or is it too dependent on Green? Most students believe that a poor manager could easily destroy the culture and argue that a new manager might be very tempted to add his or her own unique approach. Students often believe that new managers could destroy, without even realizing it, the primary competitive advantage this aging hotel has in a growing market.

2. Prepare a Five Forces Analysis and make a determination as to whether Hiller can sustain the Westward's competitive advantage (should it choose to retain the property).

Use the charts below (see Appendices 1 and 2) to help you prepare a Five Forces Analysis and make a determination as to whether Hiller can sustain the Westward's competitive advantage (should it choose to retain the property). Where does the Westward fit on the Market Economics and Competitive Position

Matrix (see Appendix 3)? Where is it positioned on the Boston Consulting Group's (BCG's) Growth Share Matrix? For which course of action do these analyses provide more support?

NOTE: One need not provide these appendices in order for students to prepare their Five Forces Analyses. One could simply ask the students to apply these analytical tools as they see fit.

Five Forces. An industry analysis, using Porter's Five Forces, reveals evidence to support a decision either to sell or to hold. Clearly, with over 3,000 new hotel rooms coming into the market, new entrants were enticed rather than scared off, despite the high capital requirements. Suppliers to and buyers of hotel products were both weak, although buyers were price sensitive making the market environment very price competitive. Though technology offers alternatives to business travel, the threat of substitutes is low since the most common substitute is staying with family and friends, and the Phoenix resort destination evokes few travelers who have that option available to them. Finally, with excess capacity appearing that it may grow and extremely high exit barriers, industry rivalry could certainly be characterized as intense and possibly become more so unless demand begins to grow as fast as hotel room supply. The question is whether or not the Westward is in a position to withstand the challenges posed by existing and new competitors. Can the property sustain its competitive advantage? Clearly the market economics appear unattractive for the future, providing some incentive to consider the sell.

Competitive Position. In contrast, the current competitive position of the Westward is very good. From the customers' perspective, both product and service quality are high. With its Hilton affiliation, the Westward enjoys a strong brand image. The above factors notwithstanding, switching costs are low, and customers can easily leave the hotel when new hotels come into the market with better amenities and competitive prices. Customers' quality perceptions are, in great part, driven by employee performance. Employees appear to feel positively about advancement opportunities, job fulfillment, compensation and benefits, and rewards and recognition. If Hiller continues to manage the property, there is no reason to believe these employee perceptions will change. The results of superior employee performance and customer satisfaction and retention produced competitive advantages for the Westward. (quality and customer responsiveness are 2 of the building blocks of competitive advantage). Operating management can be expected to continue to be superior, though the issue of general manager turnover must be addressed. The property, due partly to its volume of business and partly to ownership having multiple properties, has strong purchasing power. The Hilton association provides a source for national and international reservation bookings and customers.

It must be remembered that this decision is not about a single hotel—it is a corporate decision about one of several related assets. What are the implications of selling the Westward for the group's vision and culture? What meanings will employees at the other properties make from such a decision? Will Hiller be compromising its advantage—or its potential for advantage—by such an assault on the organization's culture? Perhaps not; however, even Green wondered whether the problem lay in the paternalistic way in which he and his management team lived the vision. Maybe selling the Westward would enable Hiller to reshape the culture in a positive way—one that would provide additional competitive advantage.

Market Economics. Significant growth in supply is expected in the Westward's market over a period of years. As noted in the case, supply growth exceeded demand growth for 1996 in the Phoenix market. There is little reason to think this trend will reverse significantly into the future. With demand growth more than offset by supply growth, one could argue that market growth is low to moderate and market economics may be characterized as slightly unattractive.

Positioning on the Matrices. According to the Market Economics and Competitive Position Matrix, the Westward's future is uncertain, though the property is likely to remain profitable. This prediction is based upon slightly unattractive market economics and an advantage in terms of competitive position. These

conclusions flow from the information presented in the case and the inferences drawn from this information through the use of Appendix 1 and Appendix 2.

Clearly, based on the data presented in the case, the Westward's relative market share is high. Based on high market share coupled with low to moderate market growth (which in this case will actually be offset by supply growth), the Westward is a cash cow according to the BCG's Growth Share Matrix. The BCG's recommendation is to milk cash cows. Thus, this analytic tool supports a decision to hold the property.

3. What are some of the ramifications of choosing to sell the hotel? Of choosing to retain the hotel in the portfolio?

The decision to sell may be accompanied by feelings of abandonment and betrayal on the part of those left behind at the Westward Hilton after Hiller Hotels is no longer the owner-operator. It is unlikely that the new ownership will be of the same philosophical mind as Hiller. If the employees' feelings are as described above, the buyers will have gotten less in the deal than they thought because much of their investment is the human capital Hiller developed. Should the hotel's culture revert back to a more traditional command and control model in which management is less concerned with the dignity and respect with which the employees are treated, the competitive advantage Hiller realized through people will likely erode through attrition and dissatisfaction. This outcome is of interest to Hiller only insofar as it may have long run consequences regarding the sale of properties in the future. If buyers feel they have gotten less for the money (because the culture changes post-sale) than it appeared at first blush, Hiller's properties may not be able to command the prices the financial data would dictate on their own.

From Hiller's perspective, the sell may also damage the relationship management enjoys with employees at the other properties. Employees may perceive that their needs are subordinate to those of owners and customers resulting in a withdrawal of commitment to the organization. Their confidence in management's honesty may be shaken and the vision and mission Hiller espouses may be perceived as tools of control management uses to co-opt workers. Any competitive advantage Hiller previously realized through its investments in human capital may erode.

Should they decide to retain the property, Hiller runs the risk that although it remains revenue producing; the Westward will begin to depreciate in value and performance. The owners, displeased with the devaluing of their investment may make wholesale personnel changes at the corporate level. Additionally, the decision not to sell may move the culture beyond one based on the interdependence of management, ownership and workers into a more paternalistic model. The dependence relations inherent in such a model may undermine the practices Hiller used to establish its competitive advantage through human resources. Additionally, the unrealistic expectation that Hiller will retain all the properties it purchases may be established among workers.

Financial Analysis of Sell Decision

The current market value of the hotel is about \$65 million. Presently the financial markets are not doing well and the risk is quite high due to a looming recession, the average return on stocks in 2007, has been about 5.5%, T-bills about 4.9 % and T-bonds about 10.2%. Assuming that they do not sell, that represents an opportunity cost to them of \$65 million, even though their actual investment was about \$39 million (a sunk cost). The internal rate of return on this investment of \$65 million as a result of holding and operating the property is 12.28%. Their current cost of capital (weighted average cost of capital) is 9.35%. As a result, not selling this property is a positive net present value investment. Furthermore, assuming that they could borrow to finance 60% of this investment, their expected return on equity is 30.23%. Assuming that the projected income statement is reasonable from a purely financial analysis, the property should not be sold unless they have other investment opportunities that will yield an expected return of at least

12.28%.

Estimated sale price at the end of 2007 = {(income before other fixed charges in 2008)/ cap rate

= \$6,833,670 / 0.105 (cap rate)

= \$65,082,568.10

Where the cap rate of 10.5 was derived from data presented in *Hospitality Investment Survey*, March 2007, PKF Consulting, PKF Hospitality Research.

The Internal Rate of Return is defined as the return such that the Net Present Value is equal to zero. The investment value used in the computation is the current expected sales price of \$65,082,568.10 and the cash flow each year thereafter (2008 through 2016) is the income before other fixed charges.

The terminal value of the property at the end of 2016 was also included as a positive cash flow in 2016 and it was computed as (income before other fixed charges in 2016 *1.03)/0.105.

The Return on Equity was computed assuming a loan to value ratio of 60% slightly lower than the average value in 2006 of 67.86% (*Hospitality Investment Survey*, March 2007, PKF Consulting, PKF Hospitality Research). It is the internal rate of return assuming an equity investment of 40% of the current expected sales price.

The weighted average cost of capital of 9.35% was computed as $0.60*(6.95\%) + 0.40*(12.96\%)$, where 6.95% is the before tax cost of debt (*Hospitality Investment Survey*, March 2007, PKF Consulting, PKF Hospitality Research) and 12.96% is the discount rate (*Hospitality Investment Survey*, March 2007, PKF Consulting, PKF Hospitality Research).

4. Are Hiller's general business strategy (buying distressed, undervalued properties and turning them around for eventual sale) and their human resource (HR) strategy compatible? How about the general business strategy and the mission statement? Justify your responses.

The best answer to both questions is "it depends." It appears that in the case of the Westward Hilton, actual practice went beyond the HR strategy of having a high involvement, high trust, strong culture whose basis is treating workers with dignity and respect. As evidenced by the regret Green feels (see page 23 of the case), it appears the workers have been given the impression they can expect lifetime employment at the Westward, and that Hiller would continue to own and operate the property in perpetuity. Having conveyed this impression to Westward employees, and perhaps, to a lesser extent, employees at the other properties, borders on paternalism and may be incongruous with the general strategy. Had Hiller been sure to dignify and respect workers, empowering them as much as the case describes, yet done so using language that did not inherently promise an unending future, the two strategies would have been compatible. In the words of Peter Green, "My one regret is that I didn't prepare people for this possibility. I don't believe we can protect people; we can only prepare them. Better preparation would have taken place along the way and would have been in the language we used. We should have made it clear that this is not forever—it's an investment and we should try to enjoy it for as long as we can."

The mission statement, "making people's lives better through business" is not inherently inconsistent with Hiller's general business strategy. However, as with their HR strategy, inconsistency arises from their admitted crossover from interdependence to paternalism. Again quoting Peter Green, "Everyone there benefited from being involved with that property—from being part of a place that was so positive. I just wish selling wouldn't catch people so flat-footed. To have created that high a trust level so that people

didn't know or even ask questions when it was already obvious a sale might happen—that embarrasses me that I let that happen.”

References

Lundberg, C. C. (1993). A framework for student case preparation. *Case Research Journal*, (12) 3, 1-15.

Appendix 1

Industry Analysis

FACTOR	Yes	No	Wash
Threat of entry	X		
Slow market growth		X	
Availability of capital	X		
Availability of management companies	X		
Strong regulatory pressures		X	
Industry rivalry	X		
Standardized products and services			X
Excess capacity	X		
Threat of substitutes			X
Buyers propensity to substitute	X		
Relative price performance of substitutes			X
Supplier power		X	
Buyer power			X
Buyer price sensitivity	X		
Buyer negotiating leverage			X
	7-	3+	0 = 4

Source: Chart provided to the authors by Mr. Ali Kasikci General Manager of the Montage Hotel in Beverly Hills.

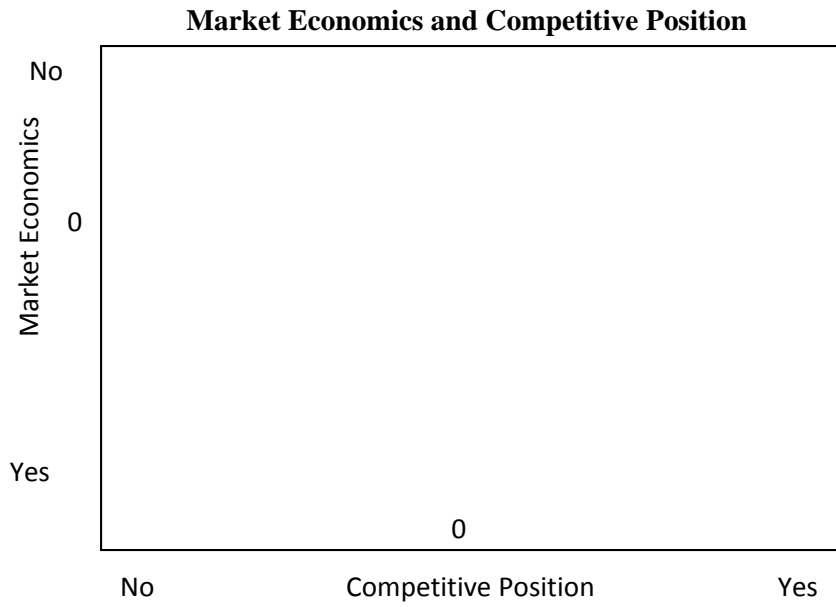
Appendix 2

Sustainable Competitive Advantage

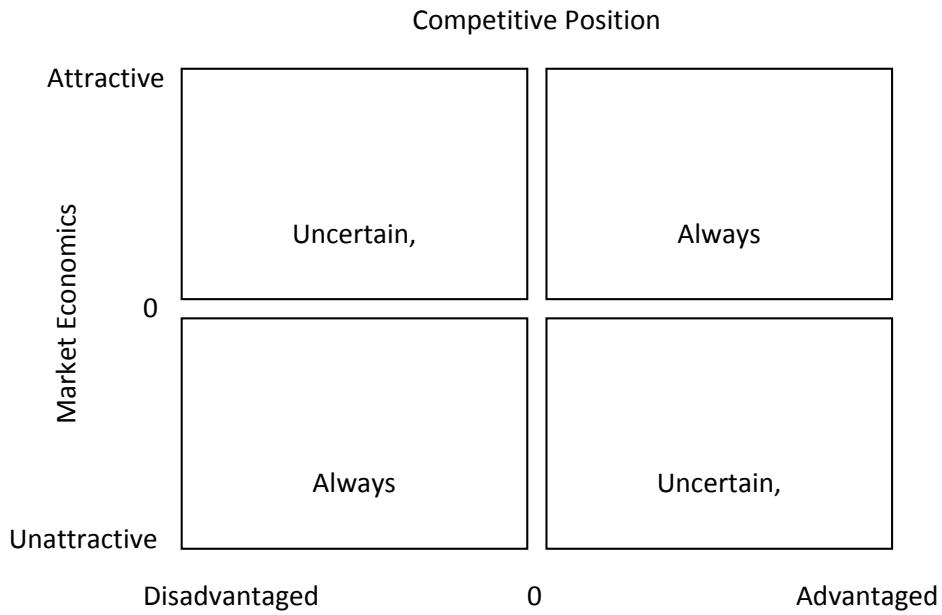
Source	Yes	No	Wash
Customer perceptions			
High perceived product quality	X		
High perceived service quality	X		
Strong brand image	X		
High switching cost		X	
Employee perceptions			
Career advancement	X		
Job fulfilment	X		
Compensation and benefits	X		
Rewards and recognition	X		
Economic cost advantages			
Superior operating management	X		
Strong purchasing power		X	
Access to booking sources	X		
Access to customers	X		
	10-	2+	0 = 8

Source: Chart provided to the authors by Mr. Ali Kasikci General Manager of the Montage Hotel in Beverly Hills.

Appendix 3



Source: Chart provided to the authors by Mr. Ali Kasikci General Manager of the Montage Hotel in Beverly Hills.



Source: Chart provided to the authors by Mr. Ali Kasikci General Manager of the Montage Hotel in Beverly Hills.

Appendix 4
Boston Consulting Group's Growth Share Matrix

Market Growth	High	<p><u>QUESTIONABLE</u> Earnings: Low, unstable, growing Cash flow: Negative Strategy: Analyze to determine whether business can be a "star"</p>	<p><u>STAR</u> Earnings: High, stable, growing Cash flow: Neutral</p>
	Low	<p><u>DOG</u> Earnings: Low, unstable Cash flow: Neutral or negative</p>	<p><u>COW</u> Earnings: High, stable, growing Cash flow: High, stable</p>
		Low	High

Relative Market Share

CASE 3: InterContinental Hotel Group's Entry into China

SYNOPSIS

Intercontinental Hotels Group (IHG) is one of the largest international hotel chains in China with 76 hotels (as of December 2007), and plans to increase the number of properties to 125 by the end of 2008. This case explores the competitive dynamics of the industry in China and IHG's entry into the Chinese market.

The case begins with a brief history of InterContinental Hotels Group, formerly Six Continents and Bass PLC. William Bass founded the original company in 1777 when he established a brewery in English. After a long history as Bass Beer PLC, the company sold all of its beer assets, and focused its energies on strengthening its position in the hospitality industry. In 2000, Bass Beer was sold for \$3 billion, and in 2001 the name Bass Beer PLC was officially changed to Six Continents PLC. A year later, on October 1, 2002, Six Continents announced that it would demerge the group's hotels and soft drinks business, and the separation process was completed in 2003 when InterContinental Hotels Group PLC (IHG) became a distinct, discrete company with yet another name.

By the end of 2005, IHG had disposed of all of its holdings in soft drink company Britvic. The total proceeds received from the disposal of IHG's entire interest in soft drink company Britvic enabled the company to focus on being a pure hotel company. The strategic divestiture was initiated in an effort to position the company as a global hospitality leader with a focus on the hotel business. Setting the stage for its current growth strategy.

Entry into new markets and the competitive environment in China is the focus of the rest of the case. Beginning with a discussion of the Chinese market, changes in the macro environment, competition and the growth of tourism, the case then explores how IHG plans to enter Asian markets. For hotels to enter a new country, franchising, management contracts, and ownership (acquisition, new building or joint venture) are the three most popular modes. IHG has picked management contracts as the dominant entry mode in China based on its understanding of the local environment. By the end of 2003, about 66% of IHG's properties in Asia were managed under contract. The management mode works very well in the region. Many owners return to work with InterContinental on additional projects, considering IHG to be a respected partner for new management developments. The proportion of IHG's Asia Pacific hotels under the management contract category was over eighty-three percent by the end of June 2007.

"Guanxi," which translates into "connections" and "relationships," is extremely important in China. For any Western companies that have business relationships with China the importance of "guanxi" and thus building non-instrumental relationships with key decision makers as well as developing personalized networks of influence is essential.

The case introduces some of the challenges in managing the Holiday Inn brand. Holiday Inn in China is a high-end brand, while it appeals to a lower segment in Europe, and an even lower one in the United States. To address this concern and further enhance quality and consistency across its brand portfolio, IHG announced a worldwide re-launch of the Holiday Inn brand family. By redesigning brand signage and the welcome experience, and incorporating refreshed guest rooms and new services promises, IHG's global re-launch program is designed to ensure Holiday Inn's leading position in the mid-scale hotel market in China and the Asia Pacific.

As China continues to grow and prosper competition from both international and domestic hotel chains may threaten the success of future development of IHG brands. Other international hotel chains such as Starwood, Accor, Marriott and Wyndham are speeding up their expansion into China. Domestic brands have also articulated ambitious plans for expansion. Both JJ-Inn and Home Inn have strategic plans of growing to over 1000 hotels in the coming years. The competitive race to enter this promising market has only just begun.

TEACHING OBJECTIVES

The goal of this case study is to provide students the opportunity to investigate international expansion tactics of one of the world's largest hospitality companies.

Through lively discussion and debate, we hope that students will apply the principles of strategic management to uncover how IHG uses a variety of expansion tactics to pursue global opportunities. IHG relies on contractual arrangements like franchising and long-term management contracts. It also uses acquisition, and joint ventures to make foreign direct investments.

SUGGESTED TEACHING APPROACH

This case can be used to discuss international market selection. You might want to ask students to identify the questions they think IHG needs to ask about China and the Chinese tourism market before they enter new cities. You can also examine institutional differences across countries to help understand how IHG's entry strategy might differ in the US, Europe and Asia. Take Holiday Inn and explore the differences in brand positioning around the world. Get your students to talk about the relaunch strategy (see <http://www.ihgplc.com/index.asp?PageID=414&NewsID=2054>). Elements of the brand relaunch include:

- **Redesigned Brand Signage**
An evolution of the iconic script logo, energizing the signature color green and eliminating the current shield shape for a more refreshed and contemporary look.
- **Refreshed Guest Room**
New bedding that redefines the look and feel of each guest room with fresh, white triple-sheeting and pillows that come in two comfort levels: "soft" and "firm." An enhanced bathroom that features an improved showerhead offering superior pressure, as well as a signature shower curtain with curved rod and new amenities to deliver a consistent bath experience that feels fresh and contemporary.
- **Warm Welcome**
A new signature arrival - including new lighting, landscaping and design features - that creates an energized and branded sense of welcome that is universally recognizable. Customized music and scent selections also engage guests in a complete sensory experience, and a decluttered front desk to promote a more efficient and interactive check-in process.
- **New Service Promise**
A best-in-class service culture - "Stay Real" - to further ensure the team develops the behaviors and skills to best serve guests so they feel like individuals and not numbers. Genuine people delivering real service. Leading the charge, will be a newly created position at each hotel - the Guest Experience Champion.

The travel industry is composed of a complex and diverse variety of organizations. Often times firms must work together to provide the overall experience in what is called a tourism cluster or overall system, and thus the motivation to partner is particularly great. The case introduces the concept of "guanxi". This

allows you to explore an array of issues presented in Chapter 7 regarding interorganizational relationships and stakeholder management. One area of discussion can revolve around inclusion strategies for managing various external stakeholders in China, including government agencies, local communities, the media, and financial intermediaries.

You might encourage students to develop a tourism cluster for China. Using Figure 7.1 as a guide have students draw a similar picture for China. Tourism clusters are geographic concentrations of competing, complementary, and interdependent firms. The industry can be divided into three types of organizational sectors that work cooperatively:

1. the direct providers of travel services,
2. support services or suppliers to the industry, and
3. tourism development organizations, agencies, and institutions that affect provider firms, support services organizations, and the traveler.

DISCUSSION QUESTIONS

1. What is the strategic direction of IHG today?
2. Is IHG an example of related or unrelated diversification? Why? What does the history of the company tell us about its prior strategic focus?
3. What are IHG's approaches to entering new countries? It's approach to entering China? Asia? Europe? Why do these approaches differ?
4. What are IHG's sources of competitive advantage? Are they sustainable?
5. What is "guanxi"? How should Western companies like IHG build partnership and productive relationships in China?
6. What advice would you offer IHG for the relaunch of the Holiday Inn brand? Is it important to have this brand's level of service and product quality consistent around the world? Region? Why or why not?

ANALYSIS / SUMMARY POINTS

Below is a brief summary of the strategy of IHG. You can go to their website to get plenty of detail on their current strategic efforts (see <http://www.ihgplc.com/>).

Goals

"We want to grow by making our brands the first choice for guests and hotel owners."

Strategy

"Our strategy is to build the hotel industry's strongest operating system focused on the biggest markets and segments where scale really counts."

IHG's strategy is focused on increasing the number of franchised and managed hotels. The hotel development pipeline is the industry's largest, and is at more than 1,770 hotels (more than 240,000 rooms).

Strategic Priorities

Improving the performance of our brands

- Using our insight to make our brands the first choice for guests

- Delivering consistent customer experiences

Generating excellent returns from our hotels

- Improving hotel revenue by encouraging guest visits
- Improving the efficiency of our hotels and operating processes

Putting our market scale and knowledge to good use

- Using our worldwide scale and experience to convert more hotels to our brands
- Making the most of our global presence – guests choose brands they know when they travel

Strengthening our organization

- Investing in our people and our ability to do business
- Building strong partnerships within our own company and with our owners across the world

Business model

We operate hotels in three different ways – as a franchisor, a manager and on an owned and leased basis.

Our business model focuses on managing and franchising hotels, whilst our business partners own the bricks and mortar.

Franchising

- This is the largest part of our business: over 3,500 hotels operate under franchise agreements.

Managing

- We manage 573 hotels worldwide.

Owning

- We own 16 hotels worldwide (less than 1% of our portfolio).

Summary Points

Unrelated Diversification and Demerging – IHG after the demerger and name change is an example of a firm that went from unrelated diversification to related diversification. The brand portfolio includes seven unique brands. Six Continents has three business units: Hotels, Retail and Britvic (soft drinks), which could all be categorized as hospitality businesses, but there is no synergy between them. This is proven by the fact that there is no relatedness, or shared resources between them.

Management of External Stakeholders and the Broad Environment - The case illustrates IHG's market entry strategies and allows students to examine various strategies for effective stakeholder management. The growth and development of tourism in China can be examined along with domestic competition.

Global Expansion and Market Entry - As a large franchise firm, students can explore their growth strategy and plans for rapid expansion in developing nations.

Unique Resources and Competitive Advantage – IHG is a company that possesses unique and valuable resources, which give them sources of competitive advantage. Examples are economies of scale on a

global level, a strong brand portfolio, and a ubiquitous, global IT infrastructure. Students can examine the various sources of competitive advantage.

CASE 4: The Summer of 2006 Union Negotiations: Unite Here's Strategy

SYNOPSIS

The labor movement in the United States attained its peak of national power in the years following World War II. Since that time the influence of unions in the private sector of American business has steadily declined. In 2004, UNITE, the successor union to the International Ladies' Garment Workers' Union (ILGWU) and the Amalgamated Clothing and Textile Workers Union (ACTWU), and the growing Hotel Employees and Restaurant Employees (HERE) union merging to create UNITE HERE. From its inception, UNITE HERE made organizing the unorganized its top priority. UNITE HERE declared that it would not organize the "old fashion way" through NLRB elections. Instead, the union proclaimed its intent to increase its membership through the strategy of neutrality agreements and card checks.

There are a number of strategies that unions use to organize under the "old fashioned method" of organizing. Sometimes, unions send their members to apply for jobs with non-union employers that the unions wish to organize. The applicants' real reason for applying is to organize the other employees, a method referred to as "salting." Another traditional method for organizing is to use current employees to "sell" the union to co-workers. Last, organizers may enter the property and hand out authorization cards or set up picket lines at the entrances and exits to the property.

In contrast, a new strategy called neutrality agreements allows labor unions to organize workers in hotels and other industries without a secret-ballot election, radically changing the landscape of union organizing. Although neutrality agreements come in several forms, the common denominator is that employers agree to stay neutral with regard to the union's attempt to organize the workforce. Some agreements simply state that the employer will remain neutral while other agreements contain more specific provisions. UNITE HERE's standard agreements clearly state that employers "will not communicate opposition" to the union's efforts. While many employers may resist these agreements, signing provides companies with labor peace. In order to sell peace, the union needs the ability to start a war, which was just what they did in 2006.

UNITE HERE, which represented hotel employees in several major markets, attempted in the summer of 2006 to extend its reach with a strategy to convince the hotels to sign nationwide neutrality agreements. By having the contracts in a number of large cities expire simultaneously hotel chains were faced with the possibility of labor strife in seven major cities. Having seven cities without contracts allowed the Union to put a corporate strategy into place. The Union could call strikes against one or more operators in all seven cities. The hotel companies do not want a strike, but can they live with a neutrality agreement? What will such an agreement mean to the small operator or the remaining large operators? In exchange for labor peace, the chains needed to decide whether they would agree to national neutrality agreements.

TEACHING OBJECTIVES

1. This case presents an overview of the US labor movement's decline in recent years and the opportunities that the hospitality industry presents. A detailed discussion of unions is found in chapter 7. One significant challenge for the UNITE HERE union is how to organize this diverse and growing service industry.

2. The case presents UNITE HERE's new strategy of organizing using card-check neutrality agreements in an effort to increase its membership in the hospitality industry. Neutrality agreements radically change the landscape of union organizing and pose new challenges for hospitality managers.
3. This case allows students to explore the issue of union agreements from a stakeholder perspective. Key stakeholders include employees, the union, large hotel chains, small operators, and owners.

SUGGESTED TEACHING APPROACH

To get students to begin thinking about the role of unionization in hospitality you could start your discussion with a brief history of the American labor movement. Focus your discussion on why unionization has been declining in the private sector. You can explore the movement away from manufacturing in the US economy as a starting point. A lively discussion of globalization and its impact on unions could help position the case. Some think globalization has caused domestic organizations to seek lower labor costs abroad, while technological innovation has enabled service-based businesses to outsource labor abroad. Unionization in hospitality may be attractive because it is one of the few industries in which labor (excluding call centers) cannot be relocated or outsourced overseas. A hotel or restaurant serving a domestic clientele cannot move its operations off-shore. For this reason, the Hospitality Industry became a central focus of the labor movement, if not the panacea for its future. One significant challenge stood in the way of the labor movement's increasing attention to the Hospitality Industry – would it garner the resources to organize this diverse and growing service industry.

Exploring the organizing strategy of the "Change to Win" coalition could provoke interesting discussion. The strategy involves labor-coalition building with the intent of bypassing traditional organizing drives in favor of larger scale political and economic pressures exerted on employers to gain alternative means of access to unorganized employees. In light of recent economic challenges will this strategy require rethinking? You should have students explore the UNITE HERE website to see if they can discern if the strategy has shifted (see <http://www.unitehere.org/>).

The Nationwide Neutrality Agreement Debate

Focus on UNITE HERE's organizing strategy in the summer of 2006. The goal of the union was to convince the hotels to sign nationwide neutrality agreements. Because both occupancy and ADR were high, neither the owners nor the operators wanted to endure a strike.

Break students into two groups, one representing the union and another representing senior corporate managers of key hotel chains. You could add a third group consisting of local hotel owners if you wish to add more complexity to the debate.

Ask the students in the union group to decide if they will call a strike or attempt to negotiate a national contract. What is their proposal? What are they willing to give up? How should they work in the "me too agreements" in the debate? Will they agree to more traditional organizing approaches?

Have your students in the role of hotel executives determine how they will reply to the union's goal of nationwide neutrality agreements. Will they accept neutrality agreements? What limits should they consider? What should they do with regard to Hilton and the "me too" signatories. With regard to Hilton, large operators could either wait to see what happened with Hilton or attempt to negotiate a deal before Hilton? Knowing that the Union was pressuring the traditional "me too" signatories, the large operators could: (1) not get involved in the dispute; (2) offer to give these operators real voice at the bargaining table; or (3) try to convince these operators that they needed to stick together without providing a real voice.

Give each group five minutes to prepare their arguments. Start the debate by having the union group present their proposal. Have the management group present a reply. Time the groups so that you keep the debate moving quickly. Allow about two minutes for each group. Give both groups an opportunity to regroup for a few minutes and then permit a second round of debate, letting the management group have the last word. After the debate concludes have the entire class discuss the issues and determine which side was more compelling in its arguments and why.

DISCUSSION QUESTIONS

1. Why do words like "organized labor", "unions", and the "Labor Movement", seemed like vestiges from a bygone era?
2. What has caused the steady decline of unionization in the private sector since the post-World War II boom?
3. UNITE HERE has declared that it would not organize the "old fashion way". What are the old fashion approaches to unionization and why are they no longer desirable?
4. What is the "Change to Win" organizing strategy?
5. What role has globalization played in the changing opportunities and threats faced by union organizations?
6. Why would an employer ever agree to a neutrality agreement?
7. If you were a hotel operator could you have avoided the summer of 2006 situation? Do unions negatively affect service?
8. What do you recommend the large hotel operators do? Obviously companies do not want a strike, but can they live with a neutrality agreement?
9. What will national neutrality agreements mean to the small operator? Hilton? Other large operators?
10. Will the agreements affect the ability of hospitality companies to manage and "flag" new properties?
11. How will owners react to a strike over an issue (*i.e.* neutrality for future properties) that may not affect the current owners?
12. What are some of the methods organizational leaders can use to effectively manage relationships with unions?

ANALYSIS / SUMMARY POINTS

Effective Partnerships - This case illustrates what makes some stakeholders (labor unions) more important than others. The case also presents a situation that allows students to explore how hospitality managers should deal with high-priority stakeholders.

Neutrality Agreements - The case introduces an important issue in union organizing. Unions often approach hotels in the construction stage to discuss the establishment of a neutrality agreement. A hotel signing one of these agreements promises to stay neutral if the union decides to organize the property. The neutrality agreement means that the hotel does not have the right to contest union organization and the employees do not have the right to vote in a secret ballot to determine whether they wish to be represented.

Union recognition is based on a card-check procedure where the union is recognized once 50 percent of the bargaining unit employees sign a union-authorization card. Both Hilton Hotels and Starwood signed national neutrality agreements with UNITE HERE. The union also secured separate neutrality language in contracts with hotel associations in several major cities including New York, Chicago, and San Francisco.

Not all industry experts consider signing neutrality agreements to be a viable approach, arguing that hotels virtually guarantee that the union will be the bargaining agent for their employees. However, in highly unionized cities, this approach may make strategic sense. The American Hotel and Lodging Association (AH&LA) has expressed their position on card check neutrality. According to the AH&LA, UNITE HERE is pressuring hotel companies to sign "card check neutrality" agreements that would eliminate the long-standing National Labor Relations Board (NLRB) secret-ballot elections. Instead, these elections would be replaced with "card check," which would allow a union to represent employees as soon as a majority signed a card stating their intention to join a union. More information is provided in Chapter 7. If you wish to have a more detailed discussion on this issue see David Sherwyn, Zev Eigen, and Paul Wagner

The Hotel Industry's Summer of 2006: A Watershed Moment for America's Labor Unions?

Cornell Hotel and Restaurant Administration Quarterly, Nov 2006; 47: 337 - 349. An alternative model is offered in "A Labor-management Partnership: San Francisco's Hotels and the Employees' Union Try a New Approach," S. Korshak, *Cornell Hotel and Restaurant Administration* 41, no. 2 (April 2000): 14-29 .

CASE 5: Banyan Tree: Sustainability of a Brand During Rapid Global Expansion

SYNOPSIS

Following a successful IPO in June 2006, Banyan Tree Holdings Limited has plans to “string a necklace of Banyan Tree properties around the world”. The Asian financial crisis of 1997, the SARS crisis of 2003 and the Indian Ocean tsunami of 2004 had taken their toll on the travel and tourism industry in the region where Banyan Tree’s resorts and spas are concentrated. Although recovery is on the horizon, those events have left haunting memories and CEO Ho Kwon Ping understands the need to diversify risk across geographic regions. The IPO provides the finances to venture out of familiar territory. However, this is not without its challenges.

This case considers how a company with an experiential brand should manage its global expansion without losing the core values associated with its brand. The rapid expansion plan of opening 21 new resorts in four years would likely stretch the company’s manpower and infrastructure. How should Banyan Tree ensure that it continues to deliver a consistent brand experience? How serious is the danger of brand dilution in the expansion process for a company that has thrived on delivering holistic and unique experiences to guests?

TEACHING OBJECTIVES

The teaching objectives of the case are:

1. To provide an applied understanding of the concept of experience goods and the difficulties surrounding marketing goods and services that are based on consumer’s experience.
2. To evaluate the potential risks associated with a company’s aggressive global expansion strategy, particularly in terms of brand dilution.
3. To study the role that corporate social responsibility can play to entrench a company’s competitive advantage.

SUGGESTED TEACHING APPROACH

A video featuring interviews with Mr Ho Kwon Ping and his senior management staff is available as an additional teaching tool for this case study. The production is part of the *FocusAsia: Business Leaders* case study and video series produced by the University of Hong Kong (details are available at www.acrc.org.hk).

It is recommended that the video be shown at the start of the class. This will immerse students in the atmosphere and ambience of the business, and provide them with a behind-the-scenes glimpse of a luxury hotels and resorts operation. The instructor can then initiate and guide the class discussion using the following discussion points:

- The leadership style and corporate culture
- Brand value proposition and experiential branding
- The expansion plan

- The potential risks associated with the rapid expansion plan
- Recommendations

DISCUSSION QUESTIONS

1. Identify the primary issues in the case.
2. What value propositions did Banyan Tree offer as an experiential brand?
3. Evaluate Banyan Tree's expansion plan. What are the potential risks that Banyan Tree should be aware of and how can it mitigate such risks? Based on current resources, is it realistic and achievable?
4. Provide a financial analysis of Banyan Tree's businesses and make recommendations for its growth strategy based on this analysis.

ANALYSIS / SUMMARY POINTS

1. Identify the primary issues in the case
 - Staffing: much of the global strategy plan was dependant on the company's ability to build up a base of managers and supervisors from existing resorts to imbue the Banyan Tree ethos, culture and skill set at the new locations. While local staff would be hired, it was necessary, as was past practice, to send teams of people drawn from its various properties with a mix of multi-cultural and multi-national elements, to infuse the Banyan Tree way of doing things at the outset. The issue was whether it had the manpower, the management, the resources and the organizational structure to ensure that each hotel could be rolled out well and consistently.
 - Training: It would be necessary to build up a core team of management staff at each new location, and quickly, given the speed of expansion. The core brand values, such as the Banyan Tree ethos in CSR and experiential branding, had to be instilled to ensure continuity in delivering consistent quality of service.
 - Beyond Asia: Banyan Tree was venturing outside Asia and some resorts were located in higher-cost locations than what Banyan Tree had been accustomed to. This would raise development costs and put pressure on margins. Would these be financially viable? Would it be more prudent to expand into certain geographic areas first? Was it realistic for Banyan Tree to achieve such an aggressive expansion plan over four years?
 - Local barriers: The peculiarities of the different countries where Banyan Tree was planning to expand could cause delays or hinder developments. For example, property ownership rights in China and Thailand could have long term consequences on the company's ability to capitalise on these developments for future expansions.
 - Collaboration verses competition strategy: At this stage in its growth, the company was inundated with proposals for collaboration, whether this was by way of management agreement or licensing of the Banyan Tree brand names. Many of these partners could potentially be competitors at other locations or later become a competitor within the same location. Banyan Tree needed to determine an appropriate strategy for balancing organic growth, management-only contracts and growth through acquisitions.
 - Revenue split: In view of its expansion plan, was it realistic to target for an equal revenue return from each of the business units – property sales, hotels and fee-based services? If so, how could

this be achieved? In the short and medium term, was it realistic to rely on property sales in Phuket and Lijiang to generate revenue for future developments? Should Banyan Tree re-evaluate its approach regarding its reliance on property sales to fund future developments of resorts and hotels?

- Sustaining innovation in the brand: Maintaining the integrity of the brand and the core brand values had been an ongoing challenge. This was likely to become even more of a challenge for a larger organisation with more staff and locations. Related to this was the question of whether the unique core values of Banyan Tree would be diluted as they become replicated across the globe.

2. What value propositions did Banyan Tree offer as an experiential brand?

Based on the concept of *The Experience Economy* by Pine and Gilmore (see References), students should understand the way in which Banyan Tree has deliberately positioned itself as an experiential brand.

In an exceedingly competitive and overcrowded industry such as travel and tourism, differentiating between brands is becoming increasingly difficult. In this service industry, the commoditisation of services has left many players competing merely on price alone. Once new and innovative services, such as those first introduced by Four Seasons Resorts (bath amenities, terry-cloth robes and hairdryers), can be easily copied and relegated to become standard services. Even the pool villas claimed to have been pioneered by Banyan Tree have become standard marks of quality in the industry. When differentiation fades, goods and services are commoditized; margins fall and purchase decisions are based mostly on price.

The need to constantly be in the forefront of introducing new and unique services (and experiences) has therefore become the basis of competition for players who do not want to compete on price. Pine and Gilmore quote the example of coffee, tracing its value through three distinct levels: from the *commodity* (the coffee bean) to the *good* (the coffee in a cup) to the *service* (where and how the coffee is served). To this, Pine and Gilmore add a fourth level of value – *experience*. The same cup of coffee can be served in a fast food eatery or a five-star hotel, but command vastly different prices because of the experiences evoked which are created by the ambience, the attention to details etc... Figure 1 shows the price differentials that could be attained at these four levels of value for coffee but which can be hypothetically used to project the potential value of other goods and services.

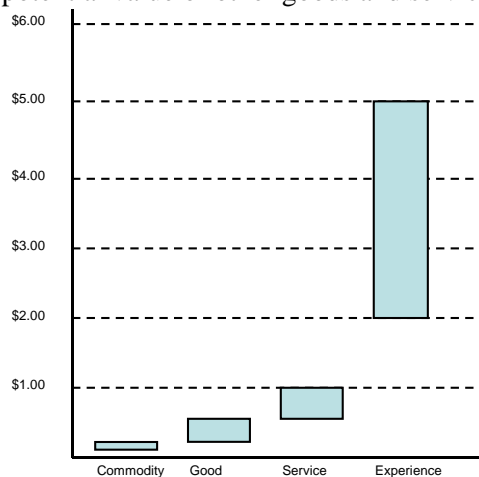


Figure 1: Price of Coffee Offerings

Source: Pine, B. J. and Gilmore, J. H. (1999) The Experience Economy: Work is Theatre & Every Business a Stage, Harvard Business School Press: Boston, Massachusetts, p.2

Such new and unique experiences can command higher prices, albeit for the period of time before market followers flood the same market space. Hence, Pine and Gilmore contend that restaurants now provide “eatertainment” experiences, and stores provide “shoppertainment” experiences.¹ Companies are now looking beyond the function and competing on the delivery of experience. For Banyan Tree, the company has thrived on charging premium prices for memorable experiences.

Banyan Tree’s value proposition is its brand experience, whether this is in the business of saleable properties, resorts & hotels, or spas. In seeking to differentiate through brand experience, Ho likened Banyan Tree to an aspirational brand. As such, Figure 2 depicts the value propositions Banyan Tree offers:

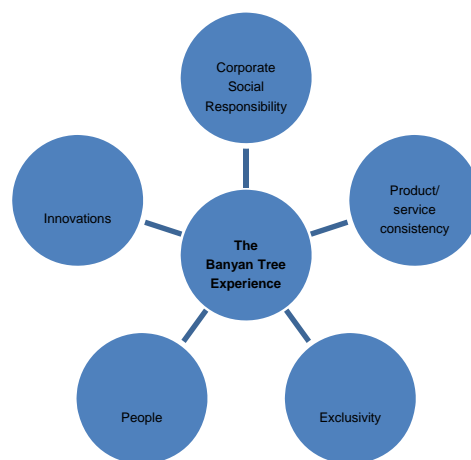


Figure 2: Banyan Tree’s Brand Value Proposition

The corporate social responsibility philosophy for doing business is ingrained in Banyan Tree’s DNA. Starting off with the first conservation project in Phuket, the company publicly displays the positive impact it brings to its business locations. It engages customers in CSR projects that provide lasting impact and impression. On another level, Banyan Tree uses environment friendly material and construction methods to blend its developments into the natural environment, making sure not to spoil the surroundings. The consumables it uses in its resorts and spas, as well as the goods sold in the Gallery Shops, are mostly provided by ethnic groups and local communities. As far as possible, staff are also recruited locally. This is Banyan Tree’s way of giving back to the community in which they operate.

From the first greeting to guests at the entrance to the massage procedures which are distinctively part of the Banyan Tree experience, the company paid much attention to product & service consistency at each location. Product consistency can be found in the design and furnishing of its villas and rooms. Having an in-house architectural and design operation ensures a consistency in look and feel. On the service side, consistency is found at each contact point with staff. The delivery of those services in unique ways gives rise to pleasurable experiences. In the experience economy, the idea that a company is the “experience stager”² requires that companies intentionally use services as the stage to engage its customers. So while goods are tangible, and services are intangible, experiences are memorable. Memorable experiences are

1 Pine & Gilmore (1999), p. 3

2 Pine & Gilmore (1999), p. 12

personal – engaged on an emotional, physical, intellectual and/or spiritual level. The memory can linger for many years after the experience. Banyan Tree has successfully staged experiences that are unique to each location. The value of the experiences at each location lies within each individual.

Banyan Tree also sets its sight on locations which are exclusive and often undiscovered. Seeking to be a prime mover, its presence at such exclusive locations with spectacular views of nature, contribute to the “wow” factor experienced by customers.³ The exclusivity of each villa also contributes to the brand experience.

Banyan Tree pays much attention to the training and development of its staff (its people). Ho has established a corporate culture in which opportunities for career advancement and personal development for performing staff is available. Indeed, its core management team is aggregated from diverse geographies and cultural backgrounds. This truly global perspective is what Ho claims to distinguish Banyan Tree from its competitors. The diversity fostered creativity. At the operational level, training in the Banyan Tree style of service and interaction with guests is well rehearsed. Having a team responsible for opening new resorts and hotels also ensures consistency in the goods, services and experiences delivered at each location.

Ho’s management style allows his staff room for creativity and innovation. Innovations from pool villas to location-specific spa treatments utilising local natural ingredients contribute to the unique Banyan Tree brand experience.

What of the Angsana and Colours of Angsana brands? All three brands are targeted at distinctly different market segments and this enables Banyan Tree to capture a broad range of customers. The strong Banyan Tree brand and the close proximity of Angsana and Colours of Angsana resorts to Banyan Tree resorts provide cross-marketing opportunities. While Angsana and Colours of Angsana resorts are not as exclusive and upmarket as Banyan Tree resorts, their association with Banyan Tree provides their customers with assurances of quality and experience related to the Banyan Tree brand. It also invokes aspirations for customers to one day (even if this is a “once-in-a-lifetime” experience) to stay at a Banyan Tree resort.

³ Pine & Gilmore (1999), p. 16

CASE 6: Starwood Hotels and Resorts Brings Aloft to India

SYNOPSIS

India has become one of the fastest growing economies in the world and one of the most attractive emerging markets for foreign direct investment, thanks to liberalization reforms in the 1990s. In this case we explore the viability of Aloft, the new Starwood Hotels & Resorts brand. The case allows students to explore issues of new market entry in light of the opportunities and challenges in the broad macro and industry environment. Significant changes in the Indian business and tourism environment are highlighted. Key issues that face those interested in international development of hotels in India include the lack of qualified hoteliers, inadequate airport and transport infrastructure, high taxes, corruption, bureaucracy and arcane business practices. These challenges, along with cultural adjustments will confront Starwood as it opens new hotels in the country.

Starwood Hotels & Resorts Worldwide, Inc. is one of the world's largest hotel and leisure companies, with a focus on luxury and upscale full-service hotels. In 2006, Starwood added two new brands, aloft (select-service hotels) and element (extended-stay hotels), to the existing portfolio that included St. Regis Hotels and Resorts, The Luxury Collection, Sheraton Hotels and Resorts, Westin Hotels and Resorts, W Hotels, Le Meridien, and Four Points. Starwood has almost half of its properties outside North America and plans to open 50 hotels in India, most of which will be operated via management contracts by 2010.

The new Aloft brand's first US hotels opened in 2008, offering Starwood a position in the mid-priced select-service brand category. Fashioned after the W Hotel brand, Aloft focuses on a new generation of travelers, described as "neo-nomads or road-ready entrepreneurs." Aloft offers the latest technology, style, and a social atmosphere, with loft-like nine-foot ceilings and corridors with oversized windows to create a bright, airy environment. The Aloft rooms have ultra-comfortable signature beds, large stylish bathrooms with oversized walk-in showers, and Bliss-Spa amenities to impress and relax customers. Each room offers wireless Internet access and plug-and-play, a one-stop connectivity solution for multiple electronic devices, all linked to a large flat-panel HDTV-ready television. Aloft's design also incorporates environmentally sensitive programs to promote and remind guests to use eco-friendly products and services.

The case concludes by posing several questions. Will Starwood's expansion using the Aloft brand work in India? Can Starwood correctly forecast and adjust to future developments in the Indian economy? With the challenges facing the world as a result of the financial crisis in the US and the late 2008 Mumbai terrorist attacks on hotels what will the future hold? Despite possible threats to expansion, Starwood executives remain optimistic about the success of Aloft in India.

TEACHING OBJECTIVES

1. This case introduces students to the broad macro environmental trends of India. The case allows students to explore the opportunities and threats posed by entry into this emerging market as featured in Chapter 2.
2. A SWOT analysis is possible along with a look at the industry in an emerging market. The five forces can be used to examine the industry. Competitive rivalry is an interesting topic in this case and shows

how the broad and industry environments are linked. What happens to the economic and political domains will profoundly shape the structure of the industry.

3. New product development can also be examined. Why are so many new brands being introduced? Issues of synergy (see Chapter 6) and portfolio management for a related diversification strategy can be discussed as this case presents the new Aloft brand. Both corporate (Starwood) and business-level (Aloft) strategies can be discussed with students.

SUGGESTED TEACHING APPROACH

This case allows students to conduct a SWOT analysis for the Aloft brand. Below are some of the opportunities and threats to competing in the Indian market. Have students add their own to the ones mentioned in the case.

Opportunities in India	Threats in India
<ul style="list-style-type: none"> • Welcome Indian Culture • Investments in infrastructure such as highways, airports and convention centers • India's share in the world gross domestic product (GDP) is expected to rise to 11% by 2025 • Higher transparency and overall improvements in the efficiency of financial markets • Developments in the electronic payment infrastructure • Pro-market-oriented behavior by the Indian government such as the relaxation in the foreign ownership restrictions 	<ul style="list-style-type: none"> • Lack of qualified hoteliers • Inadequate airport and transport infrastructure • The shortage of hotels and their poor quality • High taxes • Bureaucratic visa procedures for foreign travelers • Most travel agents and managers complained that Indian hotels are expensive relative to similar hotels abroad. • Few investments in India are without hassles. Arcane business practices and corruption contribute to the hassle factor

Ask students to determine which indicators in the broad environment Starwood should monitor versus scan. A discussion of what indicators to focus on based on the importance to and impact on the chain can lead to a lively discussion. Typically a firm will scan indicators that have a lower importance and impact and monitor those with a high impact and importance.

- Scanning - General indicators – Looking for early warning signals from many trends.
- Monitoring - Following specific indicators – An on-going observation of key important trends.
- Projecting - Forecasting the impact of key trends on the organization based on monitored specific changes over time.
- Adapting - Determining what requires change in the organization based on an assessment of the timing, influence, and importance of specific trends. The key question is how the trends will affect firm strategy.

DISCUSSION QUESTIONS

1. What are the drivers of India's economic boom? Will the Indian government continue being cooperative and welcoming to foreign investors?
2. What are some of the challenging issues facing the development of tourism in the country?

3. Some venture capitalists are bullish on consumerism in India? Do you agree? What makes India more welcoming than other Asian countries?
4. Do the deeper pockets (e.g., cash and other resources) of international hotel chains give them a competitive advantage over domestic chains? Why or why not? If an advantage does exist, is the advantage of deep pockets a sustainable advantage?
5. Is Starwood's plan to open 50 hotels in India by 2010 a real strategic commitment or a ploy to create barriers to entry for possible competitors?
6. As the popularity of Indian market grows, will other global and domestic chains increase their aggressiveness, posing enhanced competitive threats?
7. Does Starwood's announced expansion plan discourage competitors from entering Indian markets? Why or why not?
8. Do you agree with Aloft's founder Ross Klein, that the brand is suitable for emerging markets? Why or Why not? Does the brand connect well with other Starwood properties?
9. Do you agree with Starwood's decision to enter the mid-priced limited service market with the new Aloft brand?
10. Why is Starwood expanding with a newly created and untested brand like Aloft? Does the brand concept work outside of the US? Why or why not?
11. Will the brand work in India as a new generation of Indian customers emerges? What elements of the Aloft brand make it easy or difficult to bring to India?

ANALYSIS / SUMMARY POINTS

Environmental Analysis - Students can explore the broad environment and examine the impact of societal influences on the creation of opportunities for Starwood. The broad environment forms the context in which the firm and its operating environment exist. The key elements in the broad environment, as it relates to a business organization and its operating environment are:

1. sociocultural influences
2. global economic influences
3. political influences
4. technological influences

Competitive Advantage - Matching a firm's resources and capabilities to emerging opportunities in the broad environment is the basis of strategy formulation. This case allows students to explore what capabilities possessed by Starwood fit the Indian hospitality environment. A competitive advantage exists when a firm has a long-lasting business advantage compared to rival firms, that is a significant edge over the competition. This means that a firm like Starwood can do something its competitors can't do, or has something competitors lack. Global brand and economies of scale may be elements of Starwood's competitive advantage.

Stakeholders and Partnerships – One of the primary advantages of inter-organizational relationships is that they allow firms to gain access to critical resources. This case helps to show students the resources that both Starwood and potential partners might gain from working together. When two businesses have strengths in different areas resource complementarity occurs. Resource complementarity is helpful in partnerships just as it is in mergers and acquisitions. Complementary skills, in particular, can help increase speed to market. This case presents the opportunity to explore what complementary skills might be needed from local franchisees in order for Starwood to quickly developing in this part of the world.

CASE 7: The Commoditization of Starbucks

SYNOPSIS

Starbucks is a major U.S. coffee retailer that serves prepared coffee beverages in its company-owned stores. Headquartered in Seattle, the company was founded in 1971 and bought in 1987 by Howard Schultz, an entrepreneurial businessman who grew the company exponentially in the U.S. and around the world. Starbucks has experienced rapid growth with more than 13,000 stores worldwide.

The Starbucks brand represents a vibrant company that offers high quality coffee as an enriching experience for people. Such an energetic and revolutionary vision has positioned Starbucks as an industry leader in the gourmet coffee business. Starbucks uses a range of distribution channels that include their own outlets, retail chains, Internet, and partnerships with other service companies. Over the last several years Starbucks has entered new markets, such as China, with the purpose of achieving the same success that they have achieved in the U.S. But all is not well with the company.

The major issue that Starbucks faces now is whether decisions to use automatic espresso machines, eliminate in-store coffee grinding, add drive-thru operations, and serve breakfast have robbed the company of its competitive uniqueness. Howard Schwartz warned of the commoditization of the Starbucks Experience in early 2007. As the firm's performance began to decline in the US, the company worried that it had lost its unique position and was vulnerable to the competitive actions of McDonald's and others.

By 2008 it is evident that Starbucks is entering tough economic times (see pages 573 – 575) requiring some efforts to signal needed changes. The CEO, Jim Donald is fired in early 2008 and Howard Schultz returns to this role to reinvigorate the company. As the case ends, Schultz has begun transforming the company with an agenda that includes refocusing on the customer experience, slowing US growth and going back to the basics. Students are able to examine the initial attempts to engage in corporate restructuring. This is a good case to follow as Starbucks continues to make changes to its operation.

TEACHING OBJECTIVES

1. The primary purpose of this case is to illustrate the challenges of maintaining a differentiation position in a highly competitive market as growth begins to slow.
2. The case shows how decisions made by former CEO Jim Donald and others may have eroded the firm's competitive advantage. Commodities can be discussed in the context of this case.
3. This case can be used to illustrate how efforts to improve operating efficiency might lead to a loss in critical elements of uniqueness. To explore this issue it is useful to ask students to articulate Starbucks core competencies and competitive advantage.
4. This case presents the early history of Starbucks and highlights the vision and mission of the firm. Social responsibility is one principle that has driven the operation of the organization. Several initiatives including a partnership with Conservation International are presented to illustrate the role of working with key stakeholders.
5. The Starbucks experience is presented to help students explore the question of differentiation. Key elements of the Starbucks experience include the empowering corporate culture and the emotional connection with customers.

SUGGESTED TEACHING APPROACH

The Starbucks case includes many strategic management topics including the role of vision, mission, and principles in setting a firm's direction, the impact of competitive rivalry on competitive position, and the challenges faced in striving to sustain a competitive advantage during a period of rapid growth. The case illustrates how an extremely successful firm can be imitated and possibly lose its source of differentiation.

The professor can use this case to explore issues of differentiation and sustainable competitive advantage. What are the sources of competitive advantage for Starbucks? Has the product become commoditized? An excellent handout for students would be to provide them with the original letter sent to employees by Howard Schultz. Chapter 10 begins with a discussion of Starbucks as well that can complement the case discussion. To obtain a copy of the original letter from Howard Schultz see http://starbucks-gossip.typepad.com/_/2007/02/starbucks_chair_2.html.

You can find an array of supplemental materials to enhance the discussion of this case. Once considered recession proof, Starbucks sales dropped 9 percent in late 2008. Katie Couric interviewed Starbucks CEO, Howard Schultz in late 2008, and the video can be viewed at the following website: <http://www.cbsnews.com/stories/2008/12/08/eveningnews/main4656411.shtml>

The company's transformation agenda can be discussed with students and followed with updates available from the Starbucks website. The first communication on January 7, 2008 was titled Howard Schultz Transformation Agenda Communication #1 (see <http://www.starbucks.com/aboutus/pressdesc.asp?id=814>). Others have followed including Communication #8 (see <http://www.starbucks.com/aboutus/pressdesc.asp?id=833>).

An analysis of the external environment will provide students an opportunity to determine what political, economic, and cultural issues Starbucks needs to evaluate as the firm begins to face a recession. The analysis of the internal environment will surface the importance of Starbucks' mission, vision, culture, and values, which contributed to the company's success. To start a discussion, the professor could ask: Was Starbucks' decision to replace its CEO appropriate? Why? This question will allow students to give their own opinions which could then be narrowed down by the professor into strategic concepts. The main lesson that students could learn from this case deals with sustaining a unique competitive position during periods of growth and decline.

DISCUSSION QUESTIONS

1. How has Starbucks' mission and enterprise strategy contributed to the company's success? Is its approach to social responsibility viable during tough economic times?
2. What are the greatest challenges in the broad environment that Starbucks is facing as the US market becomes saturated? Has the company cannibalized itself?
3. How can Starbucks prevent its product from being commoditized? Is it too late?
4. What strategies should Starbucks implement in light of new competitors such as McDonalds? Is McDonalds a real competitive threat?
5. Was the decision to fire CEO Jim Donald wise? What are the pros and cons of changing senior managers?
6. Has Starbucks lost its competitive advantage? How could Starbucks make its competitive advantage sustainable over time?
7. What do you think of the company's transformation agenda?
8. In light of failing US performance, should Starbucks focus on international operations? Why or why not?

ANALYSIS / SUMMARY POINTS

Chapter 10 begins with a brief discussion of Starbucks that compliments this case and helps to position the material on global expansion.

Commoditization of products in domestic markets is one of the catalysts for global expansion. Among the most popular reasons why companies make foreign investments are to (1) search for new markets or better resources, (2) increase efficiency, (3) reduce risk, or (4) counter the competition (see Table 10.1). Starbucks seems to have entered foreign markets because the US had become saturated. Jokes abound about a Starbucks on every corner. Starbucks may also have benefited from economies of scale in advertising and enhancing the brand. Starbucks may also be reducing some of its risk as a recession in the United States may not have as dramatic of an effect on Asian and European store operations.

The competitive moves of players like McDonald's may also be threatening Starbucks model in the U.S. From a business strategy perspective, an interesting question is whether the company should compete on price while also differentiating its product / experience. Is Starbucks a best value strategy? To date it has been a differentiator as the result of its consumption experience and its human resources activities.

The following content areas and concepts are part of this case:

- External environment analysis: broad and task environment. The case presents changes in the US market and the need to rethink growth as a result of shifting consumer needs and competition.
- Internal environment analysis: employees and culture, mission, and organizational ethics. Did the firm forget its core competencies and try to be all things to all people with its drive-thru and food options. Drifting from the core differentiating factors can be risky. The values and vision of Starbucks has remained solid. You can explore why Schultz referred back to the firm's values to redefine the future.
- Generic strategies: focus, differentiation through experience, brand, and marketing strategies. This firm has the opportunity to redefine differentiation. The latest investments in training might suggest that people are a key component to distinguishing the brand going forward. Can their position on social responsibility help? Or is it a costly impediment to competing with the likes of McDonald's?
- Change of strategy over time: commoditization of products. Has Starbucks lost its position as a result of competitor imitation? If the skills and activities of Starbucks are easy to imitate then it is likely that Starbucks's competitive advantage is not sustainable. See Figure 4.1 for the six questions that determine the competitive value of resources and capabilities.
- Change in competitive landscape: New entrants, such as McDonalds and Duncan Donuts has changed the playing field. Was the former CEO responsible for the fall or just the "fall guy"?
- Challenges for periods of turnaround and transformation. The case concludes with Howard Schultz initiating a transformation agenda. You can access how the turnaround is going and add new information to explore and evaluate its success. The success going forward depends in large measure on how Schultz's strategy is implemented. Take a close look at the goals, partnership, and controls that are used to execute on the transformation agenda.

CASE 8: The Movement of Travel Services Online: Intermediaries and Branded Distribution

SYNOPSIS

This case explores the evolution of Internet based lodging product distribution and provides data to illustrate the shifting trends in online travel services. The shift in distribution was begun by Travelocity and Expedia along with other online intermediaries called online travel agencies (OTAs). Expansion migrated from the leisure to business market and as a result threatened traditional travel agencies. Large travel management companies like American Express and Carlson Wagonlit Travel responded to these new travel service providers by launching their own online efforts.

Since the emergence of online travel services the US market has matured, as case data shows slowing growth. In the U.S. overall online travel agency growth dropped to single digits by 2007, down from over a decade of double-digit growth. Transaction growth was also modest as a result of a significant shift to direct online transactions by suppliers – air, car, hotel and cruise (See Figure 4).

Hotel online growth was a strategy of chain executives intended to shift bookings away from online travel agencies, and back to the hotels themselves. Bookings on hotel branded websites increased (See Figure 6), while they focused on improving their website functionality, catering to loyal guests online and providing more flexible reservation cancellation and change policies than those of OTAs. Direct online growth was also increased with effective search engine strategies such as search engine optimization and keyword bidding.

Overall, fundamental changes have transpired in the booking mix for major US chain hotels, as shown in Figure 7. The migration of booking and shopping to online channels changed the role and reduced the activity level of chain reservation centers. In response, chains used excess capacity to assume property calls, thus allowing property staff to focus more on guest service. Chains also expanded reservations staff activities to include up-selling and cross-selling to raise ADR, on-property spend, and regional (or cluster) occupancy, all while strengthening customer service and attachment.

In 2006 and 2007 the two largest distribution companies, Sabre Holdings and Travelport, were privatized and/or reorganized. Sabre Holdings was bought and privatized in December 2006. The Blackstone Group bought Cendant's Travelport in July 2006 and in October 2007, bought Hilton. Both owners reorganized their assets, selling and taking public some of their subsidiaries. In Blackstone's case, the deals may have been more financial than real from an organization and market value as perspective. In May, 2007 Blackstone Group spun off Orbitz as a separate entity through an initial public offering (IPO).

The case concludes by observing that how consumers choose to shop for and book travel will change as the technology to do so also changes. Hospitality suppliers will have to respond to that behavior and technology in order to manage their brand, inventory and service value. At the same time, intermediaries like online travel agencies, travel management companies, traditional travel agencies, search engines and global distributions will vie for consumer attention and supplier relationships as ways to grow their businesses.

TEACHING OBJECTIVES

The Internet has been a key innovation for the travel industry, stimulating remarkable changes in how consumers create and book their travel services. This case is intended to familiarize students with the numerous players in the online travel services industry. After analyzing the case, students should understand the impact of online intermediaries such as Travelocity and Expedia on travel service distribution.

Students will also learn about the moves and countermoves of hotel suppliers and the recent acquisition and merger behavior of distribution service providers. The case chronicles the shifts in online travel agency expansion and the moves and counter moves of hotel suppliers and large travel management companies like American Express. The case concludes with a discussion of the changing distribution landscape.

1. The major objective of the case is to explore how the numerous online travel service providers have emerged and changed travel service distribution.
2. The case presents an opportunity to explore the structure of an industry and conduct a five forces analysis.
3. The strategies of the major players in the industry can be compared and contrasted.
4. For those interested in the impact of shifting consumer preferences on booking behavior the case provides a context in which to explore the question of who owns the online customer.
5. Partnerships, acquisitions, and mergers are area of interorganizational relationships that can be discussed in the context of this case.

SUGGESTED TEACHING APPROACH

Firms innovate in a number of ways, including business models, services, processes and marketing channels. This case features innovations in online business models. The case allows you to discuss innovations in service and what happens to traditional businesses when an innovator changes the rules of the game. You can discuss whether online travel services will eventually make brick-and-mortar travel agencies obsolete. You can explore what happened to hotel companies and travel agencies when online travel innovations appeared on the scene. This discussion can highlight how hotels cooperated to regain control of their inventory, and how travel agencies entered the internet to compete directly with intermediaries. A detailed discussion of electronic tourism markets can be found in Chapter 9.

Discuss with your class the growth of online travel services and the maturing of the US market. After outlining the historical context of online travel, turn your attention to the overall industry. Who are the key players? How does cooperation work between various stakeholders?

You might wish to do a five forces analysis on the online travel services industry. What are the barriers to entry? What are viable substitutes? Who are the key suppliers and buyers?

As you explore competitive rivalry you can introduce the class to the different types of online players, and explore the degree to which they compete and/or cooperate. Of particular note, students should focus on the trends in online hotel booking behavior and the maturing of online channel growth (i.e., the slowing of growth).

Several terms are introduced in this case to define the various players, summarized below:

- Online travel agencies (OTAs) - Online intermediaries like Travelocity and Expedia

- Large travel management companies (TMCs) - Serve primarily the business market with dedicated travel agents, call centers and websites. Examples include American Express Travel and Carlson Wagonlit Travel.
- Tour operators and aggregators - Operators like Tui and Thomas Cook in Europe, are long standing vacation tour operators.
- Global Distribution Systems – Examples include Sabre, Galileo, and Amadeus.
- Distribution Service Providers (DSPs) – Examples include TravelCLICK and Pegasus Solutions.

Now ask your class to look forward. You can have students explore the extension of online search and information delivery by having them visit an array of different hotel websites, such as those of Hilton, Starwood, and Marriott. A discussion of the future of online travel is a natural way to conclude your teaching of this case. You might want to focus on a company like the Blackstone Group who purchased Cendant's Travelport in 2006, and spun off Orbitz in 2007. What moves should this company make in the future? Is it possible that Google or Yahoo! might enter the business? Should they?

DISCUSSION QUESTIONS

1. What are the trends in online travel services?
2. Why are internet sales slowing? What does this suggest about the saturation of online booking?
3. What strategic roles might hotel call centers play in the future? What would you recommend hotel chains do in positioning their call center operations?
4. Did the efforts of hotels to shift bookings to their own websites work? Was it a wise move? Should cruise lines do more online booking? Why or why not?
5. Are the acquisitions and mergers wise strategic moves for DSPs? Why or why not? What possible future partnerships would you recommend?
6. Should a firm like Google enter online travel services? If so how would you suggest they enter? Who should they partner with or acquire?

ANALYSIS / SUMMARY POINTS

Our goal in this case study is to provide students the opportunity to investigate the various players in the online travel services business. What started simply as an online alternative to bricks-and-mortar travel agencies has evolved into online merchants, and forever changed how the industry does business.

Innovation - The Internet has been a key innovation for the travel industry, stimulating remarkable changes in how consumers create and book their travel services. Travel agents were the primary source for packaged (or bundled) travel services before the Internet changed their competitive position. This case shows how technological advances have created opportunities that have altered competition.

The most common obstacles for innovation in existing firms include risk-averse corporate cultures, an overly lengthy development period, a lack of coordination within the company, and difficulty choosing the right ideas to commercialize. Today airlines, hotel chains, car rental, and other travel suppliers offer their products online. How have they overcome these obstacles?

Competitive Dynamics. Through lively discussion and debate, we hope that students will apply the principles of shifting competitive rivalry to uncover what various players are doing right and wrong to protect their customer loyalty and enhance success using web-based distribution channels.

An organization can respond in many ways to the dynamics in its industry. Offensive strategies such as aggressive competition or seeking first-mover advantages are intended to increase market share and diminish the ability of competitors to compete. Defensive strategies such as threatening retaliation, seeking government intervention, or erecting barriers to imitation are intended to deter or slow down rivals from taking actions that would reduce the effectiveness of a firm's own strategies. Collaboration with stakeholders can be used offensively or defensively. Finally, a firm may avoid direct competition (avoidance) or be so flexible that it can easily leave an industry segment if the battle becomes too intense. The response of various players in the travel service industry reveals that several of these strategies were used.

It is difficult to predict the future of the internet, but several trends seem apparent. First, the internet is an increasingly important tool for the exchange of information, goods, and services. Second, managers and investors are being much more careful as they design business models around the internet, making sure that there is some way to use invested resources to generate positive returns. Finally, information technologies are changing at such an amazing rate that the internet is likely to be a source of entrepreneurial ventures for many years to come.

Grade Sheet for Oral Presentation

Business and Corporate Level Strategy

Refer to Chapters 5 and 6, Enz.

HRIM 490W Spring 2013

1. Divide Firm into divisions or market segments correctly and thoroughly with supporting details (5 points).
2. Measure the growth rate of each division (10 points).
3. Plot Contribution Bubbles that indicate the relative size of each division in terms of its contribution to firm's total sales or profitability (20 points).
4. Create a BCG Matrix like the one on figure 6.3. (20 points)
5. You have been asked to develop 2-3 competing BRAND CONCEPTS for presentation to senior management. Begin by deciding what Business-level Strategy will be used for your concepts (low-cost, differentiation, best-value, either narrow or broad) Using the following table Prepare a strategic analysis for each concept (30 points):

Strategy Description	Concept 1	Concept 2
Business-level strategy		
Factors to consider with this strategy		
Features of concept		
Competencies and resources needed to create concept		
Risks associated with the concept		

6. Professional quality of presentation in terms of Design, Accuracy and Strategy Analysis (15 points).

NOTE: GROUPS WITH MORE THAN 4 MEMBERS MUST DEVELOP 3 CONCEPTS.

- . Human resources as a source of competitive advantage.
 - Are any of Westward's advantages sustainable?
 - Are the human resource practices and corporate culture easy for competitors to imitate?
 - What is the role of the hotel manager in creating or destroying the culture of the Westward Hilton?
2. Competitive position
 - Prepare a Five Forces Analysis and make a determination as to whether Hiller can sustain the Westward's competitive advantage (should it choose to retain the property).
 - Where does the Westward fit on the Market Economics and Competitive Position Matrix (see Appendix 3)?
 - Where is the Westward positioned on the Boston Consulting Group's (BCG's) Growth Share Matrix?
 - For which course of action do these analyses provide more support?
3. Strategic actions have both intended and unintended consequences.
 - What are some of the ramifications of choosing to sell the hotel?
 - What are some of the consequences of choosing to retain the hotel in the portfolio?
 - Approach these questions from the perspectives of the Westward's employees, other Hiller employees, and the Hiller Hotel group as a whole.
4. The compatibility of strategies at the corporate, unit, and functional levels.
 - Are Hiller's general business strategy (buying distressed, undervalued properties and turning them around for eventual sale) and their human resource (HR) strategy compatible?
 - Are the general business strategy and the mission statement compatible?

1. Are any of the Westward's (and Hiller's) human resource advantages sustainable? Are the human resource practices and corporate culture easy for competitors to imitate? What is the role of the hotel manager in creating or destroying the culture of the Westward Hilton?

In determining whether one's competitive advantages are sustainable, one must consider their durability and imitability. Will the Westward's advantages quickly depreciate or become obsolete? Can competitors easily duplicate the core competencies Hiller developed at the Westward? The evidence is mixed. However, one could argue that since Hiller's greatest advantage seems to derive from its relations with its employees—and from the employees themselves—its service quality advantages are not easily imitated and appear relatively durable. Green's vision, adopted by Hiller, and the culture he established are ultimately the source of the group's competitive advantage. If the hotel is sold can another manager keep the culture going or is it too dependent on Green? Most students believe that a poor manager could easily destroy the culture and argue that a new manager might be very tempted to add his or her own unique approach. Students often believe that new managers could destroy, without even realizing it, the primary competitive advantage this aging hotel has in a growing market.

Five Forces. An industry analysis, using Porter's Five Forces, reveals evidence to support a decision either to sell or to hold. Clearly, with over 3,000 new hotel rooms coming into the market, new entrants were enticed rather than scared off, despite the high capital requirements. Suppliers to and buyers of hotel products were both weak, although buyers were price sensitive making the market environment very price competitive. Though technology offers alternatives to business travel, the threat of substitutes is low since the most common substitute is staying with family and friends, and the Phoenix resort destination evokes few travelers who have that option available to them. Finally, with excess capacity appearing that it may grow and extremely high exit barriers, industry rivalry could certainly be characterized as intense and possibly become more so unless demand begins to grow as fast as hotel room supply. The question is whether or not the Westward is in a position to withstand the challenges posed by existing and new competitors. Can the property sustain its competitive advantage? Clearly the market economics appear unattractive for the future, providing some incentive to consider the sell.

Competitive Position. In contrast, the current competitive position of the Westward is very good. From the customers' perspective, both product and service quality are high. With its Hilton affiliation, the Westward enjoys a strong brand image. The above factors notwithstanding, switching costs are low, and customers can easily leave the hotel when new hotels come into the market with better amenities and competitive prices. Customers' quality perceptions are, in great part, driven by employee performance. Employees appear to feel positively about advancement opportunities, job fulfillment, compensation and benefits, and rewards and recognition. If Hiller continues to manage the property, there is no reason to believe these employee perceptions will change. The results of superior employee performance and customer satisfaction and retention produced competitive advantages for the Westward. (quality and customer responsiveness are 2 of the building blocks of competitive advantage). Operating management can be expected to continue to be superior, though the issue of general manager turnover must be addressed. The property, due partly to its volume of business and partly to ownership having multiple properties, has strong purchasing power. The Hilton association provides a source for national and international reservation bookings and customers.

It must be remembered that this decision is not about a single hotel—it is a corporate decision about one of several related assets. What are the implications of selling the Westward for the group's vision and culture? What meanings will employees at the other properties make from such a decision? Will Hiller be compromising its advantage—or its potential for advantage—by such an assault on the organization's culture? Perhaps not; however, even Green wondered whether the problem lay in the paternalistic way in

which he and his management team lived the vision. Maybe selling the Westward would enable Hiller to reshape the culture in a positive way—one that would provide additional competitive advantage.

Clearly, based on the data presented in the case, the Westward's relative market share is high. Based on high market share coupled with low to moderate market growth (which in this case will actually be offset by supply growth), the Westward is a cash cow according to the BCG's Growth Share Matrix. The BCG's recommendation is to milk cash cows. Thus, this analytic tool supports a decision to hold the property.

3. What are some of the ramifications of choosing to sell the hotel? Of choosing to retain the hotel in the portfolio?

The decision to sell may be accompanied by feelings of abandonment and betrayal on the part of those left behind at the Westward Hilton after Hiller Hotels is no longer the owner-operator. It is unlikely that the new ownership will be of the same philosophical mind as Hiller. If the employees' feelings are as described above, the buyers will have gotten less in the deal than they thought because much of their investment is the human capital Hiller developed. Should the hotel's culture revert back to a more traditional command and control model in which management is less concerned with the dignity and respect with which the employees are treated, the competitive advantage Hiller realized through people will likely erode through attrition and dissatisfaction. This outcome is of interest to Hiller only insofar as it may have long run consequences regarding the sale of properties in the future. If buyers feel they have gotten less for the money (because the culture changes post-sale) than it appeared at first blush, Hiller's properties may not be able to command the prices the financial data would dictate on their own.

From Hiller's perspective, the sell may also damage the relationship management enjoys with employees at the other properties. Employees may perceive that their needs are subordinate to those of owners and customers resulting in a withdrawal of commitment to the organization. Their confidence in management's honesty may be shaken and the vision and mission Hiller espouses may be perceived as tools of control management uses to co-opt workers. Any competitive advantage Hiller previously realized through its investments in human capital may erode.

Should they decide to retain the property, Hiller runs the risk that although it remains revenue producing; the Westward will begin to depreciate in value and performance. The owners, displeased with the devaluing of their investment may make wholesale personnel changes at the corporate level. Additionally, the decision not to sell may move the culture beyond one based on the interdependence of management, ownership and workers into a more paternalistic model. The dependence relations inherent in such a model may undermine the practices Hiller used to establish its competitive advantage through human resources. Additionally, the unrealistic expectation that Hiller will retain all the properties it purchases may be established among workers.

Financial Analysis of Sell Decision

The current market value of the hotel is about \$65 million. Presently the financial markets are not doing well and the risk is quite high due to a looming recession, the average return on stocks in 2007, has been about 5.5%, T-bills about 4.9 % and T-bonds about 10.2%. Assuming that they do not sell, that represents an opportunity cost to them of \$65 million, even though their actual investment was about \$39 million (a sunk cost). The internal rate of return on this investment of \$65 million as a result of holding and operating the property is 12.28%. Their current cost of capital (weighted average cost of capital) is 9.35%. As a result, not selling this property is a positive net present value investment. Furthermore, assuming that they could borrow to finance 60% of this investment, their expected return on equity is 30.23%. Assuming that the projected income statement is reasonable from a purely financial analysis, the

property should not be sold unless they have other investment opportunities that will yield an expected return of at least 12.28%.

Estimated sale price at the end of 2007 = {(income before other fixed charges in 2008)/ cap rate

= \$6,833,670 / 0.105 (cap rate)

= \$65,082,568.10

Where the cap rate of 10.5 was derived from data presented in *Hospitality Investment Survey*, March 2007, PKF Consulting, PKF Hospitality Research.

The Internal Rate of Return is defined as the return such that the Net Present Value is equal to zero. The investment value used in the computation is the current expected sales price of \$65,082,568.10 and the cash flow each year thereafter (2008 through 2016) is the income before other fixed charges.

The terminal value of the property at the end of 2016 was also included as a positive cash flow in 2016 and it was computed as (income before other fixed charges in 2016 *1.03)/0.105.

The Return on Equity was computed assuming a loan to value ratio of 60% slightly lower than the average value in 2006 of 67.86% (*Hospitality Investment Survey*, March 2007, PKF Consulting, PKF Hospitality Research). It is the internal rate of return assuming an equity investment of 40% of the current expected sales price.

The weighted average cost of capital of 9.35% was computed as $0.60*(6.95\%) + 0.40*(12.96\%)$, where 6.95% is the before tax cost of debt (*Hospitality Investment Survey*, March 2007, PKF Consulting, PKF Hospitality Research) and 12.96% is the discount rate (*Hospitality Investment Survey*, March 2007, PKF Consulting, PKF Hospitality Research).

4. Are Hiller's general business strategy (buying distressed, undervalued properties and turning them around for eventual sale) and their human resource (HR) strategy compatible? How about the general business strategy and the mission statement? Justify your responses.

The best answer to both questions is "it depends." It appears that in the case of the Westward Hilton, actual practice went beyond the HR strategy of having a high involvement, high trust, strong culture whose basis is treating workers with dignity and respect. As evidenced by the regret Green feels (see page 23 of the case), it appears the workers have been given the impression they can expect lifetime employment at the Westward, and that Hiller would continue to own and operate the property in perpetuity. Having conveyed this impression to Westward employees, and perhaps, to a lesser extent, employees at the other properties, borders on paternalism and may be incongruous with the general strategy. Had Hiller been sure to dignify and respect workers, empowering them as much as the case describes, yet done so using language that did not inherently promise an unending future, the two strategies would have been compatible. In the words of Peter Green, "My one regret is that I didn't prepare people for this possibility. I don't believe we can protect people; we can only prepare them. Better preparation would have taken place along the way and would have been in the language we used. We should have made it clear that this is not forever—it's an investment and we should try to enjoy it for as long as we can."

The mission statement, "making people's lives better through business" is not inherently inconsistent with Hiller's general business strategy. However, as with their HR strategy, inconsistency arises from their admitted crossover from interdependence to paternalism. Again quoting Peter Green, "Everyone there

benefited from being involved with that property—from being part of a place that was so positive. I just wish selling wouldn't catch people so flat-footed. To have created that high a trust level so that people didn't know or even ask questions when it was already obvious a sale might happen—that embarrasses me that I let that happen.”

References

Lundberg, C. C. (1993). A framework for student case preparation. *Case Research Journal*, (12) 3, 1-15.

Appendix 1

Industry Analysis

FACTOR	Yes	No	Wash
Threat of entry	X		
Slow market growth		X	
Availability of capital	X		
Availability of management companies	X		
Strong regulatory pressures		X	
Industry rivalry	X		
Standardized products and services			X
Excess capacity	X		
Threat of substitutes			X
Buyers propensity to substitute	X		
Relative price performance of substitutes			X
Supplier power		X	
Buyer power			X
Buyer price sensitivity	X		
Buyer negotiating leverage			X
	7-	3+	0 = 4

Source: Chart provided to the authors by Mr. Ali Kasikci General Manager of the Montage Hotel in Beverly Hills.

Appendix 2

Sustainable Competitive Advantage

Source	Yes	No	Wash
Customer perceptions			
High perceived product quality	X		
High perceived service quality	X		
Strong brand image	X		
High switching cost		X	
Employee perceptions			
Career advancement	X		
Job fulfilment	X		
Compensation and benefits	X		
Rewards and recognition	X		
Economic cost advantages			
Superior operating management	X		
Strong purchasing power		X	
Access to booking sources	X		
Access to customers	X		
	10-	2+	0 = 8

Source: Chart provided to the authors by Mr. Ali Kasikci General Manager of the Montage Hotel in Beverly Hills.

HRIM 466

Human Resource Management



Penn State University
School of Hospitality Management
Fall 2013

HRIM 466: HUMAN RESOURCE MANAGEMENT

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Meeting Times and Location

Section 2
Tuesday and Thursday
9:45 to 11:00 a.m.
208 Ford

Office Hours

Tuesday and Thursday
12:00 to 3:00 p.m.

Course Description

Quality employees are vital for success in any hospitality organization. Thus, the goal of this course is to provide you with the tools for successfully managing employees to enhance individual and organizational performance. Upon completion of this course, you should be able to:

- demonstrate an understanding of the core concepts of human resource management;
- articulate the most effective methods for attracting, selecting, developing, motivating, and retaining quality employees in diverse organizational environments;

- evaluate information to make sound decisions for effective human resource management;
- describe key pieces of legislation impacting the human resource management function; and
- demonstrate personal and professional standards for ethical decision-making and behavior as a manager.

Class sessions will be conducted in an interactive format using multiple methods, including discussions, exercises, cases, and videos. You are expected to read assigned materials **prior** to each class and be prepared to fully discuss this material.

Materials

Fundamentals of Human Resource Management (3th ed.) by Gary Dessler with MyManagementLab. **The package ISBN for the unbound Student Value Edition of Fundamentals of Human Resource Management text with MyManagementLab is 9780133480429** . The MyManagementLab for this course is **required**. Most weeks, there will be two assignments due that are to be submitted in the Lab.

Course Requirements

① **Reading Assessments**

You will be required to complete reading assessments to facilitate your knowledge acquisition throughout the semester. The reading assessments will be completed **prior** to every Tuesday's class on your MyManagementLab site and will cover the assigned reading material to be addressed during the upcoming class period. The reading assessments will consist of 2-4 short-answer questions. Approximately 12-15 reading assessments will be administered. "Make-ups" are not allowed. However, your two lowest reading assessment grades will be dropped, and your overall reading assessment grade will be based on the average of the remaining assessments. In total, the reading assessments will contribute **20%** toward your final grade.

② **Chapter Quizzes**

Chapter Quizzes will be assigned most weeks and due prior to class on Thursdays on your MyManagement Lab. These quizzes will be open book and will assist you greatly in preparing for the exams. We will review the answers to these quizzes in class on Thursdays. Approximately 12-15 Chapter Quizzes will be administered. "Make-ups" are not allowed. However, your two lowest Quiz grades will be dropped, and your overall Chapter Quiz grade will be based on the average of the remaining quizzes. In total, the Chapter Quizzes will contribute to **20%** toward your final grade.

③ **Exams**

Three exams will be administered—two exams during the semester and a cumulative final exam. The exams will cover material presented in the text, supplemental readings, and class sessions. The exams will be closed-book and closed-note. The format will include multiple-choice, short answer, and essay questions. Each exam during the semester will contribute **20%** toward your final grade, and the final will contribute **20%** toward your final grade.

You are expected to take exams as scheduled. Failure to do so will result in a zero. However, under exceptional circumstances make-up exams will be permitted. These will be oral exams and will span the time allotted for a regular class period. I and one additional faculty member will be present to evaluate the quality of student work during these exams. Make-up exams will only be granted when all three of the following conditions are met: 1) the student notifies

me within 24 hours of the scheduled exam time; 2) the circumstances are extenuating; and 3) the student presents proof of the extenuating circumstances with original documentation.

Extra Credit—Current Trends in HR - Presentation and Write-Up

To help educate your peers and myself on emerging trends in human resource management, you are afforded an opportunity to provide a brief, informal presentation in class on such a topic during any class period other than the day of a scheduled exam, exam review, or guest speaker. Two of these trends are in Module A & B at the end of the book: International HRM and HRM in Small and Entrepreneurial Firms. You must notify me via email by 5:00 p.m. the day before the class period in which you wish to present. Presentation opportunities will be allocated on a first-come, first-serve basis. Should you participate in this opportunity, **2.5%** will be added to your final course grade. For example, 85% (B) would be increased to 87.5% (B+).

Participation and Attendance

Because an active learning environment is extremely important to development and learning, you are expected to participate during class. You can expect to be called upon at any time to answer questions and provide facilitative information to stimulate class discussion. The quality and quantity of your contributions will be noted. Most importantly, active participation will enhance your learning experience.

While class attendance does not ensure active participation, it is a necessary condition for such. Accordingly, you are expected to attend all classes and be fully prepared to participate. Attendance will be taken for each class. You will be allowed to miss 2 classes without an official university excuse. In the event that you miss more than 2 classes without an official University excuse, your final course grade will be lowered by **2.5%** for each absence. For example, 82% (B) would be decreased to 79.5% (B-) for one such absence.

Summary

	Percentage
Reading Assessments	20
Chapter Quizzes	20
Exams	
Exam I	20
Exam II	20
Final Exam (Exempt with a 92% Average at the end of classes)	20
Total	100

As detailed above, the total will be adjusted based on the completion of the extra credit assignment and/or attendance.

Overall Course Grade

Final grades will be based on a student’s weighted average using the following scale:

A	92-100	B+	86-89	C+	76-79	D	60-69
A-	90-91	B	82-85	C	70-75	F	0-59
		B-	80-81				

Academic Integrity

All students are expected to adhere to the highest standards of academic integrity in the completion of course requirements. Academic integrity is defined as the pursuit of scholarly activity in an open, honest, and responsible manner. Violations of academic integrity in any form will not be tolerated. Violations include, but are not limited to, cheating, plagiarizing, fabricating information or citations, facilitating acts of academic dishonesty by others, submitting the work of another person or work previously used without informing the instructor, and tampering with the academic work of other students. Use of notes, books, cell phones, computers, or other materials during an exam or quiz is a violation of academic integrity, unless such use has been specifically authorized. Students involved in violations of academic integrity may receive an F for the course and may be referred to the College Academic Integrity Committee.

Cell Phones and Laptops

Cell phones must be turned off or silenced during class. Laptops are permitted in class for note taking purposes only. Emailing, instant messaging, and internet surfing are strictly prohibited. Because these activities are distracting and disrespectful to me and your peers, I reserve the right to approach you in class without notification to see what is open on your laptop. If there is anything other than PowerPoint or Word open along your toolbar, you will be asked to leave class.

TENATIVE COURSE SCHEDULE

WEEK 1

Date

8/27

Topic

Course Introduction

Reading

8/29

MyLab, HRM Overview

Chapter 1

WEEK 2

Date

9/3, 5

Topic

Managing Equal Opportunity
And Diversity

Reading

Chapter 2

WEEK 3

Date

9/10, 12

Topic

HR Strategy and Analysis

Reading

Chapter 3

WEEK 4

Date

9/17, 19

Topic

Job Analysis, Talent Mgmt
Succession Planning

Reading

Chapter 4

WEEK 5

Date	Topic	Reading
9/24, 26	Recruiting	Chapter 5

WEEK 6

Date	Topic	Reading
10/1	Selection	Chapter 6
10/3	Exam I Review	

WEEK 7

Date	Topic	Reading
10/8	Exam I	
10/10	Alumni in the Classroom	

WEEK 8

Date	Topic	Reading
10/15, 17	Training and Development	Chapter 7

WEEK 9

Date	Topic	Reading
10/22	Performance Management	Chapter 8
10/24	360 Feedback and other tools	

WEEK 10

Date	Topic	Reading
10/29	Retention, Engagement & Careers	Chapter 9
10/31	Succession Planning -Revisited	

WEEK 11

Date	Topic	Reading
11/5, 7	Compensation	Chapter 10

WEEK 12

Date	Topic	Reading
11/12	<i>NY Hotel Show</i>	
11/14	Benefits	Chapter 11

WEEK 13

Date	Topic	Reading
11/19	Exam II Review	
11/21	Exam II	

Thanksgiving Holiday 11/23 -30

WEEK 14

Date	Topic	Reading
12/3, 5	Ethics & Employee Relations	Chapter 12

WEEK 15

Date	Topic	Reading
12/10, 12	Working with Unions & Safety	Chapters 13 & 14

Note: Your learning is my principal concern. As such, I may need to modify the course schedule as necessary if we need to spend more time on certain topics and/or less time on others.

FINAL EXAM

The final exam will be held during the University's scheduled exam time.

Venturematics, a firm that produces all-terrain sports vehicles, is replacing its CEO. One candidate, Claudia Haley, is an experienced senior executive who has risen within the ranks of the company. The other, Roger Dunweather, is a successful outside entrepreneur. Haley is familiar with the workings of the company and is well considered by peers and subordinates. She is willing to take the job at a salary that falls well within the 20-to-1 salary ratio between top executives and rank-and-file workers that is considered optimum in the industry.

But Haley is less familiar with new technological developments, which the firm's competitors have exploited to make their products perform more capably in wilderness terrain. So Venturematics, long the leader in the market, now is losing customers. The firm's board of directors therefore leans toward Dunweather, who is a trendsetter in introducing new brands that have proved popular with a young demographic.

Dunweather, however, expects a salary level considerably higher than what Haley would get. On the other hand, the board expects his expertise to have a more positive impact on the company's market share and profits.

Which of the following, if true, would most favor the less costly option of giving the position to Haley?

1 pts

- Venturematics' present ability to pay is not strong enough to support the salary that Dunweather demands.
- Haley is not willing to retrain to familiarize herself with the recently developed technology.
- A straw poll taken among current employees strongly favors Haley.
- Dunweather is used to living in a region of the country that has a much higher cost of living than the area of Venturematics' corporate headquarters.
- The company's R&D division would like to expand its budget.

• Which of the following, if true, would most favor hiring Dunweather, the external candidate, even if he demanded a significantly higher salary than would Haley?

1 pts

- Dunweather says that Venturematics needs to "think outside the box" about how it can adjust to new conditions as the future unfolds.
- Other executives presently at Venturematics have practical experience in designing high-tech ATVs.
- Dunweather's knowledge of ATV technology is both unique and much greater than that of any other person currently in Venturematics' upper management.
- Automotive companies also pay their CEOs salaries that are considerably higher than the 20-to-1 ratio.
- Haley is older than Dunweather, and so probably has fewer good years left to move the company ahead.

- If the Board concluded that it could not meet Dunweather's salary request, which of the following counteroffers would be most likely to encourage him to take the position?

1 pts

- a severance package, to be negotiated if Dunweather is forced to leave
- a signing bonus equal to one month's salary
- use of the company plane for private vacations
- annual cost-of-living increases to his salary
- a performance-based pay package, tied to the successful launch of new models

- Suppose the board hired Dunweather at the higher salary and managed the extra expense by temporarily freezing the salaries of rank-and-file workers. Which of the following strategies might be most effective in avoiding a morale issue among the workers?

1 pts

- keeping the salary level offered to Dunweather confidential
- a profit-sharing plan in which increased revenues are shared with employees
- giving all employees a 5 percent increase before freezing them
- a plan rewarding employees for finding ways to cut costs
- offering a special bonus to the division whose output is strongest in the next year

Luminex Inc. is a manufacturing plant that fabricates light fixtures for a variety of uses. The HR manager there has received a number of complaints about discrepancies in pay. In one particular case, a senior secretary is receiving a salary significantly more than the supervisor responsible for maintenance of the shop machines. The secretary has been with the firm for many years and has received strong performance reviews. The supervisor was more recently hired and has received satisfactory, but not outstanding appraisals; she has also been willing to work overtime when it was important for the plant to make quotas.

Which of the following, if true, would support the complaint that the secretary is overpaid and the supervisor underpaid?

1 pts

- The supervisor worked an average of four hours overtime per week, whereas the secretary was a regular 9-to-5 employee.
- Shop employees consider the supervisor essential to their operation.
- The secretary is being paid at the top of the pay level for her position, whereas the supervisor is paid near the bottom of her level.
- The job description for the shop maintenance supervisor requires more specialized skills and experience than does that for the senior secretary.
- The supervisor is a working mother with three children to support.

- Which of the following, if true, would sustain the stand of a senior manager at the plant, that the salary levels are appropriate?

1 pts

- The secretary has, over time, taken on several administrative tasks as part of her job.
- The secretary's performance reviews have been stronger than the supervisor's.
- There is an abundant supply of qualified secretaries in Luminex's region.
- The secretary is better liked by management than the supervisor, who is seen as abrasive.
- Pay rates for secretaries and supervisors are comparable to service-industry firms in the area.

- Which approach to job evaluation would be most helpful in determining the two jobs' relative value?

1 pts

- ranking
- classification
- compensable factors
- intuition
- grading

Dexterity Business School provides short-term training workshops to a variety of corporations, out of a chain of small centers across the country. The instructors leading the workshops are hired on a contingent basis, and paid a set lump sum for each program. A supervisor at each location is responsible for recruiting instructors and providing them with Dexterity's prepared teaching materials.

At the Canal City location, Andy Ashe has been leading these workshops for several years, and has been asked back several times by local businesses who find his workshops especially popular because of his verbal skills and keen sense of humor. The supervisor, Charlotte Monahan, has found that while her location contracts with several other instructors, businesses often ask for Ashe by name, even agreeing to postpone their contracted sessions until he is available.

Dexterity's policies state that all contingent instructors are paid the same rate per workshop. Nevertheless, Ashe is aware of his popularity, and requests that Monahan start giving him a higher rate for his workshops.

- Which of the following, if true, would most strengthen Ashe's case?

1 pts

- Ashe has led more different training workshops than any other contingent worker.
- Losing Ashe as an employee would mean that companies who prefer his workshops would consider no longer contracting with Dexterity.
- Ashe has worked for Dexterity for fifteen years, longer than any other contract employee.

- A local teacher in the high school, Ashe has repeatedly received awards for his classroom performance.
- The businesses that contract with Dexterity consider its workshops essential to their operation.

• Which of the following, if true would most strengthen Dexterity's case in maintaining Ashe's current contract rate?

1 pts

- Monahan has never directly observed Ashe's performance in presenting a workshop.
- As a contract worker, Ashe does not receive medical or retirement benefits.
- Monahan has few applications from other qualified instructors in the area.
- Dexterity has only recently switched to a single-rate system for contingent workers.
- There is no other agency in Canal City with whom Ashe could contract to provide similar workshops.

Learning Objective: To make an informed ethical decision.

Six Steps For Making Ethical Decisions:

1. Identify the ethical issue or problem;
2. List the facts that have the most bearing on the decision;
3. Identify anyone who might be affected by your decision and how;
4. Explain what each affected person would want you to do about the issue;
5. List three alternative actions and identify the best and worst case scenario for each alternative [who would be harmed by this choice and how, values that would be compromised by this alternative, and any automatic reasons why this alternative should not be selected];
6. Determine a course of action.

For each of the following case studies assume you are employed by a resort with approximately 1000 employees. The resort is located in a large metropolitan area. Read each study and follow the six steps for making ethical decisions.

Case 1:

LaKeisha is an administrative assistant in the Human Resources Department. Her good friend Michael, is applying for a job with the company and she has agreed to serve as a reference for him. Michael approaches her for advice on preparing for the interview. LaKeisha has the actual interview questions asked of all applicants and considers making him a copy of the list so he can adequately prepare.

Case 2:

Emily works in Quality Control. Once a year, her supervisor gives away the refurbished computers to the local elementary school. No specific records are kept of this type of transaction and Emily really needs a computer for her son who is in college. Her supervisor asks her to deliver 12 computer systems to the school.

Case 3:

Marvin is the secretary in the Facilities Management Department. He has just received a new computer and wants to try it out. Though his supervisor has a strict policy about computer use for business purposes only, he wants to learn the e-mail software more thoroughly than his training can provide. One good way to do this, he figures, is to write e-mail messages to his friends and relatives until he gets the knack of it. He is caught up on all his work and only has 30 minutes left to work today. His supervisor left early.

Case 4:

Richard and André are talking in the hallway about the employee benefits program. André, who has had some recent financial trouble, explains to Richard how the benefits program has a loophole that will allow him to receive some financial assistance that he really needs to help pay health care costs for his mother. Kathi, a fellow worker, overhears the conversation. Later, Kathi is approached by her supervisor who says he heard a rumor that some people were taking advantage of the company benefits program.

Case 5:

Jennie was recently hired to work as a receptionist for the front lobby. As receptionist, she is responsible for making copies for the associates. Her son, Jason, comes in and needs some copies for a school project. He brought his own paper and needs 300 copies for his class. If he doesn't bring the copies with him, he will fail the project. The company copier does not require a security key nor do they keep track of copies made by departments.

Case 6:

James works outside ops on the golf course with a co-worker named Dante. Last week Mr. Perez, the manager, turned down Dante's request for a raise. Dante told James, "Perez is going to be sorry he did this." Today James arrives at work and finds broken windows and graffiti on the walls.

Case 7:

You and your two friends, Portia and Melanie, work in the same department. Melanie frequently shows up an hour late for work, looking tired and bedraggled. You and Portia have been covering for her, but your supervisor is getting suspicious.

For the following Cases assume (!) you are a student at Penn State. Read each case and follow the six steps for making ethical decisions.

Case 8:

Your friend, Holly, confides in you that Mr. Leech, the faculty advisor of CMAA, has been her in front of the CMAA officers. Holly is ready to quit the club because she's tired of Mr. Leech calling her stupid and making fun of her.

Case 9:

You usually wait outside the back of Café Laura for one of your friends to pick you up after your evening class. Lately you observed two Penn State full-time employees loading boxes of paper and food supplies into a van and driving off. You've seen this occur three or four times, and you suspect they may be stealing.

Case 10:

Your friend, John, is a computer whiz, and the School Director asked him to help enter some data into the school computer. Now John is bragging to you that he hacked his way into the student grade reports. You don't know if he has changed any grades or not.

Case 11:

Your English class has a research paper assignment due tomorrow, and you haven't started yours yet. While waiting in line, you overhear a student mention a great Internet site where you can download a completed research paper on any topic. You think this might be the solution to your problem.

HRIM 466 Final Exam

Name: _____

Email: _____

Date: _____

1. According to research, most adults base their work-related ethical decisions on _____.
 - A) fears of being punished
 - B) high-level ethical principles
 - C) expectations of co-workers
 - D) upward feedback
2. Which of the following is NOT among the common clues that usually precede a violent incident at work?
 - A) verbal threats
 - B) written threats
 - C) loner tendencies
 - D) erratic behavior
3. All of the following are examples of mandatory bargaining items EXCEPT _____.
 - A) severance pay
 - B) cafeteria prices
 - C) wages
 - D) hours
4. A toxic safety climate is best described as a work environment that _____.
 - A) involves dangerous chemicals
 - B) encourages overtime
 - C) promotes unsafe acts
 - D) hires inexperienced workers

10. Which of the following best describes the purpose of the Wagner Act?

- A) guaranteeing each employee the right to bargain collectively free from interference and coercion
- B) making it illegal for a union to refuse to bargain in good faith with the employer
- C) banning unions from preventing employees from exercising their guaranteed bargaining rights
- D) allowing secret-ballot elections for determining whether a firm's employees would unionize

11. Which of the following would LEAST likely be categorized as a vulnerable worker?

- A) minority workers
- B) female workers
- C) immigrant workers
- D) young workers

12. Ethics are best defined as the _____.

- A) standards used by the organization to decide upon proper conduct
- B) principles of conduct governing an individual or group
- C) basic beliefs about what is right or wrong
- D) values, traditions, and behaviors a company's employees share

13. Which of the following terms refers to fair outcomes?

- A) normative justice
- B) procedural justice
- C) interactional justice
- D) distributive justice

18. The most serious workplace accidents involve _____.

- A) forklift trucks
- B) improper ventilation
- C) wheelbarrows
- D) woodworking machines

19. The term " _____ " describes statutory or constitutional provisions banning the requirement of union membership as a condition of employment.

- A) right to work
- B) free labor
- C) termination at will
- D) open shop

20. How can a firm identify ethical people during the selection process?

- A) conduct background checks
- B) ask closed-ended interview questions
- C) utilize job evaluations
- D) explain promotion policies

21. If passed, the Employee Free Choice Act would _____.

- A) allow the formation of global unions
- B) overturn the Wagner Act
- C) allow mass union e-mails at the workplace
- D) institute a card check system

22. Right-to-work laws inhibit union formation by _____.

- A) leaving the question of union security up to each company
- B) prohibiting any form of union security
- C) making union membership a precondition for employment
- D) outlawing unions in right-to-work states

27. Which law sought to protect union members from possible wrongdoing on the part of their unions?

- A) Taft-Hartley Act
- B) Norris-LaGuardia Act
- C) Landrum-Griffin Act
- D) Wagner Act

28. Which of the following best describes a "yellow-dog" contract?

- A) As a condition of employment, an employee agrees not to join a union.
- B) Union members agree to the agency shop form of union security.
- C) As a condition of employment, an employee agrees not to picket.
- D) Employers agree to abide by the guidelines of the local labor unions.

29. According to the Occupational Safety and Health Act, employers are responsible for _____.

- A) examining workplace conditions for OSHA compliance
- B) scheduling annual consultations with OSHA representatives
- C) replacing old equipment on an annual basis to comply with OSHA
- D) paying monthly dues to OSHA and the Department of Labor

30. The National Labor Relations Board was primarily established for the purpose of _____.

- A) negotiating contracts on behalf of local unions
- B) managing the membership of the AFL-CIO
- C) overseeing the establishment of local unions
- D) investigating unfair labor practice charges

31. Which of the following is NOT a method of minimizing workplace accidents?

- A) reducing unsafe conditions
- B) training employees
- C) reducing unsafe acts
- D) paying high wages

37. As a supervisor, which of the following is the LEAST recommended action to take during an OSHA inspection?

- A) volunteering all hazard and safety information
- B) referring the inspector to your OSHA coordinator
- C) establishing the focus and scope of the planned inspection
- D) accompanying the inspector and taking detailed notes

38. The Taft-Hartley Act amended the Wagner Act in all of the following ways EXCEPT by _____.

- A) limiting the power of the National Labor Review Board
- B) enumerating the rights of employers
- C) enumerating the rights of employees as union members
- D) prohibiting unfair labor practices

39. What is the most likely result of unfair treatment and abusive supervision in the workplace?

- A) reduced commissions
- B) increased whistleblowing
- C) reduced benefits
- D) increased stress

40. _____ means taking advantage of a facility's architectural features in order to minimize security problems.

- A) Natural security
- B) Organizational security
- C) Mechanical security
- D) Architectural security

41. Which of the following is LEAST likely to be considered when OSHA calculates a penalty?

- A) legal representation
- B) size of business
- C) compliance history
- D) gravity of violation

47. Which of the following guaranteed each employee the right to bargain collectively free from interference, restraint, or coercion?

- A) Norris-LaGuardia Act
- B) National Labor Relations Board
- C) Taft-Hartley Act
- D) National Labor Relations Act

48. All of the following are areas in which employees currently have legal rights EXCEPT _____.

- A) verbal abuse
- B) defamation
- C) political and union activity
- D) injury and illness

49. Employees who report unethical corporate behavior are primarily known as _____.

- A) consultants
- B) tipsters
- C) advisers
- D) whistleblowers

50. Identifying security and other corporate risks is known as _____.

- A) performance assessment
- B) supply chain management
- C) worker risk assessment
- D) enterprise risk management

55. Which of the following personality traits is LEAST likely to be associated with people who are considered accident prone?

- A) impulsive
- B) highly fastidious
- C) extroverted
- D) sensation seeking

56. Which of the following bans certain unfair labor practices and provides for majority rule and secret ballot elections?

- A) Norris-LaGuardia Act
- B) Taft-Hartley Act
- C) Wagner Act
- D) Landrum-Griffin Act

57. In 1947, which type of union security was outlawed in interstate commerce?

- A) agency shop
- B) preferential shop
- C) union shop
- D) closed shop

61. According to experts, ethical behavior in the workplace begins with _____.

- A) reward systems
- B) moral awareness
- C) fraudulent deeds
- D) organizational fit

62. Which term refers to using security and surveillance systems cost effectively in order to reduce the need for constant human surveillance?

- A) organizational security
- B) mechanical security
- C) architectural security
- D) natural security

63. Which of the following actions would most likely reduce an employee's chances of becoming a bullying victim?

- A) acting less intelligent
- B) striving to be a team player
- C) working on independent projects
- D) joining social media websites

64. Which of the following is LEAST relevant to an effective employee suggestion system?

- A) focus on key organizational goals
- B) simple submission process
- C) senior management support
- D) monetary reward option

65. Unsafe acts can be reduced through all of the following methods EXCEPT by _____.

- A) identifying employee interests and preferences
- B) listening to employee suggestions
- C) providing workers with comfortable protective equipment
- D) involving workers in planning safety programs

70. TGV Enterprises wants to prevent workplace violence. What is the first step the firm should most likely take?

- A) screening employees
- B) conducting drug tests
- C) checking references
- D) strengthening security

71. Which of the following is NOT considered a component of bullying?

- A) repetition
- B) power imbalance
- C) intent to cause harm
- D) verbal assault

72. What is the most likely reason for more firms providing ethics training to employees?

- A) State laws require businesses to have written codes of conduct.
- B) Universities do not require all graduate students to enroll in ethics courses.
- C) Employees seeking professional certification are tested on ethics.
- D) Federal laws encourage firms to comply with ethics training guidelines.

73. Employees at R&R Carpet and Tile are allowed to take one-hour lunch breaks. Todd's assistant, Suzanne, took a two-hour lunch break today without prior approval. Suzanne has never broken any other rules since being employed by the company. R&R has a nonpunitive discipline policy. Which of the following will most likely be Todd's response to Suzanne's violation?

- A) telling Suzanne that she is dismissed
- B) issuing a formal written reminder to Suzanne
- C) giving Suzanne a one-day leave with pay
- D) issuing an oral reminder to Suzanne

77. Kareem belongs to a temporary work group that analyzes manufacturing productivity. The group meets informally to brainstorm and develop ideas to raise productivity. Kareem most likely belongs to a _____.

- A) high-performance work team
- B) self-directed work team
- C) quality circle
- D) suggestion team

78. Employers found guilty of misconduct frequently receive reduced penalties if they _____.

- A) establish whistleblower hotlines
- B) implement codes of conduct
- C) provide orientation to new hires
- D) agree with union demands.

79. Which of the following is the primary element of properly developed disciplinary procedures?

- A) electronic employee monitoring
- B) anonymous surveys
- C) clearly established rules
- D) severe penalties

80. What percentage of eligible employees in a bargaining unit must sign authorization cards in order for the union to petition the NLRB for an election?

- A) 10
- B) 20
- C) 30
- D) 50

Have A Wonderful Break - Good Luck in all your future endeavors. We hope you learned much during the semester and will go out and shine in any role you choose!

Ruth Ann & Maureen

VIDEO CORRELATION GRID

Fundamentals of Human Resource Management, 3/e by Dessler

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Title of Video	Running Times	Year Produced	Chapter														A	B	DVD Location
			1	2	3	4	5	6	7	8	9	10	11	12	13	14			
Blackbird Guitars: Managing Human Resources in Entrepreneurial Firms	4:20	2010																X	Not on DVD - in mymanagementlab
City of Los Angeles: Safety	9:04	2011															X		Not on DVD - in mymanagementlab
Diversity - CH2M Hill	2:08	2012		X															Not on DVD - in mymanagementlab
Diversity - Rudi's Bakery	3:24	2012		X															Not on DVD - in mymanagementlab
Elm City Market: Designing and Administering Benefits	7:49	2012										X							2013 Management Videos Disk 1
Ethics and Social Responsibility - CH2M Hill	2:46	2012											X						Not on DVD - in mymanagementlab
Ethics and Social Responsibility - Rudi's Bakery	3:47	2012											X						Not on DVD - in mymanagementlab
Gawker Media: Personnel Planning and Recruiting	4:49	2010					X												Not on DVD - in mymanagementlab
Gordon Law Group: Employee Separation	7:12	2012													X				2013 Management Videos Disk 1
Hautelook: Appraising	7:14	2011							X										2013 Management Videos Disk 1
Hautelook: Recruiting	8:08	2011					X												Not on DVD - in mymanagementlab
Herman Miller: Employee Safety	4:15	2010														X			Not on DVD - in mymanagementlab
Human Resource Management - CH2M Hill	2:48	2012	X	X															Not on DVD - in mymanagementlab
Human Resource Management - Rudi's Bakery	3:47	2012	X	X															Not on DVD - in mymanagementlab
Job Satisfaction - CH2M Hill	2:01	2012								X									Not on DVD - in mymanagementlab
Job Satisfaction - Rudi's Bakery	2:51	2012								X									Not on DVD - in mymanagementlab
Joby: Global HR Management	3:57	2010															X		Not on DVD - in mymanagementlab
Joie de Vivre Hospitality: Pay for Performance and Financial Incentives	4:53	2010									X								2013 Introduction to Business Videos Disk
Joie de Vivre Hospitality: Strategic Management	4:29	2010			X														2013 Marketing Videos Disk 1
New Haven Federation of Teachers: Collective Bargaining	6:13	2012												X					2013 Management Videos Disk 2
Patagonia: Employee Testing and Selection	3:58	2010					X												2013 Marketing Videos Disk 2
Patagonia: Ethics and Social Responsibility	3:57	2010											X						2013 Introduction to Business Videos Disk
Patagonia: Human Resource Management	8:05	2010	X																2013 Introduction to Business Videos Disk
Patagonia: Social Responsibility and Managing Ethics	4:01	2010											X						2013 Introduction to Business Videos Disk
Save the Children: Global Human Resource Management	7:24	2012															X		2013 Management Videos Disk 2
Save the Children: Social Networking	5:54	2012				X													2013 Management Videos Disk 2
The California Healthcare Foundation: Performance Management	7:45	2011							X										2013 Management Videos Disk 2
The California Healthcare Foundation: Safety	8:44	2011														X			Not on DVD - in mymanagementlab
UPS: Equal Opportunity Employment	10:09	2011		X															Not on DVD - in mymanagementlab
UPS: Union Management	10:12	2011												X					Not on DVD - in mymanagementlab
Verizon: Career Planning	6:44	2012								X									2013 Management Videos Disk 2
Weather Channel: Appraising	9:41	2011							X										Not on DVD - in mymanagementlab
Weather Channel: Talent Management	9:21	2011			X														Not on DVD - in mymanagementlab
Wilson Learning: Training	12:42	2011							X										Not on DVD - in mymanagementlab
Witness: Training and Developing Employees	4:32	2010							X										Not on DVD - in mymanagementlab
ZipCar: Interviewing Candidates	4:40	2010					X												2013 Marketing Videos Disk 2

HRIM 350

Quantitative Decision Making



SCHOOL OF HOSPITALITY MANAGEMENT

HM 350 (3 credits) *Hospitality Decision Making and Information Systems* Spring 2014

Instructor: Ruth Ann Jackson, MBA, PHD Candidate
225 Mateer Building
Office: 814-863-5437 or Cell: 814-933-9128 (best way to reach me)
email: rjack@psu.edu
Office hours Tuesday 11-2, Thursday 11-4, Friday 2-4, or by Appt.

Instructor Contact

The instructor will respond to e-mails and voicemails/texts as quickly as possible. The best way to contact the Instructor is via e-mail or text to my cell phone.

In all communications to me, please include the following items:

- Your full name AND user id
- Your class (HRIM 350) **and section**, since there are multiple sections of HRIM 350.
- Any previous e-mail correspondence on the topic, if applicable.

Course Pre-Requisites (Requirements)

Successful completion of CMPSC 203, STAT 200, and HRIM 201 (or an acceptable substitute, as deemed by the Undergraduate Professor in Charge) is required prior to taking HRIM 350. There are no exceptions. At the beginning of the semester, the instructor will ensure that each student has met the course requirements.

Course Description

This course provides students with the opportunity to apply analytical techniques, Excel-based models, and simulation, to the management of operations in the hospitality industry. The overriding goal is to provide students with the skills that they need to make effective, data-driven decisions. On completion of this course students should be able to:

1. Identify operational problems in the hospitality industry and recommend analytical methods to solve them.
2. Identify, and collect, the data required to analyze operational problems in hospitality organizations.
3. Apply analytical methods to specific operational problems. This includes demonstrating the ability to use specific technology applications in the analysis of operational problems (e.g., Excel, Microsoft Project and simulation software).
4. Demonstrate the ability to assess the impact of operations strategies in terms of return on investment, customer and employee satisfaction, and human resource management.
5. Communicate the results of analyses of operational problems, recommended solutions to problems, and the rationale for those recommendations, in a clear and concise manner. All communication materials that students develop are expected to meet industry standards.

The main topics addressed in this course include:

- Productivity
- Process strategy
- Project management
- Decision making
- Total quality management
- Process analysis and design
- Capacity planning
- Forecasting for operations management
- Simulation

The content of this course is considered fundamental for anyone in hospitality management and, therefore, is required of all School of Hospitality Management majors. Prior to this course, students are required to have taken a course in computer programming with business applications, as well as a course in elementary statistics. This course is a pre-requisite to financial management and marketing courses in the curriculum. Assessment methods may include field reports, homework assignments, reading assignments, case-based group projects and examinations.

Relation to other HRIM Courses

This course provides a toolkit of qualitative and quantitative information for hospitality decision-making. This course provides a basis for advanced work in finance (HRIM 435), marketing (HRIM 442), and strategic planning (HRIM 490), as well as other courses where hospitality students make decisions using various inputs.

Required Materials

Textbook

Krajewski, L. J., Ritzman, L.P., and Malhotra, M. K. *Operations Management Processes and Supply Chains*. PLEASE NOTE: THIS IS A CUSTOM EDITION SPECIFIC FOR THIS COURSE; THE TITLE ON THE COVER IS "PEARSON CUSTOM BUSINESS RESOURCES". The ISBN is [1269250663](#).

You will need the MyOMLab. Course ID: jackson57539

Calculator

Please bring a calculator to every class in preparation for the day's lesson.

File Storage

Please bring a flash drive, or other storage device, to class in order to save class work for future reference.

Textbook

Please bring your textbook to every class.

Tentative Course Schedule:

WEEK 1 Jan 14-16	<ul style="list-style-type: none"> • Course Introduction/Syllabus/Schedule/Expectations • Intro to MyOMLab • Practice Homework MyOMLab and Academic Integrity Module due Jan. 17 • Chapter 1 –Using Operations to Compete – Productivity Analysis • MyOMLab Homework 1 due Jan. 17
WEEK 2 Jan 21-23	<ul style="list-style-type: none"> • Chapter 2 - Project Management, read pages 35-55 • MyOMLab Homework 2 due Jan. 24
WEEK 3 Jan 28-30	<ul style="list-style-type: none"> • EXAM I – CHAPTERS 1-2. Jan 30. In Pollock Testing Center • Unit 1 Lab due in ANGEL Drop box Jan 31.
WEEK 4 Feb 4-6	<ul style="list-style-type: none"> • Chapter 3 Process Strategy. Read pages 76-95. • MyOMLab Homework 3 due Feb 7.
WEEK 5 Feb 11-13	<ul style="list-style-type: none"> • Chapter 4 Process Analysis Read pages 107-130 • MyOMLab Homework 4 due Feb. 14
WEEK 6 Feb 18-20	<ul style="list-style-type: none"> • Chapter 5 – Statistical Process Control. Read pages 157-174 • MyOMLab Homework 5 due Feb 21
WEEK 7 Feb 25-27	<ul style="list-style-type: none"> • Chapter 6 Capacity Planning. Read pages 190 to 206. • MyOMLab Homework 6 due Feb. 28
WEEK 8 March 4-6	<ul style="list-style-type: none"> • EXAM II – CHAPTERS 4- 6. March 4 in Pollock Testing Center • Lab Unit 2 due in ANGEL Drop Box March 6
March 10-14	SPRING BREAK –NO CLASSES
WEEK 9 March 17-19	<ul style="list-style-type: none"> • Chapter 7 Constraint Management. Read pages 215-234. • MyOMLab Homework 7 due March 21
WEEK 10 March 25-27	<ul style="list-style-type: none"> • Chapter 8 – Forecasting. Read pages 248-274. • MyOMLab Homework 8 due March 28

WEEK 11 April 1-3	<ul style="list-style-type: none"> • EXAM III – CHAPTERS 7-9. April 3 in Pollock Testing Center • Lab Unit 3 due in ANGEL Drop Box April 4
WEEK 12 April 8-10	<ul style="list-style-type: none"> • Ch 9 Decision Making • MyOMLab Homework 9 due April 11
WEEK 13 April 15-17	<ul style="list-style-type: none"> • Chapter 10 Simulation – Handout Readings • Simulation – SIM-QUIK • Homework 10 due April 18
WEEK 14 April 22- May 1	<ul style="list-style-type: none"> • EXAM IV – CHAPTER 10. April 29 in Pollock Testing Center • Lab Unit 4 due in ANGEL Drop Box May 1.
WEEK 15 May 5-9	FINAL EXAM WEEK

Grading Policy

The following assignments will contribute to your final grade.

	<u>ALLOCATION TO TOTAL GRADE:</u>
Exam 1	35 points
Exam 2	40 points
Exam 3	40 points
Exam 4	20 points
My OM lab Homework	20 points
Labs #1-4	40 points
Academic Integrity Modules	<u>5 points</u>
TOTAL	200 points

HRIM 350 Grade Scale

A	188	200	4.0
A-	180	187	3.7
B+	174	179	3.3
B	168	173	3.0
B-	160	167	2.7
C+	151	159	2.3
C	140	700	2.0
D	120	600	1.0
F	0	119	0.0

Note: Students must obtain a grade of "C" or better to successfully complete HRIM 350.

Adjustments to Course Grades

The Instructor reserves the right to lower course grades for any inappropriate and non-professional behavior. This includes, but is NOT limited to:

- More than 4 unexcused absences during the semester
Absence policy: If you miss class for any reason it is your responsibility to catch up on the missed material on your own. The instructor and teaching assistant are available during office hours for questions but will not go through all of the material for you.
- Late arrival to class
- Leaving class early
- Having your cell phone ring during class
- Text messaging or other social media in class.
- Reading the Collegian or other non-HRIM 350 course materials
- Performing non- HRIM 350 functions on the computers, such as playing games, IM, checking e-mail, or surfing the Web.

Course Assignments

Exams: Exams are designed to gauge students' knowledge, comprehension, and progress in learning the course materials. HRIM 350 exams will consist of multiple choice and short-answer questions, which require computation using various concepts and techniques. Each of the exams will cover the specific topics discussed in the course outline. The exams will be on **February 4, March 4, April 8 and April 29 in the Pollock Testing Center**. Students will receive email notification to schedule their exam times. Students are expected to follow the rules and policies of operation for the testing center.

Absence from an exam counts as a zero (0) towards your final grade. If a student has a University-related excuse or religious conflict, please see the instructor in advance of the exam with appropriate documentation. Please note that "having to work" is NOT a valid excuse. In the case of **severe personal illness or accident**, the student *may* qualify to take a make-up exam. *The student must complete the following:*

1. Phone in the medical excuse to the instructor **prior** to the exam. If the instructor is not available via phone, leave a message that includes a return phone number where the student can be reached. An e-mail is not adequate in this situation.
2. Supply a physician's written documentation.

Homework Assignments: These assignments are found and submitted on your MyOMLab. **All Homework assignments are due on Fridays by 11:00PM.** No late assignments will be accepted unless permission is granted in advance by Ms. Jackson in writing. **It is expected that ALL homework will be original and completed independently.**

Unit Labs: Lab assignments should be typed with the appropriate verifiable outputs included. No late assignments will be accepted unless permission is granted by Ms. Jackson in writing. **It is expected that ALL lab assignments will be original and completed independently.**

University Policies

All Penn State Policies regarding ethics and honorable behavior apply to this course. Please refer to <http://www.psu.edu/ufs/policies> for additional details.

Student Conduct: The College of HHD's Academic Integrity Committee states, "All course work by students will be done on an individual basis unless an instructor clearly states that an alternative is acceptable. Any reference material used in the preparation of an assignment, whether quoted or paraphrased, must be explicitly cited. In an examination setting, unless the instructor gives explicit instructions to the contrary, violations of academic integrity shall consist of any attempt to receive assistance from any person or papers or electronic devices, or any attempt to give assistance. Other violations include, but are not limited to, any attempt to gain an unfair advantage in regard to an examination such as tampering with a graded exam or claiming another's work to be one's own." Violations of academic integrity will be handled in accordance with University and College of HHD procedures (see <http://www.psu.edu/dept/oue/aappm/G-9.html>).

A zero tolerance policy is in effect in HRIM 350. Any confirmed case of academic dishonesty earns an "F" in the course, as deemed by the guidelines in policy 49-20.

Academic Integrity: Penn State defines academic integrity as "the pursuit of scholarly activity in an open, honest and responsible manner. Academic integrity is a basic guiding principle for all academic activity at The Pennsylvania State University, and all members of the University community are expected to act in accordance with this principle. Consistent with this expectation, the University's Code of Conduct states that all students should act with personal integrity, respect other students' dignity, rights and property, and help create and maintain an environment in which all can succeed through the fruits of their efforts.

Academic integrity includes a commitment not to engage in or tolerate acts of falsification, misrepresentation or deception. Such acts of dishonesty violate the fundamental ethical principles of the University community and compromise the worth of work completed by others." (Senate Policy 49-20)

Violations of Academic Integrity Policy: Violations of the University's Academic Integrity Policy include the following:

- **Cheating:** using crib sheets of any kind, preprogrammed calculators or cell phones, use of notes during a closed book exam
- **Copying on tests:** looking at other students' exams, copying with a plan with another student, passing notes during exams; exchanging exams with another student
- **Plagiarism:** fabricating information or citations; copying from the Internet or submitting the work of others from journals, articles and papers, or books; submitting other students' papers as one's own. Any material, regardless of length, that is the work of somebody else and who is not given explicit credit by citation, submitted as one's own, is plagiarized material.
- **Tampering with work:** changing one's own or another student's work; tampering with work either as a prank or to sabotage another's work
- **Acts of aiding and abetting:** Facilitating academically dishonest work by others; unauthorized collaboration on work; permitting another to copy from one's exam; writing a paper for another; inappropriately collaborating on home assignments or exams without permission or when prohibited
- **Unauthorized possession:** Buying or stealing of exams or other materials; failing to return exams on file or reviewed in class; selling exams; photocopying exams; any possession of an exam without the instructor's permission
- **Submitting previous work:** Submitting a paper, case study, lab report, or any assignment that had been submitted for credit in a prior class without the knowledge and permission of the instructor
- **Ghosting or misrepresenting:** Taking a quiz or exam or performing a class assignment in place of another student; having another student do the same in one's place; signing in as present in class for another student or having another student do the same in one's place
- **Altering exams:** Changing incorrect answers and seeking favorable grade changes when instructor returns graded exams for in-class review and then collects them; asserting that the instructor made a mistake in grade. Other forms include changing the letter and/or numerical grade on a test.
- **Computer theft:** Electronic theft of computer programs or other software, data, images, art, or text belonging to another.

There is an online tutorial for students at: <http://tit.its.psu.edu/plagiarism/tutorial/>

Special Accommodations: Academically qualified students with disabilities are welcome in this course. If you have a disability-related need for accommodations or modifications in this course, you should contact your instructor and the Office for Disability Services (116 Boucke Building; 863-1807; <http://www.lions.psu.edu/ODS>).



Project Management

Chapter 2

What is a Project?

Project

An interrelated set of activities with a definite starting and ending point, which results in a unique outcome for a specific allocation of resources.



What is Project Management?

Project Management

A systemized, phased approach to defining, organizing, planning, monitoring, and controlling projects.



Defining and Organizing Projects

- **Defining the Scope and Objectives**
- **Selecting the Project Manager and Team**
- **Recognizing Organizational Structure**

Planning Projects

- **Defining the Work Breakdown Structure**
- **Diagramming the network**
- **Developing the schedule**
- **Analyzing cost-time trade-offs**
- **Assessing risks**



Work Breakdown Structure

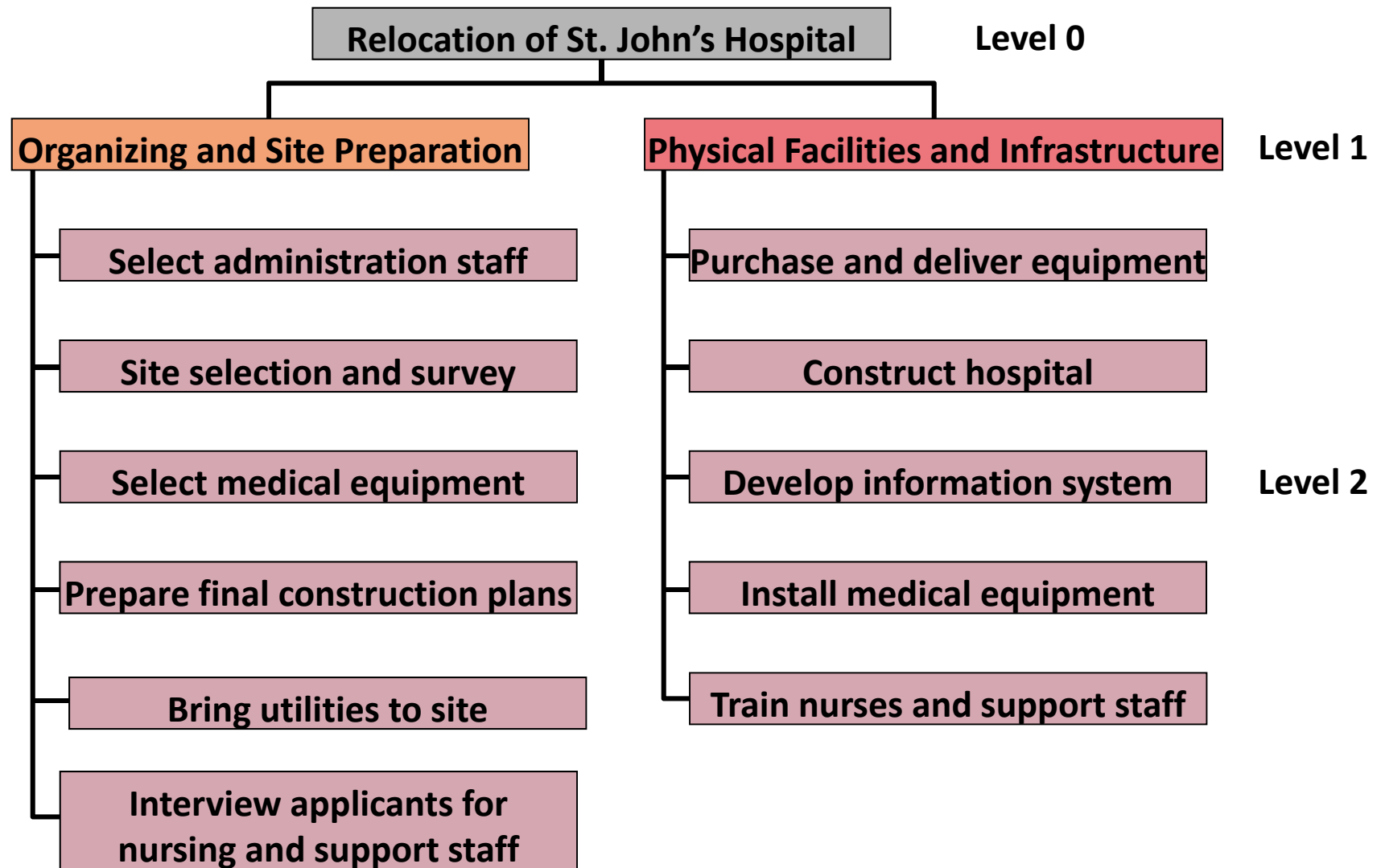
Work Breakdown Structure

A statement of all the work that has to be completed.

Activity

The smallest unit of work effort consuming both time and resources that can be planned and controlled.

Work Breakdown Structure



Diagramming the Network

- **Program Evaluation and Review Technique (PERT)**
- **Critical Path Method (CPM)**
- **Activity-on-Node approach**

Establishing Precedence Relationships

Precedence Relationships
Determining the sequence for undertaking activities.

AON	Activity Relationships
<pre> graph LR S((S)) --> U((U)) T((T)) --> U T --> V((V)) </pre>	<p>U cannot begin until both S and T have been completed; V cannot begin until T has been completed.</p>

AON	Activity Relationships
<pre> graph LR S((S)) --> T((T)) T --> U((U)) </pre>	<p>S precedes T, which precedes U.</p>
<pre> graph LR S((S)) --> U((U)) T((T)) --> U </pre>	<p>S and T must be completed before U can be started.</p>
<pre> graph LR S((S)) --> T((T)) S --> U((U)) T --> V((V)) U --> V </pre>	<p>T and U cannot begin until S has been completed and V cannot begin until both T and U have been completed.</p>

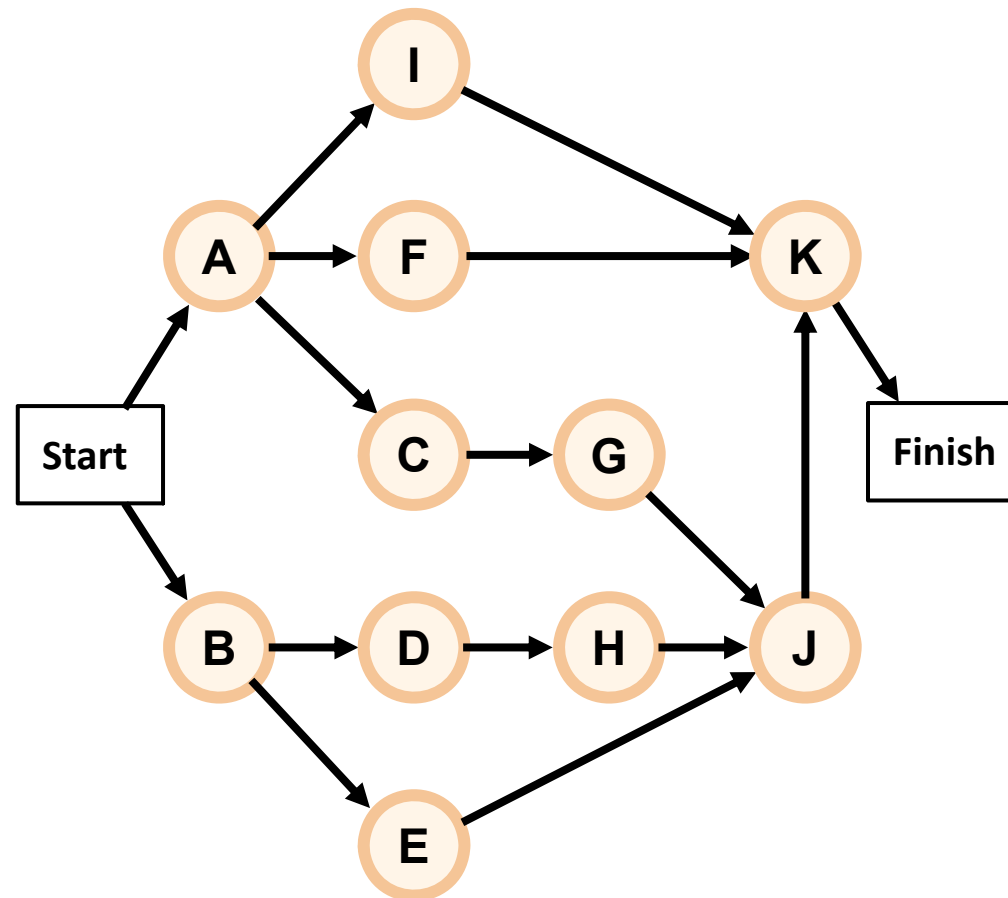
Example 2.1

Activity	Immediate Predecessors	Activity Times (wks)	Responsibility
ST. JOHN'S HOSPITAL PROJECT			Kramer
START		0	
ORGANIZING and SITE PREPARATION			Stewart
A. Select administrative staff	Start	12	Johnson
B. Select site and survey	Start	9	Taylor
C. Select medical equipment	A	10	Adams
D. Prepare final construction plans	B	10	Taylor
E. Bring utilities to site	B	24	Burton
F. Interview applicants for nursing and support staff	A	10	Johnson
PHYSICAL FACILITIES and INFRASTRUCTURE			Walker
G. Purchase and deliver equipment	C	35	Sampson
H. Construct hospital	D	40	Casey
I. Develop information system	A	15	Murphy
J. Install medical equipment	E, G, H	4	Pike
K. Train nurses and support staff	F, I, J	6	Ashton
FINISH	K	0	

Example 2.1

Immediate
Predecessor

A	—
B	—
C	A
D	B
E	B
F	A
G	C
H	D
I	A
J	E,G,H
K	F,I,J



Application 2.1

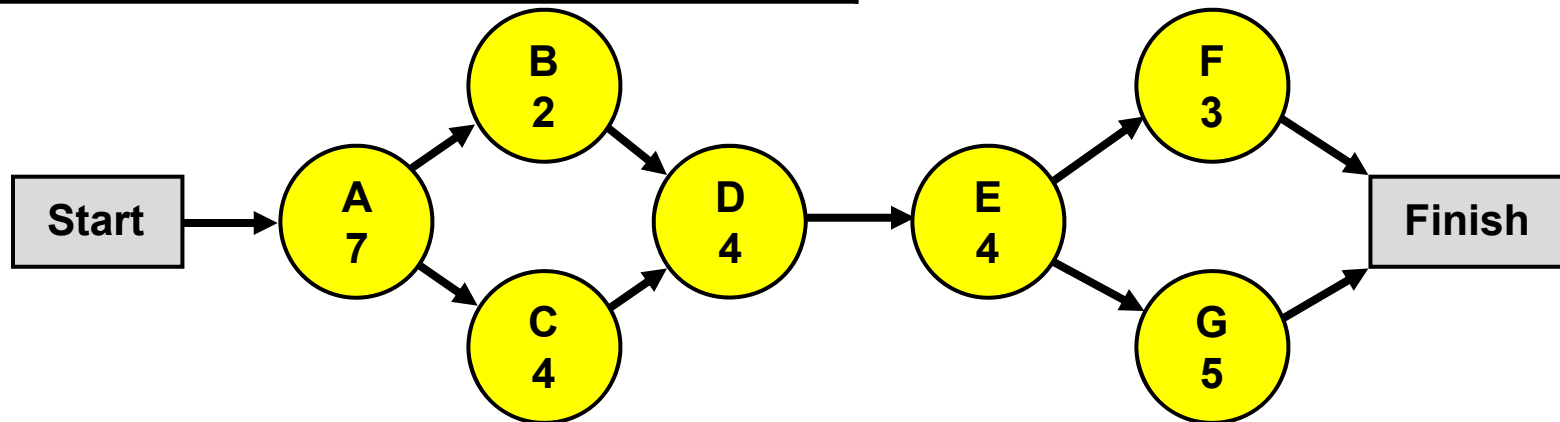
The following information is known about a project

Activity	Activity Time (days)	Immediate Predecessor(s)
A	7	—
B	2	A
C	4	A
D	4	B, C
E	4	D
F	3	E
G	5	E

Draw the network diagram for this project

Application 2.1

Activity	Activity Time (days)	Immediate Predecessor(s)
A	7	—
B	2	A
C	4	A
D	4	B, C
E	4	D
F	3	E
G	5	E



Developing the Schedule

- **Path**
 - **The sequence of activities between a project's start and finish.**

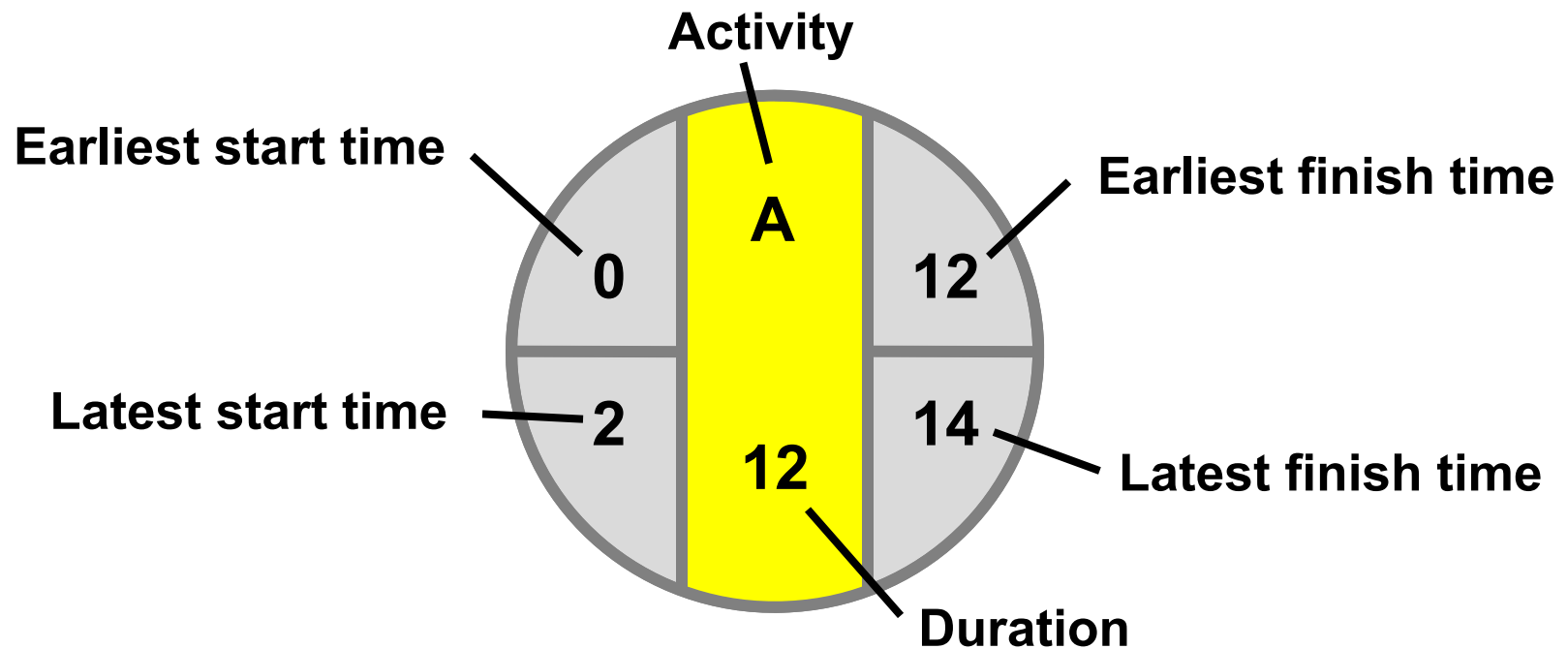
- **Critical Path –**
 - **The sequence of activities between a start and finish that takes the longest time to complete.**

Developing the Schedule

- **Earliest start time (ES)** - the latest earliest finish time of any immediately preceding activities
- **Earliest finish time (EF)** - the earliest start time plus its estimated duration $EF = ES + t$
- **Latest finish time (LF)** – the earliest of the latest start times of any of the immediately following activities.
- **Latest start time (LS)** - the latest finish time minus its estimated duration $LS = LF - t$
- **Activity Slack** - the maximum length of time an activity can be delayed without delaying the entire project

LF-EF or LS-ES

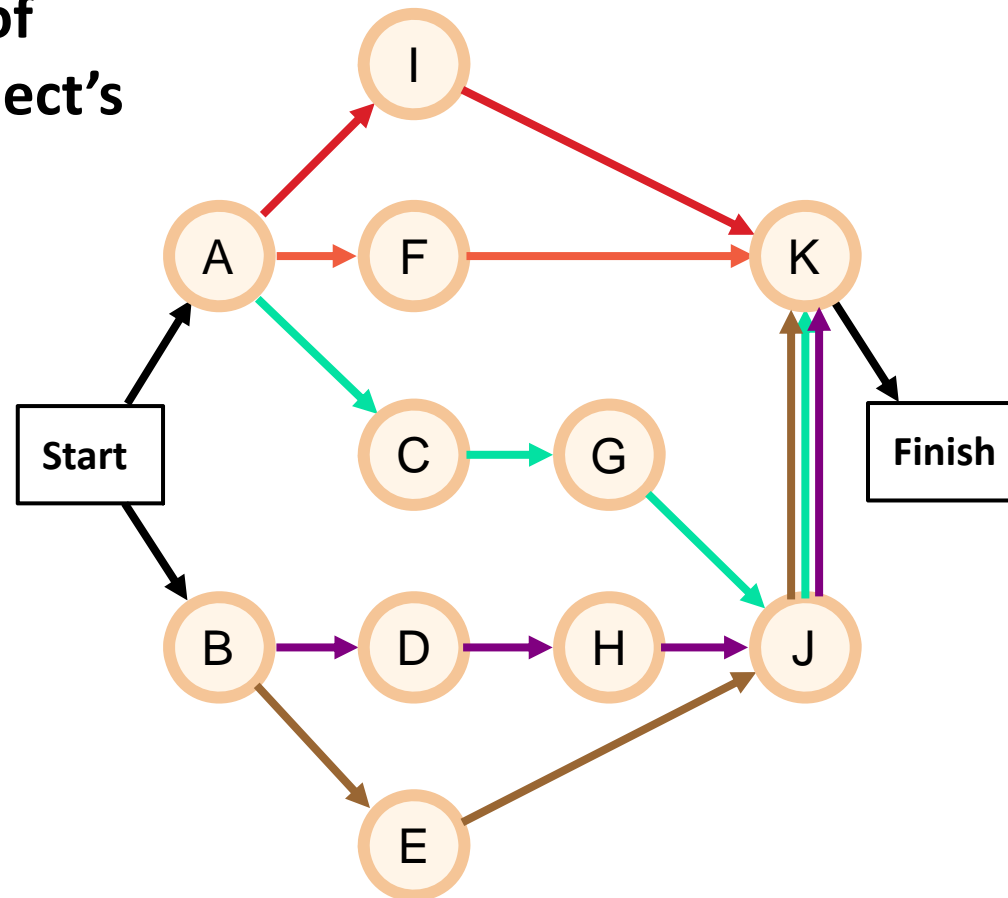
Developing the Schedule



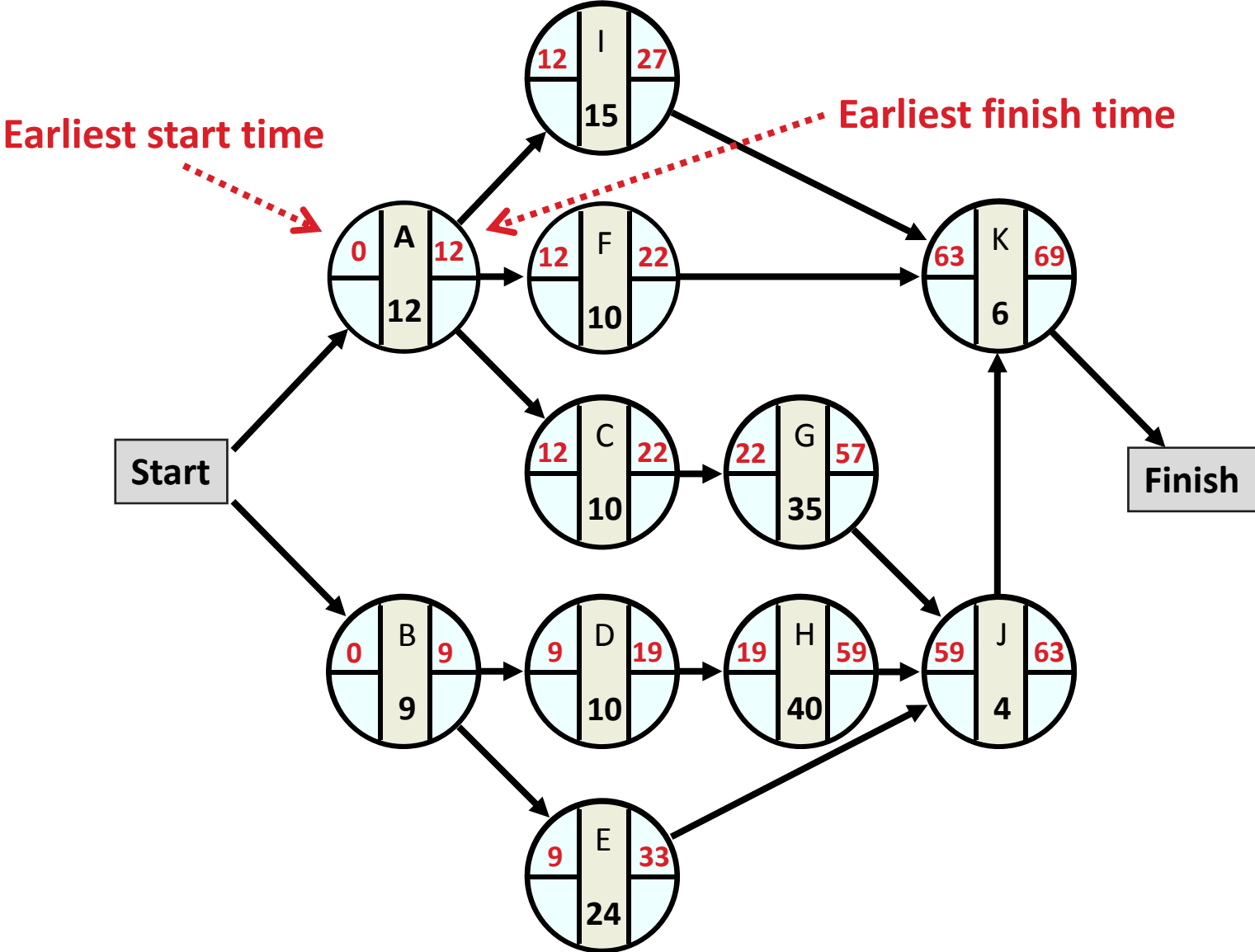
Example 2.2

Paths are the sequence of activities between a project's start and finish.

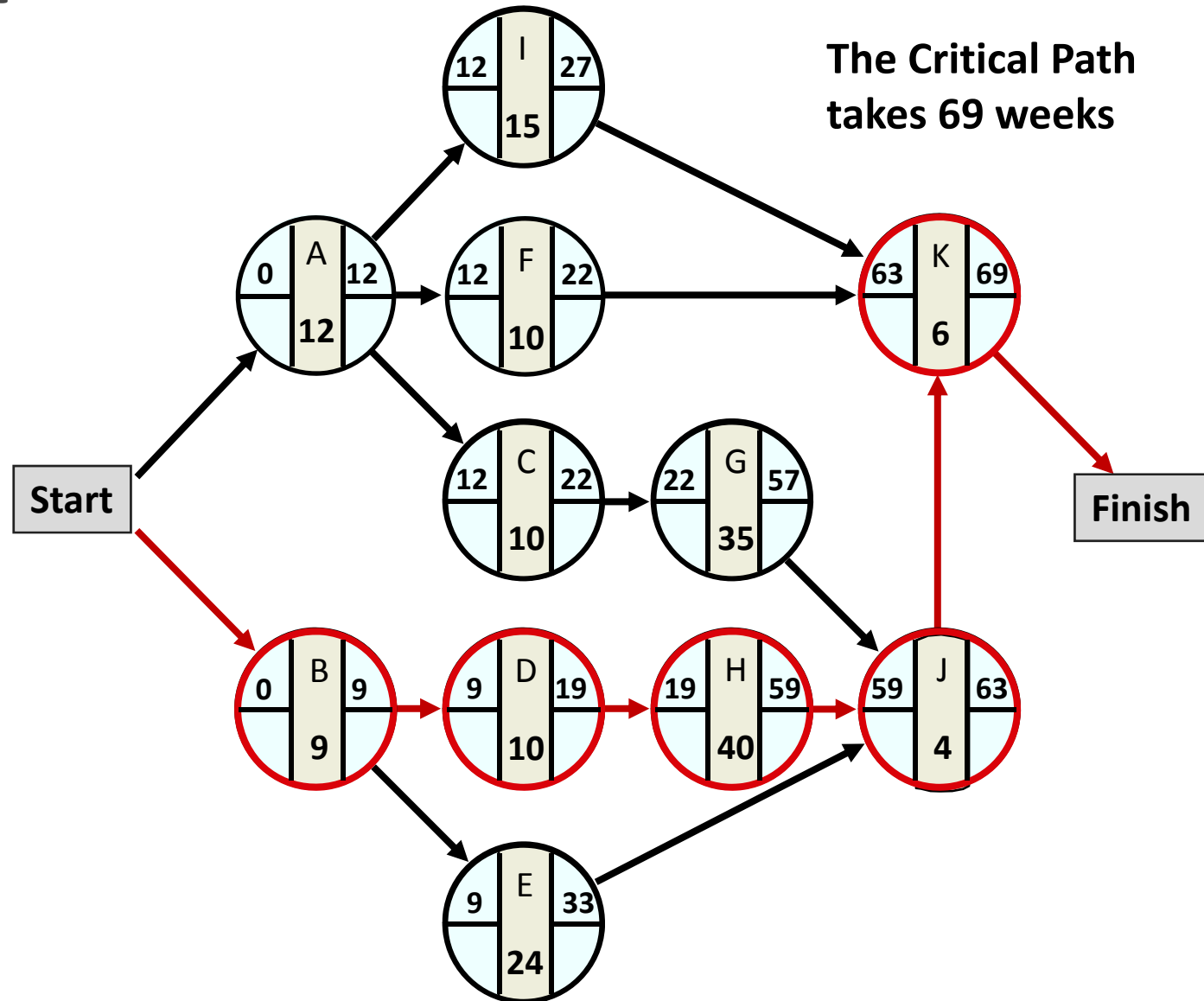
Path	Time (wks)
A-I-K	33
A-F-K	28
A-C-G-J-K	67
B-D-H-J-K	69
B-E-J-K	43



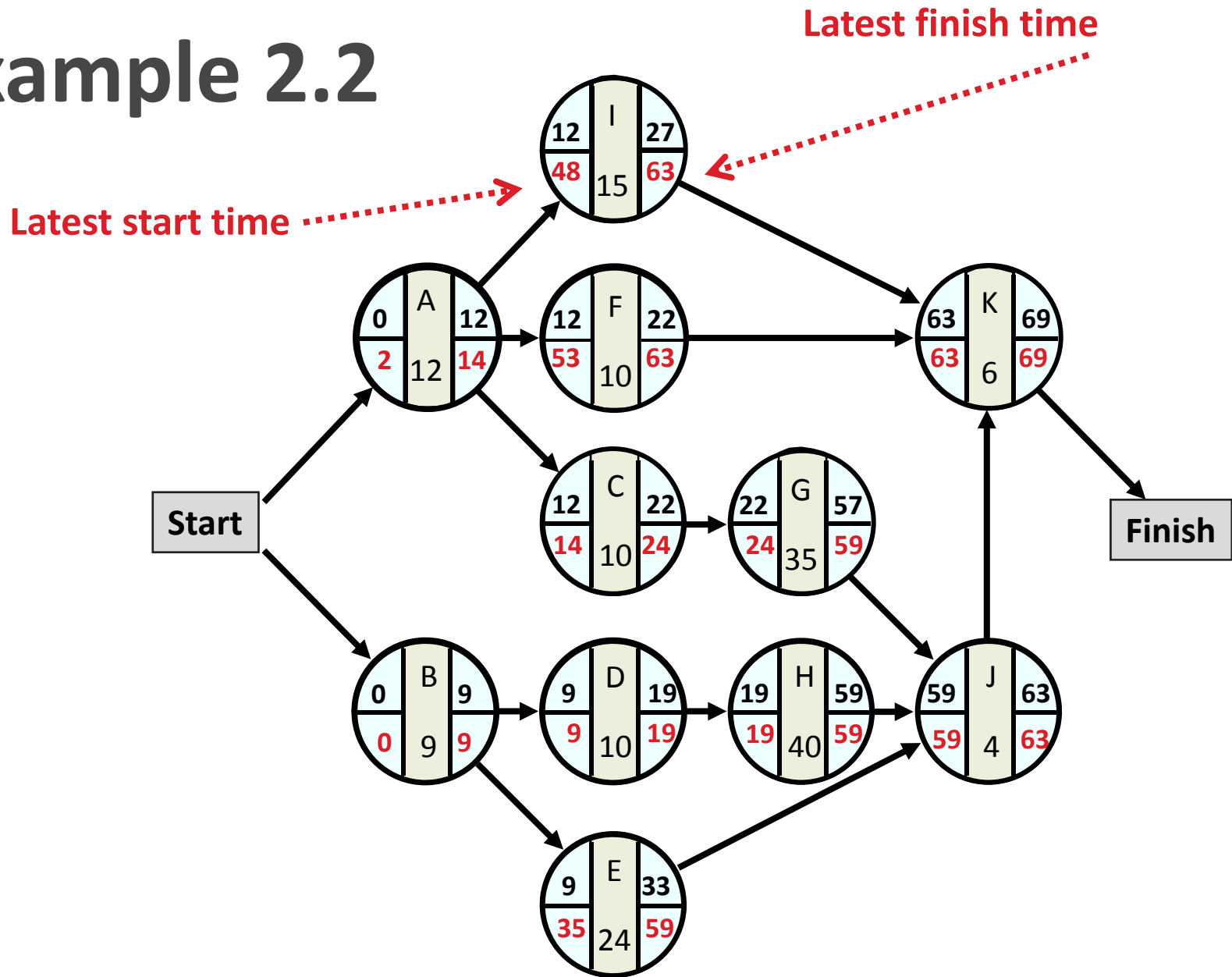
Example 2.2



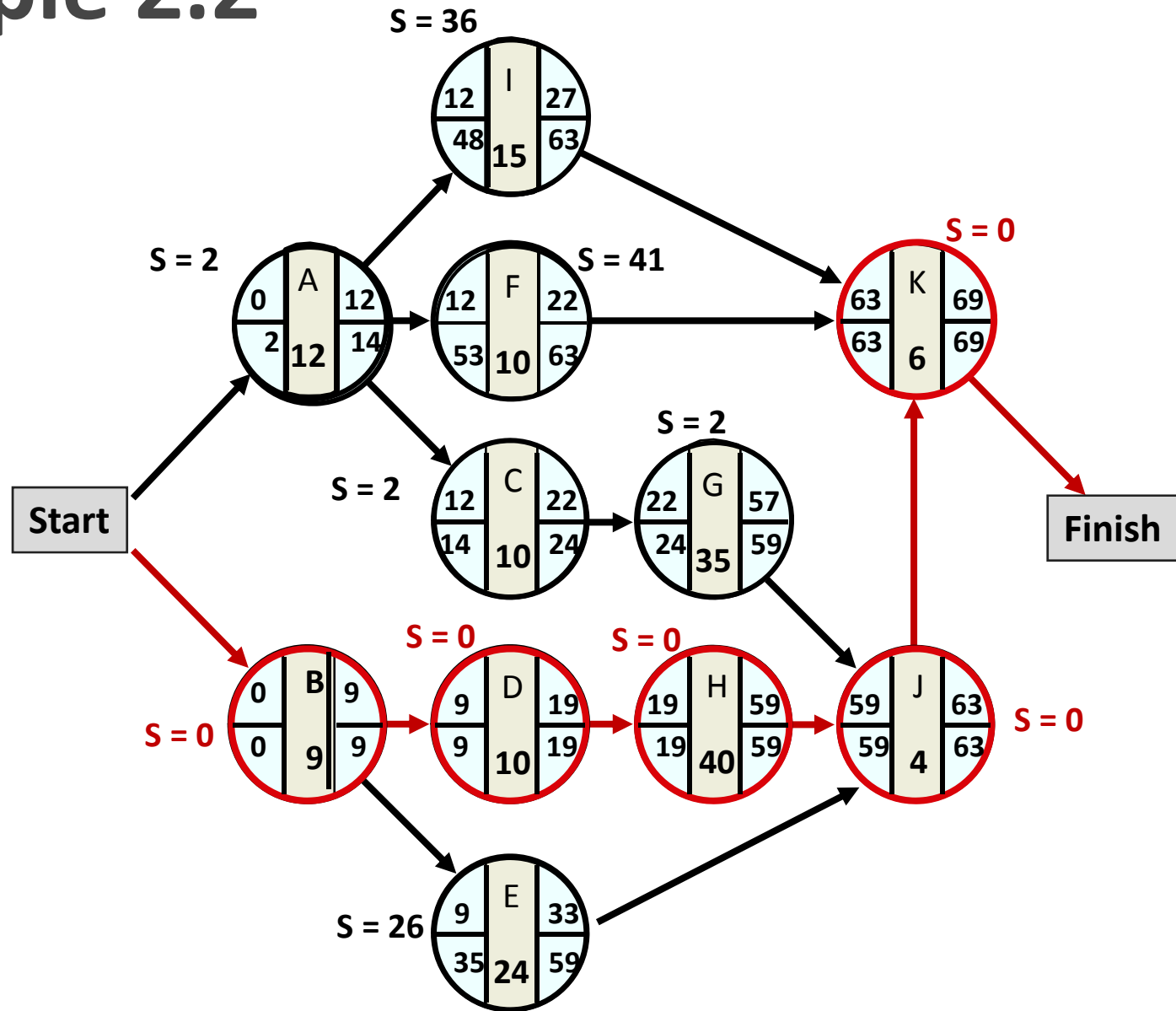
Example 2.2



Example 2.2



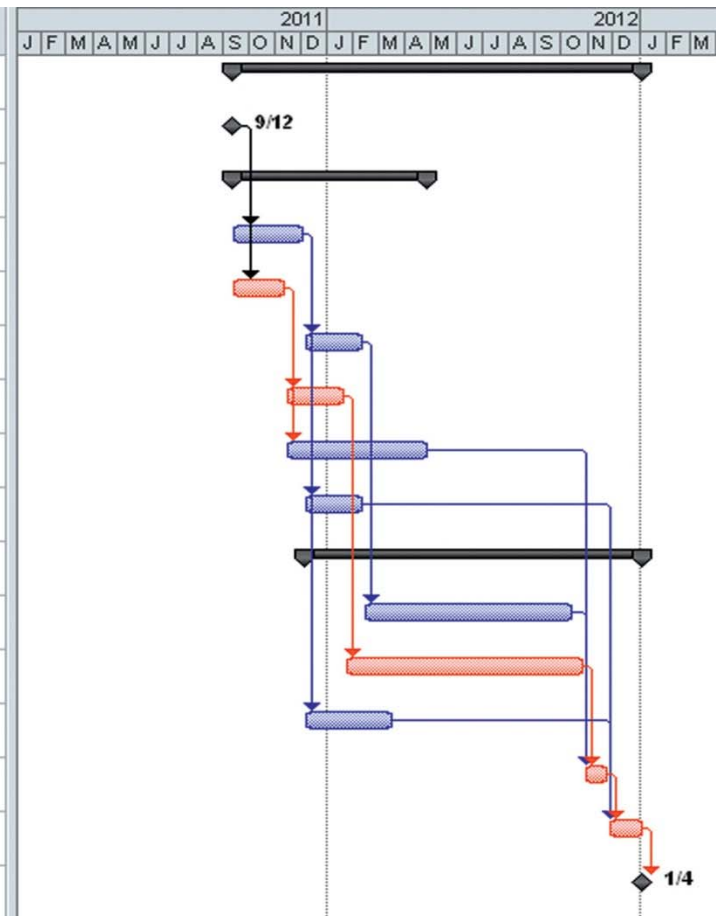
Example 2.2



Developing a Schedule

Gantt chart

Task Name	Duration	Start	Finish	Predecessors
St John's Hospital Project	69 wks	Mon 9/12/11	Fri 1/4/13	
Start	0 wks	Mon 9/12/11	Mon 9/12/11	
Organizing and Site Prep	33 wks	Mon 9/12/11	Fri 4/27/12	
A. Select Staff	12 wks	Mon 9/12/11	Fri 12/2/11	2
B. Select Site	9 wks	Mon 9/12/11	Fri 11/11/11	2
C. Select Equipment	10 wks	Mon 12/5/11	Fri 2/10/12	4
D. Construction Plans	10 wks	Mon 11/14/11	Fri 1/20/12	5
E. Utilities	24 wks	Mon 11/14/11	Fri 4/27/12	5
F. Interviews	10 wks	Mon 12/5/11	Fri 2/10/12	4
Facilities and Infrastructure	57 wks	Mon 12/5/11	Fri 1/4/13	
G. Purchase Equipment	35 wks	Mon 2/13/12	Fri 10/12/12	6
H. Construct Hospital	40 wks	Mon 1/23/12	Fri 10/26/12	7
I. Information System	15 wks	Mon 12/5/11	Fri 3/16/12	4
J. Install Equipment	4 wks	Mon 10/29/12	Fri 11/23/12	8,11,12
K. Train Staff	6 wks	Mon 11/26/12	Fri 1/4/13	9,13,14
Finish	0 wks	Fri 1/4/13	Fri 1/4/13	15



Assessing Risks

- **Statistical Analysis**
 - **Optimistic time (a)**
 - **Most likely time (m)**
 - **Pessimistic time (b)**

Statistical Analysis

- The mean of the beta distribution can be estimated by

$$t_e = \frac{a + 4m + b}{6}$$

- The variance of the beta distribution for each activity is

$$\sigma^2 = \left(\frac{b - a}{6} \right)^2$$

Example 2.4

Suppose that the project team has arrived at the following time estimates for activity B (site selection and survey) of the St. John's Hospital project:

$a = 7$ weeks, $m = 8$ weeks, and $b = 15$ weeks

- a. Calculate the expected time and variance for activity B.
- b. Calculate the expected time and variance for the other activities in the project.

Example 2.4

a. The expected time for activity B is

$$t_e = \frac{7 + 4(8) + 15}{6} = \frac{54}{6} = \mathbf{9 \text{ weeks}}$$

The variance for activity B is

$$\sigma^2 = \left(\frac{15 - 7}{6} \right)^2 = \left(\frac{8}{6} \right)^2 = \mathbf{1.78}$$

Example 2.4

b. The following table shows the expected activity times and variances for this project.

Activity	Time Estimates (week)			Activity Statistics	
	Optimistic (a)	Most Likely (m)	Pessimistic (b)	Expected Time (t_e)	Variance (σ^2)
A	11	12	13	12	0.11
B	7	8	15	9	1.78
C	5	10	15	10	2.78
D	8	9	16	10	1.78
E	14	25	30	24	7.11
F	6	9	18	10	4.00
G	25	36	41	35	7.11
H	35	40	45	40	2.78
I	10	13	28	15	9.00
J	1	2	15	4	5.44
K	5	6	7	6	0.11

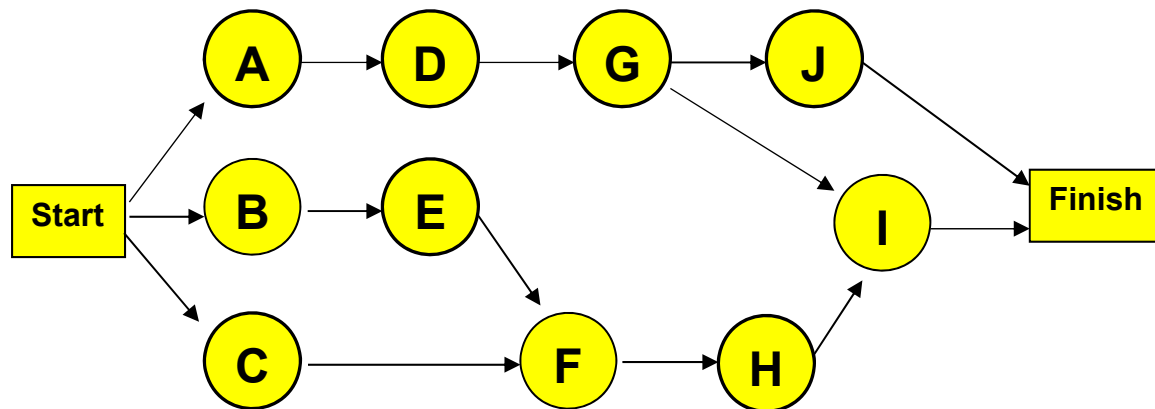
Application 2.4

The director of continuing education at Bluebird University just approved the planning for a sales training seminar. Her administrative assistant identified the various activities that must be done and their relationships to each other:

Activity	Description	Immediate Predecessor(s)
A	Design brochure and course announcement	—
B	Identify prospective teachers	—
C	Prepare detailed outline of course	—
D	Send brochure and student applications	A
E	Send teacher applications	B
F	Select teacher for course	C, E
G	Accept students	D
H	Select text for course	F
I	Order and receive texts	G, H
J	Prepare room for class	G

Application 2.4

The Network Diagram is:



Application 2.4

For the Bluebird University sales training seminar activities, calculate the means and variances for each activity.

Activity	Immediate Predecessor(s)	Optimistic (a)	Most Likely (m)	Pessimistic (b)	Expected Time (t)	Variance (σ)
A	—	5	7	8		
B	—	6	8	12		
C	—	3	4	5		
D	A	11	17	25		
E	B	8	10	12		
F	C, E	3	4	5		
G	D	4	8	9		
H	F	5	7	9		
I	G, H	8	11	17		
J	G	4	4	4		

Application 2.4

For the Bluebird University sales training seminar activities, calculate the means and variances for each activity.

Activity	Immediate Predecessor(s)	Optimistic (a)	Most Likely (m)	Pessimistic (b)	Expected Time (t)	Variance (σ)
A	—	5	7	8	6.83	0.25
B	—	6	8	12	8.33	1.00
C	—	3	4	5	4.00	0.11
D	A	11	17	25	17.33	5.44
E	B	8	10	12	10.00	0.44
F	C, E	3	4	5	4.00	0.11
G	D	4	8	9	7.50	0.69
H	F	5	7	9	7.00	0.44
I	G, H	8	11	17	11.50	2.25
J	G	4	4	4	4.00	0.00

Analyzing Probabilities

- Because the central limit theorem can be applied, the mean of the distribution is the earliest expected finish time for the project

$$T_E = \sum \left(\begin{array}{l} \text{Expected activity times} \\ \text{on the critical path} \end{array} \right) = \text{Mean of normal distribution}$$

- Because the activity times are independent

$$\sigma_p^2 = \sum (\text{Variances of activities on the critical path})$$

- Using the z-transformation

$$z = \frac{T - T_E}{\sigma_p}$$

where

T = due date for the project

Example 2.5

Calculate the probability that St. John's Hospital will become operational in 72 weeks, using (a) the critical path and (b) path A–C–G–J–K.

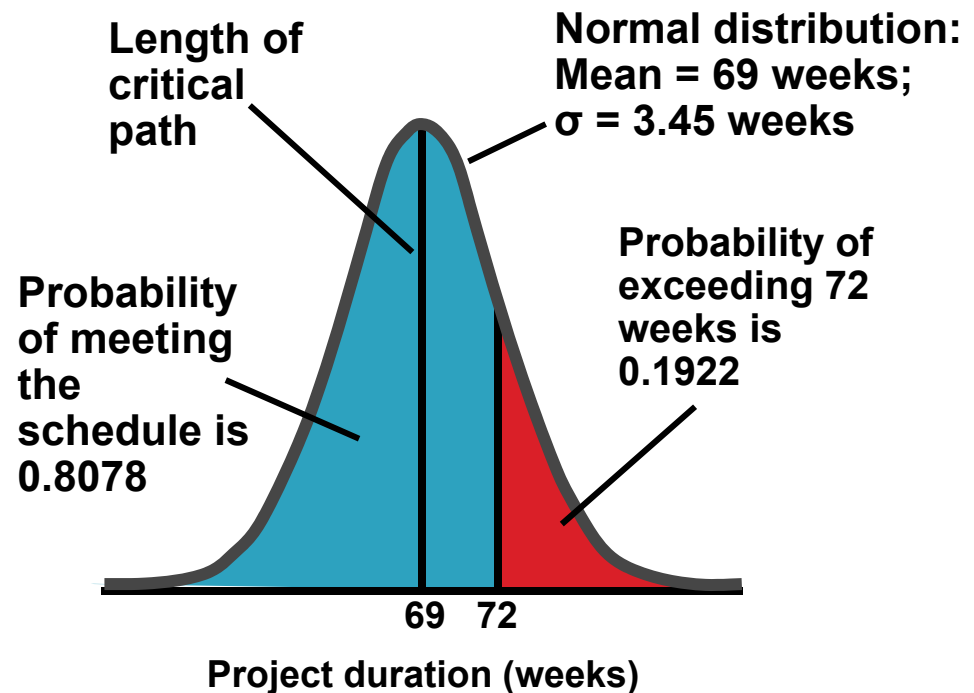
- a. The critical path B–D–H–J–K has a length of 69 weeks. From the table in Example 2.4, we obtain the variance of path B–D–H–J–K: $\sigma^2 = 1.78 + 1.78 + 2.78 + 5.44 + 0.11 = 11.89$ Next, we calculate the z-value:

$$z = \frac{72 - 69}{\sqrt{11.89}} = \frac{3}{3.45} = 0.87$$

Example 2.5

Using the Normal Distribution appendix, we find a value of 0.8078. Thus the probability is about 0.81 the length of path B–D–H–J–K will be no greater than 72 weeks.

Because this is the critical path, there is a 19 percent probability that the project will take longer than 72 weeks.



Example 2.5

- b. The sum of the expected activity times on path A–C–G–J–K is 67 weeks and that $\sigma^2 = 0.11 + 2.78 + 7.11 + 5.44 + 0.11 = 15.55$. The z-value is

$$z = \frac{72 - 67}{\sqrt{15.55}} = \frac{5}{3.94} = 1.27$$

The probability is about 0.90 that the length of path A–C–G–J–K will be no greater than 72 weeks.

Application 2.5

The director of the continuing education at Bluebird University wants to conduct the seminar in 47 working days from now. Using the activity data from Application 2.4, what is the probability that everything will be ready in time?

$$T = 47 \text{ days}$$

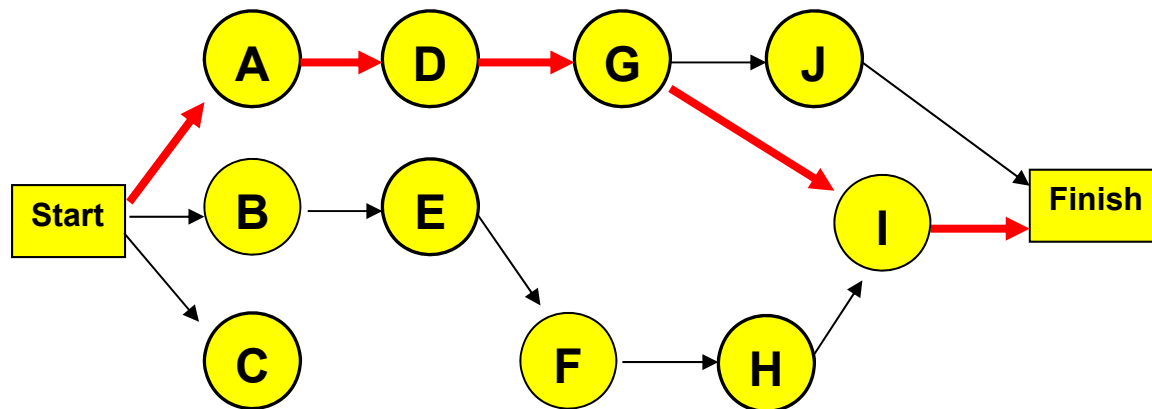
$$T_E \text{ is: } 43.16 \text{ days}$$

And the sum of the variances for the critical activities is: $(0.25 + 5.44 + 0.69 + 2.25) = 8.63$

The critical path is **A-D-G-I**,
and the expected completion time is **43.16 days**.

Application 2.5

The Network Diagram is:



The critical path is A-D-G-I

Application 2.5

$T = 47$ days

$T_E = 43.16$ days

And the sum of the variances for the critical activities is: 8.63

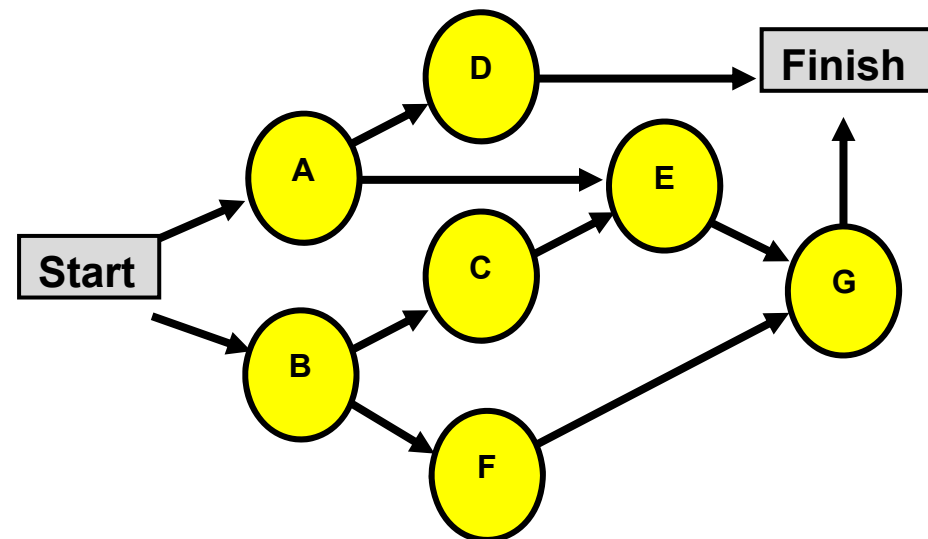
$$z = \frac{T - T_E}{\sqrt{\sigma^2}} = \frac{47 - 43.16}{\sqrt{8.63}} = \frac{3.84}{2.94} = 1.31$$

Assuming the normal distribution applies, we use the table for the normal probability distribution. Given $z = 1.30$, the probability that activities A–D–G–I can be completed in 47 days or less is 0.9049.

Solved Problem 2.2

An advertising project manager developed the network diagram in Figure 2.11 for a new advertising campaign. In addition, the manager gathered the time information for each activity, as shown in the accompanying table.

- Calculate the expected time and variance for each activity.
- Calculate the activity slacks and determine the critical path, using the expected activity times.
- What is the probability of completing the project within 23 weeks?



Solved Problem 2.2

Time Estimate (weeks)				
Activity	Optimistic	Most Likely	Pessimistic	Immediate Predecessor(s)
A	1	4	7	—
B	2	6	7	—
C	3	3	6	B
D	6	13	14	A
E	3	6	12	A, C
F	6	8	16	B
G	1	5	6	E, F

Solved Problem 2.2

- a. The expected time and variance for each activity are calculated as follows

$$t_e = \frac{a + 4m + b}{6}$$

Activity	Expected Time (weeks)	Variance
A	4.0	1.00
B	5.5	0.69
C	3.5	0.25
D	12.0	1.78
E	6.5	2.25
F	9.0	2.78
G	4.5	0.69

Solved Problem 2.2

- b. We need to calculate the earliest start, latest start, earliest finish, and latest finish times for each activity. Starting with activities A and B, we proceed from the beginning of the network and move to the end, calculating the earliest start and finish times.

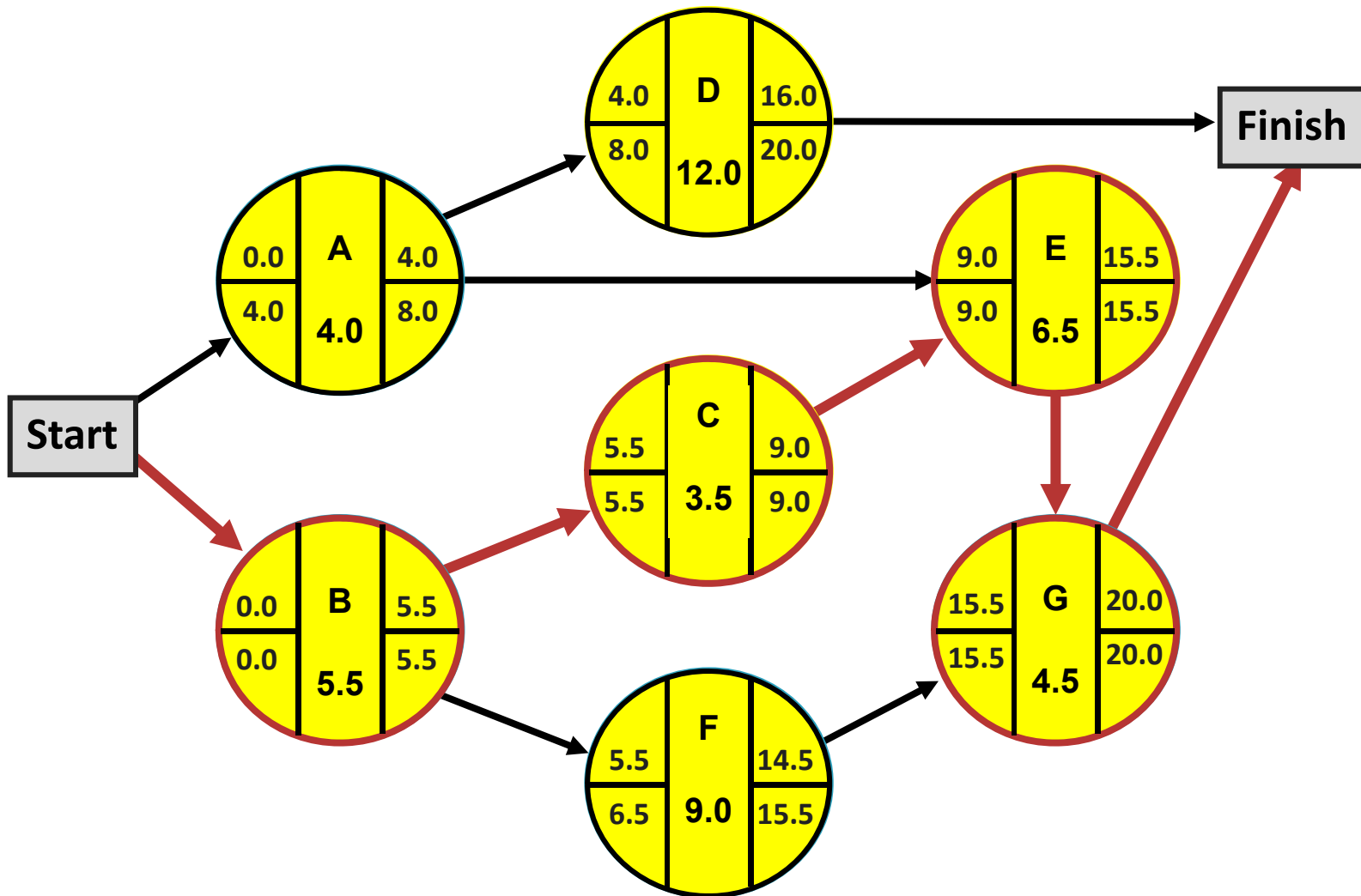
Activity	Earliest Start (weeks)	Earliest Finish (weeks)
A	0	$0 + 4.0 = 4.0$
B	0	$0 + 5.5 = 5.5$
C	5.5	$5.5 + 3.5 = 9.0$
D	4.0	$4.0 + 12.0 = 16.0$
E	9.0	$9.0 + 6.5 = 15.5$
F	5.5	$5.5 + 9.0 = 14.5$
G	15.5	$15.5 + 4.5 = 20.0$

Solved Problem 2.2

Based on expected times, the earliest finish date for the project is week 20, when activity G has been completed. Using that as a target date, we can work backward through the network, calculating the latest start and finish times

Activity	Latest Start (weeks)	Latest Finish (weeks)
G	15.5	20.0
F	6.5	15.5
E	9.0	15.5
D	8.0	20.0
C	5.5	9.0
B	0.0	5.5
A	4.0	8.0

Solved Problem 2.2



Solved Problem 2.2

Activity	Start (weeks)		Finish (weeks)		Slack	Critical Path
	Earliest	Latest	Earliest	Latest		
A	0	4.0	4.0	8.0	4.0	No
B	0	0.0	5.5	5.5	0.0	Yes
C	5.5	5.5	9.0	9.0	0.0	Yes
D	4.0	8.0	16.0	20.0	4.0	No
E	9.0	9.0	15.5	15.5	0.0	Yes
F	5.5	6.5	14.5	15.5	1.0	No
G	15.5	15.5	20.0	20.0	0.0	Yes

Path	Total Expected Time (weeks)	Total Variance
A-D	$4 + 12 = 16$	$1.00 + 1.78 = 2.78$
A-E-G	$4 + 6.5 + 4.5 = 15$	$1.00 + 2.25 + 0.69 = 3.94$
B-C-E-G	$5.5 + 3.5 + 6.5 + 4.5 = 20$	$0.69 + 0.25 + 2.25 + 0.69 = 3.88$
B-F-G	$5.5 + 9 + 4.5 = 19$	$0.69 + 2.78 + 0.69 = 4.16$

Solved Problem 2.2

The critical path is B–C–E–G with a total expected time of 20 weeks. However, path B–F–G is 19 weeks and has a large variance.

c. We first calculate the z-value:

$$z = \frac{T - T_E}{\sqrt{\sigma^2}} = \frac{23 - 20}{\sqrt{3.88}} = 1.52$$

Using the Normal Distribution Appendix, we find the probability of completing the project in 23 weeks or less is 0.9357. Because the length of path B–F–G is close to that of the critical path and has a large variance, it might well become the critical path during the project



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Question 14.9	Sales
Month	
1	910,000
2	785,000
3	800,000
4	810,000
5	810,000
6	750,000
7	720,000
8	705,000
9	675,000
10	670,000
11	
12	
Slope	-22787.87179
Intercept	889333.3333
Forecast for November	638666.6667
Forecast for December	615878.7879
r	0.925277979
s	0.856139333

Question 14.7			
1	45	0	
2	46	0	
3	54	0	
4	55	0	
5	61	0	
Slope	1.9		
Intercept (b)	40.9		

Question 14.16				exponential smoothing = 0.24			
Week	Demand	Forecast	Absolute Value	Week	Demand	Forecast	Absolute Value
1	142	-	-	1	142	-	-
2	141	142	-1	2	141	141	0
3	148	141	7	3	148	148	0
4	151	148.7	2.33333	4	151	148.7976	2.20236
5	146	146.67	0.666667	5	146	146.7978	2.797824
6	133	146	13	6	133	143.8737	10.87365
7	154	133	21	7	154	124.736	29.26364
8	141	154	-13	8	141	176.2406	35.24062
9	139	141	-2	9	139	114.2174	24.78257
10	147	139	8	10	147	157.835	10.83498
11	130	147	-17	11	130	138.7634	8.765413
12	129	130	-1	12	129	123.3383	5.661714
13	123	129	-6	13	123	130.3029	10.3029
14	136	123	13	14	136	115.1698	20.83021
15	137	136	1	15	137	153.821	14.83096
16	129	137	-8	16	129	125.7285	3.271527
17	126	129	-3	17	126	131.4884	5.48836
18	132	126	6	18	132	123.8304	10.16963
19	123	132	-9	19	123	139.7289	16.72892
20	125	123	2	20	125	130.286	14.71398
21	120	125	-5	21	120	136.1826	16.18263
22	111	120	-9	22	111	107.7012	3.298795
23	120	111	9	23	120	113.9211	6.492916
24	118	120	-2	24	118	124.9346	6.934616
25	126	118	8	25	126	112.7297	13.27031
26	124	126	-2	26	124	139.0854	12.08541
	CVE		-49.3333		CVE		-19.3084
	MAD	7.41			MAD	13.86	
	MSE	81.77			MSE	234.12	
	MAP	5.61%			MAP	9.68%	

You have just been hired as a consultant for the Process Quality Hotel Inn. The Director of Housekeeping has had to leave the property unexpectedly for some period of time and you have been brought to ensure that her housekeeping staff is performing within acceptable limits of operating standards. The housekeeping staff for the Process Quality Hotel Inn consists of 5 different housekeepers and in order to ensure validity behind the results of your findings you have been asked by management to monitor the time it take each one to clean

Housekeeper 1:
27,28,30,27,26,29,25,26,26,28,30,28,27,26,26,25,28,29,30,29,29,29,29,27
Housekeeper 2:
31,29,29,31,27,26,34,29,30,29,24,25,31,28,25,28,31,27,35,30,25,25,22,33,27
Housekeeper 3:
31,35,33,30,30,31,33,29,31,28,29,27,31,27,36,25,37,25,29,32,33,36,30,34,31
Housekeeper 4:
36,33,33,44,41,42,48,36,36,31,48,48,47,34,34,36,39,44,31,30,32,34,44,43,46
Housekeeper 5:
20,20,21,22,26,23,21,22,24,24,29,22,30,23,29,28,21,25,21,21,27,21,20,26,26 (All

Assignment: Create a process control model in this Excel document including an R-Chart and X-Chart graphs that show the results from your model using the data provided in this sheet. Type your answer at the bottom left corner of this sheet regarding if your process is in control or not. All your work must be done in Sheet2 (Use instruction video for

Size of Sample (n)	Factor for UCL and LCL for \bar{x} -Chart (A_2)	Factor for LCL for R -Chart (D_3)	Factor for UCL for R -Chart (D_4)
2	1.880	0	3.267
3	1.023	0	2.575
4	0.729	0	2.282
5	0.577	0	2.115
6	0.483	0	2.004
7	0.419	0.076	1.924
8	0.373	0.136	1.864
9	0.337	0.184	1.816
10	0.308	0.223	1.777

Is the process in control?	Yes/No?
----------------------------	---------

Unit 1 Lab Assignment (10 points)

Gantt Chart

Gantt Charts are great for breaking down daunting projects, papers, and exams. Proactive students take a big assignment and chunk it down to manageable steps ahead of time. This spreadsheet will help you take all the major assignments for a semester and plan them out proactively. 1) Read about Gantt charts at http://en.wikipedia.org/wiki/Gantt_chart 2) Add the Assignment Gantt Chart (from the template gallery) to your Google Docs account. 3) Collect up your all your course syllabi for the semester and list all your major projects, papers, and exams in the overview section 4) For each major project, paper, or exam break down and schedule the subtasks.

Copy of Assignment Planning Gantt Chart -

https://docs.google.com/spreadsheet/ccc?key=0A15_BoG9vA1rdHBuYkNRWGdTV1VldHFwOGVzM2NZR3c&usp=sharing

Unit 1 Lab Assignment (10 points)

Gantt Chart

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Copy of Assignment Planning Gantt Chart -

https://docs.google.com/spreadsheet/ccc?key=0A15_BoG9vAlrdHBuYkNRWGdTV1VldHFwOGVzM2NZR3c&usp=sharing

Pareto Analysis in Excel

Purpose of the Assignment

1. To complete a Pareto analysis in Excel.
2. To sort data in Excel.
3. To set up cumulative sums in Excel.
4. To develop a professionally formatted chart with a secondary axis.

Creating a Data Table

Pareto analysis is used to analyze the types of complaints or defects related to a process. We are given (1) types of complaints or defects, and (2) the number of complaints or defects of each type. Create a data table like the one below:

	A	B	C	D	E
1	Pareto Analysis for Pizza Restaurant				
2					
3	Complaint	Number of Complaints	% of Complaints	Cumulative % of Complaints	
4	Long wait to take order	40			
5	Long wait to get pizza	60			
6	Restaurant too cold	6			
7	Staff not courteous	8			
8	Poor service from waitress	24			
9	Not enough cheese on pizza	30			
10	Tough pizza crust	10			
11	Pizza crust too thick	20			
12	Pepperoni not available	2			
13	Total				
14					

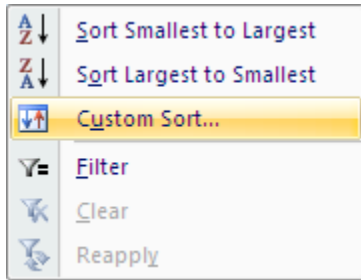
Sorting Data in Office 2007

We want to sort the complaints, from highest to lowest number of complaints.

1. Highlight cells A4:B12, which contain the complaint types and the number of complaints.

	A	B	C	D	E
1	Pareto Analysis for Pizza Restaurant				
2					
3	Complaint	Number of Complaints	% of Complaints	Cumulative % of Complaints	
4	Long wait to get pizza	60			
5	Long wait to take order	40			
6	Not enough cheese on pizza	30			
7	Poor service from waitress	24			
8	Pizza crust too thick	20			
9	Tough pizza crust	10			
10	Staff not courteous	8			
11	Restaurant too cold	6			
12	Pepperoni not available	2			
13	Total				
14					

2. Click the **Sort & Filter** editing tool in the upper right hand corner in the tool bar. On the dropdown menu, select the **Custom Sort** option.



3. A dialog box will appear.
 - In the **Sort by** dropdown menu, select **Number of Complaints**.
 - In the **Sort on** dropdown menu, select **Values**.
 - In the **Order** dropdown menu, select **Largest to Smallest**.



4. Click OK. The dialog box should disappear, and the data should be sorted from largest to smallest number of complaints.

	A	B	C	D	E
1	Pareto Analysis for Pizza Restaurant				
2					
3	Complaint	Number of Complaints	% of Complaints	Cumulative % of Complaints	
4	Long wait to get pizza	60			
5	Long wait to take order	40			
6	Not enough cheese on pizza	30			
7	Poor service from waitress	24			
8	Pizza crust too thick	20			
9	Tough pizza crust	10			
10	Staff not courteous	8			
11	Restaurant too cold	6			
12	Pepperoni not available	2			
13	Total				
14					

Calculations

1. In cell B13, compute the **Total Number of Complaints** in cells B4:B12.
2. Compute the **percentage of complaints** of each type. The formula for cell C4 is =B4/\$B\$13. Copy that formula to cells C5:C12.
3. As a check, compute the **total percentage for all complaints** in cell C13. It should be 100%.
4. Highlight the cells in Column C. On the ribbon, click **Format** and select **Format cells**. Highlight **Percentage** and change the number of decimal places to 1. Click **OK**.
5. For the first type of complaint, the **cumulative percentage** equals the **percentage**. The formula for cell D4 is =C4.
6. For the second and subsequent types of complaints, the easiest way to compute **cumulative percentage** is (cumulative % for preceding type) + (% for this type). The formula for cell D5 is = D4 + C5 . Copy this formula to cells C6:C12
7. If the cells in column D are not formatted as percentages, change the number formats to **Percentage** as described above.

Your final spreadsheet should be similar to the one below:

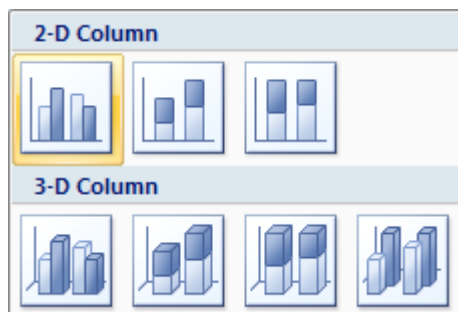
	A	B	C	D	E
1	Pareto Analysis for Pizza Restaurant				
2					
3	Complaint	Number of Complaints	% of Complaints	Cumulative % of Complaints	
4	Long wait to get pizza	60	30.0%	30.0%	
5	Long wait to take order	40	20.0%	50.0%	
6	Not enough cheese on pizza	30	15.0%	65.0%	
7	Poor service from waitress	24	12.0%	77.0%	
8	Pizza crust too thick	20	10.0%	87.0%	
9	Tough pizza crust	10	5.0%	92.0%	
10	Staff not courteous	8	4.0%	96.0%	
11	Restaurant too cold	6	3.0%	99.0%	
12	Pepperoni not available	2	1.0%	100.0%	
13	Total	200	100.0%		
14					

Making a Chart with Number of Complaints and Cumulative Percentage of Complaints

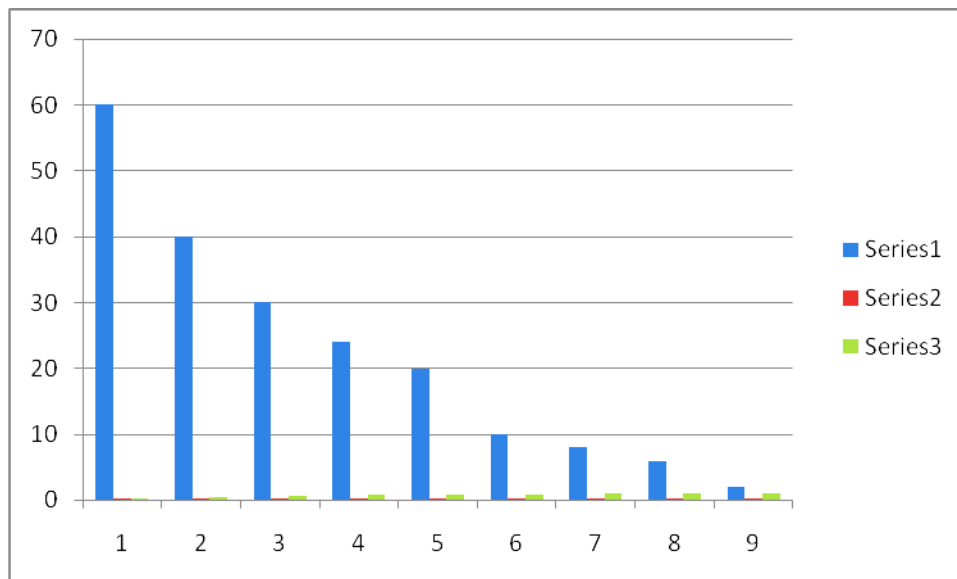
- We will plot the number of complaints as a bar graph on the primary (left-hand) axis.
 - We will plot the cumulative percentage of complaints as a line graph on the secondary (right-hand axis).
1. The complaint labels in column A are too long to use as data labels in a chart. Click on a cell in column B of the data table. Then right-click. Select **Insert** from the menu, and then click the radio button next to **Entire Column**.
 2. In the new column B, type brief abbreviations (usually 3-4 letters) for each type of complaint. On the **Home** tab of the ribbon, click **Format** and then **AutoFit Column Width**. The new data table is shown below.

	A	B	C	D	E	F
3	Complaint		Number of Complaints	% of Complaints	Cumulative % of Complaints	
4	Long wait to get pizza	LWP	60	30.0%	30.0%	
5	Long wait to take order	LWO	40	20.0%	50.0%	
6	Not enough cheese on pizza	NEC	30	15.0%	65.0%	
7	Poor service from waitress	PSV	24	12.0%	77.0%	
8	Pizza crust too thick	CTT	20	10.0%	87.0%	
9	Tough pizza crust	TUF	10	5.0%	92.0%	
10	Staff not courteous	SCN	8	4.0%	96.0%	
11	Restaurant too cold	COL	6	3.0%	99.0%	
12	Pepperoni not available	PNC	2	1.0%	100.0%	
13	Total		200	100.0%		
14						

- Highlight the cells containing the **number of complaints, percentage of complaints, and cumulative percentage of complaints**. In the spreadsheet above, you would highlight cells C4:E12.
- Click the **Insert** tab on the ribbon. Then click **Column**, and click on the first (leftmost) 2D chart, as highlighted in the portion of the Column menu shown below.

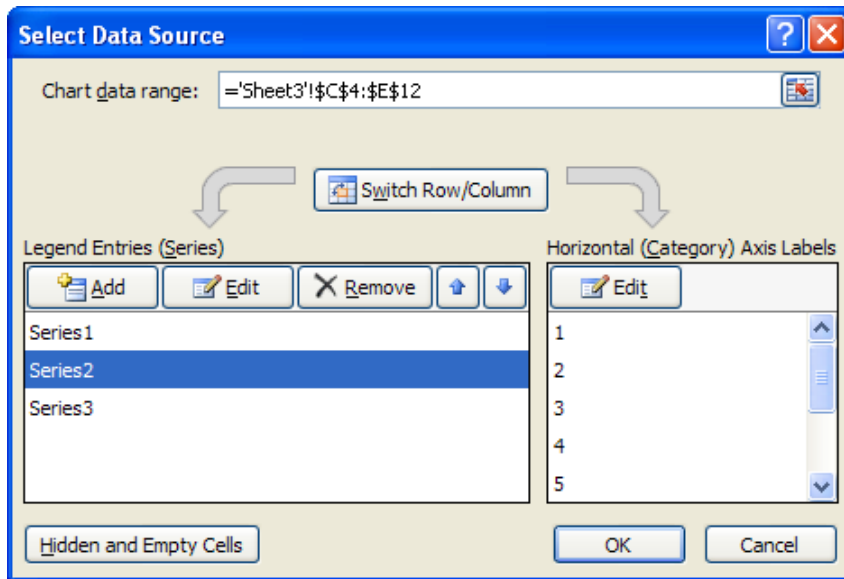


- A chart should appear. Drag the chart to the place on the spreadsheet where you want it.

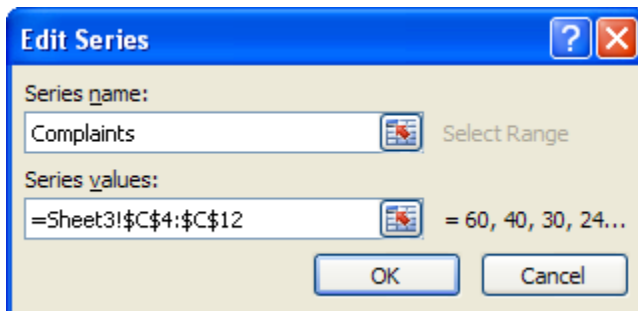


- We need to delete Series 2 (percentages) from the chart. Click a blank space on the chart. Then right-click, and click **Select Data**. The **Select Data Source** dialog box will appear, as shown on the

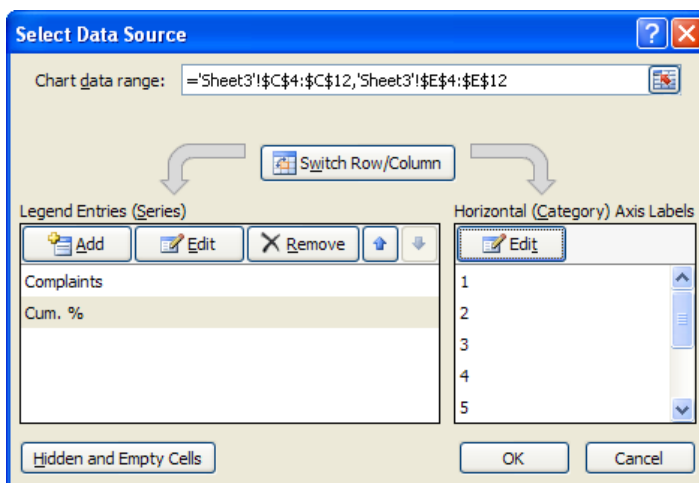
next page. Highlight **Series 2** and then click **Remove**. Series 2 will disappear from the dialog box and the chart.



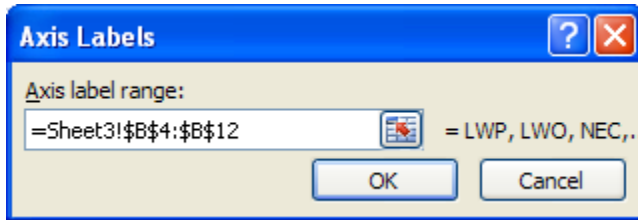
7. We need data labels for Series 1 and Series 3. In the dialog box, highlight **Series 1** and then click **Edit**. The **Edit Series** dialog box will appear. Type the desired name for Series 1 into the box and click **OK**.



8. The **Select Data Source** dialog box will reappear. Change the name for Series 3, as described above

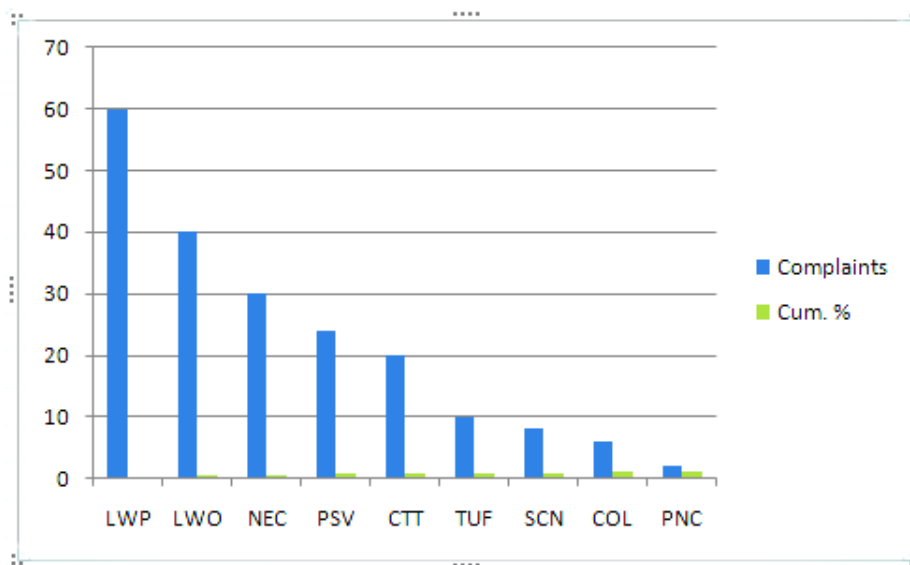


- We will use the right-hand side of the **Select Data Source** dialog box to change the data labels on the horizontal axis of the chart. Under **Horizontal (Category) Axis Labels**, click **Edit**. When the **Axis Labels** dialog box appears, highlight the cells that contain the axis labels and click **OK**.

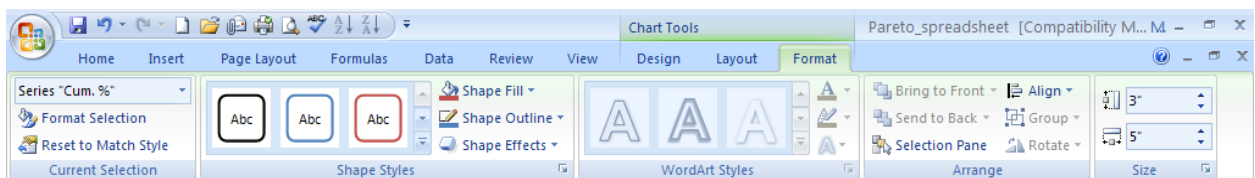


Note: This chart appears in Sheet 3 of a sample spreadsheet. In most cases, there would be only one worksheet in a workbook, and the sheet number would not appear.

- When the **Select Data Source** dialog box reappears, click **OK** to finalize your changes. Your chart should be similar to the one below:



- The number of complaints varies from 2 to 60, while the cumulative percentage varies from 30 to 100% (0.30 to 1). Since the cumulative percentages are much smaller than 60, they are hard to see. We will add a secondary (right-hand axis) for the cumulative percentages. Click on the **Cum. %** series in the chart. Then click the Chart Tools menu at the top of the screen. Next, click the **Format** tab.

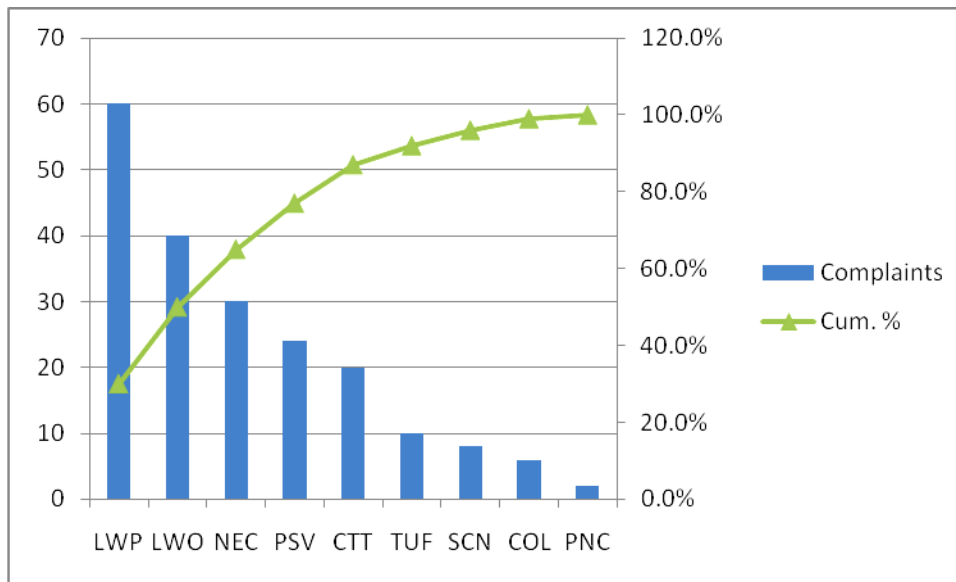


If the name of the series that you want to graph on the right-hand axis is not displayed in the **Current Selection** group on the left side of the screen, click on the series in the chart and try again.

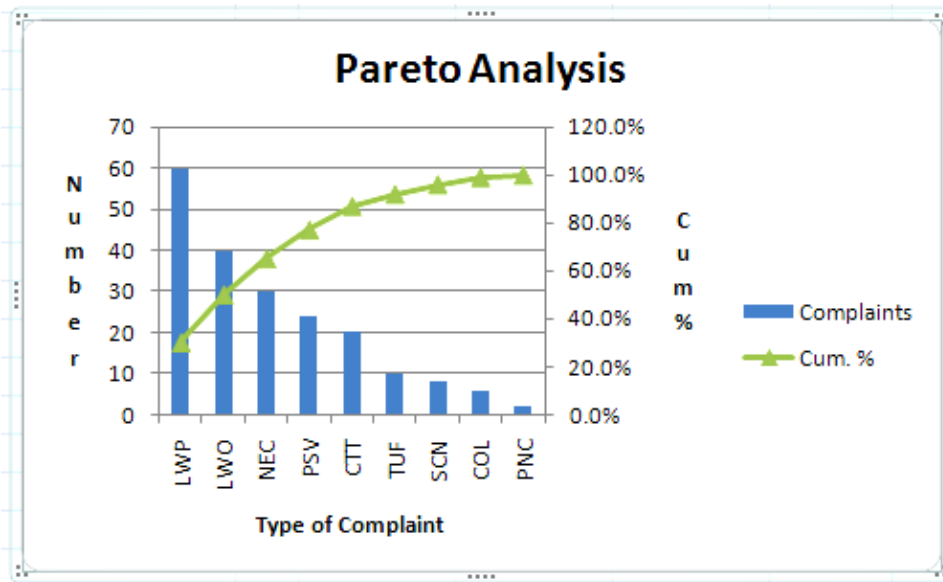
12. Click **Format Selection**. When the **Format Selection** dialog box is displayed, click the **Secondary Axis** radio button. Then click **Close**.
13. We now have a new problem. The Cumulative % bar is covering up some of the Complaints bars. This problem can be solved by displaying the Cumulative % series as a line graph. Click on one of the Cumulative % bars to select the series. Then right click, and select **Change Series Chart Type**. In the **Change Chart Type** dialog box, click on **Line**. The default line type is fine. Click **OK**



The current chart is shown below:



14. We now have a good graphical display of the data. We need to add a title to the chart, and a title for each axis. To add the titles, click on the chart and then on the **Format** tab of the **Chart Tools** menu. Use the **Chart Title** and **Axis Titles** menus in the **Labels** group to add titles. The completed chart is shown on the next page.



Operations Management: Processes and Supply Chains, 10e (Krajewski et al.)
Chapter 1 Using Operations to Compete

1) Operations management refers to the direction and control of inputs that transform processes into products and services.

Answer: TRUE

Reference: Operations and Supply Chain Management Across the Organization

Difficulty: Easy

Keywords: operations management, inputs, process, transformation

4) Support functions in an organization include Accounting, Human Resources and Engineering.

Answer: TRUE

Reference: Operations and Supply Chain Management Across the Organization

Difficulty: Easy

Keywords: operations management, inputs, process, transformation

6) Inputs to a process can include human resources.

Answer: TRUE

Reference: A Process View

Difficulty: Easy

Keywords: inputs, process, resources

7) Every process has a customer.

Answer: TRUE

Reference: A Process View

Difficulty: Easy

Keywords: process, customer

10) At the process level, it is much easier to distinguish whether the process is providing a service or manufacturing a product.

Answer: TRUE

Reference: A Process View

Difficulty: Moderate

Keywords: manufacturing process, service process, goods, services

11) In a service process, output can be inventoried.

Answer: FALSE

Reference: A Process View

Difficulty: Easy

Keywords: manufacturing process, service process, inventory

12) Manufacturing processes tend to be capital intensive, while service processes tend to be more labor intensive.

Answer: TRUE

Reference: A Process View

Difficulty: Easy

Keywords: manufacturing process, service process, capital intensive, labor intensive

13) Quality is more easily measured in a service process than in a manufacturing process.

Answer: FALSE

Reference: A Process View

Difficulty: Moderate

Keywords: manufacturing process, service process, quality

14) Manufacturing processes usually have long response times compared to service processes.

Answer: TRUE

Reference: A Process View

Difficulty: Moderate

Keywords: manufacturing process, service process, response time

15) Contact with the customer is usually higher in a manufacturing process than in a service process.

Answer: FALSE

Reference: A Process View

Difficulty: Easy

Keywords: manufacturing process, service process, customer contact

16) A core process is a set of activities that delivers value to external customers.

Answer: TRUE

Reference: The Supply Chain View

Difficulty: Moderate

Keywords: core process, supply chain

Learning Outcome: Discuss operations and operations management as a competitive advantage for the organization.

17) A supply chain is the cumulative work of a firm's processes.

Answer: TRUE

Reference: The Supply Chain View

Difficulty: Easy

Keywords: process, supply chain

19) Environmental scanning refers to the unique resources and strengths that an organization's management considers when formulating a strategy.

Answer: FALSE

Reference: The Supply Chain View

Difficulty: Moderate

Keywords: environmental scanning, strategy

20) A firm's core competencies should determine its core processes.

Answer: TRUE

Reference: The Supply Chain View

Difficulty: Easy

Keywords: core competency, core process

21) Competitive priorities are the means by which operations implements the firm's corporate strategies.

Answer: FALSE

Reference: Competitive Priorities and Capabilities

Difficulty: Moderate

Keywords: competitive priority, corporate strategy

22) Flexibility is a possible competitive priority.

Answer: TRUE

Reference: Competitive Priorities and Capabilities

Difficulty: Easy

Keywords: flexibility, competitive priority

Learning Outcome: Discuss options for measuring supply chain performance.

23) Consistent quality is not important to today's consumers.

Answer: FALSE

Reference: Competitive Priorities and Capabilities

Difficulty: Easy

Keywords: consistent quality, competitive priorities

Learning Outcome: Discuss options for measuring supply chain performance.

24) Volume flexibility involves accelerating or decelerating the rate of production of services or products to handle large fluctuations in demand.

Answer: TRUE

Reference: Competitive Priorities and Capabilities

Difficulty: Hard

Keywords: volume flexibility

Learning Outcome: Discuss options for measuring supply chain performance.

25) A firm once made purchasing decisions based on which supplier had the lowest cost. But once cash flow was healthy, purchasing decisions were made based on which company could provide the goods and services the fastest. In this case, delivery speed is clearly the order qualifier.

Answer: FALSE

Reference: Competitive Priorities and Capabilities

Difficulty: Moderate

Keywords: competitive priority, order qualifier

Learning Outcome: Discuss options for measuring supply chain performance.

26) Strategic plans are developed farther into the future than tactical plans.

Answer: TRUE

Reference: Operations Strategy As a Pattern of Decisions

Difficulty: Easy

Keywords: strategic plans, tactical plans

48. Productivity is measured as input divided by output.

ANSWER: FALSE

28) Labor productivity is an index of the output per person or hours worked.

Answer: TRUE

Reference: Trends in Operations Management

Difficulty: Moderate

Keywords: labor productivity, output

AACSB: Analytic skills

31) Operations managers are involved at both the strategic and tactical levels of corporate strategy.

Answer: TRUE

Reference: Operations Management as a Set of Decisions

Difficulty: Easy

Keywords: strategic level, tactical level

32) Regardless of how departments like Accounting, Engineering, Finance, and Marketing function in an organization, they are all linked together through:

A) management.

B) processes.

C) customers.

D) stakeholders.

Answer: B

Reference: Operations and Supply Chain Management Across the Organization

Difficulty: Moderate

Keywords: departments, functions, processes

Reference: A Process View

Difficulty: Easy

Keywords: nested process

40) Which of the following statements is more of a general characteristic of a manufacturing organization, as compared to a service organization?

A) Short-term demand tends to be highly variable.

B) Operations are more capital intensive.

C) Outputs are more intangible.

D) Quality is more difficult to measure.

Answer: B

Reference: A Process View

Difficulty: Moderate

Keywords: manufacturing organization, service organization, capital intensity

41) Which one of the following statements is more of a general characteristic of a service organization, as compared to a manufacturing organization?

A) Output can be inventoried.

B) The response time is longer.

C) There is less customer contact.

D) The facilities tend to be smaller.

Answer: D

Reference: A Process View

Difficulty: Moderate

Keywords: manufacturing organization, service organization, facilities

42) Manufacturing processes usually have:

- A) physical, durable output.
- B) high levels of customer contact.
- C) output that cannot be inventoried.
- D) low levels of capital intensity.

Answer: A

Reference: A Process View

Difficulty: Moderate

Keywords: manufacturing organization, service organization, physical output

43) Service processes usually have:

- A) physical, durable output.
- B) low levels of customer contact.
- C) output that can be inventoried.
- D) low levels of capital intensity.

Answer: D

Reference: A Process View

Difficulty: Moderate

Keywords: manufacturing organization, service organization, capital intensity

45) Budgeting, recruiting, and scheduling are examples of these types of processes.

- A) development
- B) core process
- C) support process
- D) system

Answer: C

Reference: The Supply Chain View

Difficulty: Moderate

Keywords: activity, support process

46) The process that facilitates the placement of orders and identifies, attracts, and builds relationships with external customers is called the:

- A) customer relationship process.
- B) new service development process.
- C) order fulfillment process.
- D) supplier relationship process.

Answer: A

Reference: The Supply Chain View

Difficulty: Moderate

Keywords: process, customer relationship

47) The process that designs and develops new products and services is called the:

- A) customer relationship process.
- B) new service development process.
- C) order fulfillment process.
- D) supplier relationship process.

Answer: B

Reference: The Supply Chain View

Difficulty: Easy

Keywords: process, service development

48) The process that includes the activities required to produce and deliver the service or product to the customer is called the:

- A) customer relationship process.
- B) new service development process.
- C) order fulfillment process.
- D) supplier relationship process.

Answer: C

Reference: The Supply Chain View

Difficulty: Moderate

Keywords: process, order fulfillment

49) The framework for carrying out all of an organization's functions is:

- A) the competitive priority.
- B) the corporate strategy.
- C) the market analysis.
- D) the organizational design.

Answer: B

Reference: The Supply Chain View

Difficulty: Moderate

Keywords: corporate strategy

50) In response to social and political moves to discourage cigarette smoking, major cigarette manufacturers have had to diversify into other products. Identifying the pressures against smoking is an example of:

- A) environmental scanning.
- B) market segmentation.
- C) flow strategy.
- D) mission statement development.

Answer: A

Reference: The Supply Chain View

Difficulty: Moderate

Keywords: environmental scanning, strategy

51) A company realizes that recent layoffs at its primary customers reflect potential falling demands for its customers' products, and hence for its own products. The company has engaged in:

- A) flow strategy.
- B) market segmentation.
- C) mission statement redefinition.
- D) environmental scanning.

Answer: D

Reference: The Supply Chain View

Difficulty: Moderate

Keywords: environmental scanning

52) Core competencies are:

- A) product or service attributes that represent the needs of a particular market segment.
- B) another name for competitive priorities.
- C) various flow strategies.
- D) the unique resources and strengths that management considers when formulating strategy.

Answer: D

Reference: The Supply Chain View

Difficulty: Moderate

Keywords: core competency, strategy

53) All of the following are core competencies except:

- A) workforce.
- B) competitive priorities.
- C) facilities.
- D) market and financial know-how.

Answer: B

Reference: The Supply Chain View

Difficulty: Moderate

Keywords: core competency

54) Which of the following is an example of a core competency?

- A) facilities
- B) top quality
- C) low-cost operations
- D) on-time delivery

Answer: A

Reference: The Supply Chain View

Difficulty: Moderate

Keywords: core competency

55) The Gap, Inc. has targeted teenagers and young adults needing casual clothes and, for its GapKids stores, the parents or guardians of infants through 12-year-olds. This is an example of:

- A) market segmentation.
- B) a collaborative effort between the company and its customers.
- C) a needs assessment.
- D) a mission statement.

Answer: A

Reference: The Supply Chain View

Difficulty: Moderate

Keywords: market segmentation

56) Competitive priorities define the dimensions on which companies should excel in producing their products or services. Which one of the following statements is TRUE?

- A) A firm that competes on the dimension of volume flexibility is more likely to manufacture products that experience a seasonal demand variation.
- B) It is impossible for a firm to improve cost and quality simultaneously.
- C) A firm offering little customization cannot compete simultaneously on the dimension of consistent quality.
- D) A firm that competes on the dimension of customization tends to have operating systems that are inflexible.

Answer: A

Reference: Competitive Priorities and Capabilities

Difficulty: Moderate

Keywords: competitive priorities, volume flexibility

Learning Outcome: Discuss operations and operations management as a competitive advantage for the organization.

62) Quickly filling a customer's order is evidence of:

- A) delivery speed.
- B) lead time.
- C) development speed.
- D) variety.

Answer: A

Reference: Competitive Priorities and Capabilities

Difficulty: Easy

Keywords: delivery speed

63) Using an airline example for competitive priorities, the process capability of handling service needs of all market segments and promotional programs would be best described by:

- A) top quality.
- B) variety.
- C) consistent quality.
- D) delivery speed.

Answer: B

Reference: Competitive Priorities and Capabilities

Difficulty: Easy

Keywords: variety, competitive priorities

64) A company's ability to quickly introduce a new service or product would be best described as:

- A) volume flexibility.
- B) variety.
- C) consistent quality.
- D) development speed.

Answer: D

Reference: Competitive Priorities and Capabilities

Difficulty: Easy

Keywords: development speed, competitive priorities

Learning Outcome: Discuss operations and operations management as a competitive advantage for the organization.

65) A business focusing on increasing the efficiency of its operations is more directly addressing:

- A) volume flexibility.
- B) variety.
- C) consistent quality.
- D) low-cost.

Answer: D

Reference: Competitive Priorities and Capabilities

Difficulty: Easy

Keywords: efficiency, low-cost, competitive priority

66) For students not wanting a traditional major in marketing or accounting, for example, the college decided to create a general business major, which allowed any combination of the easiest business courses to comprise the program. The competitive priority achieved in this example is:

- A) customization.

- B) delivery speed.
- C) consistent quality.
- D) low-cost.

Answer: A

Reference: Competitive Priorities and Capabilities

Difficulty: Easy

Keywords: customization, competitive priority

67) A company's ability to support varying rates of production is best described as:

- A) volume flexibility.
- B) variety.
- C) consistent quality.
- D) development speed.

Answer: A

Reference: Competitive Priorities and Capabilities

Difficulty: Easy

Keywords: volume flexibility, competitive priorities

Learning Outcome: Discuss operations and operations management as a competitive advantage for the organization.

68) In an assembly operation at a furniture factory, six employees assembled an average of 450 custom cabinet drawers per 5-day week. What is the labor productivity of this operation?

- A) 90 chairs per worker per day
- B) 20 chairs per worker per day
- C) 15 chairs per worker per day
- D) 75 chairs per worker per day

Answer: C

Reference: Trends in Operations Management

Difficulty: Moderate

Keywords: labor productivity

AACSB: Analytic skills

69) A process produces 5000 units of output that yield \$6 per unit. Resources contributed to this output are 200 hours of labor at \$15 per hour, materials at \$700 and overhead at \$300. What is the labor productivity?

- A) 20 units per hour
- B) 25 units per hour
- C) 30 units per hour
- D) 40 units per hour

Answer: B

Reference: Trends in Operations Management

Difficulty: Easy

Keywords: labor productivity

AACSB: Analytic skills

70) The manager of a landscaping company is trying to determine the best crew size to use for laying sod for new construction homes. She has tried various crew sizes, with the results shown below. Based on productivity, which crew size averages the greatest productivity in square yards installed per week?

Crew Size	2	4	3	3	4	2
Square Yards Installed Per Week	716	1298	1017	1002	1278	702

- A) 2-person crew
- B) 3-person crew
- C) 4-person crew
- D) Either a 3- or 4-person crew can be selected; their productivities are both higher than the 2-person crew.

Answer: A

Reference: Trends in Operations Management

Difficulty: Easy

Keywords: labor productivity

AACSB: Analytic skills

71) A manufacturing process requires 12 minutes of labor to make 10 units of production. Which of the following actions will increase productivity?

1. Increase labor per 10 units of production
2. Decrease labor per 10 units of production
3. Increase number of units per 10 minutes of labor
4. Decrease number of units per 12 minutes of labor

- A) 1. and 3. only
- B) 2. and 4. only
- C) 1. and 4. only
- D) 2. and 3. only

Answer: D

Reference: Trends in Operations Management

Difficulty: Easy

Keywords: labor productivity

AACSB: Analytic skills

72) The Burdell Company makes tee shirts on an assembly line that works 5 days per week and uses 5 workers. Over the past 4 weeks, the line has produced 16,000 shirts. The line's productivity for the 4-week period is:

- A) 20 shirts per worker per day.
- B) 50 shirts per worker per day.
- C) 160 shirts per worker per day.
- D) 400 shirts per worker per day.

Answer: C

Reference: Trends in Operations Management

Difficulty: Easy

Keywords: labor productivity

AACSB: Analytic skills

73) The details of weekly output and input for a fabrication process are as follows: output is 400 units, with a standard selling price of \$100 per unit. For the week, total labor costs are: 10 workers at 40 hours

for the week, paid \$15 per hour. Total material costs for the 400 units are \$5,000. Weekly overhead is charged at the rate of 1.5 times the labor costs. What is the multifactor productivity for the week?

- A) 0.02
- B) 0.75
- C) 1.50
- D) 2.00

Answer: D

Reference: Trends in Operations Management

Difficulty: Easy

Keywords: multifactor productivity

AACSB: Analytic skills

Table 1.2

The Abco Company manufactures electrical assemblies. The current process uses 10 workers and produces 200 units per hour. You are considering changing the process with new assembly methods that increase output to 300 units per hour, but will require 14 workers. Particulars are as follows:

	CURRENT PROCESS	NEW PROCESS
OUTPUT (UNITS / HOUR)	200	300
NUMBER OF WORKERS	10	14
MATERIAL COST / HOUR	\$120	\$150

Workers are paid at a rate of \$10 per hour, and overhead is charged at 140% (or 1.4 times) labor costs. Finished switches sell for \$20 / unit.

74) Use the information provided in Table 1.2. What is the multifactor productivity of the current process?

- A) less than or equal to 8.0
- B) greater than 8.0 but less than or equal to 10.0
- C) greater than 10.0 but less than or equal to 12.0
- D) greater than 12.0

Answer: C

Reference: Trends in Operations Management

Difficulty: Moderate

Keywords: multifactor productivity

AACSB: Analytic skills

75) Use the information provided in Table 1.2. What is the multifactor productivity of the new process?

- A) less than or equal to 8.0
- B) greater than 8.0 but less than or equal to 10.0
- C) greater than 10.0 but less than or equal to 12.0
- D) greater than 12.0

Answer: D

Reference: Trends in Operations Management

Difficulty: Moderate

Keywords: multifactor productivity

AACSB: Analytic skills

76) Use the information provided in Table 1.2. Based on your productivity calculations, what decision should you make?

- A) implement the new process
- B) stay with the current process
- C) need more information to make a decision
- D) Either process is acceptable (since the multi-factor productivities are the same).

Answer: A

Reference: Trends in Operations Management

Difficulty: Moderate

Keywords: multifactor productivity

77) It takes the Blacksburg shipyard twenty six weeks with 500 workers to build a small tanker. Material costs are \$32 million and overhead costs are \$2 million. Workers cost \$40 per hour including benefits and work 40 hours per week. The ship sells for \$75 million. What is the multifactor productivity ratio?

- A) less than 1.0
- B) greater than 1.0 but less than or equal to 2.0
- C) greater than 2.0 but less than or equal to 3.0
- D) greater than 3.0

Answer: B

Reference: Trends in Operations Management

Difficulty: Moderate

Keywords: multifactor productivity

AACSB: Analytic skills

105) Barry's Tire Service completed 100 tire changes, six brake jobs, and 16 alignments in an eight-hour day with his standard crew of six mechanics. A brake specialist costs \$16 per hour, a tire changer costs \$8 per hour, and an alignment mechanic costs \$14 per hour. The materials cost for a day was \$2000, and overhead cost was \$500.

- a. What is the shop's labor productivity if the retail price for each respective service is \$60, \$150, and \$40?
- b. What is the multifactor productivity, if the crew consisted of two of each type mechanic?

Answer: a.
$$\frac{(100 \times 60 + 6 \times 150 + 16 \times 40)}{6 \times 8} = \$157/\text{hr}$$

b.
$$\frac{\{(100 \times 60) + (6 \times 150) + (16 \times 40)\}}{\{(2 \times 8 \times 16) + (2 \times 8 \times 8) + (2 \times 8 \times 14) + 2000 + 500\}} = 2.43$$

Reference: Trends in Operations Management

Difficulty: Moderate

Keywords: labor productivity, multifactor productivity

AACSB: Analytic skills

106) Consider the information in Table 1.3.

Table 1.3

The Abco Company manufactures electrical assemblies. The current process uses 10 workers and produces 200 units per hour. You are considering changing the process with new assembly methods that increase output to 300 units per hour, but will require 14 workers. Particulars are as follows:

	CURRENT PROCESS	NEW PROCESS
OUTPUT (UNITS / HOUR)	200	300
NUMBER OF WORKERS	10	14
MATERIAL COST / HOUR	\$120	\$150

Workers are paid at a rate of \$10 per hour, and overhead is charged at 140% (or 1.4 times) labor costs. Finished switches sell for \$20/unit.

- Calculate the multifactor productivity for the current process.
- Calculate the multifactor productivity for the new process.
- Determine if the new process should be implemented.

Answer:

$$a. \frac{(200)(\$20)}{(10)(\$10) + \$120 + (1.4)(10)(\$10)} = \frac{\$4,000}{\$360} = \underline{11.11}$$

$$b. \frac{(300)(\$20)}{(14)(\$10) + \$150 + (1.4)(14)(\$10)} = \frac{\$6,000}{\$486} = \underline{12.35}$$

- The new process increases multifactor productivity and should be implemented.

Reference: Trends in Operations Management

Difficulty: Moderate

Keywords: labor productivity, multifactor productivity

AACSB: Analytic skills

107) The three person crew worked their way through the neighborhood, mowing lawns, edging, apply fertilizer and weed treatments where necessary and collecting all the clippings for use as mulch as part of their new green initiative. Their pricing scheme appears in Table A and the mix of orders and service costs appear in Table B:

- What is their multifactor productivity for these orders in the prestigious Edmond Oaks neighborhood?
- Which of the service combinations they are providing is their most productive from a multifactor perspective?
- What is their labor productivity for the same mix of orders?

Table A: Price List:

SERVICE	PRICE	LABOR	MATERIAL
Mow lawn	\$75	1 hr	\$2
Edge	\$20	.25	\$1
Fertilizer treatment	\$120	.25	\$45
Weed prevention treatment	\$80	.25	\$25
Multiple services	5% discount times the number of services		

Workers are paid at a rate of \$10 per hour, and overhead is charged at 120% (or 1.2 times) labor costs. For a customer that gets both mowing and edging, their \$95 bill would be discounted for two services times 5% for a total of 10% off the \$95 straight charge for a cost of \$85.50. A customer receiving three services would get a 15% discount off their service bill. Labor hours shown in Table A are total hours for the three-person crew.

Table B: Orders Processed

SERVICE	# Customers
Mow lawn & edge	6
Mow lawn, Edge, and fertilize	3
Mow lawn, Edge, and weed prevention treatment	2
Mow lawn & fertilize	2

Answer:

a. Multifactor Productivity Overall

$$\text{Total Revenue} = \$86 \times 6 + \$182.75 \times 3 + \$148.75 \times 2 + \$175.50 \times 2 = \$1709.75$$

$$\text{Labor Cost} = \$12.50 \times 6 + \$15 \times 3 + \$15 \times 2 + \$12.50 \times 2 = \$175$$

$$\text{Material Cost} = \$3 \times 6 + \$48 \times 3 + \$28 \times 2 + \$47 \times 2 = \$312$$

$$\text{Overhead Cost} = 1.2 \times (\$12.50 \times 6 + \$15 \times 3 + \$15 \times 2 + \$12.50 \times 2) = \$210$$

$$\text{Multifactor Productivity} = \frac{\$1709.75}{\$175 + \$312 + \$210}$$

$$\text{Multifactor Productivity} = 2.45$$

b. Multifactor Productivity by Service

$$\text{Mow \& Edge} = \frac{0.9 \times (\$75 + \$20)}{(1.25 \times \$10) + (\$2 + \$1) + 1.2 \times (1.25 \times \$10)} = 2.8$$

$$\text{Mow \& Edge \& Fertilize} = \frac{0.85 \times (\$75 + \$20 + \$120)}{(1.5 \times \$10) + (\$2 + \$1 + \$45) + 1.2 \times (1.5 \times \$10)} = 2.26$$

$$\text{Mow \& Edge \& Weed} = \frac{0.85 \times (\$75 + \$20 + \$80)}{(1.5 \times \$10) + (\$2 + \$1 + \$25) + 1.2 \times (1.5 \times \$10)} = 2.44$$

$$\text{Mow \& Fertilize} = \frac{0.9 \times (\$75 + \$120)}{(1.25 \times \$10) + (\$2 + \$45) + 1.2 \times (1.25 \times \$10)} = 2.36$$

The package with the highest multifactor productivity is the Mow & Edge

c. Overall Labor Productivity.

$$\text{Total Revenue} = \$85.59 \times 6 + \$182.75 \times 3 + \$148.75 \times 2 + \$175.50 \times 2 = \$1709.75$$

$$\text{Labor Cost} = \$12.50 \times 6 + \$15 \times 3 + \$15 \times 2 + \$12.50 \times 2 = \$175$$

$$\text{Labor Productivity} = \frac{\$1709.75}{\$175}$$

$$\text{Labor Productivity} = 9.77$$

Reference: Trends in Operations Management

Difficulty: Moderate

Keywords: labor productivity, multifactor productivity

AACSB: Analytic skills

108) The three-person crew worked their way through the neighborhood, testing doorknobs and windows and slipping past security systems like a team of ninjas. Of course, they weren't ninjas, but a crew of brazen burglars, hoping to grab cash and other valuables to fence at the next level of their supply chain. Fortune smiles on them on this day in the prestigious Edmond Oaks neighborhood. A lawn maintenance crew is creating a tremendous racket mowing and edging lawns, which completely drowns out the sounds of breaking glass. Details of the day's haul appear in Table C.

- What is the multifactor productivity?
- What is the labor productivity?

Table C: The Haul

ITEM	SALES PRICE	LABOR	MATERIAL
Kruggerand	\$1500	1 hr	\$2
Flat screen TV	\$250	.25	\$1
\$200 cash	\$200	.05	\$45
Lava lamp	\$5	.15	\$25
Rolex watch	\$180	.10	\$1

Workers are paid at a flat rate of 20% of the sales price of the merchandise. Materials cost represents the cost of gasoline and surgical gloves, and overhead is 20% of the sales price of the merchandise.

Answer:

a. Multifactor Productivity

$$\text{Total Revenue} = \$1500 + \$250 + \$200 + \$5 + \$180 = \$2135$$

$$\text{Labor Cost} = 20\% \times (\$1500 + \$250 + \$200 + \$5 + \$180) = \$427$$

$$\text{Material Cost} = \$2 + \$1 + \$45 + \$25 + \$1 = \$74$$

$$\text{Overhead Cost} = 20\% \times (\$1500 + \$250 + \$200 + \$5 + \$180) = \$427$$

$$\text{Multifactor Productivity} = \frac{\$2135}{\$427 + \$74 + \$427}$$

$$\text{Multifactor Productivity} = 2.30$$

b. Labor Productivity

Total Revenue = \$1500 + \$250 + \$200 + \$5 + \$180 = \$2135

Labor Cost = 20% × (\$1500 + \$250 + \$200 + \$5 + \$180) = \$427

$$\text{Labor Productivity} = \frac{\$2135}{\$427}$$

Labor Productivity = 5

Reference: Trends in Operations Management

Difficulty: Moderate

Keywords: labor productivity, multifactor productivity

AACSB: Analytic skills

1) A project is an interrelated set of activities that has a definite starting and ending point.

Answer: TRUE

Reference: Introduction

Difficulty: Easy

Keywords: project activities, start, end

2) Projects often cut across organizational lines.

Answer: TRUE

Reference: Introduction

Difficulty: Easy

Keywords: project, organizational lines

3) Projects, and the application of project management, facilitate the implementation of operations strategy.

Answer: TRUE

Reference: Project Management Across the Organization

Difficulty: Easy

Keywords: project management, operations strategy

4) Project managers should be able to organize a set of disparate activities.

Answer: TRUE

Reference: Defining and Organizing Projects

Difficulty: Moderate

Keywords: project manager, disparate activities

6) Scope creep is one of the primary causes of project failure.

Answer: TRUE

Reference: Defining and Organizing Projects

Difficulty: Moderate

Keywords: scope creep, project failure

7) The work breakdown structure is a statement of all work that has to be completed.

Answer: TRUE

Reference: Planning Projects

Difficulty: Moderate

Keywords: WBS, work breakdown structure

8) The network diagram is a planning method that is designed to depict the relationships between activities.

Answer: TRUE

Reference: Planning Projects

Difficulty: Moderate

Keywords: network diagram, activities

9) A relationship that determines the sequence for undertaking activities is a precedence relationship.

Answer: TRUE

Reference: Planning Projects

Difficulty: Easy

Keywords: precedence relationship

10) A critical path is any sequence of activities between a project's start and finish.

Answer: FALSE

Reference: Planning Projects

Difficulty: Moderate

Keywords: critical path activities

11) The earliest start time is never the same as the latest start time.

Answer: FALSE

Reference: Planning Projects

Difficulty: Easy

Keywords: earliest start time, latest start time

AACSB: Analytic skills

13) A Gantt chart is a project schedule that superimposes project activities on a time line.

Answer: TRUE

Reference: Planning Projects

Difficulty: Moderate

Keywords: Gantt chart, project schedule

14) Risk is a measure of the probability and consequences of not reaching a defined project goal.

Answer: TRUE

Reference: Planning Projects

Difficulty: Moderate

Keywords: risk, probability measure

15) The optimistic time is the probable time required to perform the activity.

Answer: FALSE

Reference: Planning Projects

Difficulty: Easy

Keywords: optimistic time, probable time

18) A risk-management plan contains all identified risks to a project plus the ways that they can be circumvented.

Answer: TRUE

Reference: Planning Projects

Difficulty: Moderate

Keywords: risk- management plan

24) In an activity-on-node [AON] network, the nodes represent _____, whereas the arcs represent _____.

A) activities; time

B) activities; precedence relationships

C) events; activities

D) precedence relationships; time

Answer: B

Reference: Planning Projects

Difficulty: Moderate

Keywords: activity-on- node network, node, activity, arc, precedence relationship

25) In a network diagram, an activity:

A) is the largest unit of work effort consuming both time and resources that a project manager can schedule and control.

B) is the smallest unit of work effort consuming both time and resources that a project manager can schedule and control.

C) should always be something the company has had experience with.

D) must always have a single, precise estimate for the time duration.

Answer: B

Reference: Planning Projects

Difficulty: Moderate

Keywords: activity, smallest unit of work

26) Activity times for a project are estimated by all but which of the following methods?

A) Methods-Time Measurement (MTM) data, which includes predetermined time estimates for different activities

B) managerial opinions based on similar prior experiences

C) statistical methods based on actual past experience

D) estimates using learning curve models to improve replications and estimate accuracy

Answer: A

Reference: Planning Projects

Difficulty: Moderate

Keywords: activity times, estimating activity times

27) A project has three paths. A-B-C has a length of 25 days. A-D-C has a length of 15 days. Finally, A-E-C has a length of 20 days. Which one of the following statements is TRUE?

- A) A-D-C is the critical path.
- B) A-B-C has the most slack.
- C) The expected duration of this project is 25 days.
- D) The expected duration of this project is $25 + 15 + 20 = 60$ days.

Answer: C

Reference: Planning Projects

Difficulty: Moderate

Keywords: project, duration

AACSB: Analytic skills

28) The earliest start time for an activity is equal to the:

- A) smallest earliest finish time of all of its immediate predecessors.
- B) largest earliest finish time of all of its immediate predecessors.
- C) smallest late start time of any of its immediate predecessors.
- D) largest late finish time of all of its immediate predecessors.

Answer: B

Reference: Planning Projects

Difficulty: Moderate

Keywords: activity, earliest start time

AACSB: Analytic skills

29) Assume that activity G has the following times:

Early start time = 7 days

Early finish time = 13 days

Late start time = 15 days

Late finish time = 21 days

Which of the following statements is TRUE about activity G?

- A) Activity G takes 14 days to complete.
- B) Activity G has a slack time of 8 days.
- C) Activity G is on the critical path.
- D) Activity G takes 2 days to complete.

Answer: B

Reference: Planning Projects

Difficulty: Moderate

Keywords: activity slack

AACSB: Analytic skills

30) Activity slack is defined as:

- A) latest start time minus earliest start time.
- B) earliest start time minus latest start time.
- C) earliest finish time minus latest finish time.
- D) latest finish time minus earliest start time.

Answer: A

Reference: Planning Projects

Difficulty: Moderate

Keywords: activity slack, latest start time, earliest start time
AACSB: Analytic skills

- 31) Which one of the following best describes the critical path of a PERT/CPM network?
 A) the sequence of activities between a project's start and finish that takes the longest time to complete
 B) the sequence of activities between a project's start and finish that has the maximum amount of activity slack
 C) the set of activities that has no precedence relationships
 D) the sequence of activities that has the lowest normal activity cost

Answer: A
 Reference: Planning Projects
 Difficulty: Moderate
 Keywords: critical path
 AACSB: Analytic skills

- 41) Following are four sets of most optimistic, most likely, and most pessimistic times (in weeks) for an activity. Which one of the four sets will have a mean estimated time equal to the most likely time?
 A) 1, 9, 9
 B) 1, 5, 9
 C) 1, 1, 9
 D) 1, 5, 5

Answer: B
 Reference: Planning Projects
 Difficulty: Moderate
 Keywords: optimistic times, most likely times, pessimistic times
 AACSB: Analytic skills

Table 2.2

Activity	Immediate Predecessor (s)	Time (weeks)		
		Most Optimistic	Most Likely	Most Pessimistic
A	---	1	2	3
B	A	2	4	12
C	A	1	2	3
D	B	6	7	8
E	B,C	10	12	14
F	D	2	3	4
G	E,F	1	5	15
H	A	2	5	14

- 47) Using Table 2.2, what is the earliest expected time of completion of the whole project?
 A) fewer than or equal to 19 weeks
 B) greater than 19 but fewer than or equal to 21 weeks
 C) greater than 21 but fewer than or equal to 24 weeks
 D) greater than 24 weeks

Answer: D

Reference: Planning Projects
 Difficulty: Moderate
 Keywords: project completion time
 AACSB: Analytic skills

48) Using Table 2.2, which activity will have the largest amount of slack?

- A) Activity F
- B) Activity C
- C) Activity H
- D) Activity A

Answer: C
 Reference: Planning Projects
 Difficulty: Moderate
 Keywords: activity slack
 AACSB: Analytic skills

49) Using Table 2.2, if the expected times for activities A, G, and H increased by 2, 3, and 4 weeks, respectively, by how many weeks would the project's earliest expected time of completion increase?

- A) fewer than or equal to 2 weeks
- B) greater than 2 weeks but fewer than or equal to 4 weeks
- C) greater than 4 weeks but fewer than or equal to 6 weeks
- D) greater than 6 weeks

Answer: C
 Reference: Planning Projects
 Difficulty: Hard
 Keywords: expected activity time
 AACSB: Analytic skills

Table 2.3

Activity	Immediate Predecessor(s)	Most Optimistic	Time (weeks)	
			Most Likely	Most Pessimistic
A	---	2	4	6
B	---	1	4	7
C	A	2	2	2
D	B	1	7	10
E	D	2	4	6
F	E	1	2	3
G	C	3	4	17
H	D,G	3	7	11
I	D	8	9	10
J	F,H	4	5	6
K	I	1	1	1

50) Using Table 2.3, what is the earliest expected time of completion of the whole project?

- A) fewer than or equal to 21 days
- B) greater than 21 but fewer than or equal to 22 days
- C) greater than 22 but fewer than or equal to 23 days
- D) greater than 23 days

Answer: D

Reference: Planning Projects
 Difficulty: Moderate
 Keywords: project, expected time of completion
 AACSB: Analytic skills

51) Using Table 2.3, which activity is on the critical path?

- A) Activity D
- B) Activity F
- C) Activity G
- D) Activity K

Answer: C
 Reference: Planning Projects
 Difficulty: Moderate
 Keywords: activity, critical path
 AACSB: Analytic skills

52) Using Table 2.3, if the project is due to be completed in 28 days, what is the probability that the project will be completed on or before the due date?

- A) less than or equal to 75%
- B) greater than 75% but less than or equal to 85%
- C) greater than 85% but less than or equal to 95%
- D) greater than 95%

Answer: C
 Reference: Planning Projects
 Difficulty: Moderate
 Keywords: project completion time, probability
 AACSB: Analytic skills

53) Using Table 2.3, if the project manager wants at least a 98% probability that the project will be completed on or before the due date, what is the shortest project due date that will satisfy the manager?

- A) fewer than or equal to 28 days
- B) greater than 28 days but fewer than or equal to 30 days
- C) greater than 30 days but fewer than or equal to 32 days
- D) greater than 32 days

Answer: B
 Reference: Planning Projects
 Difficulty: Hard
 Keywords: due date, probability of completion
 AACSB: Analytic skills

Table 2.4

Activity	Predecessor	Time(weeks)
A	--	8
B	A	6
C	--	4
D	C	9
E	A	11

F	B	3
G	D,E,F	1

54) Using Table 2.4, what is the earliest completion time for this project?

- A) 18 weeks
- B) 19 weeks
- C) 20 weeks
- D) 21 weeks

Answer: C

Reference: Planning Projects

Difficulty: Moderate

Keywords: completion time

AACSB: Analytic skills

55) Using Table 2.4, what is the largest amount of slack that any activity in the project has?

- A) zero weeks
- B) two weeks
- C) four weeks
- D) six weeks

Answer: D

Reference: Planning Projects

Difficulty: Moderate

Keywords: activity slack

AACSB: Analytic skills

56) Using Table 2.4, what is the minimum number of activities that would have to be delayed to cause an increase in the project's earliest completion date?

- A) one activity
- B) two activities
- C) three activities
- D) four or more activities

Answer: A

Reference: Planning Projects

Difficulty: Moderate

Keywords: activity delay, earliest completion time

AACSB: Analytic skills

58) Using Table 2.4, what is the early start time for activity D?

- A) week 9
- B) week 4
- C) week 7
- D) week 0

Answer: B

Reference: Planning Projects

Difficulty: Moderate

Keywords: activity, early start time

AACSB: Analytic skills

59) Using Table 2.4, what is the latest finish time for activity C?

- A) week 4
- B) week 6
- C) week 8
- D) week 10

Answer: D

Reference: Planning Projects

Difficulty: Moderate

Keywords: activity, latest finish time

AACSB: Analytic skills

60) Using Table 2.4, what is the slack associated with activity B?

- A) 1 week
- B) 2 weeks
- C) 3 weeks
- D) None of these is the correct activity slack for B.

Answer: B

Reference: Planning Projects

Difficulty: Moderate

Keywords: activity slack

AACSB: Analytic skills

Table 2.5

Activity	Predecessor	All times in days		
		a	m	b
A	--	1	2	3
B	--	2	4	6
C	A	3	4	5
D	B	6	7	9
E	C	7	9	10
F	D	8	12	16
G	D	2	4	7
H	E,F	9	11	13

61) Using Table 2.5, the expected time for activity C is:

- A) three days.
- B) four days.
- C) five days.
- D) more than five days.

Answer: B

Reference: Planning Projects

Difficulty: Moderate

Keywords: activity, expected time

AACSB: Analytic skills

62) Using Table 2.5, what is the latest finish time for activity D?

- A) between 4 and 6 days
- B) between 6 and 8 days
- C) between 8 and 10 days
- D) more than 10 days

Answer: C

Reference: Planning Projects

Difficulty: Hard

Keywords: probabilistic latest finish time

AACSB: Analytic skills

63) Using Table 2.5, what is the variance for activity F?

- A) 1.33
- B) 1.78
- C) 2.34
- D) 2.69

Answer: B

Reference: Planning Projects

Difficulty: Moderate

Keywords: activity, variance

AACSB: Analytic skills

64) Using Table 2.5, what is the standard deviation for the entire project?

- A) 1.08
- B) 1.17
- C) 1.71
- D) 2.92

Answer: C

Reference: Planning Projects

Difficulty: Hard

Keywords: critical path, standard deviation

AACSB: Analytic skills

65) Using Table 2.5, which activity is on the critical path?

- A) Activity A
- B) Activity C
- C) Activity E
- D) Activity H

Answer: D

Reference: Planning Projects

Difficulty: Moderate

Keywords: critical path activity

AACSB: Analytic skills

Table 2.6

Activity	Predecessor	Time (days)
A	--	8
B	--	6

C	--	3
D	A,B	10
E	C	8
F	A	5
G	D,E	3
H	G	4

66) Using Table 2.6, what is the earliest completion time of this project?

- A) 23 days
- B) 25 days
- C) 27 days
- D) 29 days

Answer: B

Reference: Planning Projects

Difficulty: Moderate

Keywords: earliest project completion time

AACSB: Analytic skills

67) Using Table 2.6, what is the latest start time for activity E?

- A) day 8
- B) day 10
- C) day 12
- D) day 14

Answer: B

Reference: Planning Projects

Difficulty: Moderate

Keywords: activity, latest start time

AACSB: Analytic skills

68) Using Table 2.6, what is the earliest that activity D can be finished?

- A) 18 days
- B) 8 days
- C) 13 days
- D) 25 days

Answer: A

Reference: Planning Projects

Difficulty: Moderate

Keywords: activity, earliest finish time

AACSB: Analytic skills

69) Disaster strikes and activity F takes 20 days instead of the anticipated 5 days. Using Table 2.6, how much longer will the project last than initially estimated?

- A) 15 days
- B) 0 days
- C) 7 days
- D) 3 days

Answer: D

Reference: Planning Projects
 Difficulty: Moderate
 Keywords: project latest finish time
 AACSB: Analytic skills

71) Using Table 2.6, how many days can activity C be delayed without changing the whole project's earliest completion time?

- A) 0 days
 - B) 2 days
 - C) 5 days
 - D) 7 days
- Answer: D

Reference: Planning Projects
 Difficulty: Moderate
 Keywords: activity slack
 AACSB: Analytic skills

Table 2.7

Activity	Immediate Predecessor(s)	Time (weeks)
A	--	3
B	--	4
C	--	2
D	A	4
E	A,B	5
F	A, B, C	2
G	D,E	1
H	E	6
I	E, F	2
J	G, H, I	4
K	H, I	3
L	I	6

72) Using Table 2.7, what is the critical path for this project?

- A) B–E–H–K
- B) B–E–H–J
- C) A–E–G–J
- D) C–F–I–L

Answer: B
 Reference: Planning Projects
 Difficulty: Hard
 Keywords: critical path
 AACSB: Analytic skills

73) Using Table 2.7, suppose activity D can be shortened from four days to one day. Assume all other activity times remain the same. How much shorter will the total project earliest completion time become?

- A) zero days
- B) one day
- C) two days
- D) three days

Answer: A

Reference: Planning Projects

Difficulty: Hard

Keywords: earliest completion time

AACSB: Analytic skills

74) Using Table 2.7, suppose activity I is delayed, taking eight days to complete instead of two days. Assume all other activity times remain the same. How much longer will the total project earliest completion time become?

- A) zero days
- B) one or two days
- C) three or four days
- D) five or six days

Answer: C

Reference: Planning Projects

Difficulty: Hard

Keywords: project, earliest completion time

AACSB: Analytic skills

75) Using Table 2.7, what is the latest start time for activity A?

- A) day 0
- B) day 1
- C) day 2
- D) day 3 or later

Answer: B

Reference: Planning Projects

Difficulty: Hard

Keywords: activity, latest start time

AACSB: Analytic skills

Table 2.8

Activity	Immediate Predecessor(s)	Time (weeks)
A	--	3
B	--	4
C	A, B	5
D	A	6
E	C	4
F	D, E	2

76) Using Table 2.8, what is the earliest completion time of the project?

- A) fewer than or equal to 10 weeks
- B) greater than 16 weeks
- C) greater than 13 weeks but fewer than or equal to 16 weeks

Answer: C

Reference: Planning Projects

Difficulty: Moderate

Keywords: project, earliest completion time

AACSB: Analytic skills

77) Using Table 2.8, what is the critical path of the above project?

- A) B—C—E—F
- B) B—C—F
- C) A—D—F
- D) A—C—E—F

Answer: A

Reference: Planning Projects

Difficulty: Moderate

Keywords: critical path

AACSB: Analytic skills

78) Using Table 2.8, what is the slack for activity A?

- A) 0 weeks
- B) 1 week
- C) 2 weeks
- D) 3 or more weeks

Answer: B

Reference: Planning Projects

Difficulty: Moderate

Keywords: activity slack

AACSB: Analytic skills

Table 2.13

(All activity times for the project are in weeks.)

Activity	Optimistic Time	Most Likely Time	Pessimistic Time	Immediate Predecessor(s)
A	3	4	5	---
B	5	7	9	---
C	2	3	10	A
D	2	5	8	B
E	1	7	7	B
F	3	5	7	C,D
G	7	8	9	D,E
H	2	6	10	F

102) Using Table 2.13, what is the critical path of this project?

- A) A—C—F—H

B) B—D—F—H

C) B—D—G

D) B—E—G

Answer: B

Reference: Planning Projects

Difficulty: Moderate

Keywords: critical path

AACSB: Analytic skills

103) Using Table 2.13, what is the expected time of completion of the project?

A) fewer than 22 weeks

B) 22 weeks

C) 23 weeks

D) greater than 23 weeks

Answer: C

Reference: Planning Projects

Difficulty: Moderate

Keywords: project expected completion time

AACSB: Analytic skills

104) Using Table 2.13, what is the probability that the project will be completed in 24 or fewer weeks?

A) less than or equal to 55%

B) greater than 55% but less than or equal to 65%

C) greater than 65% but less than or equal to 75%

D) greater than 75%

Answer: C

Reference: Planning Projects

Difficulty: Moderate

Keywords: project completion probability / time

AACSB: Analytic skills

105) Using Table 2.13, if the expected time for activity E is changed to nine weeks, by how many weeks will the project's expected completion time increase?

A) It will not change.

B) It will increase by one week.

C) It will increase by two weeks.

D) It will increase by three or more weeks.

Answer: B

Reference: Planning Projects

Difficulty: Moderate

Keywords: activity, project expected completion time

AACSB: Analytic skills

Table 2.14

You are responsible for managing a project with the following activities (times are given in weeks).

Activity	Optimistic Time	Most Likely Time	Pessimistic Time	Immediate Predecessor(s)
A	2	5	14	---
B	8	11	14	---
C	5	7	9	A
D	6	9	12	A
E	1	3	5	D,B

106) Using Table 2.14, what is the critical path and expected completion time for this project?

- A) A–D–E; 17 weeks
- B) A–C; 18 weeks
- C) B–E; 14 weeks
- D) A–D–E; 18 weeks

Answer: D

Reference: Planning Projects

Difficulty: Moderate

Keywords: project critical path

AACSB: Analytic skills

107) Using Table 2.14, which activity has the largest slack, and how large is that slack?

- A) Activity C; five weeks
- B) Activity A; six weeks
- C) Activity B; four weeks
- D) Activity E; three weeks

Answer: A

Reference: Planning Projects

Difficulty: Moderate

Keywords: activity slack

AACSB: Analytic skills

108) Using Table 2.14, what is the probability of completing the project in 17 or fewer weeks?

- A) less than or equal to 40%
- B) greater than 40% but less than or equal to 55%
- C) greater than 55% but less than or equal to 70%
- D) greater than 70%

Answer: A

Reference: Planning Projects

Difficulty: Moderate

Keywords: project, expected completion time

AACSB: Analytic skills

109) Using Table 2.14, what is the probability that the project will take 16 or more weeks to complete?

- A) less than or equal to 40%
- B) greater than 40% but less than or equal to 55%
- C) greater than 55% but less than or equal to 70%
- D) greater than 70%

Answer: D

Reference: Planning Projects
 Difficulty: Moderate
 Keywords: project, expected completion time
 AACSB: Analytic skills

110) Using Table 2.14, if the expected time for activity B is changed to 18 weeks, by how many weeks will the project's expected completion time increase?

- A) It will not change.
- B) It will increase by one or two weeks.
- C) It will increase by three or four weeks.
- D) It will increase by more than four weeks.

Answer: C

Reference: Planning Projects
 Difficulty: Moderate
 Keywords: project, expected completion time
 AACSB: Analytic skills

Table 2.15

You are responsible for managing a project with the following activities (times are given in days).

Activity	Expected Time	Immediate Predecessor(s)
A	3	---
B	6	---
C	2	---
D	5	A
E	2	C
F	7	A
G	4	B, D, E

111) Using, Table 2.15, what is the critical path and expected completion time for this project?

- A) A–F; 12 days
- B) A–D–G; 12 days
- C) B–G; 10 days
- D) C–E–G; 8 days

Answer: B

Reference: Planning Projects
 Difficulty: Moderate
 Keywords: critical path
 AACSB: Analytic skills

112) Using, Table 2.15, which of the following activities has the largest amount of slack?

- A) Activity B
- B) Activity D
- C) Activity E
- D) Activity F

Answer: C

Reference: Planning Projects

Difficulty: Moderate

Keywords: activity slack

AACSB: Analytic skills

114) The probability that a project will be completed by its earliest expected completion date is:

A) 50 percent.

B) 95 percent.

C) 100 percent.

D) impossible to determine.

Answer: A

Reference: Planning Projects

Difficulty: Moderate

Keywords: probability, project completion date

AACSB: Analytic skills

115) If the sum of the variances on the critical path (and all other network paths) is equal to zero, what is the probability that the project will be completed by its earliest expected completion date?

A) 50 percent

B) 95 percent

C) 100 percent

D) It cannot be determined.

Answer: C

Reference: Planning Projects

Difficulty: Moderate

Keywords: critical path expected variance, earliest expected completion date

AACSB: Analytic skills

121) A good risk management plan will contain which of these elements?

A) the project manager's tolerance level for risk

B) the number of acceptable outcomes

C) a prediction of the impact of each risk on the project

D) the number of unacceptable outcomes

Answer: C

Reference: Planning Projects

Difficulty: Moderate

Keywords: risk management plan

122) A plan that identifies key threats to a project and prescribes ways to circumvent them is called a:

- A) project plan.
- B) contingency plan.
- C) backup plan.
- D) risk management plan.

Answer: D

Reference: Planning Projects

Difficulty: Moderate

Keywords: risk management

123) Which of these is NOT one of the four categories of project risk?

- A) cost/benefit
- B) operations
- C) strategic fit
- D) project team capability

Answer: A

Reference: Planning Projects

Difficulty: Moderate

Keywords: risk management

124) Information accuracy relative to the completeness of the work breakdown structure and communication of timely information affect the:

- A) strategic fit risk of a project.
- B) operations risk of a project.
- C) service/product attribute risk of a project.
- D) cost/benefit risk of a project.

Answer: B

Reference: Planning Projects

Difficulty: Moderate

Keywords: risk management, operations

HRIM 350 Teaching Assistant Job Description

Section Available for sign up: T, Th 9:45-11, 2:30-3:45, 4-5:15

Perform duties that help plan and implement HRIM 350 curriculum. Enhance the teacher's time with students by organizing assessment exercises and providing homework and tutorial assistance to class participants. Assist in developing meaningful practical exercises on EXCEL in SimQuik to reinforce student proficiency in technological applications. Research additional resources including, audio visual materials and case studies, which are relevant and can be used to reinforce course curriculum.

Tasks

- Attend one of the HRIM350 lectures every Thursday.
- Assist teacher by helping students with MyOMLab assignments.
- Assist teacher with office hours 75 minutes per week.
- Assist teacher is creating unit lab projects in SimQuik, and EXCEL
- Develop the answer key for the unit lab projects
- Manage, organize and alphabetize, lab submissions
- Discover videos and course exercises, case studies that enhance the lecture.

SimQuick

Process Simulation with Excel

Second Edition

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Preface

Motivation

Process simulation is one of the conceptually simplest and most often applied techniques in Operations Management and Management Science, yet it has not been widely taught to business students. A key reason for this is that performing process simulation requires the use of software, and the software that is available tends to be complex and expensive. Even the more graphics-based packages, although often beautifully designed, frequently have an enormous number of features that place an unnecessary burden on students (and instructors) in classes that are not devoted to simulation.

SimQuick is a computer package for process simulation that is easy to learn (most of its features can be learned in under an hour of class time or independent reading) and inexpensive. It is aimed primarily at business students and managers who want to understand process simulation and be able to quickly analyze and improve real-world processes. SimQuick is flexible in its modeling capability; that is, it is not a “hardwired” set of examples; it requires true modeling. In addition, SimQuick runs in the widely-known Microsoft Excel spreadsheet environment (it is an ordinary Excel 2000 file with some hidden macros). Hence, users of Excel will already be familiar with much of the interface, and the results are already in the spreadsheet, ready for analysis.

This booklet accompanies SimQuick. It presents the basics of process simulation by having the reader construct, run, and analyze simulations of realistic processes using SimQuick. Chapter 1 contains a brief introduction to process simulation and the concepts underlying SimQuick. The next four chapters contain a variety of examples of process simulation. These examples are organized as follows: waiting lines (Chapter 2), inventory in supply chains (Chapter 3), manufacturing (Chapter 4), and project management (Chapter 5). Each example is followed by an exercise. All of the examples and exercises have been designed with business students and managers in mind.

In addition to presenting the basics of process simulation, this booklet introduces a number of *key concepts* from the analysis of processes: service level, cycle (or waiting) time, throughput, bottleneck, batch size, setup, priority rule, and so on. The booklet also introduces some *key trade-offs* from the analysis of processes: number of servers vs. service level, inventory level vs. service level, working time variability vs. throughput, batch size vs. service level, and so on. These notions are presented through computer models that the reader constructs and experiments with using SimQuick.

How to use the booklet

The booklet is self-contained; that is, all technical terms involving processes or operations are defined. (The reader is assumed to have a rudimentary understanding of how to use Excel on the level of knowing how to save files and how to enter information into cells.) The chapters are

organized around typical topics in Operations Management and Management Science courses so that this booklet can easily be used in these types of courses.

The reader should first read Chapter 1 (which contains a conceptual explanation of process simulation and SimQuick) and Section 1 of Chapter 2 (which contains a step-by-step explanation of how to use SimQuick by completely working through a simple example). After this the reader has a lot of freedom: The remaining sections in Chapters 2, 4, and 5 can be read in any order (except Example 7 should be read before Example 11). However, the sections in Chapter 3 build on one another and should be read in sequence.

The bulk of Chapters 2 through 5 consists of examples of processes that can be modeled using SimQuick. When needed, an example discusses how to build the SimQuick model. Each example is followed by an exercise.

A very quick treatment of process simulation could consist of working through Example/Exercise 1, followed by Examples/Exercises 2-4 for waiting lines and Example/Exercise 18 for manufacturing. With just this material, many real-world processes can be easily modeled and studied. Adding Example/Exercise 7 with Decision Points would allow the modeling of many more types of processes. Adding Examples/Exercises 12 and 13 would provide a quick introduction to the modeling of inventory in supply chains.

The booklet contains four appendices. Appendix 1 contains a list of the basic steps in conducting a simulation project. Appendix 2 contains tips on how to enhance SimQuick by using some of the features built into Excel. These tips are tied to examples in the booklet. Appendix 3 describes how to use a feature of SimQuick called Custom Schedules. Appendix 4 contains a succinct description of all the features of SimQuick and can be used for reference. Hence, the features of SimQuick are presented in two ways: through examples and in a reference manual.

Solutions to exercises: Instructors are provided with complete solutions (in Excel) to every exercise. These solutions may be distributed to the students at the instructor's discretion.

Web site: Refer to **www.prenhall.com/hartvigsen** for additional information on SimQuick, this booklet, technical support, and process simulation in general.

Over the past four years, I have used SimQuick in the classroom with executive MBAs, full-time MBAs, and undergraduate business students. After a one-hour introduction in class (basically, covering Section 1 of Chapter 2), the students successfully solve a variety of modeling problems with little help. This introduction also serves as a launching pad for term projects, whereby students identify and analyze real-world processes of their choice.

New to the 2nd edition:

The SimQuick software in the second edition has been changed in a number of ways from its first incarnation. These changes include the following (the manual in Appendix 4 contains all the features of SimQuick):

- SimQuick runs considerably more quickly. This allows more simulations to be performed in a reasonable amount of time, which leads to more accurate results. As a result, more simulations are allowed.
- SimQuick accepts larger models: up to 250 elements (new tables can be added by pasting copies of the 20 tables given for each element).
- Essentially arbitrary statistical distributions can be constructed using discrete distributions (introduced in Example 5).
- A “View Model” button has been added to the Control Panel. Clicking this button produces a copy of the tables used in the model in a format convenient for printing and logic checking.
- The initial number of objects at Buffers can be generated randomly. This allows models to capture demand patterns that change over time (see Example 6).
- Decision Points can have up to ten outputs.
- The simulation details appearing on the Results worksheet can be suppressed, which allows SimQuick to run faster, especially when many simulations are performed.
- The method for using Custom Schedules for modeling arrivals and departures has been simplified (see Appendix 3).

The text has also been updated; these changes include the following:

- Four completely new models have been added. Two of these models deal with services: airport security and a hospital emergency room (Examples 7 and 9); and two deal with inventory in supply chains: a base stock policy used in an appliance store (Example 16) and a periodic review policy used in a department store (Example 17).
- The key introductory section (Section 1 of Chapter 2) on how to use SimQuick has been streamlined (by removing the introduction of Decision Points). As a result, learning the basics of SimQuick is even easier than in the first edition. This makes possible a shorter treatment of process simulation, if the instructor wishes.
- Decision Points are now introduced in a separate section (Section 3 of Chapter 1) via an airport security example. This example is more timely than the ATM bank example from the first edition, which has been removed. Thus the topic of Decision Points may be skipped altogether.
- The issue of how to model observed data with a statistical distribution, particularly when it does not follow a built-in SimQuick distribution, is an important topic and is addressed as a new variation on the introductory bank example (see Example 5).
- The initial conditions of a simulation (particularly how much inventory is initially in the buffers) are of critical importance. This topic is now explicitly dealt with as a new variation on the bank example (see Example 6).

- An important issue in manufacturing environments is that, over the long run, inventory will pile up to fill the available space. This issue is now addressed in the exercise on linear flow processes (see Exercise 18).
- The general model for project management has been simplified.
- An appendix has been added that lists the basic steps in a simulation project.

To Nancy

Acknowledgments

The design of SimQuick was inspired by the breakthrough simulation product XCELL, so I want to begin by acknowledging its authors: Richard Conway, William L. Maxwell, John O. McClain, and Steven L. Worona. Next, I want to thank my editor Tom Tucker at Prentice Hall. He has been indispensable in helping me to define this project and bring it to fruition. I want to thank the following reviewers for their careful reading and excellent suggestions on a draft of the first edition: Sue Abdinnour-Helm, Arundhati Kumar, Larry Meile, Kelly B. Nichols, Jeffrey L. Rummel, and Billy M. Thornton. I'd also like to thank the reviewers of the second edition for their thoughtful suggestions based on their classroom use of SimQuick: C.H. Aikens, Stephen N. Chapman, Christos Koulamas, Michael Schwartz, and Billy M. Thornton. I still haven't been able to implement all the great ideas I've received; I wish there was more time! I want to thank my colleagues Lee Krajewski and Hojung Shin for a number of helpful discussions of this project. I want to thank Kristin Ann Steffek for her copy editing on the first edition. Finally, I want to thank my many students (executive MBAs, full-time MBAs, and undergraduate business students) of the past four years who have made many helpful suggestions during the development of this software and booklet. In particular, I'd like to single out Douglas Wait, Ben Gaw, Patrick Dahman, Xuejun Zhang, and Katy Delany for their insights.

Chapter 1: Introduction

Learning objectives:

- To understand the idea of process simulation
- To understand the general structure of SimQuick models
- To understand the role of uncertainty in process simulation
- To get SimQuick running on your computer

Overview

This chapter contains a brief definition of process simulation, an overview of how SimQuick works, and instructions for how to run SimQuick on a computer. Most of the details of how to use SimQuick are covered in Chapter 2, Section 1.

Section 1: What is process simulation?

Process simulation is a widely used technique for improving the efficiency of processes. Following are some examples of processes and some related efficiency problems that can be addressed with process simulation (and SimQuick):

Examples of processes:

- People moving through a bank or post office
- Telephone calls moving through a call center
- Parts moving along an assembly line or through a batch process or a job shop
- Inventory moving through a retail store or warehouse
- Products moving by trucks, trains, or ships through a supply chain
- A software development project

Examples of efficiency problems:

- How many tellers are needed to keep waiting times at a bank reasonably short?
- What effect will a new answering system have on how long customers wait at a call center?
- What effect will a new just-in-time (JIT) inventory system have on the number of units produced per day on an assembly line?
- What is the best batch size to use in a factory?
- What is the best delivery policy for goods at a warehouse?
- How much inventory should be kept on the shelves in a grocery store?
- How many machines should each worker operate in a manufacturing cell?
- How should inventory be distributed along a supply chain?
- What is the expected duration of a software development project?

With process simulation, you begin by building a computer model of a real-world process. Your initial goal is to have the computer model behave in a way similar to the real process, except much more quickly. You then try out various ideas for efficiency improvements on the computer model and use the best ideas on the real process. Thus, a lot of time and money can be saved.

Simulation is particularly useful when there is uncertainty in a process (e.g., the arrival times of customers, the demand for a product, the supply of parts, the time it takes to perform the work, the quality of the work). With uncertainty, it is often difficult to predict the effects of making changes to a process, especially if there are two or more sources of uncertainty that interact.

Section 2: What does SimQuick do?

SimQuick allows you to perform process simulation within the Excel spreadsheet environment. There are three basic steps involved in using SimQuick (for a more detailed list of steps, see Appendix 1):

1. Conceptually build a model of the process using the building blocks of SimQuick (introduced below).
2. Enter this conceptual model into SimQuick (this is done by filling in tables in a special Excel spreadsheet).
3. Test process improvement ideas on this computer model.

The building blocks in SimQuick are *objects*, *elements*, and *statistical distributions*. *Objects* typically represent things that move in a process: people, parts in a factory, paperwork, phone calls, e-mail messages, and so on. *Elements* typically represent things that are stationary in a process. There are five types of elements:

Entrances: This is where objects enter a process. Entrances can represent a loading dock at a warehouse, a door at a store, and so on. You must specify when objects arrive at an Entrance and in what numbers (using a statistical distribution or an explicit “custom” schedule).

Buffers: This is where objects can be stored. Buffers can represent a location in a warehouse or factory where inventory can be stored, a place where people can stand in line at a post office, a memory location in a computer for e-mail messages, and so on. You must specify how many objects a Buffer can hold.

Work Stations: This is where work is performed on objects. Work Stations can represent machines in a factory, cashiers in a store, operators at a call center, computers in a network, and so on. You must specify how long a Work Station works on an object (using a statistical distribution).

Decision Points: This is where an object goes in one of two or more (up to 10) directions. Decision Points can represent the outcome of a quality control station, different routings in the processing of a mortgage application, and so on. You must specify a rule for deciding in which direction an object goes (using a statistical distribution).

Exits: This is where objects leave a process. Exits can represent a loading dock at a warehouse, a customer buying a product at a store, and so on. You must specify when objects depart from an Exit and in what numbers (using a statistical distribution or an explicit “custom” schedule).

The third building block, *statistical distributions*, is discussed in the next section.

A SimQuick model describes how the objects move between the elements. You have a great deal of freedom in constructing models using the building blocks of SimQuick; hence, you can

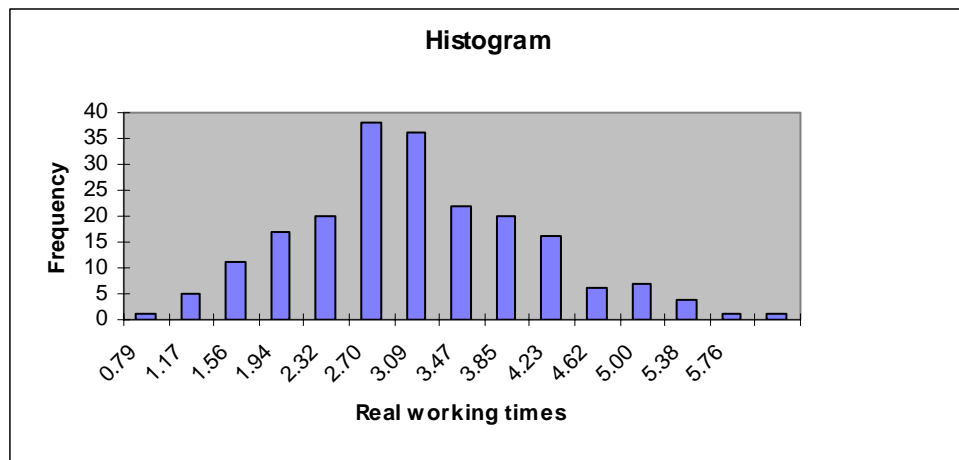
model a variety of real processes. However, because the number of building blocks is small and they are simple, some complex real-world processes will be difficult to model in SimQuick. For such situations, a more powerful simulation package may be needed.

When a SimQuick simulation begins, a “simulation clock” starts in the computer and runs for the designated duration of the simulation. While this clock is running, a series of *events* sequentially takes place. There are three types of events in SimQuick: the arrival of objects at an Entrance, the departure of objects from an Exit, and the finish of work on an object at a Work Station. Whenever an event occurs, SimQuick moves objects from element to element as much as possible. SimQuick keeps track of various statistics during the simulation (e.g., the mean inventory at each Buffer) so you can analyze what happened when the simulation is over.

Section 3: How does SimQuick incorporate uncertainty?

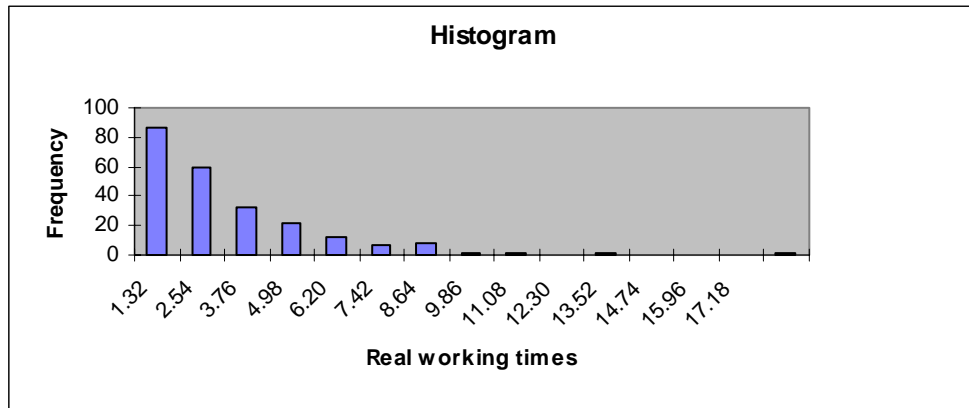
As in a real process, the timing of events in SimQuick can be uncertain or random. Here is an example: Suppose you are entering a model into SimQuick that contains a Work Station. You must specify how much time this Work Station works on an object. What do you do if this time varies in a random fashion at the real work station? A typical approach is to observe the real work station and record a list of real working times. Following are four common possibilities and the ways in which SimQuick models them.

Case 1: The list of real working times has a “bell-shaped” histogram:



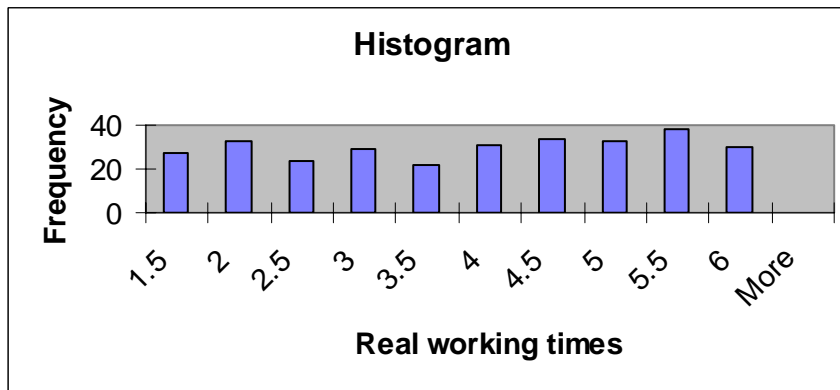
Then, a list of numbers taken randomly from a normal distribution, with the same mean and standard deviation as your list, is likely to have a similar-looking histogram. So, for example, if your list of numbers has a mean of 3 minutes and a standard deviation of 1 minute, then you would enter $Nor(3,1)$ into SimQuick. Thus, you are instructing SimQuick to randomly pick each working time for this Work Station from the normal distribution with mean of 3 and standard deviation of 1.

Case 2: The list of real working times has a histogram that is “skewed to the right” as follows:



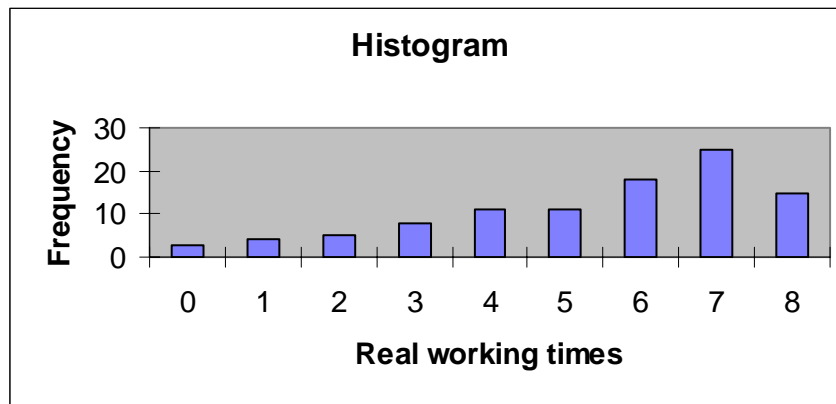
Then, a list of numbers taken randomly from an exponential distribution, with the same mean as your list, is likely to have a similar-looking histogram. So, for example, if your list of numbers has a mean of 3 minutes, then you would enter $\text{Exp}(3)$ into SimQuick. Thus, you are instructing SimQuick to randomly pick each working time for this Work Station from the exponential distribution with mean of 3.

Case 3: The list of real working times has a histogram whose bar heights are all roughly the same:



Then, a list of numbers taken randomly from a uniform distribution, with the same minimum and maximum values as your list, is likely to have a similar-looking histogram. So, for example, if your list of numbers has minimum and maximum values of 1 and 6, then you would enter $\text{Uni}(1,6)$ into SimQuick. Thus, you are instructing SimQuick to randomly pick each working time for this Work Station from the uniform distribution with minimum and maximum values of 1 and 6.

Case 4: The list of real working times is described by a histogram with at most ten bars:



A discrete distribution in SimQuick has up to ten output numbers, each chosen with a specified probability. To model a histogram as above, we choose one number from each interval as an output number and we set its probability to be proportional to the height of its bar. Then, a list of numbers taken randomly from this output list, according to the associated probabilities, is likely to have a similar-looking histogram. In SimQuick this is modeled with the Dis function.

The details of how to use the “Nor,” “Exp,” “Uni,” and “Dis” functions are provided in Chapters 2 through 5 and Appendix 4. To input fixed schedules, see Appendix 3.

Section 4: System requirements and “installation”

System requirements: To run SimQuick, you must have a PC that is running Microsoft Excel, version 2000 or later. Excel can be run from your hard drive or from a network.

“Installing” and running SimQuick: The disk accompanying this booklet contains a file called “SimQuick-v2.xls.” It is a standard Excel spreadsheet file (with some special worksheets and hidden macros). To use SimQuick, simply launch the application Excel and, within Excel, open your copy of SimQuick-v2.xls (see note below). You are now ready to go!

It is probably most convenient to put a copy of SimQuick-v2.xls on your computer or network space and open this copy when you want to use SimQuick.

Note: When opening SimQuick-v2.xls, you may see a window with the message: “The workbook you are opening contains macros...” If this occurs, just click the “Enable macros” button. If Excel does not allow you to enable the SimQuick macros, do the following: Look under Tools / Macro / Security / Security Level. If the level is set at high, change it to medium.

Saving a SimQuick model: After opening SimQuick-v2.xls, you may save your work at any time just as you do with any Excel spreadsheet: Simply click on “Save As” under the “File” menu, rename SimQuick-v2.xls., and specify a location on your computer or network space.

If a problem arises with your copy of SimQuick-v2.xls (e.g., the formatting gets changed or a worksheet gets deleted), just replace it with a fresh copy from the disk that accompanies this booklet.

Chapter 2: Waiting Lines

Learning objectives:

- To understand the basics of using SimQuick
- To model, simulate, and analyze a variety of waiting line processes
- To understand the following performance measures: service level, mean cycle (or waiting) time, and mean inventory (or number of customers in line)
- To analyze the trade-off between number of servers and service level
- To understand the SimQuick elements: Entrances, Work Stations, Buffers, and Decision Points
- To understand the SimQuick statistical distributions: Nor, Exp, and Dis
- To understand the advanced SimQuick features: resources and priorities

Overview

In this chapter, we consider waiting line processes (also called queueing systems). In a typical process of this type, customers arrive at a service in a random fashion. They may be arriving at a bank (as in our first example), a fast-food restaurant, a car wash, or even via the phone at a 1-800 customer support center. After arriving, the customers typically get in a line, wait awhile, and then are served in some way. They may then leave the process or get in another line to be served again later. Management is typically interested in determining the right number of servers or adjusting the time to serve customers so they don't have to wait too long and so the fraction of customers able to enter the process is sufficiently high. Hence, the key performance measures of *mean cycle* (or *waiting*) *time* and *service level* are introduced in this chapter.

The first section of this chapter discusses a simple waiting line process: a bank. This section is a "must read" because it contains a thorough description of how to use SimQuick and many of its features. In particular, this section shows how to model a process with SimQuick elements, how to enter a model into SimQuick, how to run a number of simulations, and how to analyze the results. The key SimQuick elements called Entrances, Buffers, and Work Stations are introduced, as well as the statistical distributions Nor and Exp.

The second section contains examples that illustrate the variety of waiting line processes and associated issues that can be modeled with SimQuick. Examples 2, 3, and 4 are straightforward variations of the basic bank model. They involve a grocery store, a call center, and a fast-food restaurant. Examples 5 and 6 extend the basic bank model in two ways. Example 5 introduces the notion of *discrete distributions* and how they can be used in SimQuick. With these distributions we can model processes where SimQuick's built-in distributions (e.g., the normal or exponential distributions) are not appropriate. Example 6 addresses the issue of how to model a waiting line process where the demand pattern changes over time.

The third section introduces a new SimQuick element called a Decision Point. With this element we route objects in models in several different directions. The basics are presented in Example 7, an airport security system. Two more examples follow: a department of motor vehicles and a hospital emergency room.

The last section introduces two additional features of SimQuick: *resources* and *priorities*. With these features, more complex waiting line processes can be modeled. This section contains two examples of fast-food restaurant processes.

Section 1: Solving a problem with SimQuick

Example 1: A bank

Consider the following process within a small bank: customers enter the bank, get into a single line, are served by a teller, and finally leave the bank. Currently, this bank has one teller working from 9 A.M. to 11 A.M. Management is concerned that the wait in line seems to be too long. Therefore, they are considering two process improvement ideas: adding an additional teller

during these hours or installing a new automated check-reading machine that can help the single teller serve customers more quickly.

Modeling the process (with a process flow map)

Our first step in modeling this process is to construct a *process flow map* of the bank using the elements of SimQuick (see below). This is a conceptual step, so it can be done anywhere you prefer (e.g., on a piece of paper or on a computer). (The map below was made using some simple drawing tools within Excel; see Appendix 2 for details.) The flow map for the bank contains four elements, which are represented by boxes. For each element, the top line indicates the element type and the bottom line is a name (we follow this convention throughout the booklet). In this case, objects represent people and the arrows on the map indicate how the objects move between the elements. Note that the final element is a Buffer called Served Customers. An object entering this Buffer corresponds to a customer leaving the bank. The Buffer gives us an easy way to count our simulated served customers. You might have expected to see an Exit here, but with an Exit, objects leave the model according to a specified schedule instead of when they are ready to leave. (For example, an Exit can be used to model finished goods leaving a factory on trucks that depart periodically according to a schedule; Exits are introduced in Chapter 3.)

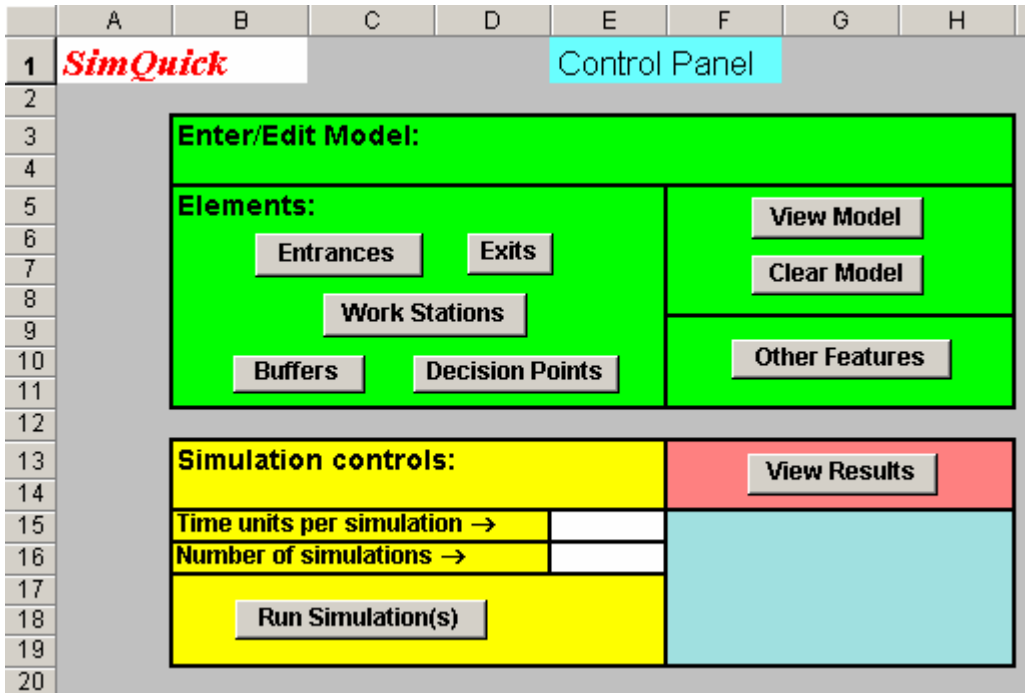
Process Flow Map for Bank



Entering the model into SimQuick

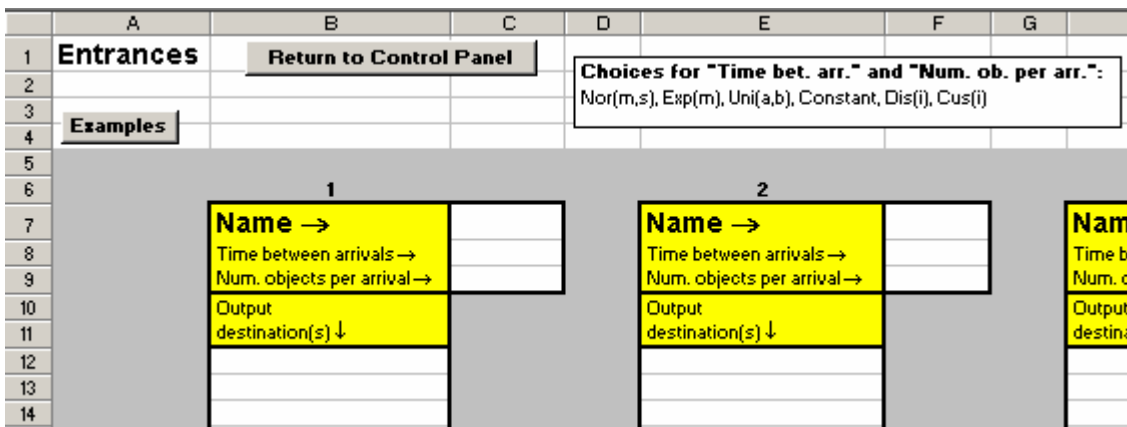
We're now ready to start entering our model into SimQuick.

Launch the application Excel on your computer and, within Excel, open your copy of the SimQuick-v2.xls file. This file is on the disk accompanying this booklet; you can copy it or save it to your computer or network space (see Chapter 1, Section 4, for details). You should see the following screen, which is called the Control Panel:



You can save your work at any time. To do so, click on “File” in the menu and then “Save As.” Enter a new name (usually something to remind you of the process you are modeling) and designate a location on your computer or network space.

Observe that there are a number of buttons on the Control Panel. In particular, there is one button for each type of element. We will be clicking on these buttons to enter information for each element in our model. This can be done in any order, but let’s do it in the same order in which the objects move. So click on the “Entrances” button. You should see the following screen:



For each Entrance in your model, you must fill in one table (working from left to right). So let’s fill in table #1. To begin, type Door into the “Name” cell.

In the next cell down, we specify when objects arrive at this Entrance. Traditionally, this is done by specifying the amount of time between arrivals (the so-called *interarrival time*). To do this, suppose we have spent some time observing the door of our bank and have compiled a list of actual times between customer arrivals. We discover that this list of numbers has a mean of 2 minutes and a histogram with the same shape as an exponential distribution (see Chapter 1, Section 3). (Thus, customers tend to arrive at the bank every 2 minutes.) The interarrival times of customers can then be approximated by numbers, generated randomly, from an exponential distribution with a mean of 2. Thus, we enter Exp(2) in this cell.

General principle: Interarrival times of people at services can often be closely approximated by the exponential distribution.

In the next cell down, we specify how many objects arrive at a time. In this case, let's assume people usually arrive at the bank one at a time; thus, we enter a 1 here. (If there was uncertainty about the number of objects entering, we could enter one of our four distributions; in this case, SimQuick would round to give integers.)

Next, we specify where objects go after this Entrance. From the process flow map, we see that objects go next to the Buffer whose name is Line, so under "Output destination(s)" enter Line (these rows should be filled in from the top down). The table should now look as follows:

1	
Name →	Door
Time between arrivals →	Exp(2)
Num. objects per arrival →	1
Output destination(s) ↓	
Line	

Now click on "Return to Control Panel," followed by "Buffers." You should see the following screen:

	A	B	C	D	E	F
1	Buffers	Return to Control Panel				
2				Choices for "Initial # objects":		
3				Nor(m,s), Exp(m), Uni(a,b), Constant, Dis(i)		
4	Examples					
5						
6		1		2		
7		Name →		Name →		
8		Capacity →		Capacity →		
9		Initial # objects →		Initial # objects →		
10		Output destination(s) ↓	Output group size ↓	Output destination(s) ↓	Output group size ↓	
11						
12						
13						
14						

In table #1, enter the name Line. In the next cell down, we must specify the maximum number of objects that can fit into this Buffer at one time. This is a small bank, so let's say we can estimate this size as 8. So enter 8. The next cell down asks for the initial number of objects in this Buffer at the beginning of each simulation. Since the bank opens at 9 A.M., we enter 0 here. Now we have to specify where objects go next, the "Output destination(s)"; so enter Teller here. You are also asked to specify the "Output group size." Because people leave the line one at a time, enter a 1 here. If people were leaving the line two at a time, then you would enter a 2 here (this feature is useful when, for example, you are putting objects into batches in a factory). The table should look as follows:

1	
Name →	Line
Capacity →	8
Initial # objects →	0
Output destination(s) ↓	Output group size ↓
Teller	1

Note: If, at some time during the simulation, an object arrives at the Entrance and the Buffer is full (i.e., it contains 8 objects), then the object does not enter the process. Furthermore, it does not enter the process later in the simulation; hence, it effectively goes away. For our bank example, this represents a customer who arrives at the bank but immediately leaves because the line is too long (this is sometimes referred to as *balking*).

Now, click on the "Return to Control Panel" button followed by the "Work Stations" button. You should see the following screen:

The screenshot shows a spreadsheet-like interface with columns A through G and rows 1 through 13. In row 1, column A is labeled "Work Stations". In row 2, column C contains a button labeled "Return to Control Panel". In row 3, column F contains a text box titled "Choices for 'Working time':" with the text "Nor(m,s), Exp(m), Uni(a,b), Constant, Dis(i)". In row 4, column A contains a button labeled "Examples". In row 6, column C is labeled "1". In row 7, column C contains a table with the following structure:

Name →	Working time →

In row 9, column C contains a table with the following structure:

Output destination(s) ↓	# of output objects ↓	Resource name(s) ↓	Resource # units needed ↓

In row 9, column F contains a table with the following structure:

Output destination(s) ↓	# of output objects ↓

In the first table, enter the name Teller. Next, we describe the "Working time" of this teller. Let's assume we have observed tellers in action for several days and discovered that their service time per customer can be approximated by numbers, generated randomly, from a normal distribution with a mean of 2.4 minutes and a standard deviation of .5 minutes. So enter Nor(2.4,.5) for the "Working time."

For “Output destination(s),” enter Served Customers. For “# of output objects,” enter 1 because people leave the teller one at a time. (If, for example, this Work Station represented a machine that split objects into identical pieces, then we would enter a bigger integer.) The final two columns are not relevant for this model, so you can leave them blank. The table should look as follows:

1			
	Name →	Teller	
	Working time →	Nor(2.4,.5)	
Output destination(s) ↓	# of output objects ↓	Resource name(s) ↓	Resource # units needed ↓
Served Customers	1		

Now click on the “Return to Control Panel” button followed by the “Buffers” button. In table #2, enter the name Served Customers. For the “Capacity,” enter the word Unlimited, which sets the capacity to a very large number that is sure to exceed the number of customers served from 9 A.M. to 11 A.M. Enter 0 as the “Initial # objects.” Objects in this Buffer have no output destination, so the Buffer tables should look as follows:

1		2	
Name →	Line	Name →	Served Customers
Capacity →	8	Capacity →	Unlimited
Initial # objects →	0	Initial # objects →	0
Output destination(s) ↓	Output group size ↓	Output destination(s) ↓	Output group size ↓
Teller	1		

Click on “Return to Control Panel.”

The Control Panel contains the last two cells to be filled in. “Time units per simulation” asks us for the duration of each simulation. Because each simulation represents two hours and the time units we have been using for the Entrance and Work Station already refer to minutes, enter 120 here.

General principle: A time unit in SimQuick can represent any real time interval: 1 second, 3.5 seconds, 1 minute, 1 hour, 2.5 days, and so on. However, time units must be used consistently throughout a SimQuick model (in all statistical distributions and in “Time units per simulation”).

“Number of simulations” asks us for the number of times we want to simulate the 2-hour period. Because each simulation is based on randomly generated numbers, each simulation can yield different results. Hence, you typically want to do more than one simulation and to analyze the results by using means (and possibly some other statistics). Let’s do 30 simulations. This part of the Control Panel should look as follows:

Simulation controls:	
Time units per simulation →	120
Number of simulations →	30
<input type="button" value="Run Simulation(s)"/>	

General principle: As the amount of uncertainty in a model increases (i.e., the number of statistical distributions used and the amount of their variability), the number of simulations should increase.

We are now ready to go, so click on the “Run Simulation(s)” button. It will probably take a few seconds (this depends on the speed of your computer). It will take longer as you increase the number of elements, the time units per simulation, and the number of simulations (see Appendix 4 for limits). Some messages will appear (in the lower right portion of the Control Panel), telling you what SimQuick is doing.

If SimQuick seems to be taking too long, you may hit the Esc key at any time to abort. If SimQuick is running after 30 seconds, a window will open asking you how you want to proceed.

If you made some typing mistakes, SimQuick will indicate where the problem is with an error message. You should correct the problem and then hit “Run Simulation(s)” again. A common mistake is entering an “Output destination” for an element that is not exactly the same as the “Name” of the element where you want the outputs to go. (Watch for extra spaces at the end, and make sure uppercase and lowercase match.)

Clicking the “View Model” button on the Control Panel brings up a worksheet containing copies of all the element tables defining your model. This provides a convenient way to check the logic of your model and to print it. You cannot make changes to your model on this page.

Interpreting SimQuick results

When the simulations are complete, click on the “View Results” button. You should see a table similar to the following; the exact numbers will probably be different because SimQuick generated random numbers during the simulations. Your table will have 30 numbered columns; we only display the first five here.

Simulation Results								
Element types	Element names	Statistics	Overall means	Simulation number(s) 1	2	3	4	5
Entrance(s)	Door	Objects entering process	53.88	58	56	55	57	48
		Objects unable to enter	6.70	7	3	6	18	0
		Service level	0.90	0.89	0.95	0.90	0.76	1.00

Work Station(s)	Teller	Final status	NA	Working	Working	Working	Working	Not Working
		Final inventory (int. buff.)	0.00	0	0	0	0	0
		Mean inventory (int. buff.)	0.00	0.00	0.00	0.00	0.00	0.00
		Mean cycle time (int. buff.)	0.00	0.00	0.00	0.00	0.00	0.00
		Work cycles started	48.43	51	49	49	50	48
		Fraction time working	0.96	0.98	1.00	0.97	0.97	0.96
		Fraction time blocked	0.00	0.00	0.00	0.00	0.00	0.00
Buffer(s)	Line	Objects leaving	48.43	51	49	49	50	48
		Final inventory	5.45	7	7	6	7	0
		Minimum inventory	0.00	0	0	0	0	0
		Maximum inventory	7.77	8	8	8	8	7
		Mean inventory	4.47	5.03	4.64	3.05	6.43	3.42
		Mean cycle time	11.04	11.83	11.36	7.46	15.43	8.54
	Served Customers	Objects leaving	0.00	0	0	0	0	0
		Final inventory	47.44	50	48	48	49	48
		Minimum inventory	0.00	0	0	0	0	0
		Maximum inventory	47.44	50	48	48	49	48
		Mean inventory	22.75	22.84	24.19	22.71	23.29	22.89
		Mean cycle time	Infinite	Infinite	Infinite	Infinite	Infinite	Infinite

Although, for the most part, the meaning of these results may be obvious, it's worth discussing them in detail one time. In addition to summarizing the behavior of the model over time, the results also allow you to track down every object that was present during each simulation.

The first two columns contain the element types and names in the SimQuick model. The third column contains the types of statistics collected during the simulations. Slightly different statistics are collected for each type of element. The columns labeled 1 through 5 contain the statistics collected for the first five of the 30 simulated 2-hour time periods. Each number in the column labeled "Overall means" is the mean of the 30 numbers to its right in the complete worksheet.

For the first simulation, let's consider the element Door, which is an Entrance. We learn that 58 objects entered the model, whereas 7 were unable to enter the model. This means that during our first simulated two hours, 65 (= 58 + 7) objects arrived at the model, 58 of these entered Line, and 7 left the process (or balked) because Line was full. As we noted above, these 7 objects did not return to the model during the simulation (if we wanted them to, then we would have to alter the model). The simulated *service level* is computed by SimQuick using the following formula:

$$\text{Service level} = \frac{\text{Objects entering process}}{\text{Objects entering process} + \text{Objects unable to enter}}$$

Or, in this case, for simulation 1:

$$\text{Service level} = \frac{58}{58 + 7} = .89$$

In words, the service level for each simulation is the fraction of demand that is satisfied.

Again for the first simulation, let's next consider the element Line, which is a Buffer. First, we notice that 51 objects left the Line during the simulation and went to the Teller. We see that at the end of the simulated two hours there were 7 objects left in the Line. Observe that $51 + 7 = 58$ is the number of objects that entered the model at Door. You can also read the maximum, minimum, and mean number of objects in the Line during the simulation (referred to by the general term "inventory"). Finally, we see that the "Mean cycle time" was 11.04. The *mean cycle time* of an object at a Buffer during a simulation is the mean number of time units during the simulation that an object spent in the Line. In terms of our model, this represents the mean waiting time of a person in line.

Next, let's consider the statistics collected for the element Teller, which is a Work Station:

"Final status" can be either Working or Not working, and simply describes what the Work Station is doing at the end of the simulation. "Final inventory (int. buff.*)" refers to a small internal buffer that Work Stations have. A Work Station has enough room to hold one object on which it has finished working (if it outputs more than one object per work cycle, then this number of objects is the capacity of this internal buffer). The Teller's final inventory (int. buff.) is always 0 because it can always pass finished objects to the Buffer called Served Customers. A Work Station will retain a finished object in its internal buffer when it cannot be passed to an output destination (e.g., a Buffer that is full or another Work Station that is working). If a Work Station has some objects in its internal buffer, then it cannot start working on a new object until this inventory drops to zero. Hence, a Work Station with some inventory in its internal buffer is called *blocked*.

"Mean inventory (int. buff.*)" and "Mean cycle time (int. buff.*)" are statistics collected for the internal buffer and are analogous to the statistics we collect for Buffers. Note that "Mean cycle time (int. buff.*)" does not include the working time at the Work Station. These two statistics are equal to zero in all the simulations in this example.

"Work cycles started" indicates how many times the Work Station has begun working on an object, and "Fraction time working" indicates the fraction of the time of the entire simulation that the Work Station spent working (this is an important performance measure that is often called *utilization* in the context of machines in a factory). We see, for example, that the Teller is working 98% of the time during simulation 1 and all of the time during simulation 2.

"Fraction time blocked" indicates the fraction of the time of the entire simulation that the Work Station was blocked. In the bank example, the Teller is never blocked.

Interpreting the results for the Buffer called Served Customers is the same as for the Line. Note that the "Mean cycle time" is "Infinite" because no objects ever leave this Buffer.

Let's focus on those statistics that are probably of most interest to the management of this bank. These will typically be numbers in the "Overall means" column, each of which is the mean of the 30 numbers to its right in the complete spreadsheet.

At this bank, management is probably very interested in the statistic "Overall mean mean cycle time" of the Line (let's just refer to this as the "overall mean cycle time"). This represents the mean amount of time a customer is waiting in line. In this example, the overall mean cycle time is 11.04 time units.

A related statistic of interest is the "Overall mean cycle time" of the Line plus the Teller. This represents the mean amount of time a customer is both waiting and being served. This is easy to compute from the Results using the following formula:

Overall mean cycle time of Line plus Teller =

Overall mean cycle time of Line + Overall mean working time of Teller

The overall mean working time of Teller is simply 2.4 time units (from Nor(2.4,.5)). Hence, the overall mean cycle time of the Line plus Teller equals 13.44 (= 11.04 + 2.4) time units.

Another important statistic to management is the "Overall mean service level," which represents the fraction of customers that enter the bank. In this example, the overall mean service level is .90.

Also of interest is the "Overall mean mean inventory" (let's just refer to this as the "overall mean inventory") This represents the mean number of people in line and, in this example, is 4.47.

We can see how busy our simulated teller was by looking at the "Overall mean fraction time working," which in this example is .96.

A final statistic to consider is the "Overall mean final inventory" of Served Customers. This represents the total number of customers served during the simulated two hours and is sometimes referred to as the *throughput* of the process. In this example, the overall mean final inventory is 47.44.

Note: Consider any row of the Results worksheet. The number in the "Overall means" column of the Results worksheet is a summary statistic of all the numbers to its right. Another important statistical calculation with these numbers is a confidence interval, which contains the true overall mean (with a specified probability, under some reasonable assumptions). Finding a confidence interval (as well as other important statistics, like the standard deviation) is easy to do in Excel and is discussed in Appendix 2.

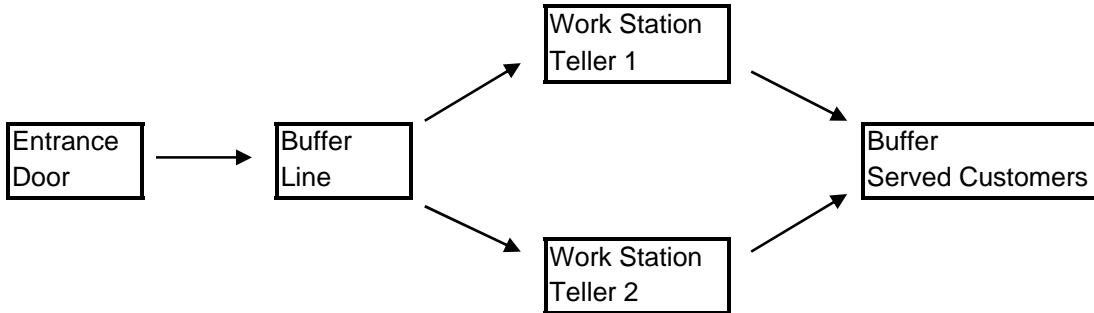
Before using this model to experiment with changes in the process, management should make sure the results are close to what is observed in the real bank; this is called checking the *validity* of the model. The most important statistic to check in this case is probably the overall mean inventory or the overall mean cycle time of Line. If the model is not valid, then the structure and

statistical distributions in the model need to be checked against the real process. Let's assume our model gives a good approximation of the real bank.

Improving the process, Variation 1

Let's see how much the overall mean cycle time of the Line can be reduced by adding a second teller to our model. Here is our new process flow map:

Process Flow Map for Bank, Variation 1



The two Work Stations operate as follows: Suppose during a simulation there is an object in Line. If Teller 1 is not working, then this object will go to Teller 1. If Teller 1 is working and Teller 2 is not working, then this object will go to Teller 2. If both Teller 1 and 2 are working, then the object remains in Line until one of them finishes.

Assume both tellers can serve customers at the same rate. Can you guess by how much the overall mean inventory and the overall mean cycle time of Line will drop from the one-teller case?

Here is the new SimQuick model (note that Line now has two output destinations):

Entrance:

1	
Name →	Door
Time between arrivals →	Exp(2)
Num. Objects per arrival →	1
Output	
Destination(s) ↓	
Line	

Buffers:

1		2	
Name →	Line	Name →	Served Customers
Capacity →	8	Capacity →	Unlimited
Initial # objects →	0	Initial # objects →	0
Output destination(s) ↓	Output group size ↓	Output destination(s) ↓	Output group size ↓
Teller 1	1		
Teller 2	1		

Work Stations:

1			
Name →	Teller 1		
Working time →	Nor(2.4,.5)		
Output destination(s) ↓	# of output objects ↓	Resource name(s) ↓	Resource # units needed ↓
Served Customers	1		

2			
Name →	Teller 2		
Working time →	Nor(2.4,.5)		
Output destination(s) ↓	# of output objects ↓	Resource name(s) ↓	Resource # units needed ↓
Served Customers	1		

Here are the results from running 30 simulations with SimQuick:

Simulation Results								
Element types	Element names	Statistics	Overall means	Simulation number(s)				
				1	2	3	4	5
Entrance(s)	Door	Objects entering process	60.32	64	57	60	65	55
		Objects unable to enter	0.10	0	0	0	0	0
		Service level	1.00	1.00	1.00	1.00	1.00	1.00
Work Station(s)	Teller 1	Final status	NA	Working	Not Working	Working	Working	Working
		Final inventory (int. buff.)	0.00	0	0	0	0	0

		Mean inventory (int. buff.)	0.00	0.00	0.00	0.00	0.00	0.00
		Mean cycle time (int. buff.)	0.00	0.00	0.00	0.00	0.00	0.00
		Work cycles started	33.76	36	32	34	37	32
		Fraction time working	0.67	0.70	0.68	0.69	0.73	0.66
		Fraction time blocked	0.00	0.00	0.00	0.00	0.00	0.00
	Teller 2	Final status	NA	Working	Not Working	Working	Working	Not Working
		Final inventory (int. buff.)	0.00	0	0	0	0	0
		Mean inventory (int. buff.)	0.00	0.00	0.00	0.00	0.00	0.00
		Mean cycle time (int. buff.)	0.00	0.00	0.00	0.00	0.00	0.00
		Work cycles started	26.29	28	25	25	27	23
		Fraction time working	0.52	0.56	0.51	0.50	0.50	0.50
		Fraction time blocked	0.00	0.00	0.00	0.00	0.00	0.00
Buffer(s)	Line	Objects leaving	60.05	64	57	59	64	55
		Final inventory	0.27	0	0	1	1	0
		Minimum inventory	0.00	0	0	0	0	0
		Maximum inventory	3.57	7	3	5	4	4
		Mean inventory	0.37	0.82	0.45	0.39	0.36	0.58
		Mean cycle time	0.71	1.53	0.95	0.80	0.67	1.27
	Served Customers	Objects leaving	0.00	0	0	0	0	0
		Final inventory	58.93	62	57	57	62	54
		Minimum inventory	0.00	0	0	0	0	0
		Maximum inventory	58.93	62	57	57	62	54
		Mean inventory	28.85	31.69	29.35	26.27	26.52	28.97
		Mean cycle time	Infinite	Infinite	Infinite	Infinite	Infinite	Infinite

As before, a key statistic of interest is the overall mean cycle time for Line. The overall mean is now .71 time units. This is a clear improvement. We could use a t-test to prove that it is significant (see Appendix 2), but it is not necessary in this case. The overall mean cycle time of the Line plus the Tellers has decreased to $.71 + 2.4 = 3.11$. Observe that the overall mean service level has significantly increased to 1. Hence, all our simulated customers were able to enter the bank in each simulation. Also notice that the overall mean inventory of Line has significantly dropped to .37 objects. We see that the overall mean fraction time working of each teller (.67 and .52 time units) has dropped quite a bit. Finally, the overall mean final inventory of Served Customers, or the throughput, has increased to 58.93.

Improving the process, Variation 2

Next, let's see how much the waiting time can be reduced by installing new automated check-reading machines, instead of a second teller. The process flow map for this variation is the same as our original map with one teller. The only difference in the SimQuick tables is the working time for the Work Station called Teller. By researching the effect of installing these machines in other banks, management believes that the service time per customer can be approximated by a normal distribution with a mean of 2 minutes and a standard deviation of .5 minutes. So we enter $Nor(2,.5)$ for the working time of Teller.

Here are the results for 30 simulations:

Simulation Results								
Element types	Element names	Statistics	Overall means	Simulation number(s)				
				1	2	3	4	5
Entrance(s)	Door	Objects entering process	58.07	53	56	63	64	62
		Objects unable to enter	2.39	3	0	2	3	4
		Service level	0.97	0.95	1.00	0.97	0.96	0.94
Work Station(s)	Teller	Final status	NA	Working	Working	Working	Working	Working
		Final inventory (int. buff.)	0.00	0	0	0	0	0
		Mean inventory (int. buff.)	0.00	0.00	0.00	0.00	0.00	0.00
		Mean cycle time (int. buff.)	0.00	0.00	0.00	0.00	0.00	0.00
		Work cycles started	54.30	49	56	57	57	60
		Fraction time working	0.90	0.85	0.88	0.96	0.96	0.96
		Fraction time blocked	0.00	0.00	0.00	0.00	0.00	0.00
Buffer(s)	Line	Objects leaving	54.30	49	56	57	57	60
		Final inventory	3.77	4	0	6	7	2
		Minimum inventory	0.00	0	0	0	0	0
		Maximum inventory	6.93	8	4	8	8	8
		Mean inventory	2.89	3.10	1.44	4.50	4.77	4.29
		Mean cycle time	6.21	7.60	3.08	9.48	10.03	8.59
Served Customers		Objects leaving	0.00	0	0	0	0	0
		Final inventory	53.38	48	55	56	56	59
		Minimum inventory	0.00	0	0	0	0	0
		Maximum inventory	53.38	48	55	56	56	59
		Mean inventory	25.62	21.25	27.59	27.03	25.76	28.73
		Mean cycle time	Infinite	Infinite	Infinite	Infinite	Infinite	Infinite

Let's compare these statistics to those from our original one-teller simulation. The overall mean cycle time of Line is 6.21 time units. Again, this is a clear improvement, which can be shown to be significant with a t-test (see Appendix 2), although this seems to be unnecessary in this case.

The overall mean cycle time of the Line plus the Teller is $6.21 + 2 = 8.21$, also a clear improvement. The overall mean service level has nicely increased to .97. The overall mean inventory of Line has dropped to 2.89 objects. The overall mean fraction time working of Teller has dropped a bit to .90. And finally, the overall mean final inventory of Served Customers (the throughput) has increased to 53.38 objects.

In summary, our simulations show that both improvement ideas should improve the performance of the process on all the key measures. And it appears that the first idea dominates the second on all these measures.

So what should management do? The decision now comes down to assessing the costs of the options and deciding what kind of service the bank wants to offer its customers.

Exercise 1: For each of the following models, run 30 simulations.

- a. Consider the original bank process described in Example 1, except assume the working time for each teller is approximated by a normal distribution with a mean of 3 minutes and a standard deviation of .5 minutes. Report the overall mean cycle times in Line when there are one, two, and three tellers.
- b. Consider the two-teller variation of the original model in Example 1 (with the original interarrival and working times). The bank is considering some promotions in an effort to increase the number of customers and is wondering what the effect might be on waiting times. Report the overall mean cycle times in Line as the time between arrivals goes from the present mean level of 2 minutes to 1.8, 1.6, 1.4, and 1.2 minutes (still exponentially distributed). This is an example of *sensitivity analysis*, where certain estimated inputs to a model are varied to see what effect this has on the results of the simulations.

Section 2: Additional waiting line processes

In this section, we examine a variety of waiting line processes. Some of these models are more complex than the bank example in that they contain more SimQuick elements and, more important, they contain more sources of uncertainty. As noted in the previous section, when the number of statistical distributions and/or the amount of variability in the statistical distributions of a model increases, it's likely there will be more variation in the statistics that are collected. To compensate for this, it may be necessary to increase the number of simulations so the overall means of the data that are collected tend to be more consistent from one batch of runs to another. An alternative, if this makes sense for the problem under consideration, is to increase the number of time units per simulation.

Example 2: A grocery store checkout

Consider a grocery store between the hours of 5 P.M. and 8 P.M. on a weeknight. Suppose three checkout lanes are typically open, each checkout can handle customers with any number of items, and each checkout has a dedicated bagger. It has been observed that checking out

(including bagging) takes a mean of 3 minutes per customer and that this is approximately normally distributed with a standard deviation of .5 minutes. The mean amount of time between customer arrivals at the checkouts is 1 minute and can be approximated by an exponential distribution. Although customers initially enter one specific line, they will move to a different line if it looks faster.

Hint: Model the three lines as a single line (or Buffer) that feeds all the checkouts. You can assume that everyone that arrives at the checkout gets into the single line, regardless of its length; thus, no one is rejected from the process. (So make sure your single line is large enough.)

Exercise 2:

- a. Draw a process flow map for your three-lane model.

For parts b to d, perform 40 simulations for each. Assume there is no one in line at the beginning of the simulations.

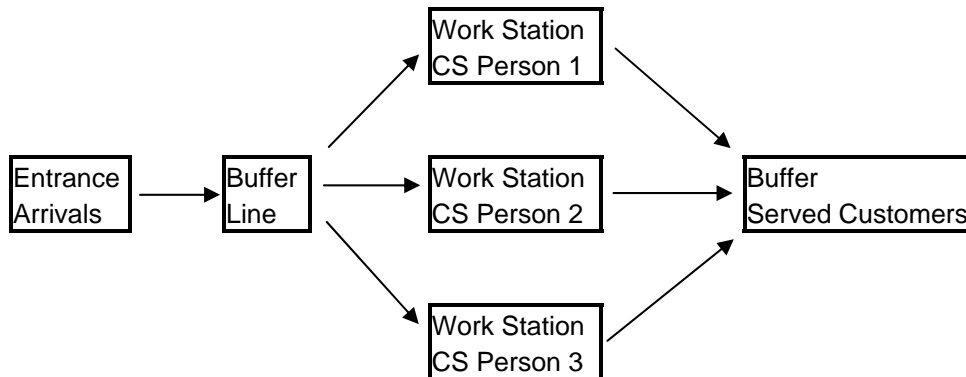
- b. Run the model from part a and report, for the single line, the overall mean number of customers in line and the overall mean waiting time.
- c. How much would the overall mean number of customers in line and the overall mean waiting time in line be reduced by opening a fourth checkout?
- d. The owner of the grocery store chain is considering the purchase of new bar code scanners. This would reduce the mean checkout time to 2.6 minutes (still normal), with a standard deviation of .5 minutes. For the three-lane case, what effect would this have on the overall mean number of customers in line and the overall mean waiting time in line?

Example 3: A call center

A process flow map for a call center is provided below. Here's how this process works. Customers with questions about this company's products call an 800 number. During a typical 8-hour day shift, the time between calls can be approximated by an exponential distribution with a mean of 4 minutes. The call center has 10 phone lines and hence can handle up to 10 calls at once. If a call arrives and all 10 lines are in use, then the caller gets a busy signal and has to call back later. If a call arrives and fewer than 10 lines are in use, then the call goes directly to a customer service (CS) person, if one is available, and otherwise is put on hold. The amount of time for a CS person to handle a call, once answered, can be approximated by a normal distribution, with a mean of 10 minutes and a standard deviation of 2 minutes.

Note: Because there are only 10 phone lines, the number of CS people plus the capacity of Line must be 10.

Process Flow Map for Call Center



Exercise 3: Management wants to determine how many CS people to use during the day shift so that two things are both true: the mean number of minutes a person waits is less than 2 minutes and the service level is at least .99. Consider using from one to five CS people. For each possibility, run 50 simulations of an 8-hour day shift and record the mean cycle time through Line. Assume that the initial number of callers on hold at the beginning of the day shift can be approximated by a normal distribution with a mean of 2 and a standard deviation of .5 (SimQuick will round to the nearest integer). How many CS people would you recommend for the day shift?

Example 4: A fast-food restaurant drive-thru

Management wants to study the drive-thrus at a number of Burger Queen (BQ) restaurants during the peak hours of 11 A.M. to 2 P.M. The process works as follows. Cars arrive and line up to place an order. It's been observed that the time between car arrivals can be approximated by an exponential distribution with a mean of 2.3 minutes. There is only room for five cars to line up. The time to place an order is also roughly exponentially distributed and takes a mean of 2 minutes per car. Cars then move forward to a single window, at which they pay and pick up their order. Two cars can fit between a car placing an order and another car at the pay/pick-up window. The amount of time a car sits at the pay/pick-up window can be approximated by an exponential distribution with a mean of 2.2 minutes.

Exercise 4: For each of the following parts, perform 30 simulations. Assume that at 11 A.M. there is typically one car in line to place an order and one car in line to pay/pick up their order (so set your "Initial # objects" for your Buffers accordingly). For a process flow map of this process, see the left side of the process flow map for Example 10.

- a. Build a SimQuick model of the drive-thru, as described. Report the overall mean throughput (i.e., the overall mean final inventory in Served Cars). Also report the overall mean cycle time for the whole process. This number is the mean amount of time an object spends between entering the Buffer called Outside Order Line and leaving the Work Station called Pay/Pickup. It can be obtained by adding the overall mean cycle

time through the two Buffers, the mean working time at the two Work Stations (obtained from their input distributions), and the overall mean cycle time through the internal buffer at the Work Station called Car Order. Also report the overall mean service level of the customers arriving at the process.

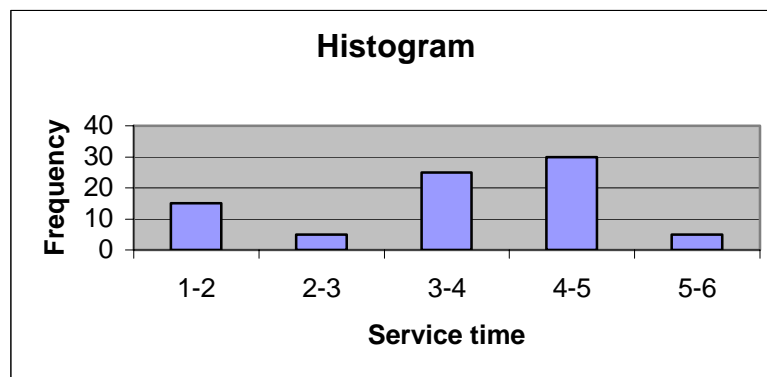
- b. The BQ design team is thinking about installing a faster process for making hamburgers. They believe this could reduce the time for Pay/Pickup to a mean of 1.5 minutes, again exponentially distributed. What effect would this have on the numbers reported in part a?

Example 5: A bank process with a discrete distribution

Let us reconsider the one-teller process in Example 1; in particular, we keep the same four-element process flow map. The only difference is in the working time of Teller.

Suppose we have observed a real teller between 9 A.M. and 11 A.M and collected 80 representative service times. These data are summarized by the following table and histogram:

Interval (minutes)	Frequency	Relative frequency
1-2	15	19%
2-3	5	6%
3-4	25	31%
4-5	30	38%
5-6	5	6%



The table tells us that 15 observed service times were between 1 and 2 minutes, 5 were between 2 and 3 minutes, and so on. The relative frequency is just the frequency divided by 80 (and rounded). The histogram is simply a graphical display of the data in the first two columns of the table. It appears from the histogram that this data does not follow one of the three built-in SimQuick distributions: normal, exponential, or uniform (see Chapter 1, Section 3). We next describe how this distribution can be approximated using the discrete distribution option within SimQuick.

Click the “Other Features” button on the Control Panel and then click the “Discrete Distributions” button. Fill in the first table as follows:

1	
Values ↓	Percents ↓
1.5	19
2.5	6
3.5	31
4.5	38
5.5	6

The numbers in the “Values” column are the midpoints of the intervals in the summary of our collected data; the numbers in the “Percents” column are the associated relative frequencies (these numbers must sum to 100, so, in general, they may have to be adjusted a bit). Hence a sequence of numbers chosen randomly from the Values column according to the probabilities in the Percents column should have a histogram that looks like the histogram above, and hence should be a reasonable approximation for the distribution of teller service times that we observed.

We instruct SimQuick to use this distribution by filling in the table for Teller as follows:

1			
	Name →	Teller	
	Working time →	Dis(1)	
Output destination(s) ↓	# of output objects ↓	Resource name(s) ↓	Resource # units needed ↓
Served Customers	1		

What happens now is that whenever an object arrives at Teller during a simulation, the working time is chosen according to discrete distribution table #1 (hence the number in parentheses after “Dis” is always a table number).

In general, any distribution that is summarized by a histogram with ten or fewer bars, can be approximated by a discrete distribution in SimQuick.

Exercise 5: Consider the bank process described in Example 5. Run 30 simulations and report the overall mean service levels and the cycle times in Line when there are one, two, and three tellers.

Example 6: A bank with changing demand

In this example, we revisit the original bank example. To be specific, from 9 A.M. to 11 A.M., interarrival times at Door are still modeled by Exp(2) and working times at the tellers are still modeled by Nor(2.4,5). Management is now interested in estimating the service level from 11 A.M. to 1 P.M. There are some changes in the model at this later time. To begin, more customers

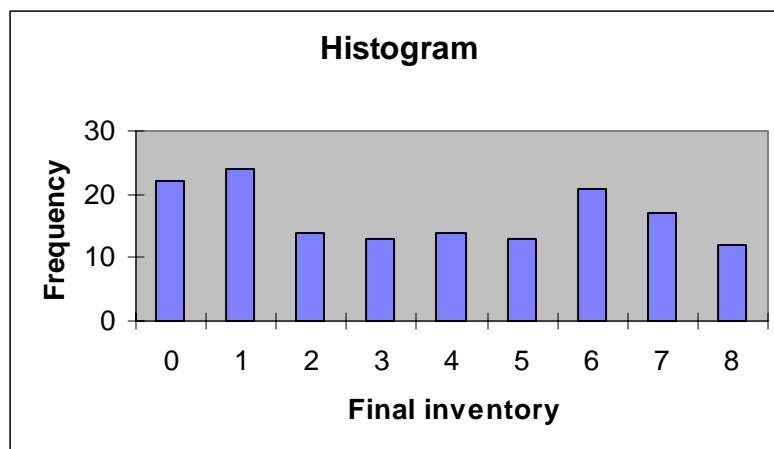
with slightly different needs come to the bank during these hours. In particular, the interarrival times at Door are modeled by $\text{Exp}(1.2)$, and the working times at a teller are modeled by $\text{Nor}(2.7, .5)$. As before, the service level during these hours will depend on the number of tellers. But there is an important additional consideration: the number of people in line at 11 A.M. We can no longer assume the initial inventory level of Line is 0.

Here is a key observation: The initial inventory level of Line for our 11 A.M. to 1 P.M. simulations should be closely related to the final inventory level of Line for our 9 A.M. to 11 A.M. simulations.

So here is the specific question management wants to answer: Suppose we use two tellers from 9 A.M. to 11 A.M. Then what will the service level and waiting time be from 11 A.M. to 1 P.M. if we use two tellers vs. three tellers during these hours?

To answer this question, we need to run a fairly large number, say 150, of simulations of the two-teller model for 9 A.M. to 11 A.M. We then need to examine the distribution of the final inventory of Line. (This can be done in Excel by clicking on Tools / Data Analysis / Histogram and entering the final inventory of Line from the Results worksheet.) One run of 150 simulations yielded the following table and histogram:

Final inventory	Frequency	Relative frequency
0	22	15%
1	24	16%
2	14	9%
3	13	9%
4	14	9%
5	13	9%
6	21	14%
7	17	11%
8	12	8%



The table tells us, for example, that 22 out of 150 times (or 15% of the time), the final inventory in Line was 0. The histogram suggests that the uniform distribution (Uni(0,8)) would be a reasonable approximation for this distribution. However, this is a case where it would be easy, and possibly more accurate, to use a discrete distribution. Hence we can fill out the first table of Discrete Distributions in SimQuick as follows (note that the numbers in the Percents column must sum to 100, hence some minor adjustments may be necessary, in some cases).

1	
Values ↓	Percents ↓
0	15
1	16
2	9
3	9
4	9
5	9
6	14
7	11
8	8

We enter the model for 11 A.M. to 1 P.M. as we entered the two-teller model in Example 1 (using the new statistical distributions). In particular, the table for Line should be filled in as follows:

1	
Name →	Line
Capacity →	8
Initial # objects →	Dis(1)
Output destination(s) ↓	Output group size ↓
Teller 1	1
Teller 2	1

Exercise 6: Consider the 11 A.M. to 1 P.M. bank process described in Example 6. Run 30 simulations and report the overall mean service levels and cycle times in Line when there are two and three tellers.

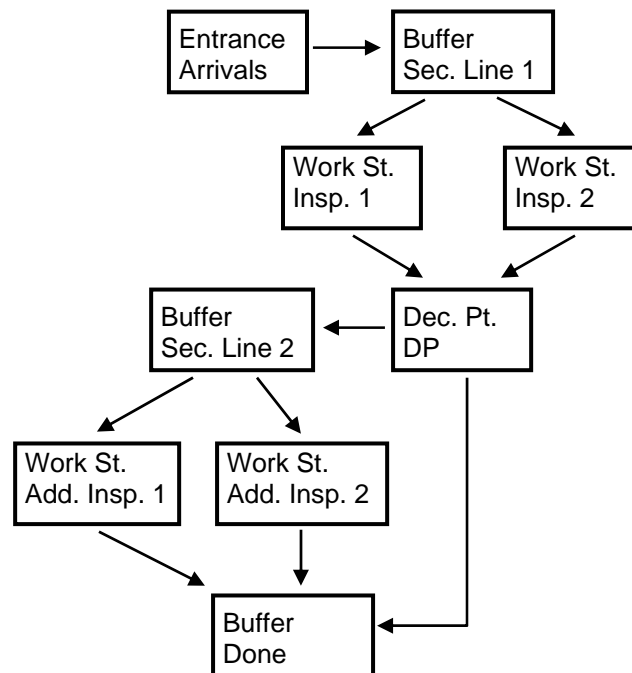
Section 3: Waiting line processes with Decision Points

In this section we introduce the SimQuick element called a Decision Point. This element allows us to build models where the routes for some objects are chosen randomly. The details of this element are presented in the first example, where a specified percentage of passengers going through an airport security check are randomly selected to have their carry-on bags searched. This is followed by two more examples: a department of motor vehicles and a hospital emergency room.

Example 7: An airport security system

A process flow map for the passenger security process at one terminal of a medium sized airport is given below. The process works as follows. Between 8 A.M. and 10 A.M., one passenger arrives every half-minute (on average, according to an exponential distribution) at the security area. Arriving passengers immediately enter a single line (with a large capacity). After waiting in line, each passenger goes through one of two inspection stations, which involves walking through a metal detector and running any carry-on baggage through a scanner. The amount of time for this inspection can be approximated by a normal distribution with a mean of 1 minute and a standard deviation of .1 minutes. After completing this inspection, 10% of the passengers are randomly selected for an additional inspection, which typically involves a more thorough search of the person's carry-on baggage. There are two stations for this additional inspection; the amount of time for it can be approximated by a normal distribution with a mean of 5 minutes and a standard deviation of 1 minute.

Process Flow Map for an Airport Security System



Note that this SimQuick model makes use of the Decision Point element. A Decision Point routes objects in one of several (up to ten) possible directions. In this model, the Decision Point sends each input object to either Sec. Line 2, where it awaits a second inspection, or to the Buffer called Done, for objects that have cleared security. When filling in a Decision Point table in SimQuick (see below), we must specify a rule for determining in which direction each object is sent. This rule is a probability, expressed in SimQuick as a percentage (i.e., a number between 0 and 100). In this model, there is a 10% probability that an object will be sent to Sec. Line 2 and a 90% probability it will be sent to Done. In general, the numbers in the Percents column of a Decision Point table must sum to 100.

Here are some details: A Decision Point chooses a direction for an object in zero time. However, if a Decision Point chooses a direction for an object and cannot pass the object on (e.g., the next element is a full Buffer or a working Work Station), then it will retain the object in an internal buffer (similar to a Work Station). No further objects can enter a Decision Point if there is an object in its internal buffer, hence Decision Points can be blocked (just like Work Stations). In the models in this section, blocking cannot occur because the outputs of the Decision Point are Buffers with large capacity.

General principle: In most models a blocked Decision Point is inconsistent with the real-world situation being modeled. Hence it is usually a good idea to have a Decision Point send objects to large capacity Buffers. We discuss below how to detect if blocking is occurring. Example 11 contains a model where blocking is acceptable.

Three of the SimQuick tables for this model are given below. The capacity of each Buffer is set to Unlimited, since there is plenty of space in the airport and all passengers must pass through security. Also, the initial number of objects at each Buffer is set to 0, since demand is fairly low before 8 A.M. We let time units correspond to minutes.

Entrance:

1	
Name →	Arrivals
Time between arrivals →	Exp(.5)
Num. objects per arrival →	1
Output destination(s) ↓	
Sec. Line 1	

Work Station:

1			
	Name →	Insp. 1	
	Working time →	Nor(1,.1)	
Output destination(s) ↓	# of output objects ↓	Resource name(s) ↓	Resource # units needed ↓
DP	1		

Decision Point:

1	
Name →	DP
Output destinations ↓	Percents ↓
Sec. Line 2	10
Done	90

Here are the some of the results from 50 simulations of this 2-hour time period (the results for the Work Stations are not shown).

Simulation Results					
Element types	Element names	Statistics	Overall means	Sim. Numbers	
				1	2
Entrance(s)	Arrivals	Objects entering process	237.23	236	236
		Objects unable to enter	0.00	0	0
		Service level	1.00	1.00	1.00
Buffer(s)	Sec. Line 1	Objects leaving	227.37	220	231
		Final inventory	9.87	16	5
		Minimum inventory	0.00	0	0
		Maximum inventory	16.13	23	16
		Mean inventory	5.97	5.92	6.73
		Mean cycle time	3.12	3.23	3.50
	Sec. Line 2	Objects leaving	20.47	16	29
		Final inventory	0.03	0	0
		Minimum inventory	0.00	0	0
		Maximum inventory	1.63	1	3
Done	Objects leaving	0.00	0	0	
	Final inventory	224.57	217	227	
	Minimum inventory	0.00	0	0	
	Maximum inventory	224.57	217	227	
	Mean inventory	108.78	105.39	113.24	
Decision Point(s)	DP	Objects leaving	225.37	218	229
		Final inventory (int. buff.)	0.00	0	0
		Mean inventory (int. buff.)	0.00	0.00	0.00
		Mean cycle time (int. buff.)	0.00	0.00	0.00

Let's consider the statistics collected for the Decision Point. First, we count the number of objects leaving it during each simulation. The overall mean from the 50 simulations is 225.37. The statistic "Final inventory (int. buff.)" is the number of objects in the Decision Point's internal buffer at the end of each simulation. This number can only be 0 or 1. The statistics "Mean inventory (int. buff.)" and "Mean cycle time (int. buff.)" are for the internal buffer and should be self-explanatory (they are analogous to the statistics collected for Work Stations). All of these statistics for the internal buffer are 0 for this model since the Decision Point is always able to pass objects to the large capacity Buffers that follow. If a Decision Point is blocked at any time during a simulation, then the overall means of the last two statistics should be greater than zero.

The key statistics for airport management are the passenger waiting times. From the results we immediately see that the overall mean cycle (or waiting) time for passengers is 3.12 minutes in Sec. Line 1 and .53 minutes in Sec. Line 2.

Exercise 7:

Management is interested in examining the effect on waiting time of increasing the percentage of passengers that undergo the second inspection. For each of the scenarios described below, do 50 simulations and report the overall mean cycle time in Sec. Line 2.

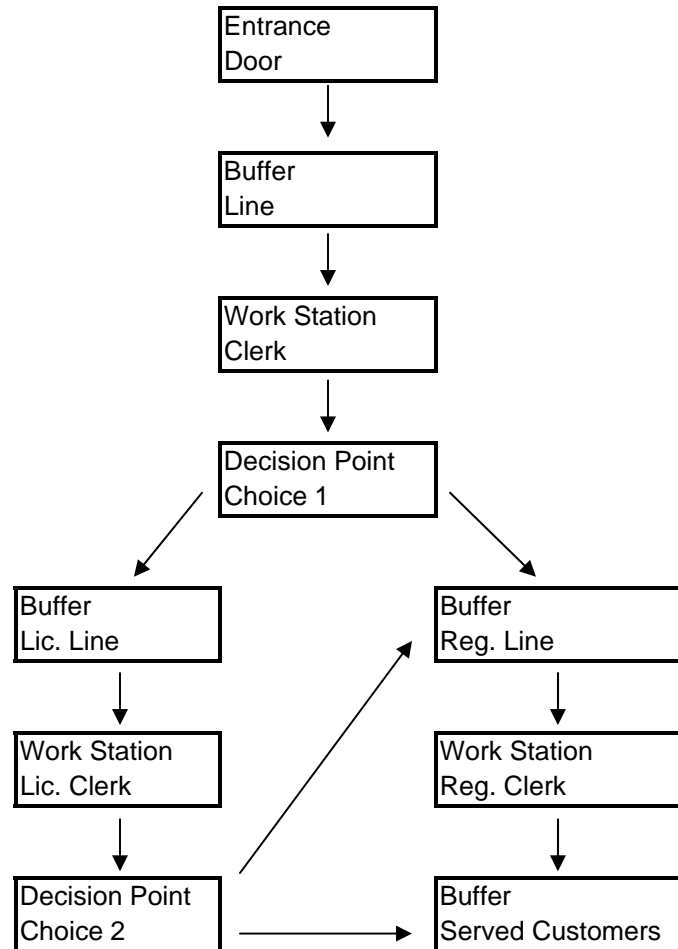
- a. Build a model of the airport security process, as described above. Consider the scenarios where the probabilities that an object will be sent to Sec. Line 2 are 10%, 15%, and 20%. This is an example of *sensitivity analysis*, where certain estimated inputs to a model are varied to see what effect this has on the results of the simulations.
- b. Redo part a, except add a third Work Station for the second inspection.

Example 8: A Department of Motor Vehicles

A process flow map for a Department of Motor Vehicles (DMV) in a small town is provided on the following page. Here is how the process works: During the peak demand hours of 10 A.M. to 1 P.M., customers arrive, one at a time, at the DMV every 4 minutes (on average, according to an exponential distribution). Each customer gets into a line (with a capacity of 10 people). After waiting in line, each customer discusses what they need with a clerk. Typically, 20% of the customers want to register their car (only), 40% want to renew their licenses (only), and 40% want to do both. Those who want to do both get their license renewed first. The time of this discussion can be approximated by a normal distribution with a mean of 1 minute and a standard deviation of .1 minutes. The clerk gives each customer a number and shows them where to sit (there is plenty of room for customers to sit and wait). Observe that the Decision Point called Choice 1 separates the customers into those that only want to register their car and the rest. A second Decision Point called Choice 2 is used to separate the people who only want a license from the people who want a license and a registration. (Be careful in setting the probabilities for these Decision Points.) The amount of time for a clerk to process a license renewal can be approximated by a normal distribution with a mean of 5 minutes and a standard deviation of .5

minutes. The amount of time for a clerk to process a registration can be approximated by a normal distribution with a mean of 6 minutes and a standard deviation of .5 minutes.

Process Flow Map for DMV



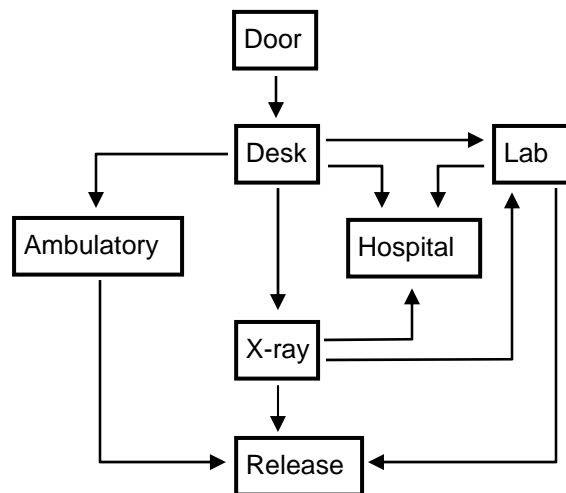
Exercise 8: Management is considering adding a new license clerk. They want to know the effect of this on the following statistic: the overall mean waiting time in the process of those customers that need both a license and a registration (i.e., the sum of overall mean cycle times in the three lines plus the mean working times of the three types of clerks). Perform 50 simulations of the present situation (for the 3-hour time period) and the situation with an additional license clerk. Report the above statistic for both cases. Also report the individual overall mean cycle times in the license and registration lines in each case. Can you explain the change in the cycle times in the individual lines? Assume there are no people in the lines at the beginning of the simulations.

Example 9: A hospital emergency room

A process flow map for a hospital emergency room is given below. (This example is closely based on an example in *Introduction to Simulation and Risk Analysis* by J. R. Evans and D. L.

Olson, Prentice Hall, 1998.) To simplify the map, a number of details have been left out, hence all the boxes in the map do not directly correspond to SimQuick elements. For this model, we focus on the night shift, from midnight to 8 A.M. During this time, patients arrive at the emergency room according to a fairly stable pattern: on average, they arrive every 15 minutes according to an exponential distribution. A patient's first stop is the check-in desk. After describing their situation to the nurse, patients are sent to one of four locations: historically, 30% are sent to the ambulatory area for immediate care, 20% are sent for x-rays, 5% are admitted directly to the hospital, and 45% are sent for lab tests. Patients finishing at the ambulatory area are all released. Of patients finishing with their x-rays, 60% are released, 10% are sent for lab work, and 30% are admitted to the hospital. Of patients finishing with their lab work, 10% are admitted to the hospital and 90% are released.

Process Flow Map for a Hospital Emergency Room



In order to build a model for this process with SimQuick elements, we must add some detail to the process map. Clearly Door is an Entrance, and Release and Hospital are large Buffers. Ambulatory represents a Buffer, followed by a single Work Station. Each of the other three boxes represents a sequence of three elements: a large Buffer, followed by a single Work Station, followed by a Decision Point. These Buffers represent waiting areas. Work Stations are, of course, where the services are performed. The working times can be approximated as follows (where we let time units represent minutes):

Work Stations	Working times
Desk	Nor(3,.1)
Ambulatory	Nor(15,6)
X-ray	Nor(15,3)
Lab	Nor(30,6)

Finally, the Decision Points route the objects to their next destination according to the observed proportions given above.

Exercise 9:

- a. Build a SimQuick model for the emergency room process. Based on historical observations, we can assume there is initially one object in the Buffer before the lab Work Station and zero objects in the other Buffers. This model has a lot of uncertainty, so do 100 simulations (this will go faster if you click “Other Features” and “Hide Results Details”; SimQuick will then write only the overall means on the Results worksheet). Report the overall mean fraction time working (also called the *utilization*) for each Work Station and the overall mean cycle time for each Buffer in front of a Work Station. Which Work Station is a *bottleneck* according to these statistics (i.e., has the highest values)?
- b. Management wants to know the effect of doubling the capacity of the bottleneck, that is, adding an identical Work Station next to the existing one in the model. With this additional element, rerun the model as in part a and report the same statistics. How has the bottleneck been affected?
- c. Management also wants to know the effect on the original model of an increase in demand, where the time between arrivals drops to 10 minutes, on average. Rerun the model as in part a and report the same statistics. How has the bottleneck Work Station been affected?

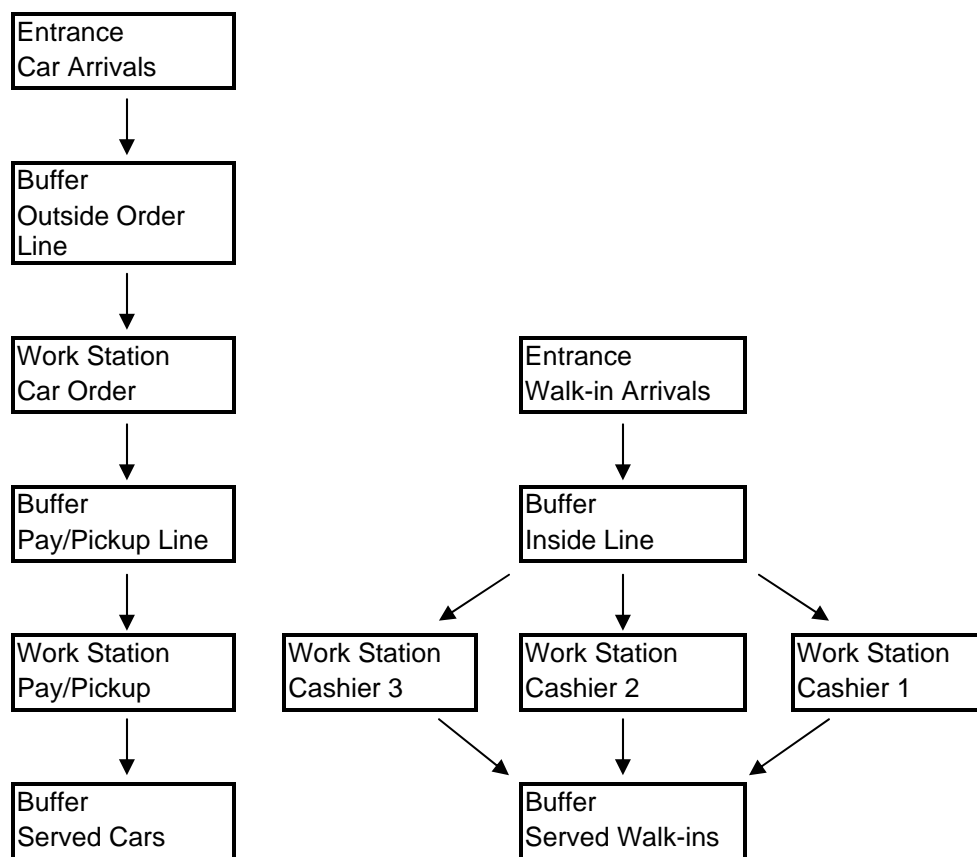
Section 4: Waiting lines with priorities and resources

In this section, we make use of two features of SimQuick called *resources* and *priorities*. They will allow us to model more complex waiting line processes. Resources are defined and assigned to Work Stations in the SimQuick tables. The basic idea is that a Work Station cannot start working on an object unless it has all the resources that have been assigned to it. If several Work Stations use the same resource, and if this resource is in limited supply, then a Work Station may not be able to start working, even though it has input objects and is not presently working. When two Work Stations are competing for a limited resource, the Work Station with higher priority gets it. The priority of a Work Station is determined by the number of the table in SimQuick into which it has been entered (the lower the number, the higher the priority). The details are provided in the following two examples involving a fast-food restaurant.

Example 10: Cross-trained workers at a fast-food restaurant

Consider the BQ restaurant described in Exercise 4, part b (you don't need to work Exercise 4 in order to do Exercise 10 below). The BQ design team is considering the possibility of cross-training the worker assigned to the pay/pick-up window, whose working time at Pay/Pickup can be approximated by an exponential distribution with a mean of 1.5 minutes. Thus, if no one is at the pay/pick-up window, this person would serve a walk-in customer. The process flow map is provided below.

Process Flow Map for a Cross-Trained Worker at a Fast-Food Restaurant



Note that this process has two Entrances, one for cars at the drive-thru and one for people entering the restaurant. We want this process to work in the usual fashion, except that only one (cross-trained) person is operating both Work Stations Pay/Pickup and Cashier 3. In particular, if there is a customer in the Pay/Pickup Line, then the cross-trained person should serve this customer next. However, if there is no customer in the Pay/Pickup Line, if both Cashier 1 and Cashier 2 are serving customers, and if there is a customer in the Inside Line, then the cross-trained person should serve this customer at the Work Station called Cashier 3. (Of course, once the cross-trained person starts serving an inside customer, he or she should finish serving this customer before going back to serve a drive-thru customer that may have arrived at the window.)

Here are the additional details for this example: The time between the arrivals of walk-ins can be approximated by an exponential distribution with a mean of 2 minutes. The Inside Line can hold about 15 people. The amount of time for a cashier to serve a customer can be approximated by a normal distribution with a mean of 4.1 minutes and a standard deviation of .5 minutes. The details for the drive-thru are the same as for Exercise 4, part b.

This situation can be modeled with SimQuick using *resources* and *priorities*. To implement this, simply fill in the SimQuick tables as usual, except for the following:

Click on the “Other Features” button on the Control Panel, followed by the “Resources” button, and fill in the table as follows:

Name ↓	Number available ↓
CT Worker	1

CT Worker represents our cross-trained worker and 1 means we have one such resource available. Next we assign this resource to the two Work Stations that need it to work: Pay/Pickup and Cashier 3. The Work Station tables are filled in as follows:

1			
Name →	Car Order		
Working time →	Exp(2)		
Output destination(s) ↓	# of output objects ↓	Resource name(s) ↓	Resource # units needed ↓
Pay/Pickup Line	1		

2			
Name →	Pay/Pickup		
Working time →	Exp(1.5)		
Output destination(s) ↓	# of output objects ↓	Resource name(s) ↓	Resource # units needed ↓
Served Cars	1	CT Worker	1

3			
	Name →	Cashier 1	
	Working time →	Nor(4.1,.5)	
Output destination(s) ↓	# of output objects ↓	Resource name(s) ↓	Resource # units needed ↓
Served Walk-ins	1		

4			
	Name →	Cashier 2	
	Working time →	Nor(4.1,.5)	
Output destination(s) ↓	# of output objects ↓	Resource name(s) ↓	Resource # units needed ↓
Served Walk-ins	1		

5			
	Name →	Cashier 3	
	Working time →	Nor(4.1,.5)	
Output destination(s) ↓	# of output objects ↓	Resource name(s) ↓	Resource # units needed ↓
Served Walk-ins	1	CT Worker	1

The 1 under “Resource # units needed” means that Pay/Pickup and Cashier 3 need one unit of CT Worker to work. Because we have only 1 such unit available, only one of these two Work Stations can work at the same time. In general, in order to work, a Work Station with a resource must have one of each of its inputs, must not be blocked, and must acquire the prescribed number of each resource that has been assigned to it. Once a Work Station has acquired a resource, it retains that resource until it’s finished working. At that time, the resource becomes available to any Work Station that requires it and is ready to go.

The final issue is priority. This is determined by the number of the table into which the Work Stations have been entered (the lower the table number, the higher the priority). For this example, Cashiers 1 and 2 have priority over Cashier 3 (i.e., they will take customers from Inside Line before Cashier 3 does). Also, Pay/Pickup has priority over Cashier 3: If CT Worker is not working and there are customers in both Pay/Pickup Line and Inside Line, then CT Worker will go to Pay/Pickup and serve the drive-thru customer.

Exercise 10:

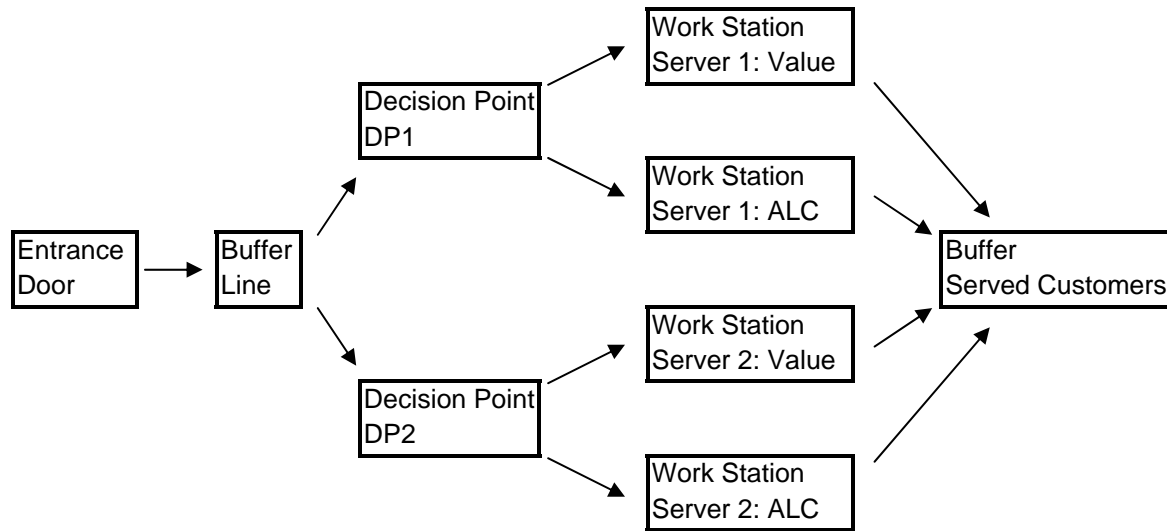
- a. Run 50 simulations of the model (from 11 A.M. to 2 P.M.) assuming there is no cross-trained worker (i.e., there is no Work Station called Cashier 3 and there is no cross-trained worker; hence, there is a worker exclusively working at Pay/Pickup and it's not necessary to use any resources). Assume that at 11 A.M. there is typically one car in line to place an order, one car in line to pay/pick up their order, and two people in line inside the restaurant. Report the overall mean cycle time in the Inside Line, the overall mean cycle time for the whole drive-thru process (this is defined in Exercise 4), the service levels both inside and outside, and the fraction time working of Pay/Pickup.
- b. Run 50 simulations of the model with the cross-trained worker. Report the same numbers as in part a. Also report the "mean number in use" for the resource CT Worker (this can be found at the bottom of the Results page). This represents the fraction of time the cross-trained worker is working and should be equal to the sum of the fraction time working of Pay/Pickup and Cashier 3.

Example 11: Value meals at a fast-food restaurant

Customers at a Burger Queen fast-food restaurant can buy food in two basic ways: a value meal or a la carte. There are five choices of value meals; each choice includes a sandwich, an order of fries, and a medium drink. The restaurant encourages customers to buy value meals by pricing them below what the same order would cost a la carte. The value meal concept results in two benefits for the restaurant. First, it simplifies their inventory by reducing demand variability, which results in lower inventory costs. Second, it tends to take less time to deliver a value meal order to a customer than an a la carte order. It's this second benefit that we examine in this example.

Currently, this restaurant has two servers during the peak hours of 5 P.M. to 7 P.M. Given the present selection of value meals and their pricing, 30% of the customers during these hours choose value meals. The amount of time for a server to prepare a value meal can be approximated by a normal distribution, with a mean of 1.2 minutes and a standard deviation of .1 minutes. The amount of time for a server to prepare an a la carte meal can be approximated by a normal distribution, with a mean of 2.5 minutes and a standard deviation of .5 minutes. (We assume customers are served one at a time and the time to pay for an order is included in the preparation time.) The time between arrivals of individual customers at the restaurant can be approximated by an exponential distribution with a mean of .8 minutes. There is room for about 17 customers to stand in line. A process flow map is provided below.

Process Flow Map for Value Meals at a Fast-Food Restaurant



In this model, each server is modeled by two Work Stations. For example, Server 1: Value models the preparation of a value meal order by Server 1 and Server 1: ALC models the preparation of an a la carte order by Server 1. Thus, the working times of these two Work Stations are different. Because a server can only fill one order at a time, we can only allow one of these two Work Stations to work at a time. This is accomplished by using resources. The idea is to assign a common resource, say R1, to Server 1: Value and Server 1: ALC. Then one of these Work Stations can work only if it has this resource. We do the same thing with a different resource for Server 2: Value and Server 2: ALC. Next, we address the details.

When using resources, we must inform SimQuick how many of each we have available. To do this, click on the “Other Features” button on the Control Panel, followed by the “Resources” button, and fill in the table as follows:

Resources:

Name ↓	Number available ↓
R1	1
R2	1

Here are the remaining SimQuick tables to be filled in.

Entrance:

1	
Name →	Door
Time between arrivals →	Exp(.8)
Num. objects per arrival →	1
Output destination(s) ↓	
Line	

Buffers:

1		2	
Name →	Line	Name →	Served Customers
Capacity →	15	Capacity →	Unlimited
Initial # objects →	Uni(4,6)	Initial # objects →	0
Output destination(s) ↓	Output group size ↓	Output destination(s) ↓	Output group size ↓
DP1	1		
DP2	1		

Work Stations:

1			
	Name →	Server 1: Value	
	Working time →	Nor(1.2,.1)	
Output destination(s) ↓	# of output objects ↓	Resource name(s) ↓	Resource # units needed ↓
Served Customers	1	R1	1

2			
	Name →	Server 1: ALC	
	Working time →	Nor(2.5,.5)	
Output destination(s) ↓	# of output objects ↓	Resource name(s) ↓	Resource # units needed ↓
Served Customers	1	R1	1

3			
	Name →	Server 2: Value	
	Working time →	Nor(1.2,.1)	
Output destination(s) ↓	# of output objects ↓	Resource name(s) ↓	Resource # units needed ↓
Served Customers	1	R2	1

4			
	Name →	Server 2: ALC	
	Working time →	Nor(2.5,.5)	
Output destination(s) ↓	# of output objects ↓	Resource name(s) ↓	Resource # units needed ↓
Served Customers	1	R2	1

Decision Points:

1		2	
Name →	DP1	Name →	DP2
Output destinations ↓	Percents ↓	Output destinations ↓	Percents ↓
Server 1: Value	30	Server 2: Value	30
Server 1: ALC	70	Server 2: ALC	70

Each Work Station requires one unit of its resource and there is only one unit of each resource available; thus, only one Work Station of each pair can work at a time. Therefore, in this example, the resource goes to the Work Station that has an input. These inputs are determined by the Decision Points according to the demand for each type of meal. Thus, DP1 sends 30% of its objects to Server 1: Value and DP2 sends 30% of its objects to Server 2: Value.

Note that a Decision Point can hold one object in its internal buffer. Hence these two Decision Points effectively add 2 to the capacity of Line, which has been set at 15. Thus we have modeled the line in the restaurant that can hold 17 people.

Exercise 11: Management wants to study the effect of the pricing of value meals on the waiting time of customers. They are considering pricing schemes that would effectively set demand for value meals at 30%, 35%, and 40% of total demand. Run 50 simulations of a Burger Queen (BQ) restaurant for each of these schemes and report the overall mean waiting time in line of the simulated customers. Note that this waiting time must include not only the cycle time of Line, but also the mean of the two cycle times of the internal buffers of the two Decision Points (this is given in the Results worksheet).

Chapter 3: Inventory in Supply Chains

Learning objectives:

- To model, simulate, and analyze three inventory policies widely used in supply chains: the periodic review, reorder point, and base stock policies
- To understand the following performance measures: service level, customer waiting time, ordering cost, and holding cost
- To understand the trade-offs between: order size, reorder point, service level, customer waiting time, lead time, ordering cost, and holding cost
- To understand the SimQuick element called an Exit

Overview

In this chapter, we address the basic question of inventory management: How much and when to order? We do this mainly for retail stores. However, one example considers a warehouse and one example considers a warehouse and two stores in a multi-tiered supply chain. The examples are arranged in increasing order of modeling complexity.

We look at two simple and widely used inventory policies: the *periodic review* and the *reorder point* policies. In a periodic review policy, orders are placed by the store at predetermined times (say, once a week) and the size of the order varies. The first example, in a grocery store, is a simple example of this policy and the final example, in a department store, is a more complex example. In a reorder point policy, orders are placed by the store when the inventory decreases to a predetermined level; the size of the order is fixed. Examples 13–15 are of this type. Example 16 is a slight variant of this; it illustrates what’s called a *base stock policy*, where orders are placed by the store whenever the inventory decreases by a prescribed amount. Each policy has advantages and disadvantages and situations in which it works best.

A key performance measure (except in the appliance store example) is the *service level* of the customer, which is the fraction of demand that is satisfied. The corresponding measure in the appliance store is the amount of time customers must wait for their purchases to be delivered to them. Another key performance measure (except in the first example) is *inventory cost: ordering cost plus holding cost*. Several examples illustrate the fundamental trade-off between these two costs. (The ordering cost is the cost to place an order; it is considered to be independent of the size of the order and hence consists mainly of the cost of preparing an order, but may also include, for example, transportation costs. The holding cost is the cost of holding one item in inventory for some period of time; a major component of the holding cost is the cost of having money tied up in inventory.)

A new SimQuick element called an Exit is introduced in this chapter. The details are covered in the first example. Exits are used to model customer demand and are quite similar to the Entrances, which were introduced in the previous chapter. In the last two examples, customer demand is modeled instead with an Entrance and two or three additional elements. Using Entrances in this way allows the modeling of more complex situations: backlogged orders and a general periodic review policy.

Inventory problems of the type we consider are often addressed using standard formulas instead of simulation. An advantage of using process simulation is that you are not limited to the assumptions underlying the formulas. In particular, with simulation you have more freedom in describing the statistical properties and the detailed workings of the process. A disadvantage of using simulation for inventory problems (and for “optimization” problems, in general) is that you may have to perform a large number of simulations to find a good solution; and this solution is not guaranteed to be optimal.

The exercises in this section require the reader to run a basic model multiple times with only small changes. Using some simple features of Excel can ease this work. This is described for Example 12 in Appendix 2 under “Multiple SimQuick runs.”

The sections in this chapter build on one another and should be read in sequence.

Section 1: A periodic review inventory policy

Example 12: Grocery store inventory

Management at a grocery store has received some complaints from customers that the store occasionally runs out of SuperWheat bread, which is baked by the SuperBread Company. Here is how the inventory process presently works.

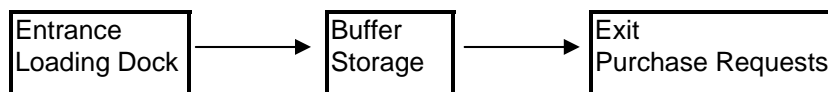
A truck from the SuperBread bakery drops off several types of loaves of freshly baked bread at the grocery store every other day. For each type of bread from the bakery, there is designated space on the shelves of the store and in the back of the store (the total space allotted to each type of bread depends on the demand for that type of bread). The driver drops off enough loaves of each type so the designated space for each type of bread is filled. The store has designated enough space to hold 70 loaves of SuperWheat bread. An examination of sales records (at times when there is SuperWheat on the shelf) shows that the time between purchases of a loaf of SuperWheat is .3 hours on average (with an exponential distribution). The store is open 12 hours per day, 7 days per week.

Management wants to determine the amount of storage space that should be designated for SuperWheat bread so that 99% of the customer demand is satisfied. Management is also curious to know, on average, how long a loaf of SuperWheat bread is in the store.

Modeling the process with SimQuick

This process can be modeled with three elements. A process flow map and the three SimQuick tables are provided below. For this model, time units represent hours that the store is open and objects represent loaves of SuperWheat.

Process Flow Map for Grocery Store Inventory



Entrance:

1	
Name →	Loading Dock
Time between arrivals →	24
Num. objects per arrival →	200
Output destination(s) ↓	
Storage	

Buffer:

1	
Name →	Storage
Capacity →	70
Initial # objects →	0
Output destination(s) ↓	Output group size ↓
Purchase Requests	1

Exit:

1	
Name →	Purchase Requests
Time between departures →	Exp(.3)
Num. objects per departure →	1

The arrivals of SuperWheat at the store are modeled by an Entrance with the name Loading Dock. The “Time between arrivals” is 24, which is the number of hours in two working days at the store. The “Number of objects per arrival” is 200, which is an arbitrary large number; it simply means the delivery truck carries lots of bread and can easily supply the store with as much bread as needed on each delivery. Because the time between arrivals is a constant, SimQuick will begin each simulation with an arrival at this Entrance.

The storage space for SuperWheat at the store (space on the shelf plus space in the back of the store) is modeled by a Buffer with the name Storage. When a shipment of objects (loaves) arrives, as much as will fit is moved into this Buffer (objects in the shipment that don’t fit are simply taken away and cannot return at a later time (who wants old bread?)). Note that at the beginning of each simulation this Buffer is empty; however, it will immediately fill up because, as noted above, each simulation begins with an arrival at the Entrance.

Loaves are removed from store inventory when a customer makes a “purchase request” and there is a loaf in inventory. Purchase requests are modeled by an Exit called Purchase Requests. Note that for an Exit we must specify the “Time between departures.” In our model, this represents

the time between purchase requests, which we have observed can be modeled by an exponential distribution with a mean of .3 hours. As with the bank example, the distribution of time between arrivals of people at services (and hence the time between their purchase requests) is typically exponential. The “Number of objects per departure” is 1 (since our exponential distribution is based on the average time between sales of single loaves; for different applications, we could enter one of our statistical distributions here). If during the simulation a purchase request occurs, but there is no object in Storage, then this is a lost sale (also called a *stockout*). SimQuick will keep track of these. (In general, if the “Num. of objects per departure” is bigger than 1, then this number of objects (or as many as are available) is removed from the process.) Management estimates that this demand pattern should be the same for the next 30 working days, so let’s set the “Time units per simulation” to be 360 (= (30 days) * (12 hours/day)) and let’s run five simulations (in the exercises we will run more simulations).

Interpreting SimQuick results

Here is what happened during one set of five runs:

Simulation Results								
Element types	Element names	Statistics	Overall means	Simulation number(s)				
				1	2	3	4	5
Entrance(s)	Loading Dock	Objects entering process	1038.20	1029	1046	1039	1033	1044
		Objects unable to enter	1961.80	1971	1954	1961	1967	1956
		Service level	0.35	0.34	0.35	0.35	0.34	0.35
Buffer(s)	Storage	Objects leaving	1037.60	1029	1046	1037	1033	1043
		Final inventory	0.60	0	0	2	0	1
		Minimum inventory	0.00	0	0	0	0	0
		Maximum inventory	70.00	70	70	70	70	70
		Mean inventory	30.82	30.93	29.81	32.08	31.17	30.12
		Mean cycle time	10.70	10.82	10.26	11.14	10.86	10.40
Exit(s)	Purchase Requests	Objects leaving process	1037.60	1029	1046	1037	1033	1043
		Object departures missed	161.00	186	192	113	157	157
		Service level	0.87	0.85	0.84	0.90	0.87	0.87

Let’s consider the results for the Exit: Purchase Requests. In the first simulation, the number 1029 refers to the number of simulated loaves purchased. The number 186 refers to the number of simulated purchase requests that were not filled (i.e., the number of lost sales). Hence, for each simulation, the total demand during the 30 simulated days is given by:

$$\text{Objects leaving process} + \text{Object departures missed}$$

The *service level* for each simulation is defined to be the fraction of demand that is satisfied; it is calculated as follows:

$$\text{Service level} = \frac{\text{Objects leaving process}}{\text{Objects leaving process} + \text{Object departures missed}}$$

Hence, for the first simulation,

$$\text{Service level} = \frac{1029}{1029 + 186} = .85$$

A reasonable measure of the service level of the process is the overall mean of the service levels calculated for each simulation. This is also calculated by SimQuick in the fourth column. In this example, it is equal to .87.

Note that the overall mean cycle time at Storage gives us an estimate of how long loaves of SuperWheat sit in inventory at the store before being purchased (in this case, 10.70 hours of working time).

Exercise 12:

- a. Vary the “Capacity” of Storage from 70 to 94 in increments of 4. For each capacity level, perform 30 simulations and report the overall mean service level for Purchase Requests. (Recall that we assume the bakery has adequate capacity to supply these various amounts to the store because we have set “Number of objects per arrival” to 200.) Also report the overall mean cycle time of simulated loaves in Storage. What level of inventory do you recommend to achieve a service level of .99?
- b. Store management is considering having the bakery make deliveries every day instead of every other day. This will allow the store to reduce the shelf space dedicated to SuperWheat (and other products from this bakery) and thereby offer some additional products to the customers. For this scenario, vary the “Capacity” of Storage from 34 to 54 in increments of 4. For each capacity level, perform 30 simulations and report the overall mean service level for Purchase Requests. Also report the overall mean cycle time of simulated loaves in Storage. What level of inventory do you recommend to achieve a service level of .99?

Section 2: Reorder point inventory policies

In this section, we illustrate the reorder point inventory policy by considering two examples: an electronics superstore and a warehouse.

Example 13: An electronics superstore

A large electronics superstore sells a popular handheld computer. The store presently manages its inventory of this item with the following process: When the number of computers in stock drops to 20, it places an order for 35 to the manufacturer. (20 is called the *reorder point* and 35

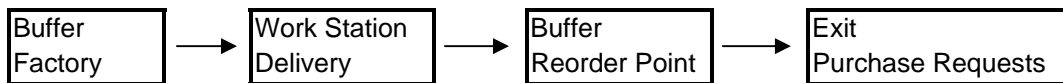
is called the *order size*.) The amount of time to receive an order varies a bit, but can be approximated by a normal distribution with a mean of 5 days and a standard deviation of .3 days. An examination of sales records (at times when there are computers in stock) shows that the time between purchases of a computer is 2 hours on average (with an exponential distribution). The store is open 10 hours per day, 7 days per week. The store estimates that during the next 2 months this demand pattern should remain steady.

Management wants to satisfy at least 90% of the customer demand directly from the store's inventory. Subject to this, of course, management wants to minimize its costs. In this case, the costs are \$100 every time an order is placed (regardless of its size) and \$.50 per day for every computer that is in inventory at the store. Management wants to determine whether it should change its reorder point and order size.

Modeling the process with SimQuick

The inventory process used by this store can be modeled in SimQuick using four elements. A process flow map and the SimQuick tables are provided below. For this model, time units represent hours and, of course, objects represent computers.

Process Flow Map for an Electronics Superstore



Buffers:

1		2	
Name →	Factory	Name →	Reorder Point
Capacity →	1000	Capacity →	20
Initial # objects →	1000	Initial # objects →	20
Output destination(s) ↓	Output group size ↓	Output destination(s) ↓	Output group size ↓
Delivery	35	Purchase Requests	1

Work Station:

1			
	Name →	Delivery	
	Working time →	Nor(50,3)	
Output destination(s) ↓	# of output objects ↓	Resource name(s) ↓	Resource # units needed ↓
Reorder Point	35		

Exit:

1	
Name →	Purchase Requests
Time between departures →	Exp(2)
Num. objects per departure →	1

The Exit called Purchase Requests models customer demand. Based on our observations of past sales, we enter Exp(2) for the “Time between departures” of the Exit. Since this estimate of time between departures is based on sales of single computers, we enter 1 for the “Number of objects per departure.”

Store inventory is modeled by objects in two locations in our SimQuick model: the Buffer called Reorder Point and the internal buffer of the Work Station called Delivery.

Recall: Every Work Station has an internal buffer that can hold the objects completed after one working cycle. As long as there are objects in this buffer, the Work Station cannot start working on a new object and it is called *blocked*.

As this model runs, the Exit pulls objects from Reorder Point, and Reorder Point pulls objects from the internal buffer of Delivery. Consider what happens when the number of objects in the internal buffer hits zero. At this time, the inventory in our simulated store is entirely contained in the Reorder Point Buffer; hence, the amount of inventory is less than or equal to the reorder point of 20 (which is the capacity of Reorder Point). Also, at this time, Delivery becomes unblocked and pulls an object from Factory and begins working on it. This corresponds to placing an order. Note that the working time of Delivery is the delivery time from the factory: Nor(50,3) because there are 10 working hours per day. When Delivery finishes working, it deposits 35 objects into its internal buffer (35 is the “Number of output objects” for Delivery, which is the order size). As many of these objects as possible are passed to Reorder Point, where they become available to our simulated customers. Delivery is blocked until it can pass all its inventory to Reorder Point (at which point another simulated order is placed).

Note that the “Output group size” of the Buffer called Factory is equal to 35. This means that every time Delivery obtains one object from Factory, the number of objects in Factory drops by 35. Also note that the “Initial # objects” of the Buffer called Reorder Point is 20. Thus, each simulation begins with the placement of an order.

Because the demand pattern is expected to remain stable for two months, the number of time units per simulation should be 600 (= (2 months)*(30 days per month)*(10 hours per day)).

Below is the output from five simulations of the present inventory policy (we require more simulations in the exercise below).

Simulation Results								
Element types	Element names	Statistics	Overall means	Simulation number(s) 1	2	3	4	5
Work Station(s)	Delivery	Final status		Working	Working	Working	Working	Working
		Final inventory (int. buff.)	0.00	0	0	0	0	0
		Mean inventory (int. buff.)	2.97	3.37	3.39	2.71	2.68	2.71
		Mean cycle time (int. inv.)	7.27	8.24	8.29	6.64	6.55	6.64
		Work cycles started	8.00	8	8	8	8	8
		Fraction time working	0.65	0.60	0.63	0.66	0.66	0.68
		Fraction time blocked	0.35	0.40	0.37	0.34	0.34	0.32
Buffer(s)	Factory	Objects leaving	280.00	280	280	280	280	280
		Final inventory	720.00	720	720	720	720	720
		Minimum inventory	720.00	720	720	720	720	720
		Maximum inventory	1000.00	1000	1000	1000	1000	1000
		Mean inventory	853.41	858.89	858.25	853.02	848.12	848.74
		Mean cycle time	1828.73	1840.48	1839.11	1827.90	1817.40	1818.74
	Reorder Point	Objects leaving	260.80	248	261	265	265	265
		Final inventory	4.20	17	4	0	0	0
		Minimum inventory	0.00	0	0	0	0	0
		Maximum inventory	20.00	20	20	20	20	20
		Mean inventory	12.45	12.78	13.19	11.92	12.53	11.83
		Mean cycle time	28.68	30.93	30.32	27.00	28.36	26.80
Exit(s)	Purchase Requests	Objects leaving process	260.80	248	261	265	265	265
		Object departures missed	46.40	57	25	48	46	56
		Service level	0.85	0.81	0.91	0.85	0.85	0.83

Observe that the overall mean service level of .85 is below management's goal of satisfying 90% of the customer demand. Service level is most directly affected by the reorder point in the inventory policy. Hence, it appears that the present reorder point of 20 must be increased.

Next, let's consider how to calculate the cost of this inventory policy. First, the store pays \$100 for every order it places. The mean number of orders placed in our simulations is the overall mean number of work cycles started at the Work Station called Delivery (8 in this case). Hence, we may estimate the store's ordering cost during the simulations to be $(\$100 \text{ per order}) \times (8 \text{ orders}) = \800 . The store also pays \$.50 per day for every computer that is in inventory at the store. The overall mean number of computers in inventory is the sum of the overall mean number in the internal buffer of Delivery plus the overall mean number in Reorder Point. Hence, we may estimate the store's holding cost during the simulations to be $(60 \text{ days}) \times (\$.50 \text{ per day per computer}) \times (2.97 + 12.45 \text{ computers}) = \462.60 . So the total cost is $\$800.00 + \$462.60 = \$1262.60$.

Finally, it's easy to estimate the overall mean amount of time that a computer sits in inventory at the store. It's given by the overall mean cycle time of the internal buffer of Delivery plus the overall mean cycle time of Reorder Point. In this case, we get $7.27 + 28.68 = 35.95$ hours.

Management has decided to consider a number of different scenarios in looking for a solution to their inventory problem. These scenarios are summarized by the rows in the following table.

Order Size	Reorder Point
35	25
45	25
55	25
65	25
75	25

Exercise 13: For each scenario in the previous table, run 30 simulations and report the overall mean service level and the estimated total cost. Does this new reorder point achieve the desired service level of .9? If so, which scenario would you recommend? As the order size increases, what happens to the ordering and holding costs?

Example 14: A warehouse

A warehouse temporarily holds printers for a chain of computer stores. Trucks from the stores arrive periodically to pick up printers. Exactly when pick-ups occur and how many printers are picked up is uncertain because it depends on the demand at the stores. The time between the arrival of each truck can be approximated by an exponential distribution with a mean of 2 days. The number of printers that are requested at each pick-up can be approximated by a normal distribution with a mean of 12 and a standard deviation of 1. The time to receive an order from the factory can be approximated by a normal distribution with a mean of 7 days and a standard deviation of 1 day. The warehouse wants to satisfy at least 90% of the demand from the stores. The warehouse is considering the reorder point scenarios (rows) in the following table.

Order Size	Reorder Point
80	50
120	50
160	50
200	50
80	60
120	60
160	60
200	60

Exercise 14:

- a. The warehouse estimates that it costs them \$.25 per day for every printer held in inventory and it costs \$300 for every order placed to the factory (regardless of the order size). The warehouse estimates that demand should remain about the same for the next

200 days (time units in SimQuick should represent days). For each scenario, run 30 simulations and report the overall mean service level and the estimated total cost. Which scenario would you recommend?

Hint: For the Exit in the model, you must enter statistical distributions for both “Time between departures” and “Num. objects per departure.”

- b. The warehouse is considering using a different company to transport printers from the factory. The delivery time for this company can be estimated by a normal distribution with a mean of 4 days and a standard deviation of 1 day; however, the fixed cost per order would increase to \$500. The warehouse believes this will allow them to significantly lower their reorder point, but will probably require them to increase their order size. For each scenario (row) in the following table, run 30 simulations and report the overall mean service level and the estimated total cost. Would you recommend switching delivery companies and, if so, which scenario would you recommend?

Order Size	Reorder Point
80	20
120	20
160	20
200	20
240	20

Example 15: Two stores and a warehouse

This example builds on the electronics superstore and warehouse examples, by considering them simultaneously in a multi-level supply chain. Thus, the store management now has control of two levels of the supply chain. The key question is still: How much and when to order? However, management now must consider inventory that occurs in several places of the process, including the delivery trucks!

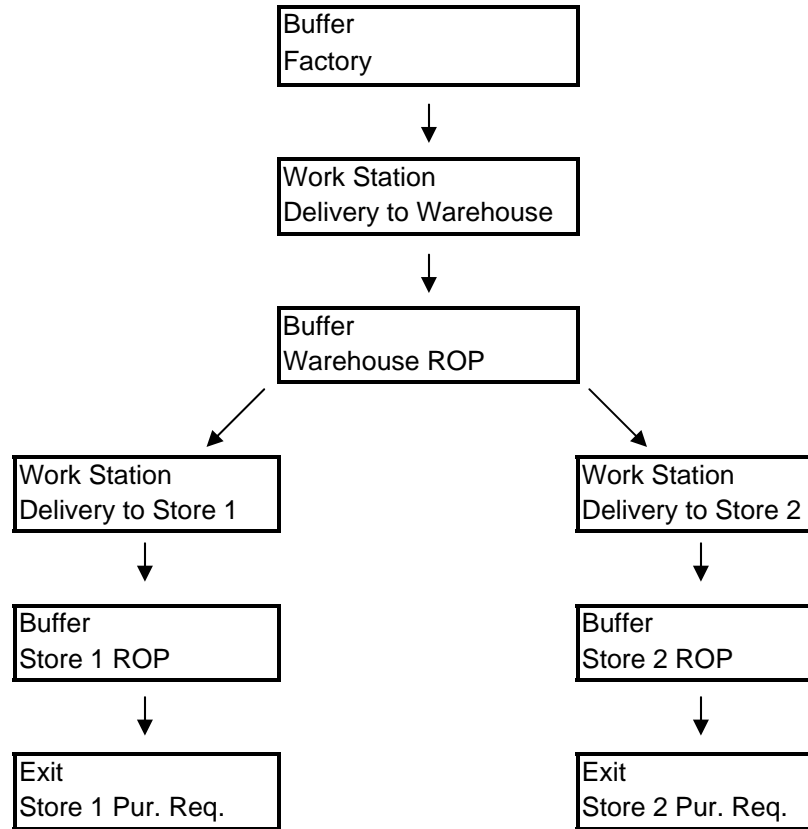
Consider a company that manages two electronics stores that sell the same popular handheld computer. Orders are placed to a regional warehouse, also owned by this company. The regional warehouse places orders to the manufacturer (which is not owned by the company). The amount of time to receive an order at either store can be approximated by a normal distribution with a mean of 1 day and a standard deviation of .1 days. The amount of time to receive an order at the warehouse can be approximated by a normal distribution, with a mean of 4 days and a standard deviation of .2 days. The mean demand for this computer at each store is five computers per day (both stores are open 10 hours per day, 7 days per week). The demand is expected to remain the same at both stores for the next 60 days.

Management wants to use a reorder point scheme at the stores and the warehouse. Their goal is to achieve at least a 95% service level at each store at minimum cost. The ordering costs are \$75 every time a store places an order to the warehouse and \$150 every time the warehouse places an order to the factory. It also costs \$.50 per day for every computer in inventory at a store, and \$.10 per day for every computer in inventory at the warehouse. We assume it also costs \$.10 per day for every computer in transit from the warehouse to a store.

Modeling the process with SimQuick

A process flow map is provided below.

Process Flow Map for Two Stores and a Warehouse



Let time units in SimQuick represent hours. Thus, the delivery time to the stores from the warehouse is modeled by $Nor(10,1)$ and the delivery time to the warehouse from the factory is modeled by $Nor(40,2)$.

Finally, let's consider how to calculate the cost of inventory in transit from the warehouse to the store. To begin, we calculate the mean inventory in transit to Store 1 (this is done similarly for Store 2):

$$\left(\text{Mean in - transit inventory to Store 1} \right) = \left(\text{Overall mean of "fraction of time working" at Delivery to Store 1} \right) * (\text{Order size to Store 1})$$

We now get the following approximation:

$$\text{The total cost of in-transit inventory (during the simulation) = } \left[\left(\text{Mean in - transit inventory to Store 1} \right) + \left(\text{Mean in - transit inventory to Store 2} \right) \right] * (\$.50 \text{ per computer per day}) * (60 \text{ days})$$

Note that 60 days is the number of simulated days.

Exercise 15: Build the SimQuick model in Example 15. For each scenario (row) in the following table, run 40 simulations and report the mean of the overall mean service levels for the two stores and the estimated total cost. Which scenario should management adopt?

Warehouse ord. size	Warehouse ROP	Store ord. size	Store ROP
100	50	40	10
100	50	45	10
100	50	50	10
200	50	40	10
200	50	45	10
200	50	50	10

Note: Although it may not seem obvious at first, this example is a special case of the *just-in-time* (JIT) system typically used in manufacturing to control the flow of inventory in a factory or supply chain. In such systems customer demand depletes the inventory of an end product. When the inventory is depleted by a certain amount, a signal is sent to a supplying work station (or company) to replenish this amount of inventory. When the work station is free and its raw material is available, it starts to fill the replenishment request. When the raw material for this work station is depleted by a certain amount, a signal is sent to its supplying work station (or company); and so on. This is called a “pull” system because movements throughout the process are initiated by the removal of inventory at end of the process. In a more general JIT system, multiple replenishment orders can be placed as customer demand further reduces the inventory of end products. The note at the end of Exercise 18 in Chapter 4 contains an additional discussion of this strategy.

Section 3: More complex inventory models

This section contains models of two inventory policies that present some new challenges for modeling with SimQuick. One important modeling trick sets these models apart from those in the previous section: the use of Entrances to capture demand for the products instead of Exits. This trick allows orders to be backlogged. This trick also allows orders to the supplier to be triggered in more ways. In the first model, the base stock policy, orders are triggered immediately by sales; orders tend to be small and multiple orders can be outstanding. In the second model, a general periodic review policy, orders are triggered at fixed times and the amount ordered depends on the inventory level.

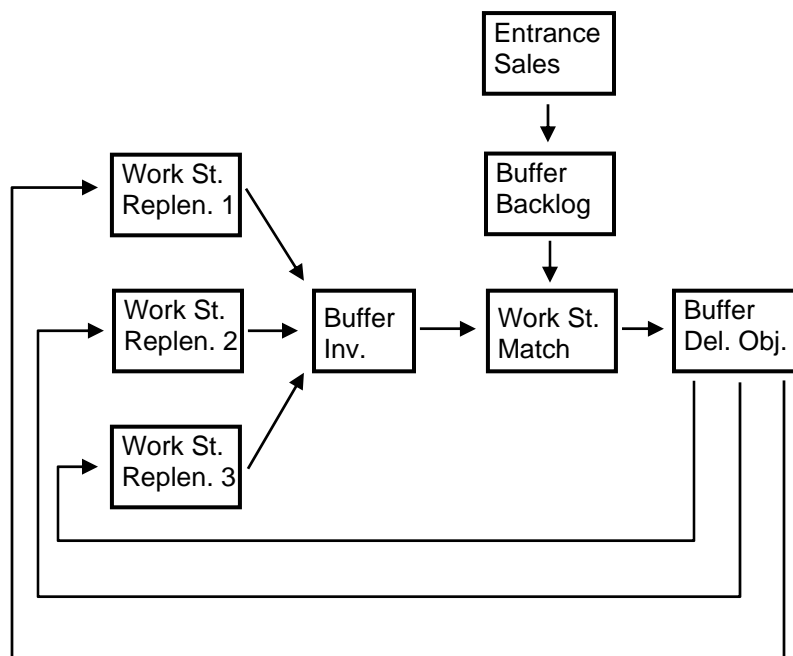
Example 16: An appliance store

An appliance store sells a popular refrigerator. This item is expensive and large, so the store keeps a limited number in inventory. When a customer wants to buy a refrigerator either the store has one in inventory, in which case one is immediately delivered to the customer, or it does not. In the latter case, the store has found that its customers are willing to make the purchase and wait a reasonable amount of time until a refrigerator arrives from the supplier. (A delayed customer order is called a *backlog*.) The store controls its inventory as follows: Whenever a refrigerator is delivered to a customer, the store orders a replacement from its supplier (hence replacement orders are triggered by customer deliveries and not new backlogs). As a result, there is a maximum number of refrigerators that the store can have in inventory; this number is called the *base stock level* and this simple inventory policy is called a *base stock policy*. The store sells, on average, one refrigerator per day (according to an exponential distribution). The amount of time for the store to receive an order from its supplier varies a bit: 25% of the time it takes two days, 50% of the time it takes three days, and 25% of the time it takes four days. The store is open 8 hours a day, 7 days a week.

Management wants to know the relationship between the base stock level and the average customer wait for delivery (a key service measure). In particular, they want to determine the base stock level so that customers don't have to wait more than a day, on average, to get their orders filled and, subject to this, they want to minimize their inventory costs: the sum of holding cost plus ordering cost.

The process flow map and some of the SimQuick tables for this model are shown below. Time units represent hours.

Process Flow Map for a Base Stock Policy



Entrance:

1	
Name →	Sales
Time between arrivals →	Exp(8)
Num. objects per arrival →	1
Output destination(s) ↓	
Backlog	

Buffers:

1		2	
Name →	Backlog	Name →	Inv.
Capacity →	Unlimited	Capacity →	Unlimited
Initial # objects →	0	Initial # objects →	3
Output destination(s) ↓	Output group size ↓	Output destination(s) ↓	Output group size ↓
Match	1	Match	1

3	
Name →	Del. Obj.
Capacity →	Unlimited
Initial # objects →	0
Output destination(s) ↓	Output group size ↓
Deliv. 1	1
Deliv. 2	1
Deliv. 3	1

Work Stations:

1			
	Name →	Match	
	Working time →	0	
Output destination(s) ↓	# of output objects ↓	Resource name(s) ↓	Resource # units needed ↓
Del. Obj.	1		

2			
	Name →	Replen. 1	
	Working time →	Dis(1)	
Output	# of output	Resource	Resource
destination(s) ↓	objects ↓	name(s) ↓	# units needed ↓
Inv.	1		

Discrete Distribution:

1	
Values ↓	Percents ↓
16	25
24	50
32	25

The refrigerators in inventory at the store are represented by the objects in the Buffer called Inv. In this model there are 3 objects initially in inventory, which is the base stock level. Each sale of a refrigerator is modeled by an arrival of an object at the Entrance called Sales. Such objects immediately enter the large capacity Buffer called Backlog. The Work Station called Match has the job of matching sales with items in inventory. For Match to work, it must have one of each of its two inputs (in general, a Work Station must have available one of each of its inputs in order to start working). Hence, if there exists an object in Inv. (i.e., a refrigerator in inventory at the store) and if there exists an object in Backlog (i.e., a refrigerator has been sold), then one of each of these objects is taken by Match and a single object (representing a delivered refrigerator) is output to Del. Obj. (i.e., delivered objects). Notice that Match has Working time equal to 0, hence this operation takes no time in the model. Also notice that if an object enters Backlog and there is no object in Inv., then this object will remain in Backlog until an object appears in Inv. Hence, for our example, the mean cycle time of an object in Backlog is a measure of how long customers must wait for a refrigerator once it has been purchased.

Observe that an object enters Del. Obj. precisely when a replenishment order should be placed. The model captures this by immediately sending such an object to one of the three Work Stations, called Replen. 1–3 (where Replen. stands for replenishment order). The Replen. Work Stations model the actual deliveries of individual refrigerators; the working time for each is given by the Discrete Distribution table 1 (these tables can be found in SimQuick by clicking on “Other Features” followed by “Discrete Distributions”; the numbers in the Values column are the possible working times for the Work Station and they are randomly chosen according to the probabilities in the Percents column; the number in parentheses of Dis() is always the corresponding table number). In other words, as soon as an object is removed from Inv., one of the Replen. Work Stations starts working, thus modeling a replenishment order being sent from the supplier. Notice that since there are three replenishment Work Stations and the base stock level is 3, we can always immediately place a replenishment order.

The above model can easily be modified to capture policy variations such as the following: only place replenishment orders after two refrigerators have been delivered. Thus the supplier sends two refrigerators at a time. The tables are modified by setting each of the Output group sizes of Del. Obj. to be 2 and setting the Number of output objects of each Replen. Work Station to be 2. This variation will likely result in fewer shipments but longer customer waiting. Of course, 2 can be replaced here with any larger number.

It's also important to note that, in general, the number of Work Stations called Replen. must be greater than or equal to the base stock level, since this is the maximum number of simultaneous replenishment orders.

Below is some of the output from 50 simulations of the model. Demand is expected to remain stable for this product for the next two months (60 days), so these simulations were run for 480 time units (= (60 days)*(8 hours per day)).

Simulation Results					
Element types	Element names	Statistics	Overall means	Sim. Numbers	
				1	2
Entrance(s)	Sales	Objects entering process	61.24	61	53
		Objects unable to enter	0.00	0	0
		Service level	1.00	1.00	1.00
Work Station(s)	Match	Final status	NA	Not Working	Not Working
		Final inventory (int. buff.)	0.00	0	0
		Mean inventory (int. buff.)	0.00	0.00	0.00
		Mean cycle time (int. buff.)	0.00	0.00	0.00
		Work cycles started	55.58	56	53
		Fraction time working	0.00	0.00	0.00
		Fraction time blocked	0.00	0.00	0.00
Replen. 1	Replen. 1	Final status	NA	Working	Working
		Final inventory (int. buff.)	0.00	0	0
		Mean inventory (int. buff.)	0.00	0.00	0.00
		Mean cycle time (int. buff.)	0.00	0.00	0.00
		Work cycles started	19.12	20	19
		Fraction time working	0.93	0.93	0.90
		Fraction time blocked	0.00	0.00	0.00
Replen. 2	Replen. 2	Final status	NA	Working	Working
		Final inventory (int. buff.)	0.00	0	0
		Mean inventory (int. buff.)	0.00	0.00	0.00
		Mean cycle time (int. buff.)	0.00	0.00	0.00
		Work cycles started	18.74	17	17
		Fraction time working	0.91	0.96	0.83
		Fraction time blocked	0.00	0.00	0.00

	Replen. 3	Final status	NA	Working	Working
		Final inventory (int. buff.)	0.00	0	0
		Mean inventory (int. buff.)	0.00	0.00	0.00
		Mean cycle time (int. buff.)	0.00	0.00	0.00
		Work cycles started	17.72	19	17
		Fraction time working	0.86	0.94	0.77
		Fraction time blocked	0.00	0.00	0.00
Buffer(s)	Backlog	Objects leaving	55.58	56	53
		Final inventory	5.66	5	0
		Minimum inventory	0.00	0	0
		Maximum inventory	9.58	11	6
		Mean inventory	3.50	4.82	1.47
		Mean cycle time	29.74	41.29	13.30
	Inv.	Objects leaving	55.58	56	53
		Final inventory	0.08	0	0
		Minimum inventory	0.00	0	0
		Maximum inventory	3.00	3	3
		Mean inventory	0.29	0.17	0.50
		Mean cycle time	2.63	1.49	4.49
	Del. Obj.	Objects leaving	55.58	56	53
		Final inventory	0.00	0	0
		Minimum inventory	0.00	0	0
		Maximum inventory	0.00	0	0
		Mean inventory	0.00	0.00	0.00
		Mean cycle time	0.00	0.00	0.00

The amount of time a customer waits to receive his order is approximated by the overall mean cycle time of Backlog, which is 29.74 time units (or hours). This clearly exceeds management's goal of having customers wait a day (or 8 time units), on average. Hence it appears that base stock level must be increased.

A final consideration is the cost. The cost of each shipment from the supplier is roughly \$150. The overall mean number of orders placed in our simulations is the sum of the overall mean number of Work cycles started at the three Replen. Work Stations, which is 55.58 (= 19.12 + 18.74 + 17.72). Hence, we may estimate the store's overall mean ordering cost during the simulations to be (\$150 per order)*(55.58 orders) = \$8337.00. The cost of holding a refrigerator in inventory is roughly \$1.00 per day. The overall mean number of refrigerators in inventory in our simulations is the overall mean inventory of Inv., which is .29. Hence, we may estimate the store's holding cost during the simulations to be (60 days)*(\$1.00 per day per refrigerator)*(.29 refrigerators) = \$17.40. So the total cost is \$8337.00 + \$17.40 = \$8354.40. Clearly the cost is dominated, in this example, by the ordering cost.

Management has decided to consider a number of different scenarios in looking for a solution to their inventory problem. These scenarios are summarized by the rows in the following table.

Order size	Base stock level
1	4
1	5
1	6
2	3
2	4
2	5
2	6

Exercise 16: For each scenario in the above table, run 50 simulations and report estimates for the customer waiting time, mean number of backlogged orders, mean inventory of refrigerators in the store, ordering cost, holding cost, and total cost. Report the lowest cost scenario that achieves management’s goal for customer waiting time.

Hint: Build your model just once with six Replen. Work Stations; then you only need to vary the output group size from Del. Obj. and the # of output objects from the Replen. Work Stations for each scenario.

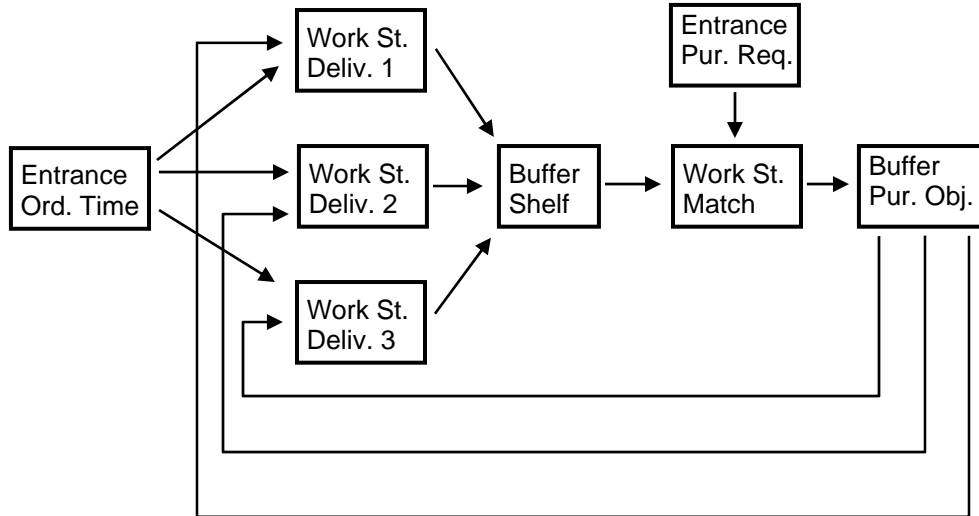
Example 17: A department store

A department store sells a line of blue jeans. Recent sales records show that, on average, one pairs of jeans is sold every hour (according to an exponential distribution). Every Monday, if necessary, the store places a replenishment order to its supplier. Orders take two, three, or four days (with probabilities 20%, 60%, and 20%, respectively) to arrive. When it’s time to order, the order size is determined from three factors: the current inventory level; the allowable order sizes of 20, 40, or 60 pairs of jeans (jeans must be ordered in multiples of 20); and a target value of 80. The order size is calculated as follows: take the target value minus the current inventory level and round down to the nearest allowable order size. For example, suppose the inventory level is 38 pairs of jeans. Then the store will order 40 pairs, since $80 - 38 = 42$, which rounds down to the allowable order size of 40. Notice that an order will only be placed if the current inventory is 60 or fewer pairs of jeans (60 is equal to the target value minus the smallest allowable order size).

Because orders are only placed at regularly spaced times, this inventory strategy is called a *periodic review policy*. In this example, the allowable order sizes are limited to multiples of 20 by the supplier. In general, management can vary the numbers on the list of allowable order sizes (and the length of the list) as well as the target value (as long as the target value is greater than or equal to each of the allowable order sizes). Management’s goal is to find the best combination of these numbers that delivers the desired service level to the customers and, subject to this, minimizes the holding and ordering costs.

The process flow map and some of the SimQuick tables for this model are shown below. Time units represent hours and the store is open 10 hours a day, 7 days a week.

Process Flow Map for a Periodic Review Policy



Entrances:

1		2	
Name →	Pur. Req.	Name →	Ord. Time
Time between arrivals →	Exp(1)	Time between arrivals →	70
Num. objects per arrival →	1	Num. objects per arrival →	1
Output destination(s) ↓		Output destination(s) ↓	
Match		Deliv. 1	
		Deliv. 2	
		Deliv. 3	

Work Stations:

1			
	Name →	Match	
	Working time →	0	
Output destination(s) ↓	# of output objects ↓	Resource name(s) ↓	Resource # units needed ↓
Pur. Obj.	1		

2			
	Name →	Deliv. 1	
	Working time →	Dis(1)	
Output destination(s) ↓	# of output objects ↓	Resource name(s) ↓	Resource # units needed ↓
Shelf	60		

3			
	Name →	Deliv. 2	
	Working time →	Dis(1)	
Output destination(s) ↓	# of output objects ↓	Resource name(s) ↓	Resource # units needed ↓
Shelf	40		

4			
	Name →	Deliv. 3	
	Working time →	Dis(1)	
Output destination(s) ↓	# of output objects ↓	Resource name(s) ↓	Resource # units needed ↓
Shelf	20		

Buffers:

1		2	
Name →	Shelf	Name →	Pur. Obj.
Capacity →	Unlimited	Capacity →	Unlimited
Initial # objects →	80	Initial # objects →	0
Output destination(s) ↓	Output group size ↓	Output destination(s) ↓	Output group size ↓
Match	1	Deliv. 1	60
		Deliv. 2	40
		Deliv. 3	20

Discrete Distribution:

1	
Values ↓	Percents ↓
20	20
30	60
40	20

The jeans in inventory at the store are represented by the objects in the Buffer called Shelf. In this model there are 80 objects initially in inventory, which is the target value. Each request for a pair of jeans is modeled by an arrival of an object at the Entrance called Pur. Req. (i.e., purchase requests). The job of the Work Station called Match is to match purchase requests with items in inventory. For Match to work it must have one of each of its two inputs (recall that, in general, a Work Station must have one of each of its inputs in order to begin working). So, if there is an object in Shelf when an object arrives at Pur. Req., then Match will take these two objects and output an object to Pur. Obj. (i.e., the purchased objects). Since Match has Working time equal to 0, this operation takes no time in the model. If there is no object in Shelf when an object arrives at Pur. Req., then Match does nothing and the object at Pur. Req. leaves the model. Hence the service level of Pur. Req. will tell us the fraction of purchase requests that are satisfied.

Once every 70 time units (i.e., once a week) a single object arrives at the Entrance called Ord. Time (i.e., order time). These arrivals correspond to the times that orders may be placed. Let us suppose such an object has just arrived during a simulation. Such an object can provide one of the two inputs that each of the three Work Stations called Deliv. (i.e., delivery) needs to work. The other object needed must come from Pur. Obj. Observe that each object output by Pur. Obj. is a batch whose size corresponds to one of the numbers on the list of allowable order sizes. In our example, suppose there are 43 objects in Pur. Obj.; note that 43 is the target value minus the current inventory level. Then, according to our inventory policy, we should place an order for 40 objects. Pur. Obj. can output either one object to Deliv. 2, corresponding to a batch of 40 objects, or one object to Deliv. 3, corresponding to a batch of 20 objects. Hence both Work Stations Deliv. 2 and Deliv. 3 have both their inputs and are ready to work. When two Work

Stations in SimQuick are competing for limited inputs, the Work Station with higher *priority* gets the inputs. The priority of a Work Station is determined by the number of the table into which it has been entered (the lower the number, the higher the priority). Thus, in our example, Deliv. 2 will take in its two inputs and begin working while Deliv. 3 will remain idle. Hence the number of objects in Pur. Obj. decreases by 40. The actual deliveries of the jeans are then modeled by the Deliv. Work Stations, which output the appropriate quantities to Shelf. Because the delivery times are less than the time between orders, no more than one order is placed at a time, hence this model implements the periodic review policy used by this store.

Here are the results from 30 simulations of the present inventory policy (only the details from the first two simulations are displayed). The demand pattern is expected to remain stable for the next 90 days, hence each simulation is run for 900 time units (= (90 days)*(10 hours per day)).

Simulation Results					
Element types	Element names	Statistics	Overall means	Sim. Numbers	
				1	2
Entrance(s)	Pur. Req.	Objects entering process	703.90	675	686
		Objects unable to enter	193.25	182	173
		Service level	0.79	0.79	0.80
	Ord. Time	Objects entering process	12.00	12	12
		Objects unable to enter	1.00	1	1
		Service level	0.92	0.92	0.92
Work Station(s)	Match	Final status	NA	Not Working	Not Working
		Final inventory (int. buff.)	0.00	0	0
		Mean inventory (int. buff.)	0.00	0.00	0.00
		Mean cycle time (int. buff.)	0.00	0.00	0.00
		Work cycles started	703.90	675	686
		Fraction time working	0.00	0.00	0.00
		Fraction time blocked	0.00	0.00	0.00
Deliv. 1		Final status	NA	Not Working	Not Working
		Final inventory (int. buff.)	0.00	0	0
		Mean inventory (int. buff.)	0.00	0.00	0.00
		Mean cycle time (int. buff.)	0.00	0.00	0.00
		Work cycles started	8.05	7	8
		Fraction time working	0.26	0.21	0.26
Deliv. 2		Final status	NA	Not Working	Not Working
		Final inventory (int. buff.)	0.00	0	0

		Mean inventory (int. buff.)	0.00	0.00	0.00
		Mean cycle time (int. buff.)	0.00	0.00	0.00
		Work cycles started	3.95	5	4
		Fraction time working	0.13	0.19	0.12
		Fraction time blocked	0.00	0.00	0.00
	Deliv. 3	Final status	NA	Not Working	Not Working
		Final inventory (int. buff.)	0.00	0	0
		Mean inventory (int. buff.)	0.00	0.00	0.00
		Mean cycle time (int. buff.)	Infinite	Infinite	Infinite
		Work cycles started	0.00	0	0
		Fraction time working	0.00	0.00	0.00
		Fraction time blocked	0.00	0.00	0.00
Buffer(s)	Shelf	Objects leaving	703.90	675	686
		Final inventory	17.10	25	34
		Minimum inventory	0.00	0	0
		Maximum inventory	80.00	80	80
		Mean inventory	23.96	23.55	25.08
		Mean cycle time	30.66	31.40	32.91
	Pur. Obj.	Objects leaving	641.00	620	640
		Final inventory	62.90	55	46
		Minimum inventory	0.00	0	0
		Maximum inventory	80.00	80	80
		Mean inventory	35.04	36.23	34.70
		Mean cycle time	49.29	52.59	48.79

Observe that the overall mean service level is .79, which is below management's goal of satisfying 90% of the customer demand. Service level can be increased by increasing the largest allowable order size; hence the target value may also have to be increased.

Finally, let's consider how to calculate the costs of this policy. The store pays \$50 for every order it places. The overall mean number of orders placed in our simulations is the overall mean number of objects entering the process at Ord. time. In this case, that number is 12. (The one object that was unable to enter Ord. Time in each simulation was the initial one that appeared at the beginning of each simulation; hence in each simulation we placed subsequent orders at every opportunity.) We may estimate the store's ordering cost during the simulations to be $(\$50 \text{ per order}) \times (12 \text{ orders}) = \600 . The store also pays \$.05 per day for every pair of jeans on the shelf. The overall mean number of jeans on the shelf is the overall mean inventory of Shelf. Hence we may estimate the store's holding cost during the simulations to be $(90 \text{ days}) \times (\$.05 \text{ per day}) \times (23.96) = \107.81 . So the total inventory cost is $\$600 + \$107.81 = \$707.82$.

Management is considering the following scenarios (each row) of allowable order sizes and target values:

Allowable order sizes			Target values
20	60	100	100
20	60	100	120
40	60	100	100
40	60	100	120
40	60	120	120

Exercise 17:

- a. For each scenario in the above table, run 30 simulations and report the overall mean service level and the estimated cost. Report the lowest cost scenario that achieves a service level of at least .9.
- b. Can you find a better scenario? You may also try varying the time between orders from every 7 days to every 10 days.

Chapter 4: Manufacturing

Learning objectives:

- To model, simulate, and analyze the following types of processes: linear flow, cellular, assembly/disassembly, batch, and job shop
- To model and analyze the following features of a process: quality testing and machine breakdowns
- To understand the following performance measures: throughput, cycle time, mean inventory level, service level, utilization, flow time, and tardiness
- To understand the following concepts: bottleneck, setup, and batch size
- To understand the following priority rules: shortest processing time and nearest due date
- To understand the trade-offs between working time variability, inventory level, and throughput; number of workers and throughput; and batch size and service level
- To understand the SimQuick features of resources and priorities

Overview

In this chapter, we discuss a variety of process types typically associated with manufacturing. We consider processes where products are made in a line, where products are split apart and reassembled, where products are made in batches, and where many different products may go through the same machine (a job shop). We also consider processes where something can go wrong in either the form of a quality problem with a product or a reliability problem with a machine.

In most cases, the performance measure that most interests us is the *capacity* of the process; that is, we want to study the maximum amount that can be produced during some time period. This is also sometimes called the *throughput* of the process. Thus, we do not explicitly incorporate customer demand into most of these models (although it can easily be added). In the batch process example, customer demand is included in the model and service level becomes a key performance measure. In the job shop example, we are interested in two different performance measures: the average production time (i.e., the mean cycle time or mean *flow time* or mean *lead time*) and the on-time performance (in particular, the mean *tardiness*). These measures will be defined in the examples.

In the linear flow process, we examine the trade-offs between working time variability, inventory level, and throughput. We also look at how, over the long run, inventory tends to pile up, filling the available space. In the cellular manufacturing process, we examine the trade-off between the number of workers and the throughput. In the assembly/disassembly process, we examine how to identify a bottleneck (by considering *utilization*) and the effect on throughput of reducing the bottleneck. In the batch process example, the concepts of *batch size* and *setups* are introduced and the trade-off between batch size and service level is examined.

In general, the processes considered in this chapter are parts of larger processes. Thus, the models in this chapter may be thought of as building blocks for more complex processes. In fact, the processes in this chapter may be combined with the inventory in supply chain processes from the previous chapter to model even more complex processes.

The job shop, quality, and reliability processes make use of the advanced SimQuick features called *resources* and *priorities*.

Section 1: Linear flow processes

By a linear flow process, we mean a process that can be modeled as a series of Buffers and Work Stations, possibly with an Entrance at one end and an Exit at the other end. Hence, objects are passed from one element to the next as capacity, demand, and supply dictate. Processes of this type are common in factories. Examples include the manufacturing of home appliances, computer equipment, and automobiles.

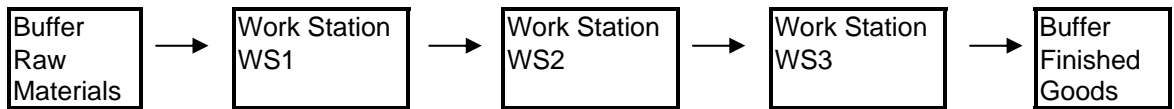
The first example we consider is a generic small model. What makes this model interesting is the variation in the working times at the Work Stations. As the exercise demonstrates, this variation plays an important role in the performance of the process.

In the second example, we consider a special type of linear flow process called a *cell*. In this type of process, the work stations are very close together. This has two effects: The amount of inventory is typically low and workers can operate more than one machine. In this example, we consider the performance of the process with various numbers of workers.

Example 18: A generic linear flow process

In this example, we consider a simple process described by the following process flow map:

Process Flow Map for a Linear Flow Process



We let time units denote minutes. The working time at each Work Station is uncertain, but can be approximated the same way: by a uniform distribution with a minimum of 5 minutes and maximum of 15 minutes (i.e., enter Uni(5,15) for the working times). Hence, the line is *balanced* in the sense that the mean working time (10 minutes) at each Work Station is the same (however, there is a lot of variance in the working times). We run the model for a simulated 24-hour time period, that is, 1440 time units. For the capacity and initial inventory of Raw Materials, enter 200 (this will prevent us from running out). Enter Unlimited for the capacity of Finished Goods (its initial inventory should be 0).

We could easily make the model more realistic by incorporating an Entrance for the raw materials and an Exit for the finished goods (this would allow us to model arrivals and departures from the process due to, say, trucking schedules; in fact, this is done in Appendix 3). By keeping things simple for now, we can examine, in the exercise, some key relationships involving the following: inventory (between the Work Stations), variability (in working times), throughput (the number of finished goods produced per day), cycle time, and length of the simulation.

Due to the variability in working times, the following situation is likely to occur when you run this model in SimQuick: WS2 finishes working on an object, while WS3 is still working on another object. When this happens, WS2 puts its finished object into its internal buffer, which can hold only one object in this model. Until this object has been passed to WS3, WS2 cannot start working on a new object. WS2 is said to be *blocked* while it is waiting for WS3 to finish. You can learn what fraction of the entire simulation WS2 is blocked by looking on the Results sheet under “Fraction time blocked” for WS2.

Note: A conveyor in a factory can also be modeled by a sequence of Work Stations. The number of Work Stations should be the maximum number of objects that can be on the conveyor at one time. The working time at each Work Station should be a constant; this constant should simply be the amount of time it takes an object to traverse the conveyor divided by the number of Work Stations in the model.

Exercise 18: For each of the situations a through e below, perform 30 simulations and report the overall mean throughput (i.e., the overall mean final inventory of Buffer: Finished Goods). Also report the overall mean cycle time through the process from the time it enters WS1 to the time it leaves WS3. This is computed by adding the overall mean cycle times through the internal buffers, the Buffers added between Work Stations (if any), and the mean working times at the Work Stations.

- a. Consider the SimQuick model described above. Note that the “Working time” for each Work Station is Uni(5,15).
- b. Consider the original model, changing the working time at each Work Station to Uni(9,11). Note that the new working times have the same mean but a smaller variance.
- c. Consider the original model, using the reduced variance distribution from part b on WS2 only.
- d. For the original model, add a Buffer between WS1 and WS2 and another Buffer between WS2 and WS3 (with no initial inventory). Consider the five scenarios where the capacity of both Buffers is set to 1, then 3, then 5, then 7, and then 9.
- e. Consider the model in d (with the capacities of the added Buffers at 9), using the reduced variance distributions from b.
- f. Summarize your results from parts a through e. In particular, discuss the relationship between inventory, working time variability, throughput, and cycle time.
- g. Consider the model in d, except set the capacities of the added Buffers and Finished Goods to be Unlimited. Run the model for 2000, then 5000, then 10000 time units. Make sure you increase the initial inventory in Raw Materials so you don’t run out during the simulations. In each case, report the overall mean inventory and the overall mean maximum inventory in both of the added Buffers. What does this imply about inventory levels in a factory where Buffer sizes are large and production runs are long?

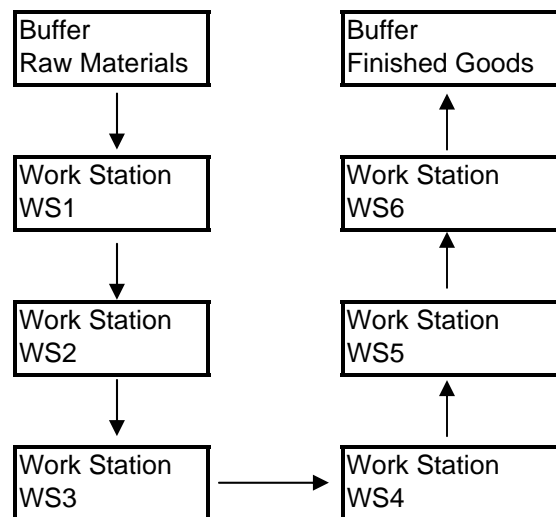
Note: In parts a–f, we have limited the amount of inventory allowed between Work Stations (for example, the inventory capacity between WS1 and WS2 is the one object capacity of the internal buffer of WS1 plus the capacity of the added Buffer, if there is one). These limits control the way objects flow through the process and have an interesting interpretation. Let us interpret every object that enters WS3 as a purchase of an object by a customer (hence the time between purchases is random). Assume that during a simulation there has not been a purchase for some time and that the buffer spaces between WS1 and WS2 and between WS2 and WS3 are full. It follows that WS1 and WS2 are blocked and no objects can move in the model. Objects can only move again when a purchase is made. When this occurs, the number of objects between WS2 and WS3 decreases by one. This serves as a signal to WS2 to begin working and it removes an object from between WS1 and WS2. This then serves as a signal to WS1 to begin working. In a real process, an inventory limit between work stations is sometimes enforced with *kanbans* (a simple system involving the use of cards). This is a key component in many JIT processes (which are also sometimes called “pull” systems). Observe that a model almost equivalent to the

one just discussed can be obtained by replacing WS3 and Finished Goods with an Exit (see Example 12 for an introduction to Exits).

Example 19: A Manufacturing Cell

For this example, we consider a linear flow process where the work stations are close together and hence there is little room for inventory between stations. When a process of this type consists of machines arranged in a “U-shape” in a factory, it is often called a *cell*. The reason for a U-shaped configuration is to make it more convenient for each worker to operate two or more machines. In this example, we are interested in the effect on throughput of using 6 vs. 3 vs. 2 workers in this cell. We assume here that when a machine is running, it must be attended by a worker (hence, a worker cannot start a machine working on a part and then go do something else while it’s working). We consider a process with the following flow map.

Process Flow Map for Cellular Manufacturing



As in Example 18, time units represent minutes and we assume that the working time at each Work Station can be approximated by a uniform distribution with minimum value 5 and maximum value 15. If we enter this model as usual into SimQuick, then we are modeling the situation where each machine has its own dedicated worker.

Next, we consider the case of running the cell with three workers. (The case with two workers is left to the reader.) Let’s say that Worker 1 is assigned to WS1 and WS2, Worker 2 is assigned to WS3 and WS4, and Worker 3 is assigned to WS5 and WS6. These workers are modeled in SimQuick as *resources*. When using resources in SimQuick, we must inform SimQuick how many of each we have available. To do this, click the “Other Features” button followed by the “Resources” button. Fill in the table as follows:

Name ↓	Number available ↓
Worker 1	1
Worker 2	1
Worker 3	1

In this case, we have only one of each worker available. However, a resource could represent a group of people (e.g., maintenance workers) or a set of identical tools, in which case there could be more than one available.

From the Control Panel, click on “Work Stations.” Fill in tables 1 and 2 as follows (note how we are assigning the resource Worker 1 to WS1 and WS2):

1			
	Name →	WS1	
	Working time →	Uni(5,15)	
Output destination(s) ↓	# of output objects ↓	Resource name(s) ↓	Resource # units needed ↓
WS2	1	Worker 1	1

2			
	Name →	WS2	
	Working time →	Uni(5,15)	
Output destination(s) ↓	# of output objects ↓	Resource name(s) ↓	Resource # units needed ↓
WS3	1	Worker 1	1

Similarly, fill in the tables for WS3 and WS4 with Worker 2 and fill in the tables for WS5 and WS6 with Worker 3.

Here is what happens when SimQuick runs. If a Work Station is not working, if it contains no finished object in its internal buffer, if there is an input object available, and if the resource it requires is available, then it takes the input object and the resource and begins working. The resource then becomes unavailable to other Work Stations. When a Work Station finishes working on an object, it makes the resource available to other Work Stations. In this model, this means that each Worker will alternate between his or her two machines, working on one object each time.

Observe that when a model with resources is run, the Results sheet reports the “Mean number in use” for each Resource.

Exercise 19: Run 30 simulations for each of the situations described above: with six, three, and two workers (for the two-worker case, assign one worker to WS1, WS2, and WS3 and assign the other worker to the other Work Stations). Run each simulation for 1440 time units (i.e., 24

simulated hours). Make sure you set the capacity and initial number of objects for Raw Materials and the capacity of Finished Goods to be sufficiently large (200 will do the job). Report the overall mean throughput for each case (i.e., the overall mean final inventory in Finished Goods). Also report the overall mean throughput divided by the number of workers for each situation. Which situation has the best throughput per worker?

Section 2: Assembly/disassembly processes

In this section, we consider two common activities in a process: taking several different parts and combining them into one part (assembly), and taking one part and breaking it into several different parts (disassembly). This is easy to model with SimQuick.

Example 20: Box manufacturing

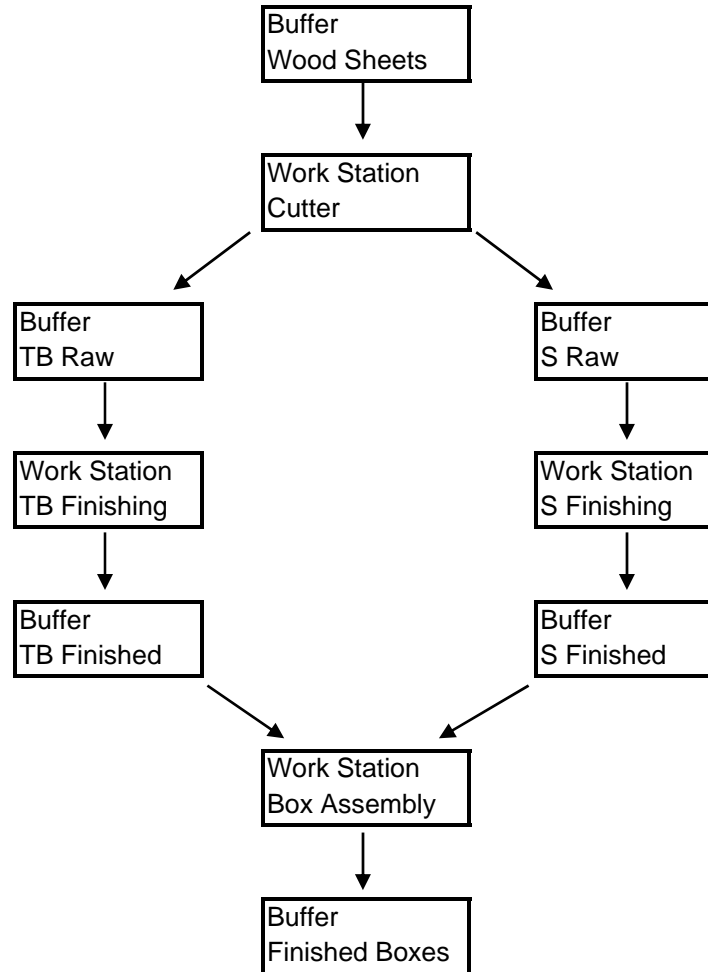
Here we describe a (simplified) process for making wooden jewelry boxes. Each box is made from the following parts: two identical square pieces (the top and bottom), four identical rectangular pieces (the sides), and a hinge. At the beginning of the process is a pile of sheets of wood. One sheet at a time is taken to a machine, called Cutter. From each sheet, this machine cuts out four square pieces and eight rectangular pieces. (Note that the Cutter produces enough for two boxes due to the size of the sheets.) The four square pieces are then sent to a Buffer, followed by a machine, called TB Finishing, for making them into tops and bottoms, followed by another Buffer. The eight rectangular pieces are also sent to a Buffer, followed by a machine, called S Finishing, for making them into sides, followed by another Buffer. A Work Station, called Box Assembly, then takes a top, a bottom, and four sides and constructs boxes, one at a time. Further details are provided below.

Management believes the machine S Finishing is a *bottleneck*. This means they believe that, if this machine were replaced with a faster machine, the number of boxes produced each day (i.e., the *throughput*) would increase. In particular, management wants to know how much the throughput would increase if the machine were replaced with a new machine whose working time can be approximated by a normal distribution with a mean of 2.5 minutes and a standard deviation of .5 minutes.

Modeling the process with SimQuick

The following process flow map describes the present process:

Process Flow Map for Box Manufacturing



Next, we present the SimQuick model. Time units represent minutes. Note that for the Work Stations we have added statistical distributions that approximate the “real” working times and for the Buffers we have added capacities and estimates of typical initial inventory levels.

Work Stations:

1			
Name →	Cutter		
Working time →	Nor(10,1)		
Output destination(s) ↓	# of output objects ↓	Resource name(s) ↓	Resource # units needed ↓
TB Raw	4		
S Raw	8		

2			
	Name →	TB Finishing	
	Working time →	Nor(5,1)	
Output destination(s) ↓	# of output objects ↓	Resource name(s) ↓	Resource # units needed ↓
TB Finished	1		

3			
	Name →	S Finishing	
	Working time →	Nor(4,1)	
Output destination(s) ↓	# of output objects ↓	Resource name(s) ↓	Resource # units needed ↓
S Finished	1		

4			
	Name →	Box Assembly	
	Working time →	Nor(10,2)	
Output destination(s) ↓	# of output objects ↓	Resource name(s) ↓	Resource # units needed ↓
Finished Boxes	1		

Buffers:

1		2	
Name →	Wood Sheets	Name →	TB Raw
Capacity →	100	Capacity →	10
Initial # objects →	100	Initial # objects →	2
Output destination(s) ↓	Output group size ↓	Output destination(s) ↓	Output group size ↓
Cutter	1	TB Finishing	1

3		4	
Name →	S Raw	Name →	TB Finished
Capacity →	20	Capacity →	10
Initial # objects →	20	Initial # objects →	8
Output destination(s) ↓	Output group size ↓	Output destination(s) ↓	Output group size ↓
S Finishing	1	Box Assembly	2

5		6	
Name →	S Finished	Name →	Finished Boxes
Capacity →	20	Capacity →	500
Initial # objects →	0	Initial # objects →	0
Output destination(s) ↓	Output group size ↓	Output destination(s) ↓	Output group size ↓
Box Assembly	4		

Let's consider the Work Station called Cutter. First, observe that it has one input, the Buffer called Wood Sheets. Hence, this Work Station takes one object at a time from Wood Sheets and works on it. However, this Work Station has two outputs: TB Raw and S Raw, with "# of output objects" of 4 and 8, respectively. Hence, after finishing a work cycle, this Work Station sends 4 objects to TB Raw and 8 objects to S Raw (i.e., it takes 1 object in and sends 12 objects out). The working time $Nor(10,1)$ represents the amount of time to cut one wood sheet into 12 pieces. In general, a Work Station with two or more outputs can be said to be performing a *disassembly* (in addition to splitting materials into pieces, multiple outputs can be used, for example, to model the disassembly of a machine at a maintenance center).

These objects then work their way through the Work Stations called TB Finishing and S Finishing, one at a time. Next observe that the Buffers called TB Finished and S Finished have "Output group sizes" of 2 and 4, respectively. This means that objects leave these Buffers 2 and 4 at a time, respectively, and that these groups of 2 and 4 are each considered to be a single object.

Finally, let's consider the Work Station called Box Assembly. It has two inputs. When a Work Station has more than one input, it cannot start a work cycle until it has one of each type of input. In this case, this means that the Box Assembly cannot start working until there are at least 2 objects in TB Finished (which are considered as a single object for output to Box Assembly) and 4 objects in S Finished (which are considered as a single object for output to Box Assembly). When one of each input object is available, a Work Station takes them and starts working. Thus, multiple inputs into a Work Station can be used to model an *assembly* operation.

Note 1: A Work Station can have both multiple inputs and multiple outputs.

Note 2: Multiple inputs and outputs can also be used to model "signaling," where a Work Station sends a message to another Work Station to begin working (see Example 21).

Exercise 20: Perform 40 simulations with the SimQuick model of the existing process and report the throughput (i.e., the overall mean final inventory in Finished Boxes). Also report the overall mean fraction time working (also called *utilization*) for each Work Station. Which Work Station is a *bottleneck* according to this statistic (i.e., has highest value)? Rerun the simulations with the new Work Station and report the same statistics. Is there a significant improvement in throughput? Is the work more evenly balanced between the Work Stations (i.e., the overall mean fraction time working)?

Section 3: Batch and job shop processes

In this section, we consider two important types of processes. Both are fairly complex in that they involve special rules that create new modeling challenges. Batch processes are used, for example, in the manufacturing of food, clothing, and pharmaceuticals. Batch processes typically have a machine that is used to manufacture several different products. It is time consuming and expensive to switch the machine from making one product to another (such a switch is called a *setup*). Thus, each product is made in fairly large batches. The result is that inventory can pile up. Hence, an important question: How large should these batches be so that demand is satisfied and inventory does not pile up too much? We consider this question in Example 21.

Job shop processes are used, for example, in the manufacturing of machine parts, in the maintenance of jet engines, and for the care of patients in a hospital. Job shops typically have a variety of work stations and can make a variety of different products. With so many different types of jobs moving through a job shop at a time, an important question becomes the following: In what order should jobs be processed at each machine? We consider this question in Example 22.

Example 21: Pharmaceutical manufacturing

A pharmaceutical company makes a number of products in pill form. Two such products, Aspirin A and Aspirin B, have a high and steady demand and a single machine has been dedicated to making them. This machine can only make one type of pill at a time and must be thoroughly cleaned (i.e., *setup*) when it switches from making one type of pill to another. Management must decide how much of each type of pill to make at a time to satisfy 90% of the demand for each product; in operations lingo, management must decide on the best *batch sizes*.

Let us simplify the process as follows. First, assume we have as much raw material (chemicals in powder form) as we need. (Once we design the rest of the process, we can arrange with our supplier to deliver the quantities we need, when we need them.) The raw materials can be grouped into batches of anywhere from 100 to 500 lbs (in increments of 100 lbs). Batches are sent to the machine that creates the pills (pills are created by applying enormous pressure to the chemicals placed into pill-shaped molds). Every time the machine finishes a batch, it must be washed out before a batch of the other product can be started. The setup times are normally distributed with a mean of 3 working hours and a standard deviation of .5 hours. Actual processing times for a batch are the same for each product and are provided in the following table.

	Batch Sizes (lbs.)				
	100	200	300	400	500
Processing Times (hr)	Nor(1,.5)	Nor(2,.6)	Nor(3,.7)	Nor(4,.8)	Nor(5,.9)

After processing, the pills go into a storage area with a very large capacity. Pills are removed from the storage area as demand dictates: The time between shipments for Aspirin A is exponentially distributed with a mean of 20 working hours and each shipment is 300 lbs (or as

much as is available); the time between shipments for Aspirin B is exponentially distributed with a mean of 10 working hours and each shipment is 300 lbs (or as much as is available).

Management is considering the following scenarios, or combinations of batch sizes.

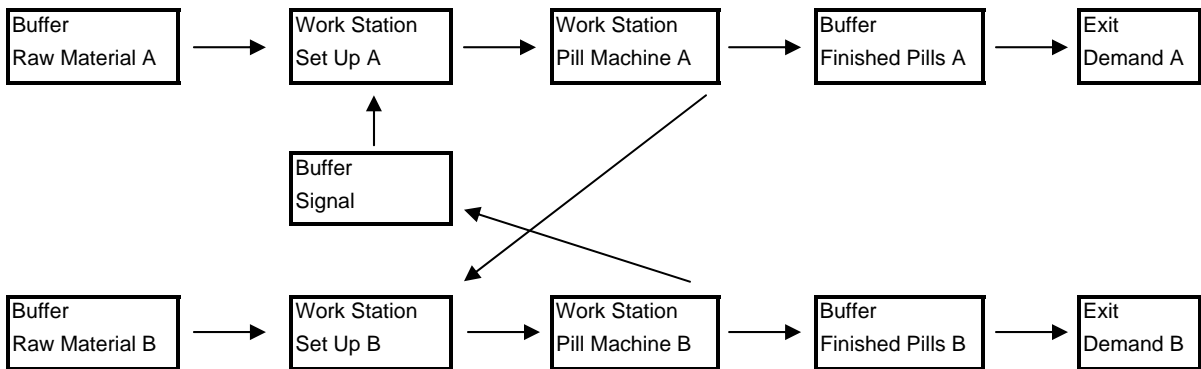
	Scenarios (batch sizes in lbs)					
	1	2	3	4	5	6
Aspirin A	100	100	200	300	300	400
Aspirin B	200	300	300	400	500	500

For example, under scenario 1, 100 lbs of Aspirin A followed by 200 lbs of Aspirin B are made on the machine, then the pattern is repeated. Management wants to know how much finished inventory and what service level would result from each scenario.

Modeling the process with SimQuick

A process flow map and SimQuick model follow. The SimQuick tables are filled out for scenario 6. Each object corresponds to 100 lbs of materials (either raw materials or finished pills). Time units correspond to hours.

Process Flow Map for a Batch Process



Buffers:

1		2	
Name →	Raw Material A	Name →	Finished Pills A
Capacity →	500	Capacity →	500
Initial # objects →	500	Initial # objects →	10
Output destination(s) ↓	Output group size ↓	Output destination(s) ↓	Output group size ↓
Set Up A	4	Demand A	1

3		4	
Name →	Raw Material B	Name →	Finished Pills B
Capacity →	500	Capacity →	500
Initial # objects →	500	Initial # objects →	10
Output destination(s) ↓	Output group size ↓	Output destination(s) ↓	Output group size ↓
Set Up B	5	Demand B	1

5	
Name →	Signal
Capacity →	1
Initial # objects →	1
Output destination(s) ↓	Output group size ↓
Set Up A	1

Work Stations:

1			
Name →	Set Up A		
Working time →	Nor(3,.5)		
Output destination(s) ↓	# of output objects ↓	Resource name(s) ↓	Resource # units needed ↓
Pill Machine A	1		

2			
Name →	Pill Machine A		
Working time →	Nor(4,.8)		
Output destination(s) ↓	# of output objects ↓	Resource name(s) ↓	Resource # units needed ↓
Finished Pills A	4		
Set Up B	1		

3			
Name →	Set Up B		
Working time →	Nor(3,.5)		
Output destination(s) ↓	# of output objects ↓	Resource name(s) ↓	Resource # units needed ↓
Pill Machine B	1		

4			
	Name →	Pill Machine B	
	Working time →	Nor(5,.9)	
Output destination(s) ↓	# of output objects ↓	Resource name(s) ↓	Resource # units needed ↓
Finished Pills B	5		
Signal	1		

Exits:

1		2	
Name →	Demand A	Name →	Demand B
Time between departures →	Exp(20)	Time between departures →	Exp(10)
Num. objects per departure →	3	Num. objects per departure →	3

Let's consider how this model works (recall we are using the numbers for scenario 6). The real pill machine is modeled by the four Work Stations in this model. Each Work Station corresponds to one of the activities that can take place at the real pill machine: setups for Aspirin A and B and production of Aspirin A and B. Hence, in the model we will have only one of these four Work Stations in operation at a time.

A Work Station in SimQuick can begin working if it has one of each of its input objects and no finished inventory in its internal buffer. When this model is started, no Work Station has any finished inventory and only Set Up A has each of its inputs (the one object in Signal and an object from Raw Material A). Hence, the model begins with Set Up A, taking these two objects and performing a simulated setup of the pill machine for making Aspirin A. Note that the "Output group size" of Raw Material A is 4. This means that the number of objects in Raw Material A drops by four when one object is removed (this corresponds to 400 lbs of chemicals, which is the batch size for this scenario). When this setup is complete, Pill Machine A is the only Work Station with one of each of its inputs; hence, it begins to work (note that the one object taken from Set Up A still corresponds to the four objects originally taken from Raw Material A). The Working time is taken from the table above. When Pill Machine A finishes working, it outputs four objects to Finished Pills A (the batch is broken back into its 100-lb components for departures) and one object to Set Up B. The object sent to Set Up B is a signal that Pill Machine A is done. With this signal, Set Up B now has both its input objects and can begin working. Note that when it takes one object from Raw Material B, the number of objects in Raw Material B drops by five. When this setup is complete, Pill Machine B begins to process a batch (again, the time is taken from the table above). When Pill Machine B finishes working, it outputs five objects to Finished Pills B (the batch is again broken up for departures). It also outputs one object to Signal, thus allowing the cycle to repeat. Observe that the sole reason for the Buffer Signal is to get the simulations going in the beginning.

Finally, during the simulation, pills leave the system via the two Exits according to the demand for each product. See Example 12 for an introduction to Exits. Note that we start the simulation with typical amounts of finished pills of each type.

Exercise 21: Simulate this process for 10 weeks (assume there are 8 working hours per day and 5 working days per week). Perform 40 simulations for each scenario. For each scenario, report the overall mean number of setups (this is given by the sum of the overall mean number of “Cycles started” at Set Up A and Set Up B), the overall mean inventory in each of the two finished pill storage areas, and the overall mean service level (at the Exits) for each product. Discuss how you would decide which batch size to use.

Example 22: A single-machine job shop

For this example, we build a model of a single machine in a job shop. The model can easily be extended to include multiple machines (up to the limitations of SimQuick). For example, in a factory, the machine could be a lathe, a drill, or a saw or, in a service operation, it could represent an insurance claim check or a mortgage credit check.

The machine in this example processes four types of jobs. Arrivals of jobs are uncertain as are the processing times. They can be approximated by the SimQuick distributions in the following table (time units represent working hours; there are eight working hours per day). Processing times include the time for setting up the machine. Because each job is actually a batch, the processing times can be fairly long for some jobs. Once a job is started at the machine, it is finished before another job is started. The table also contains the lead time (number of hours between the arrival of the job and when it is finished) that is quoted to customers for each type of job.

Job	Time between arrivals	Processing time at machine	Quoted lead time
Job 1	Nor(13,3)	Nor(7,1)	16
Job 2	Nor(28,3)	Nor(8,1)	36
Job 3	Nor(32,3)	Nor(4,1)	24
Job 4	Nor(24,3)	Nor(3,1)	8

Management wants to compare two *priority rules* (which are used for deciding which job to do next at the machine):

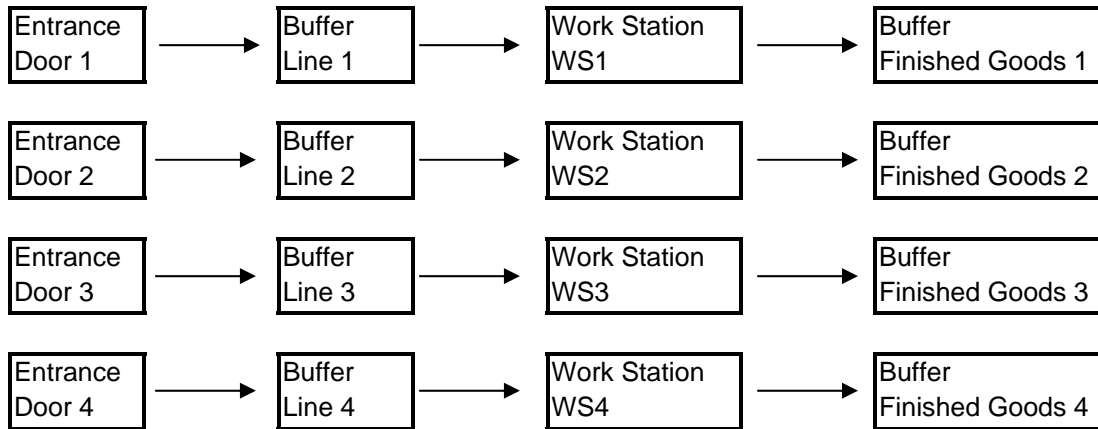
Shortest Processing Time: When the machine finishes work on a job, it works next on the job that has the smallest (mean) processing time among the jobs that are ready to go.

Nearest Due Date: When the machine finishes work on a job, it works next on the job that has the smallest lead time among the jobs that are ready to go.

Modeling the process with SimQuick

A process flow map is provided below.

Process Flow Map for a Single-Machine Job Shop



The model works as follows. Jobs of type 1 arrive at Door 1, jobs of type 2 arrive at Door 2, and so on. Hence, the “Time between arrivals” at each Entrance is the distribution given for the corresponding job type. After a job arrives, it goes into a Buffer for its type. The machine is modeled by the four Work Stations. The “Working time” of each Work Station is the processing time given for the corresponding job type. Of course, when we run the model, we want only one Work Station to be working at a time. To accomplish this, we assign a common resource, say R1, to each Work Station and make only one unit of this resource available. A Work Station must have this resource to work and, because there is only one unit available, only one Work Station can work at a time. When a Work Station finishes working on an object, the resource becomes available. It is taken by the highest *priority* Work Station that has an input object ready to go. The priority of a Work Station is simply determined by the number of its SimQuick table. For example, suppose during a simulation that the Work Station in table 1 finishes working on an object. If there is an input object for this Work Station, then it keeps the resource and begins working on that object. Suppose there is no such object. If the Work Station in table 2 has an input object, it acquires the resource and begins working on that object, and so on. Thus, to model the shortest processing time rule, we fill in the Work Station tables of SimQuick in the order WS4, WS3, WS1, WS2.

The Work Station tables for the shortest processing time model are provided below. Also provided is the Resource table (click on the “Resources” button on the Control Panel). It must be filled in so SimQuick knows how much of each resource is available. (If we changed the 1 in this table to a 2, then two of the Work Stations in our model could work at the same time.)

Work Stations:

1			
	Name →	WS4	
	Working time →	Nor(3,1)	
Output destination(s) ↓	# of output objects ↓	Resource name(s) ↓	Resource # units needed ↓
Finished Goods 4	1	R1	1

2			
	Name →	WS3	
	Working time →	Nor(4,1)	
Output destination(s) ↓	# of output objects ↓	Resource name(s) ↓	Resource # units needed ↓
Finished Goods 3	1	R1	1

3			
	Name →	WS1	
	Working time →	Nor(7,1)	
Output destination(s) ↓	# of output objects ↓	Resource name(s) ↓	Resource # units needed ↓
Finished Goods 1	1	R1	1

4			
	Name →	WS2	
	Working time →	Nor(8,1)	
Output destination(s) ↓	# of output objects ↓	Resource name(s) ↓	Resource # units needed ↓
Finished Goods 2	1	R1	1

Resources:

Name ↓	Number available ↓
R1	1

Finally, we need to discuss how management decides between the two different priority rules. We consider two performance measures for comparing the priority rules; they are expressed in terms of *flow time*. The *mean flow time of a job type* is the mean amount of time that type of job

spends waiting plus being processed. The *tardiness of a job type* is zero if its mean flow time is less than or equal to its quoted lead time; otherwise, it's equal to:

(the mean flow time of the job type) – (the quoted lead time).

Management is interested in two performance measures:

The *overall mean flow time* is the mean of the mean flow times of each job type.

The *overall tardiness* is the mean of the tardinesses of each job type.

Exercise 22: For the job shop described above, run 50 simulations with each priority rule. Make sure the capacity of each Finished Goods Buffer is large enough (100 will do the job). Management assumes that the demand patterns should remain stable for the next 100 days. For each rule, report the overall mean flow time and the overall tardiness.

Section 4: Quality and reliability in processes

In this section, we consider how to model two things in a factory that can go wrong. The first process involves quality problems with a product, and the second process involves reliability problems with a machine.

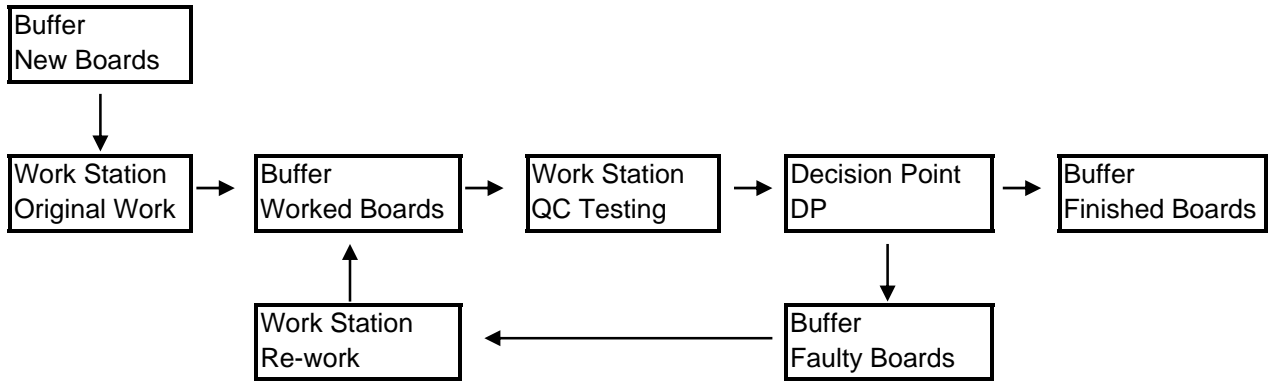
Example 23: A quality control station

Let's consider a simple process with a quality control station. Suppose we have an ample supply of raw materials, in this case, printed circuit boards. These boards are passed, one at a time, to a work station where a worker installs a few components. Each board is then passed to a quality control station where the installation is tested. Ninety percent of the boards pass this test and are then put into finished goods inventory. Those that fail the test are returned to the worker to be immediately examined and then retested. Management wants to know if investing in a new machine for the component installation would improve the throughput of the process. The new machine would have the same working time as the old machine, but the number of boards that pass inspection should increase to 95%. The remaining details are provided below.

Modeling the process with SimQuick

Here is a process flow map.

Process Flow Map for a Quality Control Station



Observe that Original Work and Re-work are done at the same location in the factory by the same person. Hence, only one of these can be done at a time, so we assign a common resource to them. We also want Re-work to have a higher *priority* than Original Work. This means that if both Work Stations are ready to start working at some point in the simulation, then Re-work gets the resource and starts working first. We instruct SimQuick to do this by entering Re-work into a table with a smaller number than Original Work. Hence, we have put Re-work into table 2 and Original Work into table 3, below. The effect of this is that whenever there is rework to be done, it is done before any new work is started. Here is how the SimQuick model looks (time units represent minutes).

Buffers:

1		2	
Name →	New Boards	Name →	Worked Boards
Capacity →	200	Capacity →	20
Initial # objects →	200	Initial # objects →	0
Output destination(s) ↓	Output group size ↓	Output destination(s) ↓	Output group size ↓
Original Work	1	QC Testing	1

3		4	
Name →	Faulty Boards	Name →	Finished Boards
Capacity →	20	Capacity →	Unlimited
Initial # objects →	0	Initial # objects →	0
Output destination(s) ↓	Output group size ↓	Output destination(s) ↓	Output group size ↓
Re-work	1		

Work Stations:

1			
	Name →	QC Testing	
	Working time →	Nor(3,.5)	
Output destination(s) ↓	# of output objects ↓	Resource name(s) ↓	Resource # units needed ↓
DP	1		

2			
	Name →	Re-work	
	Working time →	Nor(8,1)	
Output destination(s) ↓	# of output objects ↓	Resource name(s) ↓	Resource # units needed ↓
Worked Boards	1	R1	1

3			
	Name →	Original Work	
	Working time →	Nor(5,1)	
Output destination(s) ↓	# of output objects ↓	Resource name(s) ↓	Resource # units needed ↓
Worked Boards	1	R1	1

Decision Point:

1	
Name →	DP
Output destinations ↓	Percents ↓
Finished Boards	90
Faulty Boards	10

Note that we must also enter the one resource into the Resource table and indicate there is only 1 available:

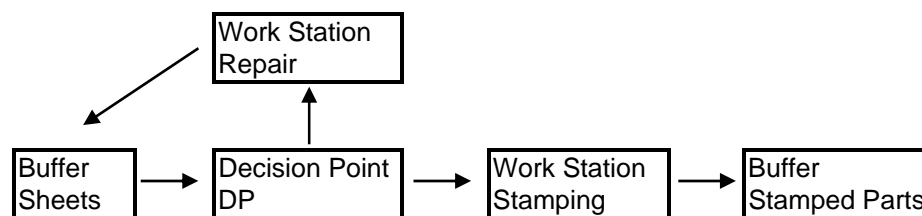
Name ↓	Number available ↓
R1	1

Exercise 23: Perform 30 simulations of an 8-hour work shift before and after the change. Report the overall mean final inventory of Finished Boards (i.e., the *throughput*) of the processes to assess the effect of the new machine.

Example 24: A machine with breakdowns

A factory has a metal stamping machine that is prone to breakdowns. Roughly 5% of the time, as the machine is being prepared for a new job, it gets jammed. Here is a process flow map of this situation using SimQuick elements:

Process Flow Map for a Machine with Breakdowns



Objects representing the raw materials for this process are kept in the Buffer called Sheets. They next pass through a Decision Point where 95% of the time they go to the Work Station called Stamping and are processed as usual. However, 5% of the time they go to the Work Station called Repair. This corresponds to a breakdown of the stamping machine. We don't want any objects going to Stamping when this happens, so we assign a common resource to the two Work Stations. The working time at Stamping can be approximated by a normal distribution with a mean of 1 minute and a standard deviation of .1 minutes. The working time at Repair can be approximated by a normal distribution with a mean of 10 minutes and a standard deviation of 2 minutes. Note that objects that leave Repair go back to Sheets because they have not really been processed yet (we assume they are not damaged).

Exercise 24:

- a. Build a SimQuick model of the stamping machine process. Perform 30 simulation runs. Let time units represent minutes and run each simulation for 480 time units. Report the throughput (i.e., the overall mean final inventory in Stamped Parts).
- b. The factory is considering investing in a new stamping machine. The new machine is advertised as working at the same speed as the old machine but with 98% reliability (repairs should take about the same amount of time as for the old machine). Using your model from part a, predict the throughput of the process using the new stamping machine.

Chapter 5: Project Management

Learning objectives:

- To model, simulate, and analyze projects with uncertain task durations
- To understand the effect of uncertain task durations on estimates of a project's duration

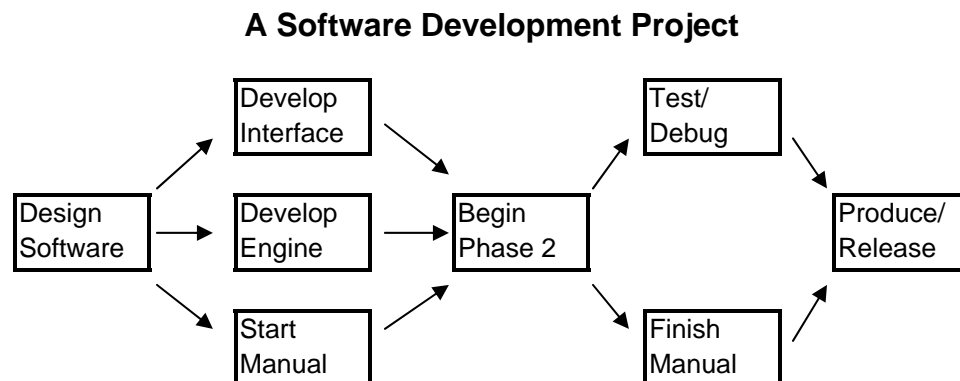
Overview

The techniques of PERT and CPM are widely used for managing complex projects. A weakness of these models is that they typically do not incorporate uncertainty when estimating the duration of projects (or, if uncertainty is included in the model, it is not handled in a realistic fashion). In this section, we show how uncertainty can be incorporated in the PERT/CPM approach by viewing a project as a process and applying the techniques of process simulation.

Example 25: A software development project

We consider a (very) simplified project for developing a software product, which is graphically described below. Each box represents a task (or activity) that must be completed. A task cannot be started until all its predecessors (tasks to its left) have been completed. Management wants an estimate of how long the project is going to take.

A standard technique for addressing this problem begins by estimating the duration of each task (with a single number). The next step is to identify the sequence of tasks from beginning to end (e.g., Design Software, Develop Interface, Begin Phase 2, Test/Debug, Produce/Release) whose sum of estimated durations is a maximum (the so-called *critical path*). This largest sum is an estimate of the project's duration.



This technique does not capture an often crucial aspect of real projects; that is, task durations are typically uncertain and hence may not be modeled well by a single number. We propose to model projects with uncertain task durations using process simulation.

Modeling the process with SimQuick

The trick is to model each task with a Work Station. The arrows in the project diagram define the inputs and outputs of each Work Station in the usual fashion. The “Working times” of each Work Station are statistical estimates of the corresponding tasks’ durations. These estimates are provided in the following table, which is followed by our SimQuick model.

Tasks	Task durations (days)
Design Software	Nor(20,5)
Develop Interface	Nor(50,10)
Develop Engine	Nor(55,10)
Start Manual	Nor(20,5)
Begin Phase 2	Nor(2,.5)
Test/Debug	Nor(20,5)
Finish Manual	Nor(20,5)
Produce/Release	Nor(30,8)

Buffers:

1		2	
Name →	Start	Name →	End
Capacity →	1	Capacity →	1
Initial # objects →	1	Initial # objects →	0
Output destination(s) ↓	Output group size ↓	Output destination(s) ↓	Output group size ↓
Design Software	1		

Work Stations:

1			
	Name →	Design Software	
	Working time →	Nor(20,5)	
Output destination(s) ↓	# of output objects ↓	Resource name(s) ↓	Resource # units needed ↓
Develop Interface	1		
Develop Engine	1		
Start Manual	1		

2			
	Name →	Develop Interface	
	Working time →	Nor(50,10)	
Output destination(s) ↓	# of output objects ↓	Resource name(s) ↓	Resource # units needed ↓
Begin Phase 2	1		

3			
	Name →	Develop Engine	
	Working time →	Nor(55,10)	
Output destination(s) ↓	# of output objects ↓	Resource name(s) ↓	Resource # units needed ↓
Begin Phase 2	1		

4			
	Name →	Start Manual	
	Working time →	Nor(20,5)	
Output destination(s) ↓	# of output objects ↓	Resource name(s) ↓	Resource # units needed ↓
Begin Phase 2	1		

5			
	Name →	Begin Phase 2	
	Working time →	Nor(2,5)	
Output destination(s) ↓	# of output objects ↓	Resource name(s) ↓	Resource # units needed ↓
Test/Debug	1		
Finish Manual	1		

6			
	Name →	Test/Debug	
	Working time →	Nor(20,5)	
Output destination(s) ↓	# of output objects ↓	Resource name(s) ↓	Resource # units needed ↓
Produce/Release	1		

7			
	Name →	Finish Manual	
	Working time →	Nor(20,5)	
Output destination(s) ↓	# of output objects ↓	Resource name(s) ↓	Resource # units needed ↓
Produce/Release	1		

8			
	Name →	Produce/Release	
	Working time →	Nor(30,8)	
Output destination(s) ↓	# of output objects ↓	Resource name(s) ↓	Resource # units needed ↓
End	1		

Observe that we have added Buffers at the ends of the process. The Buffer called Start contains a single initial object; its output is the first task of the project (in this case, Design Software). The Buffer called End has a single input from Produce/Release (and a capacity of 1). Thus we assume that the project has a single first task and a single final task (such tasks can be added with durations equal to zero, if they do not naturally occur in a project).

The duration of the simulation is set to be some number of time units that exceeds the maximum possible duration of the project: in this case, 200 days. We run the simulation many times, say 500 times. Because the number of simulations is large, we can reduce the time for the runs by writing only the overall means for each simulation on the Results sheet. You can instruct SimQuick to do this by clicking on the “Other Features” button followed by the “Hide Results Details” button.

Here is how the model works on our example. When a simulation begins, the object in Start immediately moves to Design Software. It stays there for an amount of time determined by our estimated duration of this task. After this, it is split into three objects, each of which goes to one of the outputs of Design Software. Each object stays at its Work Station according to our statistical estimate of these tasks’ durations. Begin Phase 2 cannot start until it has one of each of its inputs; hence, it cannot start until each of its three predecessors is finished. The output of Phase 2 is two objects, each of which goes to one of its outputs. The same logic continues until Produce/Release sends one object to End.

Consider any one simulation. Throughout the simulation there is either 0 or 1 object in End. It follows that the mean inventory of End is the fraction of time during the simulation that the project is completed. Thus we can calculate the duration of the project during this simulation as follows:

$$\text{Project duration} = (1 - \text{mean inventory of End}) * (\text{Simulation duration})$$

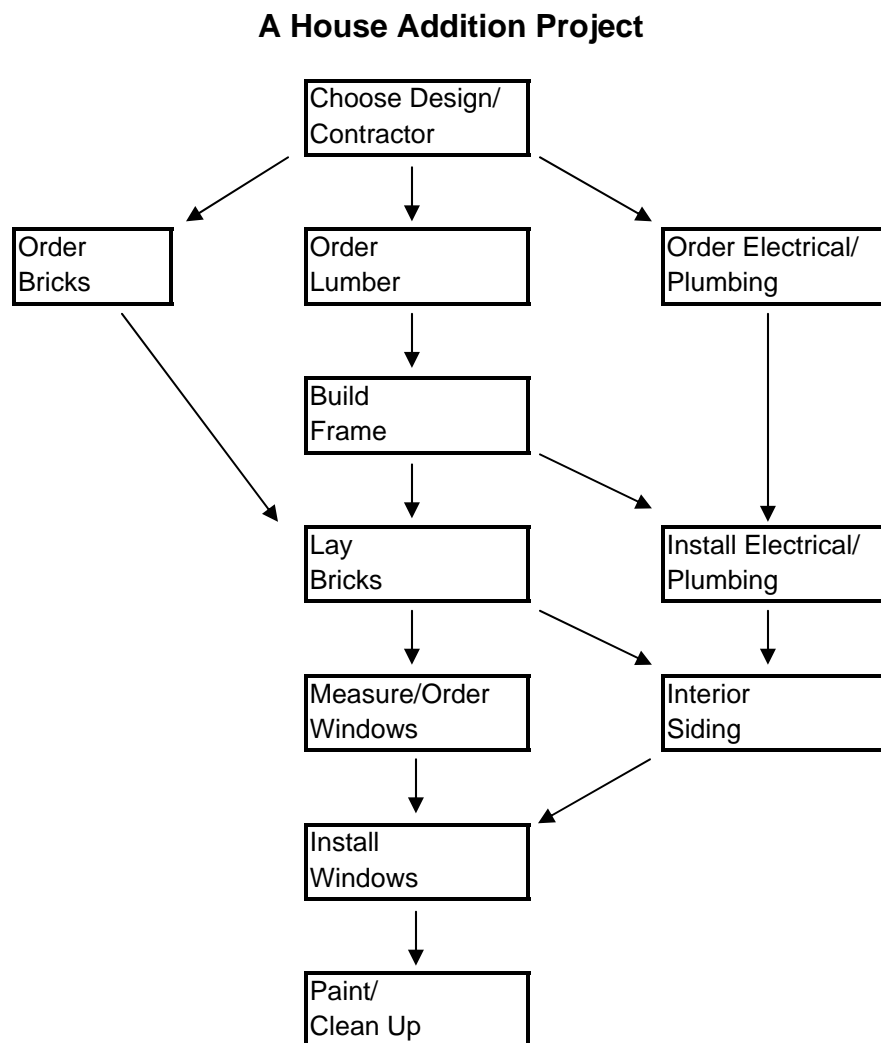
To compute the overall mean project duration, simply substitute “overall mean inventory of End” for “mean inventory of End” in the above equation.

Exercise 25: Do the following for the software production example above:

- a. The duration of each task is described by a statistical distribution. If the duration of each task was precisely the mean of this distribution, what would the duration of the project be? (You do not need to use SimQuick, just find the longest sequence of tasks from the beginning to the end of the project.)
- b. Report the overall mean duration of the project from 500 simulations of the above model (using the statistical distributions and SimQuick). How does this number compare with the duration reported in part a?

Example 26: A house addition project

Consider the following house addition project:



Tasks	Task durations (days)
Choose Design/Contractor	Nor(30,5)
Order Bricks	Exp(5)
Order Lumber	Exp(7)
Order Electrical/Plumbing	Exp(7)
Build Frame	Nor(2,.5)
Lay Bricks	Nor(2,.5)
Install Electrical/Plumbing	Nor(2,.5)
Measure/Order Windows	Exp(7)
Interior Siding	Nor(2,.5)
Install Windows	Nor(2,.5)
Paint/Clean Up	Nor(3,.5)

Exercise 26: Do the following for the house addition example above:

- a. The duration of each task is described by a statistical distribution. If the duration of each task was precisely the mean of this distribution, what would the duration of the project be? (You do not need to use SimQuick, just find the longest sequence of tasks from the beginning to the end of the project.)
- b. Report the overall mean duration of the project from 500 simulations of the above model (using the statistical distributions and SimQuick). How does this number compare with the duration reported in part a?

Appendix 1:

The Steps in a Simulation Project

This appendix contains a list of the typical steps in a SimQuick simulation project.

Step 1: Identify the process to be studied and the objectives for improvement.

Step 2: Identify those aspects of the process to vary.

Step 3: Construct process flow maps of the existing process and the variations under consideration using the elements of SimQuick.

Step 4: Collect data needed for the SimQuick elements in the models.

Step 5: Choose SimQuick statistical distributions that best model the data (look at histograms of the data as discussed in Chapter 1, Section 3 and Example 5).

Step 6: Enter the model into SimQuick.

Step 7: Determine the length of each simulation and how many simulations to run; enter into SimQuick.

Step 8: Run the simulations for the existing process. Check that the model is behaving like the real process (this is called *validation*).

Step 9: Run the simulations for the variations of the existing process.

Step 10: Analyze the results: Identify those variations that appear to have the best effects on the objectives (this may require some statistical analysis; see Appendix 2).

Appendix 2:

Enhancing SimQuick with Excel Features

In this appendix, we list ways to ease the use of SimQuick by taking advantage of some basic features of Excel.

Creating process flow maps

Process flow maps can be created in Microsoft Word or Microsoft Excel using the built-in drawing features. This section contains a description of the method used for the figures in this booklet; it's quick and dirty but gets the job done.

Begin by inserting a new worksheet into the SimQuick workbook with which you're working. To do this, click on "Insert/Worksheet" in the Excel menu. You can rename this new worksheet by double-clicking its tab at the bottom of the screen and typing a new name, say Flow Map.

Next, highlight any two cells, one above the other, in the new worksheet. On the menu, click on "Format/Cells." Then, click on the Border tab. Choose a wide line width and the outline option. Click OK. The two cells should now have a border. Highlight these two cells again and, on the menu, click on "Edit/Copy." Now highlight any two cells in the worksheet where you want to place an element in your process flow map. From the menu, click "Edit/Paste." Repeat this to place all the elements in your map. To move a box, just highlight it and drag it to a new location. Now you can label each of the boxes with the element type and name. Finally, click on Excel's drawing icon in the menu, click on the black arrow icon, and draw arrows between the boxes.

Saving results

Suppose you have run a model and want to save some of the statistics from the Results worksheet. As discussed above, add a new worksheet to your SimQuick workbook by clicking on "Insert/Worksheet" in the Excel menu. Then, rename this new worksheet by double-clicking its tab at the bottom of the screen and typing a new name, say Saved Results. Copy any statistics from the Results worksheet that you want to keep and paste them into the new worksheet. Here is an example of a worksheet you might create for the bank example:

	E	F	G	H	I	J
2	Mean cycle times in teller line					
3				Simulation numbers		
4		1	2	3	4	5
5	One teller, no machine	16.80	14.72	14.12	12.32	15.52
6	One teller, with machine	8.23	13.80	9.86	5.47	5.67
7						

You are now ready to perform some statistical analysis of these results using the statistical capabilities of Excel. Some examples are provided below in the section, “Statistical analysis of SimQuick results.”

Multiple SimQuick runs

Suppose you are running a SimQuick model several times but are not changing the underlying process flow map. For example, consider Example 12, where we study a periodic review inventory policy at a grocery store. In part a of Exercise 12, you are asked to compute the service level for several different Storage capacities. This work can be reduced as follows.

As discussed above in the “Saving results” section, create a new worksheet in your SimQuick workbook and call it, say, InputOutput. Fill in the worksheet as follows:

	A	B	C	D	E	F
1						
2		Input storage cap.:	<input type="text" value="70"/>		Storage cap.	Service level
3					70	
4					74	
5		Output service level:	<input type="text"/>		78	
6					82	
7					86	
8					90	
9					94	
10						

In the cell C5, enter the formula: =’Results’!D19

For this model, this is the cell (on the Results worksheet) that, after each simulation, contains the overall mean service level at the Exit called Purchase Requests.

Next, go to the Buffers worksheet in SimQuick. It should look as follows:

	A	B	C	D
1	Buffers	Return to Control Panel		
2				
3				
4	Examples			
5				
6				
7		1		
8		Name →	Storage	
9		Capacity →	70	
10		Initial # objects →	0	
11		Output destination(s) ↓	Output group size ↓	
12		Purchase Requests	1	
13				

Enter the following formula into the cell that contains 70: ='InputOutput!'C2

The new workbook is used as follows. Go to the Control Panel and click Run Simulation(s). When the simulations are finished, go to the worksheet InputOutput. The cell C5 contains the overall service level from these simulations. Highlight this cell, click "Edit/Copy." Next, highlight the cell F3 and click "Edit/Paste Special." Click on "Values" and then OK.

Next enter 74 into C2 of the worksheet InputOutput, click Run Simulation(s) on the Control Panel. In the worksheet InputOutput, paste the contents of cell C5 into F4, as we did above. Continue in this manner.

This basic idea is particularly useful when a problem has more parameters to vary, as in Exercises 13-17. Also, in these exercises, once you have collected all the statistics you need in InputOutput, you can easily perform the cost calculations all at once, using the basic calculating features of Excel.

Statistical analysis of SimQuick results

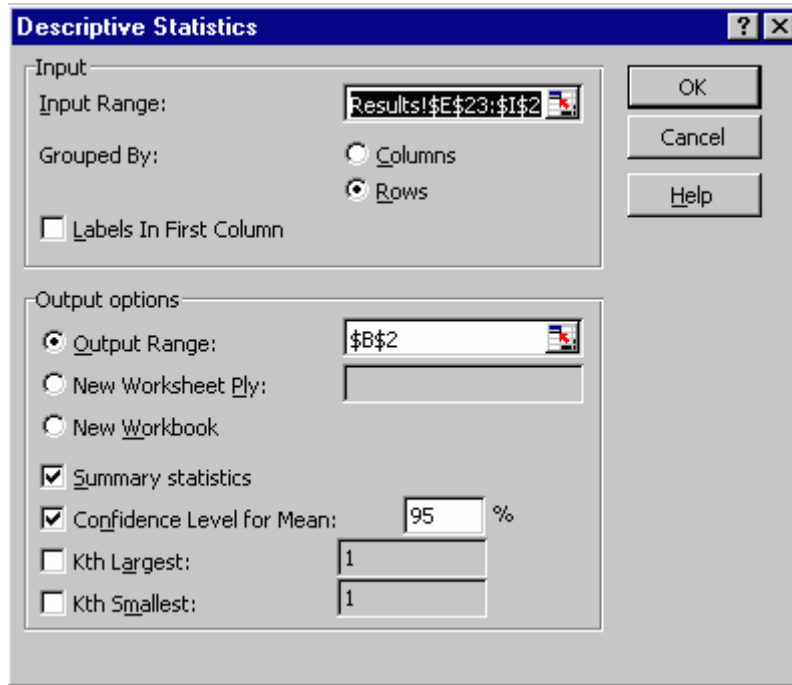
In this section, we consider several basic statistical calculations that can be performed on SimQuick results using the features of Excel. These calculations are made using the results from the individual simulations (this is the main reason this information is provided by SimQuick). Although we demonstrate how to perform the statistical analysis, we do not present the theory behind the statistics.

Let's consider the original one-teller bank model in Section 1 of Chapter 2 (we have changed some of the input numbers a bit, so the Results below will look a little different from those we saw in Chapter 2). To save space in our displays below, we run just five simulations. Here are the results for the element Line.

	B	C	D	E	F	G	H	I
2								
3	Element	Statistics	Overall	Simulation number(s)				
4	names		means	1	2	3	4	5
17								
18	Line	Objects leaving	55.20	57	54	54	55	56
19		Final inventory	6.80	9	5	10	6	4
20		Minimum inventory	1.40	1	2	0	2	2
21		Maximum inventory	10.00	10	10	10	10	10
22		Mean inventory	6.77	7.98	6.62	6.36	5.65	7.24
23		Mean cycle time	14.70	16.80	14.72	14.12	12.32	15.52
24								

Let's focus our attention on the mean cycle time. From our five simulations, SimQuick computed the following five numbers: 16.80, 14.72, 14.12, 12.32, and 15.52. These five numbers comprise a sample of mean cycle times from the population of all possible simulations of two hours using this model. (It is common practice to assume that such populations are approximately normally distributed; several of the calculations below depend on this assumption.)

Create a new worksheet called, say, Analysis1. A number of useful statistics can be obtained as follows. From the Analysis1 worksheet, click on “Tools/Data Analysis” on the Excel menu. (If Data Analysis does not show up in the menu, click on “Tools/Add-Ins” and then click the boxes next to Analysis Toolpack.) Highlight “Descriptive Statistics” and click on OK. Fill in the window as follows:



Note that the complete “Input Range” should read: Results!\$E\$23:\$I\$23.

If you click on OK, the following table should appear in your worksheet:

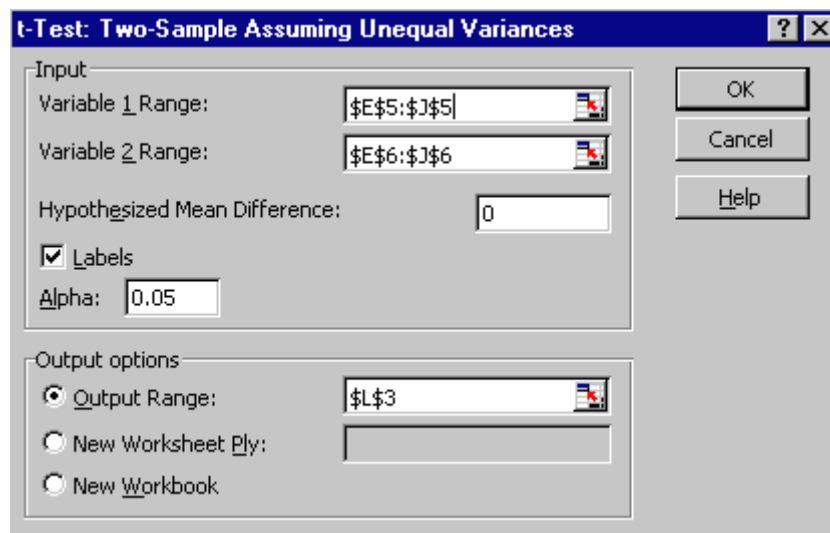
<i>Row1</i>	
Mean	14.70
Standard Error	0.74
Median	14.72
Mode	#N/A
Standard Deviation	1.66
Sample Variance	2.77
Kurtosis	0.47
Skewness	-0.34
Range	4.48
Minimum	12.32
Maximum	16.80
Sum	73.48
Count	5.00
Confidence Level(95.0%)	2.07

Note that the first row contains 14.70, the same mean that was computed by SimQuick in the cell Results!D23. A number of other statistics are also calculated; we consider only two of them. First, note that the standard deviation of the five numbers is 1.66, which tells us how “spread out” the five numbers are. Second, the last row provides us with a 95% confidence interval for the overall mean cycle time of the population. That is, there is a probability of .95 that the overall mean cycle time of the population is within 2.07 of 14.70 or, in other words, in the interval [12.63, 16.77]. This interval will tend to shrink as the number of simulations increases.

Another common statistical question to ask when doing process simulation is whether the results of a change in a model are statistically significant. For example, in the bank example, let’s compare the mean cycle times in the Line when there is one teller, with and without a check-reading machine. This calls for performing a t-test. Specifically, we want to know, at a .05 significance level, if the overall mean cycle time of the population in the “one teller with machine” case is less than in the “one teller with no machine” case. This is known as a one-tailed hypothesis test. To do this, we copy the five mean cycle times for each case into a new worksheet called, say, Analysis2 as follows:

	E	F	G	H	I	J
2	Mean cycle times in teller line					
3				Simulation numbers		
4		1	2	3	4	5
5	One teller, no machine	16.80	14.72	14.12	12.32	15.52
6	One teller, with machine	8.23	13.80	9.86	5.47	5.67
7						

Next, click on “Tools/Data Analysis” from the Excel menu. Highlight “t-Test: Two-Sample Assuming Unequal Variances” and click OK. Fill in the table as follows:



Click on OK. The following table should appear in your worksheet:

t-Test: Two-Sample Assuming Unequal Variances		
	<i>One teller; no machine</i>	<i>One teller; with machine</i>
Mean	14.70	8.61
Variance	2.77	11.79
Observations	5	5
Hypothesized Mean Difference	0	
df	6	
t Stat	3.57	
P(T<=t) one-tail	0.01	
t Critical one-tail	1.94	
P(T<=t) two-tail	0.01	
t Critical two-tail	2.45	

We are interested in the number labeled “P(T<=t) one-tail,” which is .01. Because this number is less than our significance level of .05, we may conclude that the overall mean cycle time of the population in the “one teller with machine” case is significantly less than in the “one teller with no machine” case (with only a .05 probability that we are wrong; in fact, we would have drawn the same conclusion if we had set a .01 significance level). Hence, if our model is a good one, then adding a check-reading machine in the real bank should significantly reduce the waiting time in the teller line.

Accelerating model entry

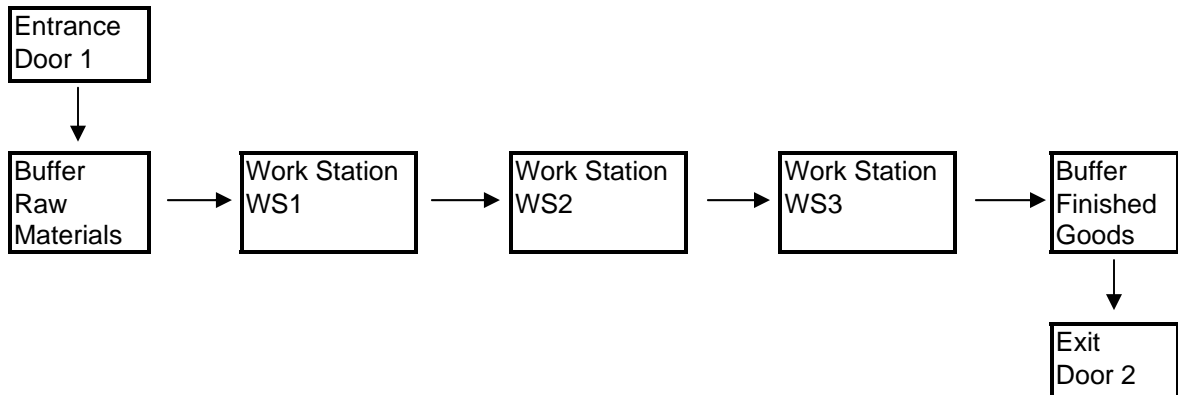
When entering a model into SimQuick that has several elements that are almost identical, use the ability of Excel to copy and paste ranges of cells. For example, consider Example 19, cellular manufacturing. Here we enter six Work Stations whose SimQuick tables are quite similar. To ease this entry, enter the table for WS1, then copy the range B7:D11 and paste it into cells G7, then L7, then Q7, then V7, and finally AA7. The desired tables for WS2 through WS6 can then be obtained with minor editing.

Appendix 3: Using Custom Schedules

In this appendix, we present an example of a process that uses a SimQuick feature called *Custom Schedules*. This feature allows the user to describe arrivals at Entrances and departures at Exits that cannot be described using SimQuick’s statistical distributions.

Consider the following variation on the linear flow process in Example 18.

Process Flow Map for a Linear Flow Process with Custom Schedules



We let time units represent hours. There are 10 working hours per day and we want to simulate production for the next 100 days, so “Number of time units per simulation” is set to 1000. Additional details are provided below.

Entrances:

1	
Name →	Door 1
Time between arrivals →	Cus(1)
Num. objects per arrival →	Cus(1)
Output destination(s) ↓	
Raw Materials	

Exits:

1	
Name →	Door 2
Time between departures →	Cus(2)
Num. objects per departure →	Cus(2)

Buffers:

1		2	
Name →	Raw Materials	Name →	Finished Goods
Capacity →	Unlimited	Capacity →	Unlimited
Initial # objects →	0	Initial # objects →	0
Output destination(s) ↓	Output group size ↓	Output destination(s) ↓	Output group size ↓
WS1	1	Door 2	1

Work Stations:

1			
	Name →	WS1	
	Working time →	Nor(5,1)	
Output destination(s) ↓	# of output objects ↓	Resource name(s) ↓	Resource # units needed ↓
WS2	1		

2			
	Name →	WS2	
	Working time →	Nor(5,1)	
Output destination(s) ↓	# of output objects ↓	Resource name(s) ↓	Resource # units needed ↓
WS3	1		

3			
	Name →	WS3	
	Working time →	Nor(5,1)	
Output destination(s) ↓	# of output objects ↓	Resource name(s) ↓	Resource # units needed ↓
Finished Goods	1		

Custom Schedules:

1		2	
Times ↓	Quantity arriving/departing ↓	Time ↓	Quantity arriving/departing ↓
0	15	80	10
100	20	200	30
220	20	350	25
310	15	500	30
450	20	650	25
520	15	780	25
600	20	850	20
720	25	1000	15
850	20		
950	10		

Note that for the Entrance, “Time between arrivals” and the “Num. of objects per arrival” are filled in with “Cus(1).” This instructs SimQuick to look at Custom Schedules table #1 (shown above) for the arrival schedule (to enter such a schedule, click on the “Other Features” button followed by the “Custom Schedules” button). A different custom schedule table is used in this example to describe the departure schedule for the Exit.

Consider the Custom Schedule table for Door 1. The table says that at time 0 (i.e., at the beginning of each simulation), 15 objects arrive at Door 1. Then at time 100, 20 more objects arrive, and so on. The table for Door 2 says that at time 80, 10 objects (or as many as are available) can leave the process from Buffer: Finished Goods. Then, at time 200, 30 more objects can leave, and so on. Such specific schedules are impossible to describe using SimQuick’s built-in statistical distributions and, typically, are used to describe arrivals and departures that have been worked out in advance, or are being considered, with suppliers and customers. In this case, running this model may help you to estimate how well the schedule for your customers will be met by the arrival schedule of raw materials (i.e., What is the service level at Door 2?). If the service level is too low, you may, for example, have to reschedule some of the arrivals of the raw materials.

“Times” should be numbers between 0 and the “Number of time units per simulation,” and they should increase as you move down in the table. Each “Quantity arriving/departing” should be an integer between 1 and 10^{100} . A Custom Schedule can contain up to 1,000 rows.

Appendix 4: SimQuick Reference Manual

This appendix contains a concise description of all the features of SimQuick for reference. The key methods for using SimQuick for modeling processes are introduced in Examples 1, 7, and 12.

Installing and running SimQuick

Please refer to Chapter 1, Section 4.

SimQuick statistical distributions

A key feature of simulation software is a way to choose numbers randomly from statistical distributions. SimQuick provides the following formulas for doing this.

Nor(m,s)	Numbers are chosen from a normal distribution with mean = m, standard deviation = s.
Uni(a,b)	Numbers are chosen from a uniform distribution between a and b, with $a < b$.
Exp(m)	Numbers are chosen from an exponential distribution with mean m.
Dis(i)	Numbers are chosen randomly from a discrete distribution described in table i of the worksheet Discrete Distributions (click on “Other Features” then “Discrete Distributions” to see the tables). The numbers in the first column of the table are chosen according to the corresponding probabilities in the second column. The numbers in the second column must be between 0 and 100 and must sum to 100.

The numbers used in the above distributions (m, s, a, and b) must lie between 10^{-100} and 10^{100} .

These distributions are used for describing the working times at Work Stations, the arrival/departure schedules at Entrances/Exits, and the initial number of objects at Buffers. SimQuick also allows the arrival/departure schedules to be described with Custom Schedules (described below and, in detail, in Appendix 3). With this feature, schedules described by virtually any fixed numbers can be used.

Note: SimQuick is “case sensitive”; hence, the three-letter abbreviations for the distributions must start with a capital letter.

Rules for all elements

For each element in your model, you must fill in a table that describes the characteristics of that element. Each type of element has its own type of table. Blank tables can be found by clicking on the buttons on the Control Panel with the element names. When filling in tables, be sure to fill in table 1, then table 2, and so on, without leaving any blank tables between two filled-in tables. Additional tables may be added (see “Additional model limits” below).

Note: SimQuick is “case sensitive”; hence, whenever a name for an element is entered into two or more places, it must be entered with the same upper- and lowercase letters.

Entrances and Exits

Entrances are where objects enter the model and Exits are where objects leave the model. If your model has several types of objects entering (perhaps they follow different paths through a job shop or are combined on an assembly line), then you should have a separate Entrance for each type. The same holds true if your model has several types of objects that leave (perhaps your model produces several different finished goods).

When filling in a table for an Entrance or an Exit, you must fill in the following cells:

1. *Name* (must be distinct from the names of other elements).
2. *Time between arrivals (departures)* and *Num. objects per arrival (departure)*. These two cells define the arrival/departure schedule for the objects that arrive/depart at this Entrance/Exit. The choices for both are any one of the four SimQuick distributions or a number between 10^{-100} and 10^{100} .

An additional choice is to write the word Cus(i) into both cells, where i is the number of a Custom Schedule table. See Appendix 3 for the details.

When filling in a table for an Entrance, you must also fill in the following:

3. At least one *Output destination* (in the top row). This is a list of the elements to which objects at this Entrance are sent. Don't leave any blanks in the middle of the list.

If objects arrive at an Entrance during the simulation, then as many as will fit enter the model. If there is not enough space for all of them, then those not entering are rejected from the model (they cannot enter at a later time).

If objects are scheduled to depart from an Exit during a simulation, then as many as are available at that time at any of the inputs to the Exit will depart up to the specified Num. objects per departure.

The following statistics are reported on the Results sheet for Entrances:

Objects entering process: This is the number of objects that arrived at the Entrance during the simulation and moved to one of its output destinations.

Objects unable to enter: This is the number of objects that arrived at the Entrance during the simulation but were unable to move to one of its output destinations (perhaps a Buffer was full or a Work Station was working at the time of arrival).

Service level: This is equal to
$$\frac{\text{Objects entering process}}{\text{Objects entering process} + \text{Objects unable to enter}}.$$

The following statistics are reported on the Results sheet for Exits:

Objects leaving process: This is the number of objects that leave the model at the Exit during the simulation (this typically represents filled demand).

Object departures missed: This is the number of objects that could have left the model at the Exit during the simulation but did not because they were not available at the inputs to the Exit (this typically represents unfilled demand).

Service level: This is equal to
$$\frac{\text{Objects leaving process}}{\text{Objects leaving process} + \text{Object departures missed}}.$$

Buffers

Buffers simply hold objects. When filling in a table for a Buffer, you must fill in the following cells:

1. *Name* (must be distinct from the names of other elements).
2. *Capacity.* This is the maximum number of objects that can be held at one time. It can be either an integer between 1 and 10^{100} or the word Unlimited (which is actually equal to 10^{100}).
3. *Initial # of objects.* This is the number of objects in the Buffer at the beginning of each simulation. It can be an integer between 0 and the capacity, or one of the four SimQuick distributions.

The following is optional:

4. *Output destination(s).* This is a list of the elements to which objects at this Buffer are sent. If you fill in a row, you must fill in the top row. Don't leave any blanks in the middle of the list. The *Output group size* (an integer between 1 and 10^{100}) must be filled in for each output destination. This means that the Buffer groups together a specified number of objects before outputting them as a single object (e.g., if objects are put into boxes or sent to a machine as a batch). Hence, a Buffer will not send output to an element until it contains a number of objects equal to or greater than its group size.

If an output destination is not specified for a Buffer, then objects that enter the Buffer simply remain at the Buffer. Note that all objects entering a Buffer become indistinguishable. Hence, if you have two objects that represent different products, you probably shouldn't put them into the same Buffer.

The following statistics are reported on the Results sheet for Buffers:

Objects leaving: This is the number of objects that leave the Buffer and go to one of its output destinations during the simulation.

Final inventory: This is the number of objects in the Buffer at the end of the simulation.

Minimum inventory: This is the minimum number of objects in the Buffer during the simulation.

Maximum inventory: This is the maximum number of objects in the Buffer during the simulation.

Mean inventory: This is the mean number of objects in the Buffer during the simulation.

Mean cycle time: This is the mean amount of time that an object spends in the Buffer during a simulation. If no objects leave the Buffer during a simulation, then the mean cycle time is “Infinite.”

Work Stations

Work is performed on the objects at Work Stations. When filling in a table for a Work Station, the following cells must be filled in:

1. *Name* (must be distinct from the names of other elements).
2. *Working time.* This is the amount of work time per cycle. The choices are any one of the four SimQuick distributions or a number between 0 and 10^{100} .
3. *Output destination(s).* This is a list of the elements to which objects at this Work Station are sent. A Work Station must have at least one output destination. You must fill in the top row of the list; don't leave any blanks in the middle of the list. For each output destination, you must specify the *# of output objects* (an integer between 1 and 10^{100}). (Use this, for example, when a Work Station breaks or disassembles an input into a number of identical outputs; typically, this number is 1.)

The following is optional:

5. *Resource names.* This is a list of the resources that this Work Station needs in order to work. For each name entered, you must also enter the *# of units* of this resource that is needed (an integer between 1 and 10^{100}). Each resource used must also be entered in the table accessed by clicking on the “Other Features” and “Resource(s)” buttons.

When a Work Station finishes working on an object, it creates as many objects as designated for each output. Objects going to different outputs typically represent different things in the real process. If one type of output object is to be sent to any of several elements, then this one object type should be output to a single Buffer that then sends its outputs to these elements.

Work Stations retain output objects (in an internal buffer) until they have all been passed to subsequent elements in the model. A Work Station is *blocked* (i.e., it can perform no further work) until the created objects have all left the Work Station. Hence, for a Work Station to begin working, the following conditions must hold: the Work Station is not working; there is no finished inventory in the Work Station's internal buffer; there is one of each input object at each element providing the inputs; and, if resources are assigned to the Work Station, then the

resources are available. When these conditions hold, the Work Station acquires one of each type of input object and the needed resources, determines the working time, and begins work. Resources are retained at the Work Station for the duration of the work; hence, they become unavailable to other Work Stations. When a work cycle is finished at a Work Station, its resources become available for reassignment.

Note that the requirement for a Work Station to have one of each input object before it starts working allows a Work Station to model (among other things) a machine whose job is to combine or assemble two or more objects.

The following statistics are reported on the Results sheet for Work Stations:

Final status: If the Work Station is working on an object at the end of the simulation, then its final status is “Working.” Otherwise, its final status is “Not Working.”

Final inventory (int. buff.): This is the number of finished objects in the internal buffer at the end of the simulation.

Mean inventory (int. buff.): This is the mean number of objects in the internal buffer during the simulation.

Mean cycle time (int. buff.): This is the mean amount of time an object spends in the internal buffer during a simulation. It does not include time spent working on the objects.

Work cycles started: This is the number of times during the simulation that the Work Station has begun working on a new set of inputs.

Fraction time working: This is the fraction of the time during the simulation that the Work Station is working on an object.

Fraction time blocked: This is the fraction of the time during the simulation that the Work Station is blocked.

Decision Points

Decision Points route objects to two or more (up to 10) outputs. When filling in a table for a Decision Point, the following cells must be filled in:

1. *Name* (must be distinct from the names of other elements).
2. *At least two output destinations:* These are the elements to which objects at this Decision Point can be sent.
3. *An output percentage* for each output destination: These numbers must be between 0 and 100 and must add up to 100.

When an object enters a Decision Point, it is randomly sent to one of the output destinations based on the percentages. A Decision Point requires zero time and has a capacity of one object.

Hence, a Decision Point can be *blocked* (i.e., it will not route any additional objects) if the unit it holds cannot go to its output destination.

The following statistics are reported on the Results sheet for Decision Points:

Objects leaving: This is the number of objects that leave the Decision Point and go to one of its output destinations during the simulation.

Final inventory (int. buff.): This is the number of objects at the Decision Point (in its internal buffer) at the end of the simulation. The number can be 0 or 1.

Mean inventory (int. buff.): This is the mean number of objects in the internal buffer during a simulation.

Mean cycle time (int. buff.): This is the mean amount of time an object spends in the internal buffer during a simulation.

Simulation control parameters

To run a simulation, you need to specify two numbers on the Control Panel. You must enter the *Number of time units per simulation* (a number between 10^{-100} and 10^{100}). This determines how long each simulation runs. A good strategy is to first choose what time units in the model represent in the real world so the arrival/departure schedules and the working times are relatively small numbers compared with the Number of time units per simulation. You also need to specify the *Number of simulations* (an integer between 1 and 1,000). Because the numbers used in the simulation are generated randomly, you can get different results each time you run the simulations. Thus, you may want to run the simulations more than once and perform some statistical analysis of the results.

To perform the simulation(s)

Click the “Run Simulation(s)” button.

Running time

SimQuick can take a few minutes or longer to run if the number of time units is large, the number of simulations is large, and the number of elements is large. Running times will also depend on the speed of your computer. SimQuick updates the user on its progress in the lower right region of the Control Panel (and “beeps” when it finishes successfully). If SimQuick is not finished running after 30 seconds, a window appears and informs the user of SimQuick’s progress. The user is given the option of stopping SimQuick or letting it continue. If the user elects to have SimQuick continue, then the user can specify a length of time. If SimQuick is not finished by this time, then this window reappears. SimQuick can be stopped while running at any time by hitting the Esc key.

Resources

Each resource that is used must be listed in the resources table, which can be accessed by clicking on the “Other Features” button on the Control Panel, followed by the “Resources” button. It is also necessary to enter the number (or amount) of each resource that is available (an integer between 1 and 10^{100}). Resources are assigned to Work Stations in the corresponding tables (the number needed must also be specified: an integer between 1 and 10^{100}). Resources are useful for modeling situations where one person is operating several machines, where a machine has several setup configurations, and so on. The “Mean number in use” of each resource during each simulation is provided on the Results sheet. This can be used to assess the *utilization* of resources. Resources are used in Examples 10, 11, 19, 22, 23, and 24.

Custom schedules

For each Entrance or Exit, arrival/departure schedules may be explicitly defined as Custom Schedules. When using this option for an Entrance or Exit, the word Cus(i) must appear in the cells labeled “Time between arrivals/departures” and “# objects per arrival/departure,” where i is the number of a table on the worksheet obtained by clicking “Other Features” followed by “Custom Schedules.” In these tables, “Times” are the specific times during the simulation when objects arrive/depart at the corresponding element. They should be numbers between 0 and the “Number of time units per simulation,” and should increase as you move down in the table. Each time must be accompanied by a “Quantity arriving/departing,” which represents the number of objects arriving/departing at that time. These should be integers between 1 and 10^{100} . A Custom Schedule can contain up to 1,000 rows. See Appendix 3 for a detailed description of how to use Custom Schedules.

Viewing the model

Click the “View Model” button to see copies of all the simulation control and element tables on a single worksheet. This sheet can be used to check the logic of the model and for printing the model. The model cannot be edited from this sheet.

Clearing the model

Clicking on the “Clear Model” button on the Control Panel clears all the SimQuick tables and the simulation control parameters.

Results

Results of any simulation run can be obtained by clicking on the “View Results” button on the Control Panel. The first two columns contain the element types and names in the SimQuick model. In the third column, the types of statistics collected during the simulations appear. Slightly different statistics are collected for each type of element. The statistics collected for each simulation are in the columns labeled 1, 2, 3, (assuming the “Show Results Details” option has been chosen under “Other Features”; see Results Details, below). The final location

of every object that arrived at the model (or started at a Buffer) can be determined, as well as how many objects passed through each element. Other summary statistics are also available, including statistics for Resources. Each number in the column labeled “Overall means” is the mean of the numbers to its right. (For details, see “Rules for all elements” earlier in this appendix, or Example 1 in Chapter 2.)

Results Details

Click on “Other Features” and look under “Results Details.” There are two choices: “Show Results Details” and “Hide Results Details.” If the “Show” option is chosen (and “Number of simulations” is less than or equal to 200), then the Results worksheet displays the statistics for each individual simulation. If the “Hide” option is chosen, the Results page displays only the overall means of the statistics. If the “Number of simulations” is greater than 200, then the “Hide” option must be chosen. In general, SimQuick will run a bit faster if the “Hide” option is chosen.

Additional model limits

At most, a model can have 250 elements, 10 outputs from an element, and 20 resources. (There is no additional restriction on the number of inputs to an element.) Initially, SimQuick provides 20 tables for each type of element. To add more elements of a certain type, simply paste copies of the given tables to the right.

How each simulation is performed

When a SimQuick simulation begins, a “simulation clock” starts in the computer and runs for the designated duration of the simulation. While this clock is running, a series of *events* sequentially takes place. There are three types of events in SimQuick: the arrival of a shipment of objects at an Entrance, the departure of a shipment of objects from an Exit, and the completion of work at a Work Station. Whenever an event occurs, the elements are scanned a number of times in the order of their *priority*: Entrances before Work Stations before Buffers before Decision Points before Exits; and, subject to this, in increasing order of table numbers.

A special purpose of the first scan is to consider the resources: If a Work Station has just finished working, then its resources become available and its newly finished objects become available to subsequent elements. Resources are not reassigned until the second scan (hence, a high-priority Work Station may reacquire its resources immediately after completing work). After the first scan, elements (except Entrances) attempt to “pull in” objects from their input elements. If a Buffer, Decision Point, or Exit has more than one input element, then it will attempt to pull in objects from its input elements in priority order. Methods for using the notion of priority in modeling are discussed in Examples 10, 17, 22, and 23.

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Table 14.6

Week	Patient Arrivals
1	401
2	380
3	411
4	384

90) Use the information in Table 14.6. Compute a three-week moving-average forecast for the arrival of medical clinic patients in week 5.

- A) fewer than or equal to 382
- B) greater than 382 but fewer than or equal to 389
- C) greater than 389 but fewer than or equal to 396
- D) greater than 396

91) Use the information in Table 14.6. If the actual number of patients is 415 in week 5, what is the forecast for week 6, using a three-week moving-average forecast?

- A) fewer than or equal to 390
- B) greater than 390 but fewer than or equal to 398
- C) greater than 398 but fewer than or equal to 406
- D) greater than 406

92) Use the information in Table 14.6. Calculate the exponential smoothing forecast for week 5 using $\alpha = 0.10$ and $F_4 = 410$.

- A) fewer than or equal to 400
- B) greater than 400 but fewer than or equal to 408
- C) greater than 408 but fewer than or equal to 416
- D) greater than 416

176) Calculate three forecasts using the following data. First, for periods 4 through 10, develop the exponentially smoothed forecasts using a forecast for period 3 (F_3) of 45.0 and an alpha of 0.4. Second, calculate the three-period moving-average forecast for periods 4 through 10. Third, calculate the weighted moving average for periods 4 through 10, using weights of .70, .20, and .10, with 0.70 applied to the most recent data. Calculate the mean absolute deviation (MAD) and the cumulative sum of forecast error (CFE) for each forecasting procedure. Which forecasting procedure would you select? Why?

Month	Demand
1	45
2	48
3	43
4	48
5	49
6	54
7	47
8	50
9	46
10	47

Table 14.5

The manager of a pizza shop must forecast weekly demand for special pizzas so that he can order pizza shells weekly. Recent demand has been:

Week	No. Special Pizzas
1	50
2	65
3	53
4	56
5	55
6	60

- 1) Use the information from Table 14.5. Using a three-week moving average, what is the forecast for week 7?
- 2) Use the information from Table 14.5. If a four-week weighted moving average were used, what would be the forecast for week 7? (The weights are 0.60, 0.30, 0.07, and 0.03 with 0.60 applied to the most recent period and 0.03 applied to the oldest period.)

~~~~~

Demand for guest rooms over the last 6 months has been as follows:

| Period | Demand (Units) |
|--------|----------------|
| 1      | 109            |
| 2      | 110            |
| 3      | 103            |
| 4      | 170            |
| 5      | 81             |
| 6      | 130            |

4) What is the forecast for period 7 if the company uses the simple moving-average method with  $n = 4$ ?

~~~~~

Table 14.6

Week	Patient Arrivals
1	401
2	380
3	411
4	384

7) Use the information in Table 14.6. If the actual number of patients is 415 in week 5, what is the forecast for week 6, using a three-week moving-average forecast?

8) Use the information in Table 14.6. Calculate the exponential smoothing forecast for week 5 using $\alpha = 0.10$ and $F_4 = 410$.

~~~~~

**Table 14.11**

A restaurant sales manager wants to forecast monthly sales using the following monthly sales data:

| Month | Balance |
|-------|---------|
| 1     | \$3,803 |
| 2     | \$2,558 |
| 3     | \$3,469 |
| 4     | \$3,442 |
| 5     | \$2,682 |
| 6     | \$3,469 |
| 7     | \$4,442 |
| 8     | \$3,728 |

9) Use the information in Table 14.11. Use the 3-month weighted moving-average method to calculate the

forecast for month 9. The weights are 0.60, 0.30, and 0.10, where 0.60 refers to the most recent demand.

10) Use the information in Table 14.11. If the forecast for period 7 is \$4,300, what is the forecast for period 9 using exponential smoothing with an alpha equal to 0.30?

~~~~~  
 At the Nittany Lion Inn, sales are seasonal with peaks in the 3rd and 4th quarter depending on the football schedule:

Quarter	Year 1 (\$000)	Year 2 (\$000)
1	40	60
2	90	280
3	350	320
4	310	440

15) What is the seasonal index for the 1st quarter of year 2?

16-20) Calculate the quarterly demand in year 3 if we expect total sales for the year to be \$1,150

52) A linear regression model is developed that has a slope of -2.5 and an intercept of 10. The sample coefficient of determination is 0.50. Which of the following statements is TRUE?

- A) The sample correlation coefficient must be 0.250.
- B) The sample correlation coefficient must be -0.707.
- C) The sample correlation coefficient must be -0.250.
- D) The sample correlation coefficient must be 1.00.

53) The number of #2 pencils the bookstore sells appears to be highly correlated with the number of student credit hours each semester. The bookstore manager wants to create a linear regression model to assist her in placing an appropriate order. In this scenario:

- A) the dependent variable is student credit hours
- B) there are two independent variables
- C) there are two dependent variables
- D) the independent variable is student credit hours

Table 14.1

The Agricultural Extension Agent's Office has tracked fertilizer application and crop yields for a variety of chickpea and has recorded the data shown in the following table. Their staff statistician developed the regression model and computed the performance statistics displayed below the data.

Fertilizer	Bushels
10	80
15	115
20	220
25	250
30	225

FERTILIZER APPLICATION VERSUS YIELD Summary	
Measure	Value
Error Measures	
Cumulative forecast error	0
MAD (Mean Absolute Deviation)	28.6
MSE (Mean Squared Error)	933.5
Standard Error (denom=n-2=3)	39.44
MAPE (Mean Absolute Percent Error)	.16
Regression line	
BUSHELs = 8	
+ 8.5 * FERTILIZER	
Statistics	
Correlation coefficient	.89
Coefficient of determination (r ²)	.79

Created by POM-QM for Windows

54) Use the information provided in Table 14.1. What percent in the variation of the variable *Bushels* is explained by the value of the variable *Fertilizer*?

- A) 89%
- B) 79%
- C) 71%
- D) 50%

55) Use the information provided in Table 14.1. For every unit of fertilizer applied, the crop yield increases by:

- A) 8.0 bushels.
- B) 8.5 bushels.
- C) 8.9 bushels.
- D) 7.9 bushels.

56) Use the information provided in Table 14.1. The value of *Bushels* when *Fertilizer* is 60 is:

- A) 2520.
- B) 490.
- C) 390.
- D) 518.

57) Use the information provided in Table 14.1. The value of *Fertilizer* required to generate 100 bushels yield must be:

- A) 10.82.
- B) 12.25.
- C) 10.26.
- D) 9.07.

58) Use the information in Table 14.1. If the correlation coefficient were negative, what would also be true?

- A) The coefficient of determination would also be negative.
- B) An increase in fertilizer would result in a decrease in crop yield.
- C) Applying no fertilizer would mean a negative crop yield.
- D) The standard error would also be negative.

Table 14.3

Columbia Appliance sells and delivers appliances in the Columbia, South Carolina area. The Operations and Supply Chain Manager wants to be able to predict the delivery crew's hours for easier scheduling. The delivery crew, consisting of a truck and two workers, must load the truck each day and then drive the truck to various locations to deliver appliances. Variables each day include miles driven and the number of deliveries made. The manager has collected data for the past five weeks, and has recorded the following average daily crew hours worked, miles driven and deliveries made:

WEEK	AVERAGE HOURS WORKED PER DAY	AVERAGE MILES DRIVEN PER DAY	AVERAGE NUMBER OF DELIVERIES PER DAY
1	8.1	75	5
2	9.3	80	6
3	8.5	100	4
4	8.5	75	5
5	8.9	110	4

The manager uses the multiple regression model and obtains the following results:

Columbia Appliance Delivery Summary	
Measure	Value
Error Measures	
Cumulative forecast error	0
MAD (Mean Absolute Deviation)	.08
MSE (Mean Squared Error)	.02
Standard Error (denom= $n-2-1=2$)	.2
MAPE (Mean Absolute Percent Error)	.01
Regression line	
Hrs Required = 1.3	
+ .04 * Miles Driven	
+ .8 * # Deliveries	
Statistics	
Correlation coefficient	.95
Coefficient of determination (r^2)	.9

- 63) Use the information provided in Table 14.3. If one delivery is added to the crew's daily work, how much time is added to their work schedule for that day? (Assume all other variables are held constant.)
- A) 30 minutes
 B) 2.4 minutes
 C) 24 minutes
 D) 48 minutes
- 64) Use the information provided in Table 14.3. If 10 extra miles of driving is added to the crew's daily work, how much time is added to their work schedule for that day? (Assume all other variables are held constant.)
- A) 30 minutes
 B) 2.4 minutes
 C) 24 minutes
 D) 48 minutes
- 65) Use the information provided in Table 14.3. What is the estimated work time for the crew if the schedule that day calls for 90 driving miles and 4 deliveries?
- A) 8.1 hours
 B) 9.2 hours
 C) 8.9 hours
 D) 8.5 hours
- 66) Use the information provided in Table 14.3. What is the estimated work time for the crew if the schedule that day calls for 85 driving miles and 6 deliveries?
- A) 8.1 hours
 B) 9.2 hours
 C) 8.9 hours
 D) 9.5 hours

Table 14.12

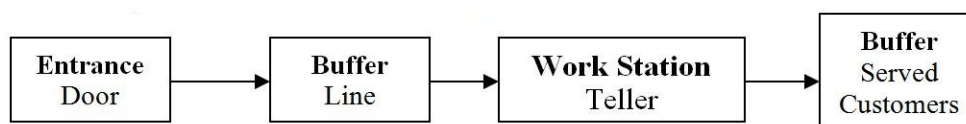
The management of call service company monitors the number of mistakes made by telephone service representatives for a company they have subcontracted with. The number of mistakes for the past several months appears in this table along with forecasts for errors made with three different forecasting techniques. The column labeled Exponential was created using exponential smoothing with an alpha of 0.30. The column labeled MA is forecast using a moving average of three periods. The column labeled WMA uses a 3-month weighted moving average with weights of 0.65, 0.25, and 0.10 for the most-to-least recent months.

Month	Mistakes	Exponential	MA	WMA
1	55			
2	61			
3	71			
4	77	71	62	67
5	88	73	70	74
6	100	77	79	84
7	109	84	88	95
8	122	92	99	105
9	126	101	110	117
10	126	108	119	123

- 11) Using Table 14.12, what is the CFE for months 6-10 for the exponential smoothing technique?
- 12) Using Table 14.12, what is the MSE for months 6-10 for the weighted moving average technique?
- 13) Using Table 14.12, what is the MAD for months 6-10 for moving average technique?
- 14) Using Table 14.12, what is the mean absolute percent error for months 6-10 using the exponential smoothing forecasts?
- 31) SimQuick can be used to simulate all of the following EXCEPT:
- A) a call center with completely random call arrivals and processing times.
 - B) a hospital emergency room with arrivals that vary during different time periods throughout the day.
 - C) a manufacturing process with a constant arrival rate (e.g., every 2 minutes) at one of the process steps.
 - D) the hiring of production workers, based on skill requirements throughout the year.

Scenario E.1

SimQuick is being used to simulate the following bank process:



Customer arrivals at the Entrance Door of the bank with an average time between arrivals of 2.5 minutes. The Line Buffer holds 6 customers. If a customer arrives and the buffer line is filled, the customer leaves. The Work Station Teller's processing time per customer is normally distributed, with a mean of 3.0 minutes and a standard deviation of 0.5 minutes. The Served Customer Buffer in the flow chart is used to count the number of customers processed during the period simulated. A 2-hour period was simulated. The SimQuick simulation is run, and the results are as follows:

<u>Element Types</u>	<u>Element Names</u>	<u>Statistics</u>	<u>Overall Means</u>
Entrance	Door	Objects entering process	41.80
		Objects unable to enter	6.23
		Service level	0.87
Buffer	Line	Objects leaving	37.83
		Final inventory	3.98
		Minimum inventory	0.00
		Maximum inventory	5.85
		Mean inventory	3.08
		Mean time in buffer	9.75
Work Station	Teller	Work cycles started	37.83
		Fraction time working	0.94
Buffer	Served Customers	Final inventory	36.85

32) Use the information in Scenario E.1. Approximately how many total customers arrived during the 2-hour period simulated?

- A) 42
- B) 38
- C) 44
- D) 48

33) Use the information in Scenario E.1. Approximately what percentage of total customers who arrived during the 2-hour period found the buffer full and were not able to enter?

- A) 87%
- B) 13%
- C) 94%
- D) 6%

34) Use the information in Scenario E.1. Approximately how much time did the average customer who entered the system spend waiting in line?

- A) 9.75 minutes
- B) 3.08 minutes
- C) 5.85 minutes
- D) 3.98 minutes

35) Use the information in Scenario E.1. On average, approximately how many customers were waiting in line during the 2-hour simulation period?

- A) 5
- B) 4
- C) 3
- D) 2

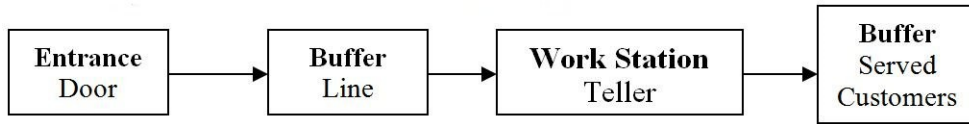
36) The arrival of customers at a lemonade stand is modeled in SimQuick using a(n):

- A) entrance block.
- B) buffer block.
- C) workstation block.
- D) decision point.

37) A patient's interminable wait for the first available physician is modeled in SimQuick using a(n):

- A) entrance block.
- B) buffer block.
- C) workstation block.
- D) decision point.

58) SimQuick is to be used to simulate the following bank process:



Customers arrive at the Entrance Door of the bank with an average time between arrivals of 2.5 minutes. The Line Buffer holds 6 customers. If a customer arrives and the buffer line is filled, the customer leaves. The Work Station Teller's processing time per customer is normally distributed, with a mean of 3.0 minutes and a standard deviation of 0.5 minutes. The Served Customer Buffer in the flowchart is used to count the number of customers processed during the simulation period. A 2-hour period is to be simulated and the simulation should be repeated 30 times. Determine:

- a) The number of customers served during the 2-hour period;
- b) The percentage of customers who arrived at the bank and left because the buffer line was full;
- c) The utilization of the teller (% of time working) during the 2-hour period;

Model View				
Simulation controls:				
Time units per simulation →	120			
Number of simulations →	30			
Entrances:				
1				
Name →	Door			
Average time between arrivals →	2.5			
Num. objects per arrival →	1			
Output destination(s) ↓	Line			
Work Stations:				
1				
Name →	Teller			
Working time →	Nor(3,.5)			
Output # of output	Resource	Resource		
destination(s) ↓	objects ↓	name(s) ↓	# units needed ↓	
Served Customers	1			

Buffers:

1

Name →	Line
Capacity →	6
Initial # objects →	0
Output destination(s) ↓	Output group size ↓
Teller	1

2

Name →	Served Customers
Capacity →	Unlimited
Initial # objects →	0
Output destination(s) ↓	Output group size ↓

Simulation Results

Element types	Element names	Statistics	Overall Means	
Entrance(s)	Door	Objects entering process	41.77	
		Objects unable to enter	5.63	
		Service level	0.88	
Work Station(s)	Teller	Final status	NA	
		Final inventory (int. buff.)	0.00	
		Mean inventory (int. buff.)	0.00	
		Work cycles started	37.63	
		Fraction time working	0.93	
Buffer(s)	Line	Objects leaving	37.63	
		Final inventory	4.13	
		Minimum inventory	0.00	
		Maximum inventory	5.87	
		Mean inventory	3.16	
		Mean time in buffer	9.95	
	Served Customers		Objects leaving	0.00
			Final inventory	36.63
			Minimum inventory	0.00
			Maximum inventory	36.63
		Mean inventory	17.23	

HRIM 496

Hospitality Studies in Europe

2013 HOSPITALITY STUDIES IN EUROPE
School of Hospitality Management
Penn State University and Oklahoma State University
Maastricht Class Syllabus
Class and Events Subject to Modification

Maastricht Instructor: Ruth Ann Jackson (PSU)

Email: rjack@psu.edu

Cell: 814.933.9128

Program Directors: Bill Ryan (OSU) and Bart Bartlett (PSU)

Course Objectives: The purpose of this class is to introduce students to the frameworks of international, cross- cultural, hospitality management, the current socio-economic and political environment and issues associated with doing business in Europe, and the comparative features of Europe as a tourist destination.

Course Text: *Kiss, Bow, or Shake Hands: Europe*, by Toni Morrison and Wayne Conway.

Tentative Class Schedule and Topics:

June 6

0900-1200: Ice breaker and Scavenger Hunt

1200-1300: Lunch Stayok

1300-1600: Book discussion – Cross Cultural Issues in Management – Netherlands, Germany, Belgium, Denmark, UK, Ireland

June 7

0900-1200: Current Events Group Project

1200-1300: Lunch Stayok

1300-1600: Tourism Clusters – Travel Planning

June 8

0900-1600: Netherlands, Germany, and Belgium Site Tours

June 9

0900-1200: Book discussion – Cross Cultural Issues in Management-Austria, Switzerland, Italy, Spain, Portugal, Greece, Turkey, Hungary

1200-1300: Lunch Stayok

1300-1600: Tour at the Krusherianhoffsp (church) Hotel

June 10

0900-1200: Current Events Group Project/Tourism Clusters and Travel Planning

1200-1300: Lunch Stayok

1300-1600: Ride bikes to the Hoge School for a tour and presentation

June 11

0900-2100 Transportation Lab Class/Lab in Paris

June 12-15

Travel on own with assignments

June 16

0900-1200: Cross Cultural Group Project Preparation

1200-1300: Lunch Stayok

1300-1600: Cross Cultural Group Project Presentations

1900-2100: Maastricht Closing Event

June 17

0900-1200: Cross Cultural Group Project Presentations

1200-1300: Lunch Stayok

1300-1600: Final Paper – Travel Planning

Attendance and Participation: Punctual daily attendance is mandatory. Tardiness will carry a 1/3 letter grade penalty. A missed class will carry a one letter grade penalty. Readings from our text are assigned for each class. I expect that students come to class having completed the reading and prepared to participate. Note that participation is 30% of your grade.

International Hospitality News Group Project/Presentation: To raise your awareness of the current socio-political and economic factors influencing hospitality and tourism management in Europe, groups of three students (assigned by your instructor) will, based on a news article(s), identify an issue, make a brief presentation of the issue and how it affects hospitality and tourism, and lead a class discussion on the issue.

Comparative Culture Group Presentation and Report: As you travel through Europe you will observe that people behave differently from typical behaviors in the US, and differently from country to country. Our text, *Kiss, Bow or Shake Hands: Europe* will provide us with a thorough analysis of these differences. This assignment asks that as **you** travel and observe people, try to notice all the things that people do similarly to, or differently from what you are used to. Examples include greetings, gestures, use of proximity and touch, eye contact, attire, casualness/formality, pace of activities, posture, gender roles, approach to children, service delivery and behavior of service providers, transportation, leisure activities, and so on. For your project you need to compare at least three cultural differences between at least three countries. Also be sure to note where these observations are similar or different from the text.

To ensure that these behaviors are indeed cultural artifacts rather than individual differences, try to identify behaviors being repeated by different people within the one cultural setting. Think specifically about **not just** "what do I see?", but "what does it mean?"

This project is also to be done in your travel groups. You must submit a one-page report of your findings, and make a presentation/demonstration, (skits encouraged!), explaining your findings. If you pay attention as you travel, your project will simply require that you organize and present these thoughts.

Final Paper: This is an individual assignment due prior to the last afternoon of class --1600 on June 17. You are to write thoughtful answers to the following **two** questions:

1. Reflect on what you have experienced and how that experience has changed your outlook as a future hospitality manager and as a citizen of the world. **Write less about what you did and more about how it has influenced or affected you.** I will be looking for at least 10 substantive reflections.
2. Many entrepreneurs have successfully imported concepts from the United States to Europe and from Europe to the United States. Based on your travels and observations, and our work on tourism clusters, identify a potential European hospitality business that you believe that could be successfully integrated into the US **or** a US hospitality concept that could be successfully integrated into Europe. Provide a description of the business, target markets, competitors, and your marketing and sales strategies. For extra credit, also discuss your human resource and entry strategies.

Grading

Participation and Book Discussion	30%
International News Group Project	20%
Comparative Cultural Group Project	25%
Final Paper	25%

Grading Scale

A	90-100
B	80-89
C	70-79
D	65-69
F	Below 65

Thank you in advance for your input, participation, and enthusiasm!

2013 Maastricht Scavenger Hunt

Work together in your groups and take the time to get to know something about each other...

When you return you will be asked to introduce each other:

Name, University, & Major

What is the one thing you want to learn/see on this trip?

What is something people may not know about you?

1. Locate the nearest H & M. How many H & M's are there?
2. Where can you buy a kassouffle or a crochet out of a vending Machine?
3. Go to the Fresh Food Market and try the fish! (The Dutch Fish that you eat raw!) What is the name?
4. Locate HEMA: What can you buy there and what is the price of a HEMA Hotdog with Extra Sauce!?
5. Maastricht Caves: What is so special about them?
6. Fort Saint Pieter: How many cannons are there?
7. Go to Aldi: What is the price of milk and fresh mozzarella?
8. Find a McDonalds. What is the price in Euros?_____ in convert to US\$_____
9. Find a place with free Wifi.
10. Find a place to buy an English language newspaper. What is the paper called?_____ What is the price?_____
11. Find a restaurant with a menu on display on the sidewalk_____ What would you order?_____ How much is it?_____
12. Find a Hotel named for the Royal Dutch Family_____ Who is the Queen/ King?_____ What is the family color & why?_____
13. Find a Laundromat, where is it, what are the hours?
14. Find the statue with the flame, What is the name on the base?
15. Find the walking and biking bridge across the Maas. What is the weight limit on the elevator?

2013-03-05

Starwood Hotels & Resorts to Open 50 New Hotels in Europe in The Next Five Years

BERLIN – March 5, 2013 – From the International Hotel Investment Forum (IHIF) in Berlin, Starwood Hotels & Resorts Worldwide, Inc. (NYSE: HOT) today announced plans to open 50 new hotels in Europe over the next five years, increasing its European hotel portfolio by 30%. This year, Starwood will open nine new hotels across the continent, primarily in fast-growing markets, a key focus of Starwood's long-term development strategy in Europe. At the same time, Starwood and its partners are making significant investments to restore and enhance some of the company's most iconic European hotels.

“Europe continues to be home to many of the world's most sought-after destinations and to attract travellers from markets around the globe,” said Simon Turner, President of Global Development for Starwood. “There is strong demand for all of our brands on the continent and, after years of tight supply, we are seeing great deal signing momentum in Europe both in established and rapidly growing markets.”

Starwood Expands European Footprint

Since 2009, Starwood has added 25 new hotels to its European portfolio of now 163 hotels in 32 countries. This year alone, the company will open nine new hotels in established as well as fast-growing markets such as Russia, the Commonwealth of Independent States (CIS) and Turkey. Highlights include:

- **Three new Starwood hotels in Turkey**, including the debut of the Sheraton brand in Adana, Turkey's culturally-charged commercial and agricultural centre as well as the entry of the Sheraton and Aloft brands in Bursa, Turkey's fastest growing city. Starwood is rapidly expanding its footprint in the country with four new hotels opening within a two-year period, including last year's debut of Le Méridien Istanbul Etiler. With that, Starwood will operate 10 hotels in five Turkish cities: Istanbul, Ankara, Cesme, Bursa and Adana.
- **Starwood's third hotel in Moscow** with the opening of the Sheraton Moscow Sheremetyevo Airport Hotel, part of the Skypoint Business Park located 800 metres from the country's busiest airport. In the next four years, **Starwood will nearly quadruple its portfolio in Russia and the CIS** with 11 new hotels in Moscow, St. Petersburg, Rostov-on-Don, Perm, Kaluga, and Krasnodar in Russia, as well as in Kiev, Ukraine and Ismayilli, Azerbaijan.
- Building on Starwood's **first-mover advantage, the entry into Tajikistan** with the opening of a new Sheraton hotel in the country's capital city of Dushanbe, followed by the launch of a Sheraton hotel in the **emerging city of Aktobe in Kazakhstan**, and the **first internationally-branded hotel in Kecskemet, Hungary** with the opening of the Four Points by Sheraton Kecskemet Hotel & Conference Center.
- **The addition of the celebrated King George hotel in Athens** to Starwood's Luxury Collection portfolio, marking the brand's eighth hotel in Greece. This represents the largest concentration of Luxury Collection hotels in any European country.

- **W Hotels' first ever ski retreat** with the highly-anticipated opening of W Verbier and The Residences at W Verbier, marking the debut of the W brand in Switzerland when it opens in December. Starwood opened five W hotels in Europe since 2008 in some of the world's most exciting and vibrant destinations, including London, Barcelona, St. Petersburg, Istanbul and most recently Paris. Next year, W Hotels will debut in Italy's fashion capital with the new W Milan.

Bart Carnahan, Senior Vice President Acquisition & Development, Starwood Hotels & Resorts, Europe, Africa & Middle East, said: "In an effort to maintain our rapid growth momentum throughout Europe, we have strengthened our development team with dedicated resources in the UK, Germany, Italy, France, Russia, Poland and Turkey, underscoring our commitment to Europe as a key travel and tourism destination."

Starwood Strengthens Luxury Position

As the company continues to expand its portfolio throughout Europe, Starwood is also focused on enhancing its existing portfolio of iconic European luxury hotels. Along with its owner partners, Starwood is investing more than \$200 million to renovate and restore its Luxury Collection hotels, bringing these heritage properties into the 21st century, while preserving the authentic elegance and distinct personality valued by today's luxury traveller.

Last year, Starwood re-opened two illustrious hotels in Spain following meticulous multi-million dollar restorations: Hotel Alfonso XIII in Seville and Hotel Maria Cristina in San Sebastian. Just last month, the world-famous Gritti Palace in Venice was re-introduced after a careful restoration, to be followed by the legendary Hotel Prince de Galles in Paris, which will re-open its doors in May.

"As part of Starwood's strategy to strengthen our Luxury Collection brand portfolio, together with our partners, we are making major investments to renovate and restore some of our most iconic hotels," commented Roeland Vos, President, Starwood Hotels & Resorts, Europe, Africa and Middle East. "At the same time, we see a large landscape of independent luxury hotels looking for a strong brand and the ability to tap into Starwood's powerful systems, so we expect some well-established conversion opportunities in key European cities this year."

Starwood continues to grow its Luxury Collection portfolio through flagship conversions in major European capitals, including the recent conversions of Metropol Palace in Belgrade (Serbia), Hotel Bristol in Warsaw (Poland) and Hotel King George in Athens (Greece).

Long Runway to Grow Mid-Market Brands

Starwood is seeing strong momentum for its Four Points by Sheraton, Aloft and Element brands in markets around the globe where there is a long runway to grow reliable and affordable hospitality. The company's mid-market portfolio has grown over 60% worldwide since 2009, reflecting the global appeal of each of these brands.

In Europe, Starwood's mid-market brands make up approximately half of its pipeline and by 2015 the company will have nearly doubled its current mid-market portfolio in the region

through a mix of franchise and management contracts. Strong demand is coming from markets like the UK/Ireland, Benelux, Italy, France, Russia, Poland, Turkey as well as Germany, where Starwood will open four new mid-market hotels by 2015. This includes the European debut of the Element brand with Element Frankfurt Airport Hotel, a Four Points by Sheraton hotel at Berlin Brandenburg International Airport as well as the entry of the Aloft brand into Germany with the openings of Aloft Munich and Aloft Stuttgart.

About Starwood Hotels & Resorts Worldwide, Inc.

Starwood Hotels & Resorts Worldwide, Inc. is one of the leading hotel and leisure companies in the world with 1,134 properties in nearly 100 countries and 171,000 employees at its owned and managed properties. Starwood is a fully integrated owner, operator and franchisor of hotels, resorts and residences with the following internationally renowned brands: St. Regis®, The Luxury Collection®, W®, Westin®, Le Méridien®, Sheraton®, Four Points® by Sheraton, Aloft®, and ElementSM. The Company boasts one of the industry's leading loyalty programs, Starwood Preferred Guest (SPG), allowing members to earn and redeem points for room stays, room upgrades and flights, with no blackout dates. Starwood also owns Starwood Vacation Ownership, Inc., a premier provider of world-class vacation experiences through villa-style resorts and privileged access to Starwood brands. For more information, please visit www.starwoodhotels.com.

2013-03-07

Starwood Sales Organization Announces Two New Global Sales Leaders and Plans for Expansion in Emerging and Developed Markets

BERLIN – March 7, 2013 –From ITB Berlin in Germany, Starwood Hotels & Resorts Worldwide, Inc. (NYSE: HOT) today announced that it has made two key appointments within its sales organization and plans to expand resources globally. Asad Ahmed has been named Vice President of Sales for Starwood's Europe, Africa and Middle East division, and Alice Harrington-Caravello has been named Vice President, Global Corporate Sales, replacing Mary Casey who is now Senior Vice President of Sales, North America. The two key appointments come on the heels of a solid year of hotel signings and strong outlook for the year ahead, and speaks to the continued strength of the Starwood Sales Organization which is currently comprised of more than 5,000 associates in nearly 100 countries around the world.

“We are thrilled to recognize the achievements of our sales leaders and are proud to announce new roles for Asad and Alice in our Europe, Africa and Middle East division and on our global team,” said Christie Hicks, Senior Vice President, Starwood Sales Organization. “As our customers become increasingly more global, we are adding sales resources around the world to ensure that we continue to provide the service that our customers depend on in markets where they are doing business.”

The Starwood Sales Organization continues to expand in emerging and fast growing markets around the world, strengthening its team with the industry's best talent to provide informative and seamless services to its global customers that combines global expertise and local intelligence. Since 2009, Starwood has added more than 100 sales associates outside of North America, and in 2012 additional positions were added across its four divisions as a result of increasing growth in emerging markets including China, Turkey, Russia, Croatia, India, Dubai and South Africa. New roles have been created to keep up with demand, and 20 additional positions are expected in Asia Pacific and Brazil in 2013.

Starwood Appoints Global and Division Sales Leaders

Prior to his role as vice president of sales, Ahmed held the position of regional director of sales, Italy and Central Mediterranean where he was responsible for sales teams across more than 40 hotels in seven countries. In his new role, he will oversee strategic sales efforts for the division. He has been with Starwood since 2005. Harrington-Caravello was previously managing director, strategic accounts where she oversaw Starwood's global corporate account teams. Now a member of Starwood's global sales leadership team, Harrington-Caravello will work closely with divisional sales leaders and is responsible for overall global corporate account strategy.

About Starwood Hotels & Resorts Worldwide, Inc.

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(Note: This press release contains forward-looking statements within the meaning of federal securities regulations. Forward-looking statements are not guarantees of future performance or events and involve risks and uncertainties and other factors that may cause actual results or events to differ materially from those anticipated at the time the forward-looking statements are made. These risks and uncertainties are presented in detail in our filings with the Securities and Exchange Commission. Although we believe the expectations reflected in such forward-looking statements are based upon reasonable assumptions, we can give no assurance that our expectations will be attained or that results and events will not materially differ. We undertake no obligation to publicly update or revise any forward-looking statement, whether as a result of new information, future events or otherwise.)

MARRIOTT INTERNATIONAL REPORTS FIRST QUARTER 2013 RESULTS



FIRST QUARTER HIGHLIGHTS

- **First quarter diluted EPS totaled \$0.43, a 43 percent increase over prior year results;**
- **Operating income increased \$51 million in the first quarter to \$226 million, including an estimated \$23 million increase relating to the change in the fiscal calendar;**
- **North American comparable company-operated REVPAR rose 5.8 percent in the first quarter with average daily rate up 5.3 percent;**

- **On a constant dollar basis, worldwide comparable systemwide REVPAR rose 4.6 percent in the first quarter, including a 3.8 percent increase in average daily rate;**
- **At the end of the first quarter, the company's worldwide pipeline of hotels under construction, awaiting conversion or approved for development increased to over 135,000 rooms, including more than 64,000 rooms outside North America;**
- **Nearly 5,300 rooms opened during the quarter, including roughly 1,200 rooms converted from competitor brands and over 3,000 rooms in international markets. The company added over 16,000 rooms to the pipeline during the first quarter;**
- **Marriott repurchased 5.4 million shares of the company's common stock for \$212 million during the first quarter. Year-to-date through April 30, 2013, the company repurchased 8.1 million shares for \$324 million;**

BETHESDA, MD – May 1, 2013 - Marriott International, Inc. (NYSE: MAR) today reported first quarter 2013 results. Due to the company's change in the fiscal calendar beginning in 2013, the first quarter of 2013 reflects the period from December 29, 2012 through March 31, 2013 (93 days) compared to the 2012 first quarter, which reflects the period from December 31, 2011 through March 23, 2012 (84 days). Prior year results have not been restated for the change in fiscal calendar, although revenue per available room (REVPAR), occupancy and average daily rate statistics are reported for calendar quarters for purposes of comparability.

First quarter 2013 net income totaled \$136 million, a 31 percent increase compared to first quarter 2012 net income. Diluted earnings per share (EPS) totaled \$0.43, a 43 percent increase from diluted EPS in the year-ago quarter. On February 19, 2013, the company forecasted first quarter diluted EPS of \$0.37 to \$0.42.

Arne M. Sorenson, president and chief executive officer of Marriott International, said, "Our business has seen dramatic recovery in the past few years. In fact, in the first quarter of 2013, we exceeded peak 2007 levels for fee revenue and North American systemwide REVPAR. Our worldwide development pipeline also reached a record level. We are more global than ever having grown our system outside the U.S. by nearly 40 percent in the past 6 years.

"Our business is highly resilient. Our first quarter fee revenue exceeded our expectations. North American systemwide REVPAR increased nearly 5 percent reflecting strong transient demand and favorable pricing. Increasingly profitable hotels drove our incentive fees to \$66 million with particular strength among full-service hotels in the U.S.

"Group booking pace for the Marriott Hotels and Resorts brand in North America for the remainder of 2013 is up 4 percent, reflecting somewhat more cautious short-term corporate group demand. At the same time, our 2014 group booking pace has improved dramatically, now up 5 percent compared to a 4 percent decline just a year ago, reflecting strong long-term group demand and rapidly filling hotels.

“Our development pipeline increased to more than 135,000 rooms under construction, awaiting conversion or approved for development, and nearly 20 percent ahead of year-ago levels. We are delighted by the trust and confidence placed in us by our owners and franchisees around the world.”

For the 2013 first quarter, REVPAR for worldwide comparable systemwide properties increased 4.6 percent (a 4.5 percent increase using actual dollars).

In North America, comparable systemwide REVPAR increased 4.8 percent in the first quarter of 2013, including a 4.2 percent increase in average daily rate. REVPAR for comparable systemwide North American full-service and luxury hotels (including Marriott Hotels & Resorts, The Ritz-Carlton, Renaissance Hotels and Autograph Collection) increased 5.5 percent with a 4.3 percent increase in average daily rate. REVPAR for comparable systemwide North American limited-service hotels (including Courtyard, Residence Inn, SpringHill Suites, TownePlace Suites and Fairfield Inn & Suites) increased 4.1 percent in the first quarter with a 4.0 percent increase in average daily rate.

International comparable systemwide REVPAR rose 4.1 percent (a 3.7 percent increase using actual dollars), including a 1.5 percent increase in average daily rate (a 1.1 percent increase using actual dollars) in the first quarter of 2013.

Marriott added 32 new properties (5,257 rooms) to its worldwide lodging portfolio in the 2013 first quarter, including The Ritz-Carlton Abu Dhabi, Grand Canal and the L’Hermitage Gantois, an Autograph Collection hotel in France. Eleven properties (2,322 rooms) exited the system during the quarter. At quarter-end, the company’s lodging group encompassed 3,822 properties and timeshare resorts for a total of over 663,000 rooms.

The company’s worldwide pipeline of hotels under construction, awaiting conversion or approved for development increased to approximately 800 properties with over 135,000 rooms at quarter-end.

MARRIOTT REVENUES totaled more than \$3.1 billion in the 2013 first quarter compared to revenues of over \$2.5 billion for the first quarter of 2012. Base management and franchise fees totaled \$304 million, a \$54 million increase from the first quarter of 2012 of which the company estimates \$31 million relates to the change in the fiscal calendar. In addition to the calendar change impact, the year-over-year increase reflects higher REVPAR at existing hotels, fees from new hotels and the favorable impact of \$3 million of fee reversals at two hotels due to contract revisions in the year-ago quarter. First quarter worldwide incentive management fees increased 32 percent to \$66 million and included an approximately \$6 million increase relating to the change in the fiscal calendar. In the first quarter, 33 percent of worldwide company-managed hotels earned incentive management fees compared to 29 percent in the year-ago quarter.

Owned, leased, corporate housing and other revenue, net of direct expenses, totaled \$36 million, compared to \$22 million in the year-ago quarter. The \$14 million increase largely reflects higher credit card and residential branding fees, as well as higher termination fees, partially offset by weaker operating results, primarily at one international leased property and costs related to a

lease the company terminated. The company also estimates that approximately \$1 million of the year-over-year increase relates to the change in fiscal calendar.

GENERAL, ADMINISTRATIVE and OTHER expenses for the 2013 first quarter increased \$33 million to \$180 million. First quarter 2013 expenses reflected an approximately \$15 million increase related to the change in fiscal calendar, routine increases in compensation and other expenses, branding and service initiatives and growth in international markets. Expenses in the 2013 first quarter also included a \$2 million change in estimate for compensation paid in 2013 but associated with 2012; \$3 million of higher amortization of contract acquisition costs, largely related to the Gaylord transaction; and a \$3 million unfavorable foreign exchange impact, which included \$2 million related to the Venezuelan currency devaluation.

Earnings before Interest Expense, Taxes, Depreciation and Amortization (EBITDA)

EBITDA totaled \$268 million in the 2013 first quarter, a 25 percent increase over 2012 first quarter EBITDA of \$215 million. See page A-6 for the EBITDA calculation.

BALANCE SHEET

At the end of the first quarter, total debt was \$3,255 million and cash balances totaled \$221 million, compared to \$2,935 million in debt and \$88 million of cash at year-end 2012.

COMMON STOCK

Weighted average fully diluted shares outstanding used to calculate diluted EPS totaled 320.0 million in the 2013 first quarter, compared to 344.6 million in the year-ago quarter.

The company repurchased 5.4 million shares of common stock in the first quarter at a cost of \$212 million. Year-to-date through April 30, 2013, Marriott repurchased 8.1 million shares of its stock for \$324 million. The remaining share authorization as of April 30, 2013, totaled 26.2 million shares.

2013 OUTLOOK

The company will report its 2013 results on a calendar basis, with quarters ending on March 31, June 30, September 30 and December 31. The second quarter of 2013 will include 91 days compared to 84 days in the 2012 second quarter. Prior year results will not be restated or reported on a pro forma basis for the change in fiscal calendar, although REVPAR statistics will be adjusted to calendar quarters for purposes of comparability.

For the second quarter, the company expects comparable systemwide calendar REVPAR on a constant dollar basis will increase 5 to 7 percent in North America, 2 to 4 percent outside North America and 4 to 6 percent worldwide.

The company expects second quarter 2013 operating profit could total \$275 million to \$295 million, a \$32 million to \$52 million increase over the prior year quarter. The company estimates that roughly \$20 million of the year-over-year operating profit increase in the second quarter will be attributable to the change in the fiscal calendar.

The company expects full year 2013 comparable systemwide REVPAR on a constant dollar basis will increase 4.5 to 7 percent in North America, 3 to 5 percent outside North America and 4 to 7 percent worldwide.

The company anticipates adding approximately 30,000 to 35,000 rooms worldwide for the full year 2013. The company also expects approximately 10,000 rooms will leave the system during the year.

The company assumes full year fee revenue could total \$1,535 million to \$1,585 million, growth of 8 to 12 percent over 2012 fee revenue of \$1,420 million.

The company expects owned, leased, corporate housing and other revenue, net of expenses could total \$140 million to \$150 million in 2013, a 9 to 15 percent decline year-over-year. Expected results for 2013 reflect tougher year-over-year comparisons due to the London Olympics, 2013 renovations at some international leased hotels, higher pre-opening expenses, and lower termination and residential branding fees.

For 2013, the company anticipates general, administrative and other expenses will total \$675 million to \$685 million, an increase of 5 to 6 percent over 2012 expenses of \$645 million. The increase in guidance for general, administrative and other expenses from February 2013 largely reflects the higher than anticipated spending in the first quarter related to unfavorable foreign exchange, legal expenses and a change in estimate for compensation paid in 2013, but associated with 2012.

Given these assumptions, 2013 diluted EPS could total \$1.93 to \$2.08, a 12 to 21 percent increase year-over-year. In 2012, the company recorded a \$41 million pretax (\$25 million after-tax and \$0.08 per diluted share) gain on the sale of the equity interest in the Courtyard joint venture. Excluding that gain from 2012 diluted EPS, the company estimates 2013 diluted EPS could increase 18 to 27 percent year-over-year as shown on page A-9.

	<u>Second Quarter 2013</u>	<u>Full Year 2013</u>
Total fee revenue	\$405 million to \$415 million	\$1,535 million to \$1,585 million
Owned, leased, corporate housing and other revenue, net of direct expenses	\$40 million to \$45 million	\$140 million to \$150 million
General, administrative and other expenses	\$165 million to \$170 million	\$675 million to \$685 million
Operating income	\$275 million to \$295 million	\$990 million to \$1,060 million
Gains and other income	Approx. \$3 million	Approx. \$10 million
Net interest expense ¹	Approx. \$25 million	Approx. \$100 million
Equity in earnings (losses)	Approx. \$3 million	Approx. \$0 million

Earnings per share	\$0.55 to \$0.59	\$1.93 to \$2.08
Tax rate		33.0 percent

¹Net of interest income

The company expects investment spending in 2013 will total approximately \$600 million to \$800 million, including approximately \$100 million for maintenance capital spending. Investment spending also includes other capital expenditures (including property acquisitions), new mezzanine financing and mortgage notes, contract acquisition costs, and equity and other investments. Assuming this level of investment spending, approximately \$800 million to \$1 billion could be returned to shareholders through share repurchases and dividends.

Based upon the assumptions above, the company expects full year 2013 EBITDA will total \$1,185 million to \$1,255 million, a 3 to 10 percent increase over prior year's EBITDA. Excluding the \$41 million Courtyard joint venture gain from 2012 EBITDA, the company expects 2013 EBITDA will increase 7 to 14 percent year-over-year as shown on page A-7.

Marriott International, Inc. (NYSE: MAR) will conduct its quarterly earnings review for the investment community and news media on Thursday, May 2, 2013 at 10 a.m. Eastern Time (ET). The conference call will be webcast simultaneously via Marriott's investor relations website at <http://www.marriott.com/investor>, click the "Recent and Upcoming Events" tab and click on the quarterly conference call link. A replay will be available at that same website until May 2, 2014.

The telephone dial-in number for the conference call is 706-679-3455 and the conference ID is 25765606. A telephone replay of the conference call will be available from 1 p.m. ET, Thursday, May 2, 2013 until 8 p.m. ET, Thursday, May 9, 2013. To access the replay, call 404-537-3406. The conference ID for the recording is 25765606.

Note on forward-looking statements: This press release and accompanying schedules contain "forward-looking statements" within the meaning of federal securities laws, including REVPAR, profit margin and earnings trends, estimates and assumptions; the number of lodging properties we expect to add to or remove from our system in the future; our expectations about investment spending; and similar statements concerning anticipated future events and expectations that are not historical facts. We caution you that these statements are not guarantees of future performance and are subject to numerous risks and uncertainties, including those we identify below and other risk factors that we identify in our most recent annual report on Form 10-K or quarterly report on Form 10-Q. Risks that could affect forward-looking statements in this press release include changes in market conditions; the continuation and pace of the economic recovery; supply and demand changes for hotel rooms; competitive conditions in the lodging industry; relationships with clients and property owners; and the availability of capital to finance hotel growth and refurbishment. Any of these factors could cause actual results to differ materially from the expectations we express or imply in this press release. We make these forward-looking statements as of May 1, 2013. We undertake no obligation to publicly update or

revise any forward-looking statement, whether as a result of new information, future events or otherwise.

Marriott International, Inc. (NYSE: MAR) is a leading lodging company based in Bethesda, Maryland, USA, with more than 3,800 properties in 74 countries and territories and reported revenues of nearly \$12 billion in fiscal year 2012. The company operates and franchises hotels and licenses vacation ownership resorts under 18 brands, including Marriott Hotels & Resorts, The Ritz-Carlton, JW Marriott, Bulgari, EDITION, Renaissance, Gaylord Hotels, Autograph Collection, AC Hotels by Marriott, Courtyard, Fairfield Inn & Suites, SpringHill Suites, Residence Inn, TownePlace Suites, Marriott Executive Apartments, Marriott Vacation Club, Grand Residences by Marriott and The Ritz-Carlton Destination Club. There are approximately 325,000 employees at headquarters, managed and franchised properties. Marriott is consistently recognized as a top employer and for its superior business operations, which it conducts based on five core values: put people first, pursue excellence, embrace change, act with integrity, and serve our world. For more information or reservations, please visit our website at www.marriott.com, and for the latest company news, visit www.marriottnewscenter.com.

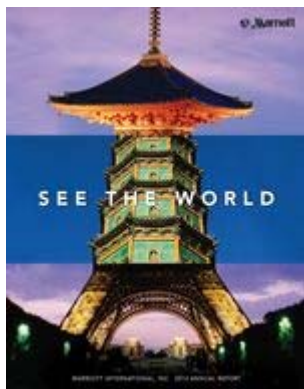
Click here to [Download MAR Q1 2013 Press Release Schedules - FINAL](#).

Contacts: thomas.marder@marriott.com or betsy.dahm@marriott.com

« [MARRIOTT INTERNATIONAL REPORTS FIRST QUARTER 2013 RESULTS](#) | [Main](#) | [The Ritz-Carlton Hotel Company Sets the Digital Bar for Social Media Engagement at Arabian Travel Market 2013](#) »

May 02, 2013

2012 Marriott International Annual Report Invites You to 'See the World'



Marriott International, Inc. (NYSE: MAR) helps travelers 'see the world' by showcasing each of its four high-performing regions — The Americas, Asia Pacific, Europe and the Middle East and Africa -- in its just-issued interactive 2012 Annual Report online at www.marriott.com/investor. The report includes executive discussions of the company's business, a page dedicated to each of the company's regions, including highlights of the region's social responsibility activities and a comprehensive overview of Marriott's global performance, strategy and brands. Exclusive to the online version are several elements including:

- A 5-minute video with President and CEO Arne Sorenson, recorded while visiting in the JW Marriott Marquis Dubai;
- Four 1-minute videos showcasing performance of each global region, key properties and a look ahead and
- A downloadable global performance fact sheet

This year's eye-catching annual report cover features three iconic landmarks from several continents that together create a global theme. Visitors to the online report will be able to "build their own cover" using a selection of iconic structures and buildings from around the world.

In combination with Marriott's corporate culture, high-performing workforce, and operational excellence, the report tells the story that Marriott International is truly a lodging leader. Visit [Marriott International, Inc.](#) (NYSE: MAR) for company information. For more information or reservations, please visit our web site at www.marriott.com, and for the latest company news, visit www.marriottnewscenter.com.

Connect with felicia.mclemore@marriott.com

Press Releases



Hilton Worldwide today marked its entry into the Burmese market with the signing of a management agreement with LP Holding Co., Ltd to manage Hilton Yangon in Kyauktada Township, Yangon, Myanmar. Credit: Hilton Worldwide.

[Hilton Worldwide Enters Myanmar And Signs Management Agreement With LP Holding Co., Ltd For First Hilton Hotels & Resorts Branded Hotel In Yangon](#)

YANGON, Myanmar and MCLEAN, Va. - March 06, 2013 - Hilton Worldwide today marked its entry into the Burmese market with the signing of a management agreement with LP Holding Co., Ltd to manage Hilton Yangon in Kyauktada Township, Yangon, Myanmar. The first Hilton Worldwide property in Myanmar, the 300-room Hilton Yangon will also be the first Hilton Hotels & Resorts branded hotel and is scheduled to open in 2014.

Marriott & IKEA Launch a Hotel Brand for Millennials: What Does That Even Mean?



Marriott

Most hotels are marketed to a specific group: travelers. Not Baby Boomer travelers or Gen X travelers or millennial travelers—but *all travelers*. But a new hotel brand called Moxy has been specifically “designed to capture the rapidly emerging millennial traveler.”

This week, hotel giant [Marriott announced](#) that it was partnering with the Swedish furniture maker IKEA to create a new brand called Moxy Hotels. The first location will open near Milan’s Malpensa airport in early 2014, and the plan is for roughly 150 Moxy properties to be launched all over [Europe](#) during the next 10 years.

The fact that a famed furniture company is involved in the venture has raised eyebrows. (And no, the hotels won’t be packed with IKEA bed frames, book cases, and other merchandise.) It’s also noteworthy that the brand is being aimed at a specific age group:

Designed to capture the rapidly emerging millennial traveler, the new brand combines contemporary stylish design, approachable service and, most importantly, an affordable price.

In other words, if you’re old, this probably isn’t the place for you. Moxy properties won’t be checking IDs or posting an age maximum or anything. In fact, in the press release announcing the brand, a Marriott executive clarifies that Moxy was created for “the next generation traveler, not only Gen X and Y but people with a younger sensibility.”

(**MORE:** [Is \\$500 Enough for Enduring the Cruise from Hell?](#))

So what do millennial travelers want in a hotel, according to Moxy's designers? What is that "younger sensibility" all about? A few key phrases plucked from the press release offer some clues:

"Economy Tier"

Moxy rooms will be offered at price points and amenity levels somewhere in between a hostel and a four-star hotel. Typical nightly rates will range from \$80 to \$100. Considering that today's [millennials are living with high unemployment and underemployment](#) amid a global economic slump, the below-average hotel price point is apparently a necessity. Younger [consumers](#) have also shown a reluctance to pay for things that older generations consider necessities, [including cars](#) and [their own independent living quarters](#)—and perhaps also upscale hotel staples like concierges and room service.

"Wildly Self-Sufficient"

"No design element was too small to test with these tech-savvy consumers," Ramesh Jackson, Moxy Hotels vice president is quoted as saying. "We learned that these confident explorers are wildly self-sufficient, but still want a chance to connect with each other in inviting social spaces in person or digitally."

(MORE: [Millennials: Turns Out the 'Entitled Generation' Is Willing to Sacrifice](#))

In this case, being "wildly self-sufficient" translates as being OK with self-service. (Here's where you might see the IKEA influence, what with its renowned cost-cutting DIY business model.) Guest shouldn't expect a gaggle of fawning hotel staffers at Moxy properties. If anything, staffing will be minimal—which also helps Moxy keep prices down. Self check-in will be available via mobile devices, in an overall atmosphere designed for "savvy travellers who thrive on self-service and embrace new technology."

"Tech-Savvy"

"Guestrooms will be functional and well-designed," the Moxy announcement states. Read: small and uncluttered. Again, both of those characteristics help control costs.

The [Guardian \(UK\)](#) described the furnishings as "no-frills," and yet the chain is splurging on many tech amenities that younger travelers are presumed to want, including flat-screen TVs and built-in USB ports in rooms, as well as "Plug and Meet" public areas with computers, seating areas, and 56-inch TVs. Free Wi-Fi will be standard too.

If the features described above sound appealing, then no matter what your age, you seem to be a traveler with a "younger sensibility."

(MORE: [Turns Out You Won't Get Rich Hunting Pythons in Florida](#))

It's worth noting that one make-or-break hotel characteristic isn't mentioned by Moxy executives: location. Considering that the first Moxy will open near an airport rather than in a center city location, let alone in a hip, desirable neighborhood, it's a safe bet that subsequent

Moxy Hotels will also open in the outskirts of cities. Is that what millennials want? Perhaps not, but this is often the tradeoff for cheaper prices.

Read more: <http://business.time.com/2013/03/08/marriott-ikea-launch-a-hotel-brand-for-millennials-what-does-that-even-mean/#ixzz2SuOcxGUc>

Ikea Hotels: Marriott Will Help Launch Budget Hotels In Europe



03/05/13 07:32 AM ET EST **AP**

Ikea Hotels Coming To Europe

STOCKHOLM -- Ikea says Marriott International Inc. will help it open its new budget hotels across western Europe during the next five years.

The Swedish company, which first announced last year that it will launch the hotel chain, said Tuesday that Marriott, the operator of luxury hotels across the world, will be its partner.

They will develop some 50 hotels with 150-300 rooms each in major cities. The first is scheduled to open in Milan, Italy, next year.

Peter Andrews, head of Inter Hospitality – part of Inter Ikea's property division – said the agreement allows the group "to build a high quality hotel property investment portfolio."

Ikea, the world's largest furniture retailer, already owns a handful of hotels. Marriott International has more than 3,700 properties in 74 countries and territories.

Ikea, the Swedish home furnishing magnate known for affordable put-it-together-yourself furniture, is getting into the hotel business. Inter Ikea, the company that owns Ikea's intellectual...

Marriott International Inc. ([MAR](#)), the largest publicly traded U.S. hotel chain, and Ikea's parent will start a chain of European budget hotels, with the first due to open in Milan in 2014.

Moxy Hotels will have 150 locations in Europe over the next 10 years, Marriott, based in Bethesda, Maryland, said in a statement today.

“We see a huge opportunity to expand our market share in Europe,” said Amy McPherson, president of Marriott International in Europe. “The economy tier in Europe represents nearly half of total room supply, yet only 20 percent of these hotels are branded.”

Moxy will open in countries including Germany, the U.K., the Netherlands, Belgium and Austria, Marriott said. Inter Hospitality, a subsidiary of Inter Ikea Group, will develop and own the properties, according to the statement.

“The new brand will fuel Marriott's company-wide growth ([MAR](#)) in the region, which is expected to reach 80,000 rooms by 2015,” the company said.

Moxy will be Marriott's first chain of three-star economy hotels in Europe, the company said.

The Wall Street Journal reported the plan earlier today.

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[✓ yoo Hotels complete offering – yoo 2 and yoo Collection launched](#)

Posted on [March 6, 2013](#)

yoo Hotels has unveiled two intricately crafted design-led hotel brands for smarter travelers who seek handcrafted luxury: yoo 2 and yoo Collection. yoo, the global design company founded by international property entrepreneur John Hitchcox and renowned designer Philippe Starck, now brings a complete hotel offering to the market. Serving the yoo tribe internationally, the brand has been synonymous with the design of luxury hotels and high-end residences for over 14 years and has brought to fruition the visions of Creative Directors; **Anouska Hempel, Philippe Starck, Marcel Wanders, Jade Jagger and Kelly Hoppen.**

Headed by industry expert **Marco Nijhof**, yoo Hotels will create an enhanced hotel experience through delivery of original design and first rate hotel management services. Tapping into yoo's unique talent bank of globally renowned designers as well as its own yoo Studio, yoo Hotels offers an unparalleled breadth of design talent and heritage. The culture of each location is essential for both the yoo Collection and yoo 2 hotels, and this is interpreted through the world

class designed interiors. Electric and sumptuous dining and entertainment experiences are joined with flawless service, delivered by yoo Hotel Management, creating a feeling of Human Luxury – the yoo Hotels philosophy of unfailingly satisfying every whim a guest could conceive at any moment.

CEO Marco Nijhof says: *“the yoo Hotels offering is unique within the global market, and we believe it hits the mark in terms of what investors want. yoo’s design credentials are impressive and this fact, combined with our experience in hotel management, means we can bring original designs that enhance life to an even wider audience.”*



2013 is set to be a big year for yoo Hotels with the first yoo Collection hotel, **Aqua Boracay** in the Philippines, set to launch later in the year followed by the yoo designed **Miramoon by Marcel Wanders** for yoo. The Miramoon, located in the heart of Wanchai Hong Kong, will launch in September 2013. These hotel launches follow the critically acclaimed, yoo designed Sans Souci in Vienna, which launched in January this year. yoo holds incredible international expertise in creating hotels, its designers having created over 30 hotels in 26 countries, from the Mondrian in Miami, to The Beach in Koh Samui.

Top New Hotels for Meetings and Events in Europe

April 2, 2013 By: [Mary Winston Nicklin](#), [Jena Tesse Fox](#)



From historic to ultra-modern, intimate to enormous, here are twelve new hotels throughout Europe that are ideal for meetings and events.

[Belgraves, A Thompson Hotel, London](#)

Belgraves offers a variety of spaces that can be tailored to small meetings and events. Their **Room 100** is equipped with a hidden plasma screen, projector and WiFi, and can accommodate up to 22 guests, or be separated into smaller rooms for six and ten. For drinks and canapé receptions, the private dining area **Snug** or the rooftop terrace is available.



Described as “rough luxury,” this boutique property—the first UK opening from Thompson Hotels—should be especially attractive to foodies: HIX Belgravia, its 80-seat restaurant and bar, offers a menu inspired by chef and food writer Mark Hix’s travels around the world. The mezzanine level has Mark’s Bar, the second of HIX’s bars, and a cigar garden. Belgraves is within easy walking distance of Hyde Park, Buckingham Palace, the British Museum, the National Gallery and upscale shopping in Knightsbridge.

[Bulgari Hotel, London](#)

Bulgari Hotel has an entire floor dedicated to hosting meetings and events, aptly named **The Ballroom**, that can seat up to 140 guests. In addition, there are two available Boardrooms for up to 16 delegates, an integrated business center with two other private offices, and a 47-seat private screening room with 2D and 3D Dolby systems.



Set discreetly on Knightsbridge Road, this hotel's lodgings include suites with butler service. The best are the Bulgari Suites, and we recommend **Bulgari VI** and **Bulgari VII**, which have terraces with views of Knightsbridge and through to Hyde Park. The Bulgari Suites have dining rooms for up to eight people and can be connected into two-bedroom suites. Good to know: Even the smallest room in the house, No. 614, has a balcony overlooking Knightsbridge.

[Cafe Royal, London](#)

Café Royal has a selection of meeting rooms, the largest of which accommodates 200 people. (Bonus: Any meetings and events that include overnight stay before May 2013 will get a complimentary room for every 20 booked, an upgrade for two VIPs, and a one hour welcome Champagne reception.)



When it first opened a century ago, this erstwhile restaurant quickly became a favorite hangout for celebrities like **Oscar Wilde**, **Winston Churchill**, and **Diana, Princess of Wales**. Now, after a historic restoration, it seems poised to become a **London** hot spot once again. What we love: Each room has a dressing lobby and double doors that lead into the bedrooms. All rooms include access to a private butler. The Empire Suite (#424) is the largest option and has five huge floor-to-ceiling windows for top views over Regent Street.

[The Caledonian, Edinburgh](#)

The Caledonian can hold up to 250 guests in their meetings and events space, which includes eight flexible rooms and an on-site business center.



Hilton's Waldorf-Astoria brand has made its **Scotland** debut with this property, and it's definitely worth noting. We're excited about the new restaurants: The Pompadour by Galvin and the Galvin Brasserie de Luxe—the first Scottish restaurants for the Michelin-starred brothers, Chris and **Jeff Galvin**. The top pick at the hotel is the Caledonian Suite with three bedrooms (one with a king bed, one with a queen bed and one with twin beds) and a separate living room. The suite also has great views of **Edinburgh Castle**, as do, six of the seven one-bedroom suites.

[Castello di Casole, Tuscany, Italy](#)

The estate can host small, intimate events, or larger meetings of up to 200 guests. Unique to this property is the outdoor amphitheatre, which can be privately rented for lectures and other presentations.



Housed in a 10th-century castle on a 4,200-acre estate in the rolling hills not far from Florence, this boutique hotel has more than 100 acres of vineyards and olive groves, a model game reserve, a state-of-the-art wellness center and some of the region's finest cuisine. Castello di Casole is also home to 28 restored and reconstructed Casali farmhouses and 10 Hotel Villas. Best Touch: Fourteen of Castello di Casole's 41 suites have large private gardens and terraces with floor-to-ceiling windows overlooking acres of vineyards and lemon and olive trees.

[Conrad Algarve, Portugal](#)

Conrad Algarve's **Ballroom** has panoramic views and private access to the hotel's gardens. It can comfortably accommodate up to 300 guests, and can be split into two rooms. Six other meeting rooms offer natural daylight. **The Oliveira**, the largest meeting space after The Ballroom, can be transformed into three independent rooms. To accommodate large meetings, the hotel also has a private parking area with 128 spaces.



A spa that's billed as "one of the most decadent in Europe" and an edifice designed to resemble an 18th-century palace would alone merit a recommendation for the Conrad Algarve, But this resort nestled in Quinta do Lago near Ria Formosa Natural Park on **Portugal's** popular Atlantic coast has even more extensive facilities: fitness center, tennis court, golf simulation area, outdoor swimming pool, and an array of restaurants and lounges. For indulgent clients, sell the Roof Garden Suite, which includes a plunge pool and provides direct private access to the spa.

[InterContinental London Westminster](#)

The InterContinental London Westminster offers eight meeting rooms, each with a 35mm slide projector, DVD player, flip chart and markers, LCD projector, microphone, modem lines, stage lights, and a whiteboard.

Anglophiles and history buffs should note that this hotel occupies a venerable 19th-century building that was once Queen Anne's Chamber. Good for Foodies: The Blue Boar Smokehouse and Bar has onsite charcoal and smoking ovens to prepare classic comfort food using fresh British produce. The first new InterContinental **UK** to open in 36 years, this hotel is a short walk from Parliament and within sight of **Westminster Abbey**.

[Jumeirah Port Soller Hotel & Spa, Mallorca, Spain](#)

The hotel offers three distinct meeting areas, all equipped with professional audiovisual, lighting and sound systems, floor to ceiling windows, and uniquely designed executive furniture.



Set atop a rugged cliff in northwest **Mallorca, Spain**, **Jumeirah's** first European resort affords views that defy description. Guests can watch the sunset while sipping cocktails on one of the resort's three terraces or in the comfort of their own room complete with large windows overlooking the sea. The views are not lost in the hotel's Talise Spa, which hangs over the Port of Soller and the **Serra de Tramuntana**. The spa is extra-special, with 10 treatment suites and a thermal area equipped with a hammam, an ice room, a glass-paneled sauna overlooking the valley, a relaxation room with fireplace and an outdoor heated hydropool. Upon arrival, guests can slip right into relaxation with a welcome hand massage and the smell of citrus wafting through the lobby.

[Marti Istanbul, Turkey](#)

Measuring 3605 square feet, the Ballroom at the Marti Istanbul can accommodate banquets for over 200 guests, with a foyer area offering an additional 1076 square feet of pre-function or separate cocktail space. Mezzanine level board rooms offer, respectively, 409, 559, 516, 1302 square feet of private meeting and event space.



This luxury hotel in Turkey's Taksim district is distinguished by its elegant Turkish design and excellent service (a well-connected concierge and helpful general manager). What we love: The hotel has a terrace on the hotel's 11th floor, which reportedly offers some swank views. Also, most guest rooms have marble and glass enclosed bathrooms with separate rainforest showers. Suite guests get hammam-style basins surrounded by richly textured mosaics. Top pick is the 10th-floor Regal Suite. The 2,700-square-foot suite has views over the Bosphorus, a piano in the living room, a kitchen, a study, a walk-in closet and a hammam-style bathroom with Jacuzzi. Private butler service is also available.

[Radisson Blu Resort, Gran Canaria, Spain](#)

The Rezidor Hotel Group opened its first hotel on the Spanish resort island of Gran Canaria this past summer. The hotel offers six meeting rooms spread over 2,100 square feet, and a business center, all with free high-speed WiFi. What makes it special: The outdoor leisure area has a garden, a boutique and supermarket for shopping, salt and freshwater swimming pools and a kids club. Sports fans can practice their games at the tennis courts, a paddleball court and a beach tennis/volleyball court. Each of the rooms and suites has its own private balcony with views of the Atlantic Ocean, aimed to get the full effect of the sunsets. The Radisson Blu Resort is on the island's southwestern coast a little more than half-an-hour's drive from **Las Palmas**.

[The Ritz-Carlton, Vienna](#)

The Ritz-Carlton Hotel Company's first hotel in **Austria**'s capital comprises four historic palaces dating back to the 19th century. It has a total of 9,000 square feet of meeting space, including a Crystal Room, two permanent boardrooms, and three break rooms, offering the latest in technical standards, LCD projectors and screens, built in video and Blue Ray, AV-support, and a business center with fax and copier facilities. A daily delegate package is available for groups of 15 or more.



The hotel's accommodations include 43 suites and a spacious Presidential Suite of rooms on the second floor. Top Tip: The Club Lounge is located on the seventh floor and provides guests exclusive access to a private concierge service, a gastronomic food and beverage presentation throughout the day and views of the cityscape from its windows below the eaves of the hotel. **The Ritz-Carlton, Vienna**, on the central **Schubertring Boulevard**, is the ninth hotel in Europe for the company.

[W Paris](#)

W landed in the French capital in a big way: A classic, Haussmann-era building near the Opera was converted into a hip destination for the W crowd. The hotel offers nearly 500 square feet of event space. Unique to the property is the **Sensory Set Up**, an experience package designed to help with creativity and focus by way of mood music, signature scents, and more.



Other unique perks include do-it-yourself cocktail classes (each room has its own in-room cocktail bar), a restaurant from Michelin-starred Chef **Sergi Arola**, and the Extreme Wow Suite with its big circular bed taking pride of place in the center of the bedroom. The smartly designed Living Room is smaller and more intimate than at other W Hotels worldwide—a successful adaptation to its Paris setting.

[Hotel Snapshot](#) / [Hotel Openings](#) / [Hotel Construction](#) / [Killer View](#) / [London Hotels](#) / [Olympics Hotels](#) / [Olympics 2012 Hotels](#) / [Shangri-La Hotels](#) / [→ All Tags](#)

It's A Looong Way Down From The Top Of Shangri-La London

Where: 32 London Bridge Street , [London](#), [United Kingdom](#), [Se1 9](#)

April 9, 2012 at 9:03 AM | by [ASchechter](#) | [Comments \(0\)](#)



Well, how about that. Construction hasn't even finished on London's 95-story [iceberg](#)-inspired tower, The Shard, which will house the [Shangri-La Hotel](#)—and already we've gotten a sneak peek at the building's killer views from a daredevil who climbed a ladder to the top.

Urban explorer Bradley Garrett, **who literally has a PhD in 'breaking into places,'** was out on one of his nocturnal raid missions and decided to [share some photos](#) he took from the **76th (and currently highest) floor** of the tower. He even got to touch the red light at the top of the crane—an accomplishment he calls "incredibly exhilarating."

As far as we're concerned, he's overshot things a bit, as the hotel itself is only set to occupy [floors 34 to 52](#). But if this is what it's like just twenty stories above, then **we remain confident that views from the actual rooms will be pretty frickin' awesome**. No word yet on hotel rates, but they're likely to cost significantly more than what Dr. Garrett paid.

Next month is when the building is scheduled to be finished (though the hotel isn't set to open until 2013), so it's good that Dr. Garrett managed to sneak in a quick last jaunt before people actually start occupying these floors. According to the [Daily Mail](#), Garrett and his group of explorers **have actually managed to climb the tower several times over the past year**—including an expedition to watch the fireworks on New Year's Eve 2011—and never once got caught.

There's quite a few hotels around the world that are housed in mammoth towers like this. Which one would you like to climb? Or better yet, which one would you like Dr. Garrett to climb for you and send you photos? [Do let us know in the comments below!](#)

[Photo: [Daily Mail](#)]

1) <http://www.europeanfinesthotels.com/hotels/fairmont-grand-hotel-kiev/>

This article is about the newest top of the line hotel in all of Europe. It won an award for Europe's 2012 leading new hotel. It is located in the heart of the Ukraine in the capital.

2) <http://www.hospitalitybizindia.com/detailNews.aspx?aid=16557&sid=1>

This article is about Intercontinental Hotel Groups first Hotel Indigo opening in Brighton, UK. It is being uniquely designed to reflect the community and history of Brighton.

3) <http://skift.com/2013/05/02/the-new-new-thing-in-the-dubai-development-boom-hotel-apartments/>

This article is about the new shift to hotel apartments in Dubai. Dubai is a tourism capital of the world and the opportunity to make a profit by creating a hotel apartment complex is very appealing as it will create tons of revenue.

4) <http://www.breakingtravelnews.com/news/article/starwood-hotels-to-open-50-new-hotels-in-europe-in-next-five-years/>

Starwood has seen a lot of success in Europe and has signed a deal to open 50 new hotels in the next 5 years, which will increase their amount of hotels in Europe by 30%

5) <http://www.guardian.co.uk/business/2013/mar/05/ikea-to-open-budget-hotel-chain>

5a) <http://news.marriott.com/2013/03/moxy-hotels-unlocks-style-4-less.html>

Ikea is in the process of opening a low budget hotel chain in Europe. The chain is called Moxy and the hotels are said to be "contemporary stylish design, approachable service and, most importantly, an affordable price."

6) <http://www.absoluteworld.com/2013/03/yoo-hotels-complete-offering-yoo-2-and-yoo-collection-launched/>

Yoo is opening 2 brands. The first hotel opening is Yoo collection. Yoo Collection offers a 5 star hotel chain. The second hotel opening is Yoo 2 and offers a high tech hotel with an affordable price

7)<http://www.thesqueeze.net/All-Categories/Travel/Hotels/New-hotel-in-Vienna-designed-by-Yoo>

Sans Souci was opened in Vienna a few months before the two brands mentioned before by the Yoo company. It restored a historical building and has received very positive reviews.

8)<http://www.internationalmeetingsreview.com/europe/top-new-hotels-meetings-and-events-europe-95169>

This is an article that includes a collection of hotels that have all opened fairly recently. They are all the receiving praise for being perfect places to hold meetings.

9)<http://www.starwoodhotels.com/stregis/property/over view/index.html?propertyID=3561>

The St. Regis Abu Dhabi hotel is a hotel opening in August. It is a top of the line hotel that is extremely fancy. The room design is done to get a feel of refined luxury.

10)http://www.hotelchatter.com/story/2012/10/7/113354/341/hotels/First_Glimpses_Of_Shangri-La_and_Edition_London

10a)http://www.hotelchatter.com/story/2012/4/9/83920/90854/hotels/It's_A_Loong_Way_Down_From_The_Top_Of_Shangri-La_London

The Shangri Hotel at the shard is a very anticipated opening in London. It is one of the tallest buildings in Europe. It is being built on London Bridge Station which is one of the main terminals in all of London. It is a very convenient location for business travelers coming to or leaving London.

[http://lostincatering.com/lostincatering/Food the new music.html](http://lostincatering.com/lostincatering/Food%20the%20new%20music.html)
http://opensiuc.lib.siu.edu/gers_pubs/12/
<http://www.hospitalitynet.org/news/4056275.html>
<http://www.hospitalitynet.org/news/4056167.html>
<http://www.bighospitality.co.uk/Business/Hotel-investment-market-expected-to-remain-in-decline-until-at-least-2013>
<http://www.hospitalitynet.org/news/154000320/4059510.html>
<http://www.hospitalitynet.org/news/154000320/4059501.html>
http://www.fodors.com/news/story_4021.html#.USQcQFoa8cs
<http://www.independent.co.uk/news/business/news/ikea-to-launch-budget-hotel-chain-in-europe-8053096.html>
<http://blogs.barrons.com/stockstowatchtoday/2012/08/21/hotel-chains-exposed-to-europe-asia-weakness-in-july/>
<http://www.hospitalitynet.org/news/4052692.html>
http://www.driftwoodhospitality.com/driftwood_europe.html
<http://hospitalitybusinessnews.com/2012017273/cbre-hotels-hotel-investment-market-germany-2011>
<http://www.hicapconference.com/>
<http://www.chrisconference.com/>
http://ehotelier.com/hospitality-news/item.php?id=24083_0_11_0M_C

Hotel/ Restaurant business in Europe

According to a Euro Monitor report, the **top countries in the hotel sector** were USA - \$7.4 billion, China - \$7.2 billion, France - \$2.6 billion, Italy - \$2.2 billion and Spain - \$1.7 billion. A country like Singapore which depends on Travel & Tourism is expecting a 25% growth in the hotel industry, from \$4 trillion in 2011 to around \$5 trillion in 2016.

The top 3 regions in 2016 will be Western Europe - US\$156 billion, Asia Pacific - US\$153 billion and North America -US\$138 billion. Meanwhile, the top 5 countries by 2016 will be USA, China, Japan, Canada and Brazil.

China is the hospitality giant. Emerging economies are expected to be big players in hospitality, as well as by travelling internationally. But by far, China is expected to be the major player in the sector. Starwood hotels, owner of the Sheraton brand has more than 100 hotels in China. The Marriott Group has 60 hotels in China, and this is expected to double by 2014. The tourism industry is China's fastest growing market and is expected to capture 8.6% of the international share to become #1 by 2020.

Top trends in Hospitality

In Europe, customer engagement will be a critical factor in the future, with 'experiences'

being most sought-after. Green and eco-lodgings will increase in popularity and sustainability will be important, not just to attract customers, but also to increase profits. The other trend is **e-commerce** in the hospitality sector with a **bulk of the bookings soon to be made over the internet**. Besides, internet reviews and social media play a key role in travel, accommodation and spending decisions. The Marriott even has an **online concierge service via Twitter**. And the InterContinental Hotels Group has a dedicated Social Media Customer Care Team to manage its online presence and reputation.

Another trend that getting serious consideration in Europe is the “**environmental issue.**” Deterioration of the natural environment in many places threatens the well-being of the hotel and tourism businesses. Preserving high environmental quality, is advocated by the “**Green Movement**” within the hotel industry. Chain-affiliated hotels are more likely to incorporate environmental issues into their company policies, than independent hotels.

Technology is a driving force of change that presents opportunities for greater efficiencies and integration for improved guest services. Technology has become a tourism business activity in development of strategic resources and is considered as a tool to increase competitiveness. Effective use of information technology can make significant operational improvements. Advanced software and communication tools allow enlarging operational efficiency, for example, orders may be made better, faster and cheaper.

Safety and security is a ever evolving trend in the industry. Major concerns surrounding security has increased greatly due to several terrorist attacks worldwide, as well as because of tourists’ kidnappings, robberies and assaults. Security of all types of hospitality and tourism operations is critical and disaster plans should be made for each kind of threat. Personal safety of guests must be the first priority (Walker, 2010).

Diversity - The tourism and hospitality industry is among the most diverse of all industries in terms of employee population and groups of guests. Hospitality and tourism present a unique opportunity to understand new cultural experiences for both employees and the tourists. It is important for the personnel to understand and appreciate different cultures in order to enhance the nature of their interactions with tourists of different cultures, religions, races, colors, ages, genders and sexual orientations. It is for this reason that businesses plying their trade in this industry must endeavor to train their personnel to appreciate and accommodate people from diverse backgrounds around the world. As such, diversity not only facilitates easy understanding of different cultural, social and economic perspectives but enhances the delivery of satisfactory services as well, through communication and observation (Merchant, 2011).

New Chains

Some of the top hotel chains that are both new and expanding throughout Europe include:

1. Accor Group
2. Best Western
3. IHG
4. Group du Lourve
5. Carlson-Rezidor
6. NH Hotels

7. Whitbread Hotels & Restaurants
8. Melia International
9. Hilton Worldwide
10. TUI Hotels & Restaurants

According to the World Travel and Tourism Council, **Travel & Tourism accounted for 9% of the world's GDP at \$6 trillion.** Future prospects are also good, with the industry expected to grow at 4% annually to touch \$10 trillion in the next 10 years. The sector is also the world's largest employer, with 255 million people. In 2011 alone, 1.2 million new jobs were generated. After 20 years, or by 2022, the sector is expected to employ 10% of the global workforce, with 328 million jobs.

The attractiveness of this sector can be judged on the fact that \$743 billion was invested in Travel & Tourism in 2011, a figure that is expected to go up to 1.3 trillion by 2022. Of the revenues generated in 2011, 76% is for leisure purposes, while 24% came about due to business related reasons. Also, 70.5% of the spending came from domestic sources, while international travelers contributed to 29.5% of the spend. With regard to the hotel industry, it grew by a strong 9% in 2011, to hit \$457 billion.

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Top trends in global hospitality

1. **LESS REAL SERVICE.** Look around! There used to be dozens of staff around. Now one is hard put to find someone without having to queue....at the Front Desk or Reception to check in....at the restaurant for a table at breakfast.....at the concierge...everywhere. Well at least they wrapped the ropes in red velvet!! There is less service provided by the staff and more service provided by the guest. This is evident in everything from making one's own reservation, checking in, unpacking, making a telephone call, help yourself breakfasts, wakeup calls, used room service trollies, hanging wet towels, market research disguised as a registration card. The term user-friendly has been accepted as a replacement for service. This is not necessarily less of an experience, it is merely different.
2. **FOREVER CHANGING EMPLOYEES.** There are less applicants for jobs and they stay in the job less time either by their choice or ours. They are largely foreign workers in the urban developed world and untrained but willing workers in the developing world. The shortage of 10-15 million workers in this industry

- will result in hotels having insufficient workers to operate, exploding salaries, eroding profits and increased illegal immigration. Multi-tasking employees would allow more productivity but will be difficult to impossible in Union controlled situations. Management has also morphed from largely European to largely Asian.
3. HYPER-ACTIVE OWNER GROUPS. Owners are less likely to be individuals and more likely to be corporations. They are often represented by Asset Managers who act like managers, micro-managing everything daily. Owners are hyper active now and were super-passive before. They want rapid financial returns and will dispose of the asset far quicker than in years gone by.
 4. MULTIPLE BRANDS FROM THE SAME MOULD. Chains are so hungry for expansion, they now lack consistency from one hotel to another or from one country to another. Rather than fix an old chain, it is easier to create a new one. There are more brands offering the same base product with virtually no differentiation. What has transpired is that gradually the character has been squeezed out of the hotel and replaced by a homogenised version of hospitality characterised by that horrible enemy expression, "Have a nice day!"
 5. MANAGEMENT COMPANIES. The function of a third-party management company has been largely replaced by technology. Best Practices and performance measurements are easier to communicate and measure through technology and does not require a headquarters overhead to deliver or monitor personally. Today's battlecry is more that "you can teach an old dog new tricks!"
 6. RELATIVE LUXURY. Luxury is a term that is becoming looser and less-defined and now differs from one client to another. What is luxury for an entry-level worker may not be luxury for a rockstar. A Western construction worker can afford luxury and international travel today but could not years ago. A Chinese or African construction worker can not afford luxury today but may well enjoy it in the foreseeable future.
 7. ACCUMULATING HOTEL NAMES. They now get longer with age. A rebranded hotel may well keep its' original name, add a qualifier or two with a brand name bolted on at the end or the beginning. What was the "Grand Hotel" may eventually become The Marriott Grand Hotel & Spa Toronto Midtown.....and if you tack on ".....and how may I direct your call?", the greeting becomes a jaw-breaking yawn, just like "have a nice day".
 8. QUALITY CONSISTENCY. This is no longer any more predictable than the weather. At a time when the employees were 'lifers' and recognised instantly a returning guest, they are rarely there for any more than a few months. Add to this the restrictions of an owner who will not reinvest, a brand that is hungrier to grow than consolidate or a manager that is entirely focused on the bottom line....and you produce inconsistencies in the hotel itself, between the brands, the countries and the individual hotel experiences. The exception.....a massive movement toward 'fresh' and 'locally produced'.
 9. PRICING BY GREED. While in days gone by, pricing was largely based on the cost of the product, today it is largely based on demand. In these circumstances, one can pay a fortune for a product that costs pennies but rarely benefit from the cost-based, cheaper product in slow periods.

10. LESS FORMALITY. The days before first names, paper napkins and plastic cutlery were days when men were men, ashtrays were ashtrays and waiters had last names. Days with quill fountain pens at registration, starched white tablecloths for breakfast and liveried butlers at teatime. Tuxedo dinners with candlelight and harps preceeded by huge mind-numbing Martinis and followed by port and cigars in the mens lounge. Foot poofs for the ladies feet.....cigarette lighters at the ready, silk stockings..... but no silk flowers...."Hi you guys. ...my name is David, I will be your waiter this evening!"

TOP TEN IN EUROPE

1. The top 10 hotel chains in Europe for 2012 does not differ that much from 2011's list. The leading European hotel groups are still in the widely held list with Accor still at number one. MKG hospitality preserves a database of information that encompasses all leading hotels in the whole continent. That is a roaring 27 countries. However, you must know that the ranking is based more on the internal restructuring of a hotel rather than the arrival of new inventory on the market.

Top 1: Accor

The Accor hotel group remains at the number one spot! At present, the Accor group owns a staggering number of hotels and rooms. It currently has 2,343 hotels and 254,559 rooms. There key to success can be attributed to their asset light-business back strategy. If you observe their 2011 transactions, you will be able to clearly see how this philosophy was applied. Obviously, it worked for the last few years and is expected to work its magic in the years to come.

Top 2: Best Western

Best Western group had a significant 2011 because it rolled out its new descriptors and take note, on an international level, including Europe. Best Western Premier and Best Western Plus are some of its highest growing brands, to name a few. November 2011 was a great month for them as 7 hotels were added including 4 which are in Paris. Even after its separation from the Astotel Parisian group, Best Western still managed to stay at number 2! The French market accomplished a lot last year because the Accor group reported an 8.7% increase in revenue which is 48.1 million euro.

Top 3: IHG

As of the moment, IHG owns 559 hotels and 86,780 rooms. The British group signed a total of 5,800 rooms for 8 hotels. This includes 7 Crowne Plaza Hotels and 5 Indigo Hotels. Holiday Inn and Holiday Inn Express are also part of the IHG team and helped them get their number 3 spot for 2012. After hitting the UK market, France and Germany are on their list. Its revenue in Europe alone reached a 24% or almost 405 million dollars.

Top 4: Groupe du Louvre

The Groupe du Louvre hotels had 28 openings last year which most likely paved its way to the top 10 hotel groups. Although with an already established name in the hospitality industry, Groupe du Louvre still managed to continue growing and expanding despite numerous competitors.

Top 5: Carlson-Rezidor

In 2011 alone, Rezidor was very proud to say that they have 3,953 rooms in Europe alone. There were notable openings in France, Sweden, Poland, UK, Hungary, Italy, the Netherlands and Greece. Club Carlson, the group's new loyalty program, was launched February. A partnership was also concluded with Club Med on March with perks like

redeem points at vacation resorts.

Top 6: NH Hotels

NH Hotels is a Spanish hotel group that had a awesome 2011 because of its subscription to its capital by the Chinese NHA group. At present, the NH Hotels have 356 hotels and 51, 453 rooms. However, the reason why NH hotel group is only at number 6 is because their 330 million euro offer was retracted before 2011 ended.

2. Top 7: Whitbread Hotels & Restaurants

2011 was a super year for Whitbread Hotels because from January 2011 to November 2011, the group reported 9.8% increase in sales. 97.4 % of the 2,100 rooms they added last year were located in the United Kingdom. The average room rates were up by about 2% while the occupancy rate went up by 0.8 percent. Premier Inn has launched MinoSolus for urban locations and Floating Room to provide comfort even in noisy environments.

Top 8: Melia International

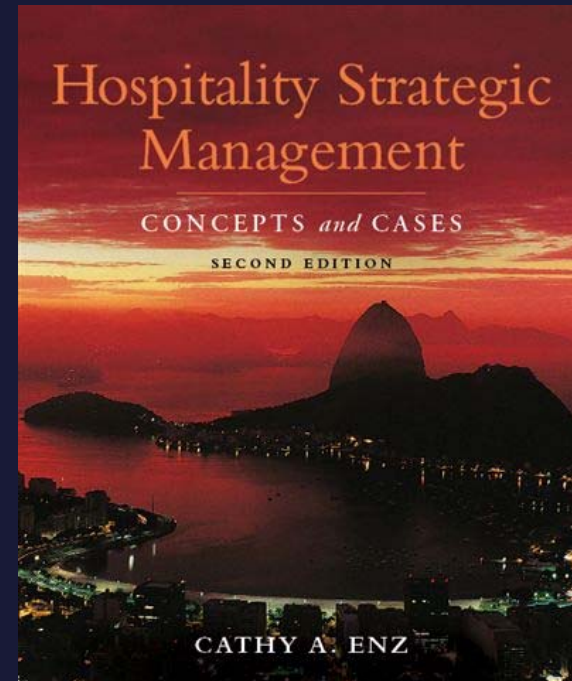
Melia Hotels international started this year with a contract with Jin Jiang, one of the best Chinese hotel chains. The agreement revolves around exchanging cultural and management expertise. It also involves swap operation activities of selected establishments that are in China and Europe. Melia hotel groups see this as an edge to other competitors as being unique is one of the aspects that consumers or travelers look for.

Top 9: Hilton Worldwide

Hilton has 184 hotels and 43,189 as of the moment. The group has provided over 8,500 jobs in Europe alone and it still plans to expand. One of its best decisions in the 2011 was their acquisition of Mint Hotels by Blackstone, the parent company of Hilton. This purchase was for 947 million US dollars. The Hilton Hotels ended the year with two openings at the Frankfort airport and a Hilton Garden Inn.

Top 10: TUI Hotels & Restaurants

TUI had a rough 2011. This is because of financial difficulties in the operations of activities which almost lead to bankruptcy. However, they still managed to increase supply by 1.1% and their operation increased by 2.7 %.



Global Strategic Management and the Future

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Learning Objectives

- ◆ Identify the most popular reasons companies make foreign investments.
- ◆ Explain multidomestic, global, and transnational strategies for global expansion.
- ◆ Describe the most common expansion tactics used when hospitality firms pursue global opportunities.
- ◆ List the most important criteria when picking an option for international growth.
- ◆ What are the most important questions to ask about a potential foreign market.
- ◆ Understand why some nations produce stellar companies in a particular industry.
- ◆ Define cultural intelligence.

Primary Reasons Firms Make Foreign Investments

- ◆ New Markets
- ◆ Better Resources
- ◆ Efficiency
- ◆ Risk Reduction
- ◆ Competitive Countermove

Multidomestic, Global and Transnational Strategies

- ◆ *A multidomestic strategy* –
 - ◆ Focuses on extensive customization on a country-by-country basis by tailoring the services provided around individual market needs.
- ◆ *A global strategy* –
 - ◆ Standardizes what it offers so that it is essentially the same in all markets.
 - ◆ A global strategy can result in cost efficiency, global flexibility, and an ability to apply the firm's resources and skills across multiple markets.
- ◆ *A transnational strategy* -
 - ◆ Entails standardized and yet flexible services, seeking both the benefits of global efficiency and local responsiveness.
 - ◆ Through cooperation and integration among corporate offices, local operations, and international subsidiaries, a company using this approach seeks to integrate global operations.

Global Strategies are appropriate if:

1. There is a global market segment for a product or service.
2. There are economic efficiencies associated with a global strategy.
3. There are no external constraints, such as government regulations, that will prevent a global strategy from being implemented.
4. There are no absolute internal constraints.

Advantages of Involvement in Multiple Global Markets

- ◆ Expanding markets leading to economies of scale.
 - ◆ Some companies could not grow large enough to enjoy the lowest possible costs on the basis of domestic demand alone, but expansion into foreign markets can lead to significant increases in demand.
- ◆ Transfer of technological know-how through joint ventures (learning from competitors).
 - ◆ Joint ventures may provide opportunities to learn new technologies that can lead to significant cost reductions.
- ◆ Superior quality through joint ventures.
 - ◆ Companies can learn how to better differentiate their products through higher quality or some other unique feature.
- ◆ Licensing of brands or technologies from abroad.
- ◆ Forcing an open, learning mind-set.
 - ◆ Companies that attempt to differentiate themselves in the international marketplace must be willing to learn from and adapt to a variety of conflicting circumstances.
 - ◆ They can then bring what they learn back to the home country and apply it to local businesses.

Market Entry Tactics

- ◆ Exporting
- ◆ Contractual Arrangements
 - ◆ Licensing
 - ◆ Franchising
 - ◆ Long-term Management Contracts
- ◆ Foreign Direct Investment
 - ◆ Joint Venture
 - ◆ Wholly Owned Subsidiary
 - ◆ Acquisition
- ◆ *In general, moving down the list (above) is associated with greater cost, financial risk, profit potential and control*

Contractual Arrangements

- ◆ ***Licensing.***
 - ◆ Selling the right to use a brand name in a foreign market. This right typically comes with restrictions that allow the licensing firm to protect its brand image.
- ◆ ***Franchising.***
 - ◆ Similar to licensing, but franchising typically requires more standardization on the part of the franchisee.
 - ◆ A foreign firm buys the legal right to use the name, but it may also be required to apply operating methods or use supplies from the franchisor company.
 - ◆ Marketing arrangements vary, but a lodging franchisee is typically a part of the companywide reservation system. Also, the franchisee typically contributes to a companywide advertising pool. Both hotels and restaurants use this tactic extensively.
- ◆ ***Long-term management contract.***
 - ◆ A contract between an owner and a management company. The owner agrees to make a payment from the operation's gross revenues to the management company in exchange for running the business with full management responsibility. This is a common hotel tactic for expansion.

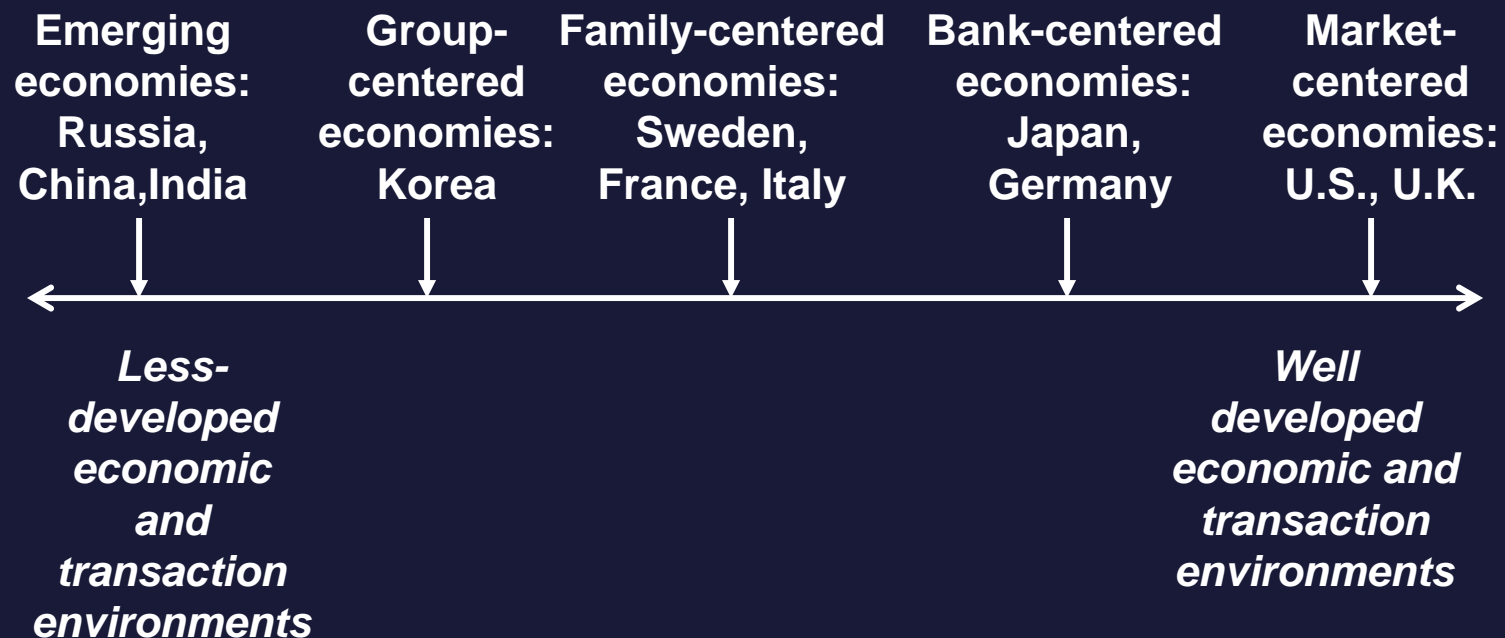
Foreign Direct Investments

- ◆ *Joint venture.*
 - ◆ Cooperative agreement among two or more companies to pursue common business objectives.
- ◆ *Wholly owned subsidiary.*
 - ◆ Venture is started from scratch, thus creating a wholly owned foreign subsidiary. These ventures are sometimes called a “greenfield investment.”
- ◆ *Acquisition.*
 - ◆ Purchase of a foreign firm or the foreign subsidiary of a foreign or domestic firm.

Challenges Facing Market Entry

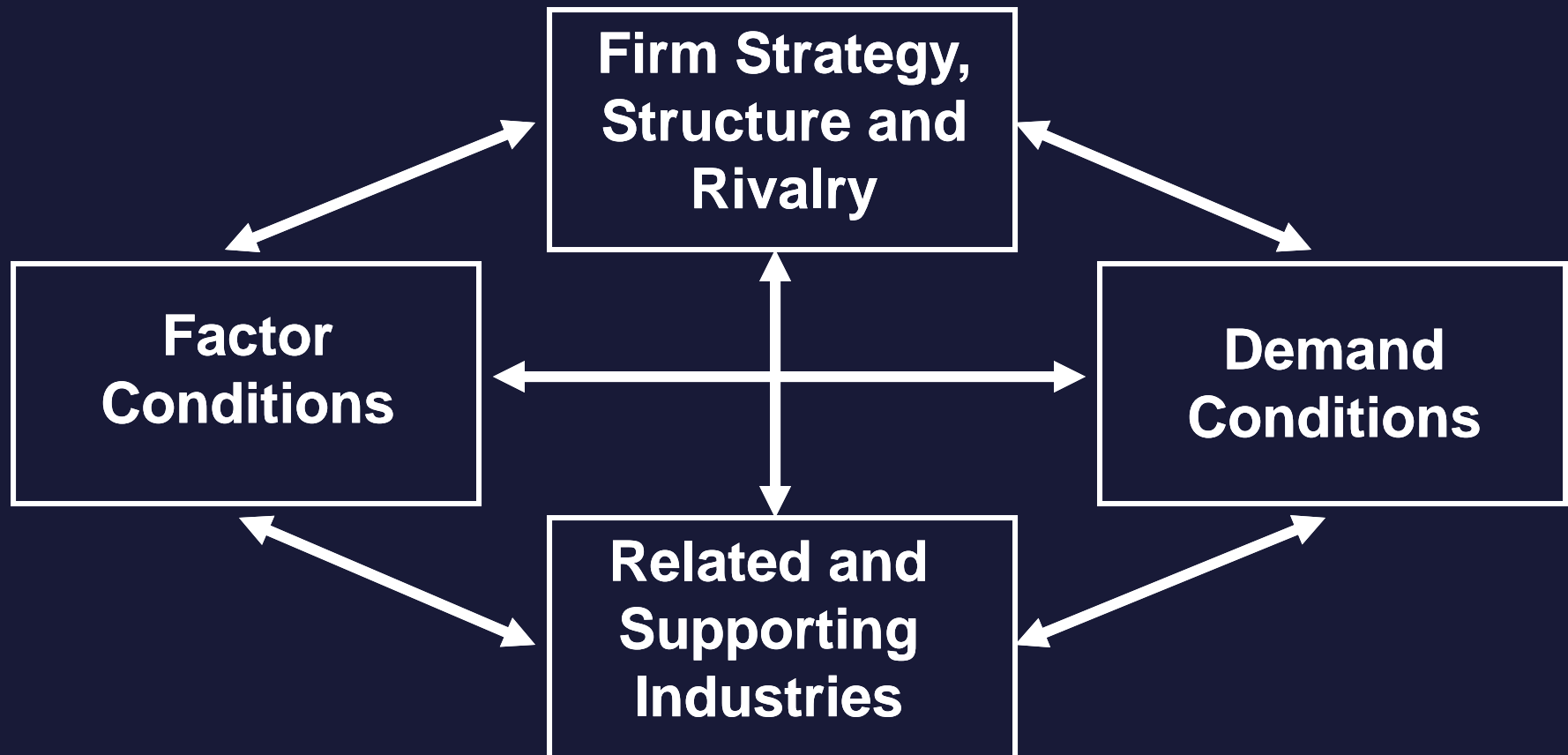
- ◆ Unstable government
- ◆ Inadequately trained workers
- ◆ Low levels of supporting technology
- ◆ Shortages of supplies
- ◆ Weak transportation systems
- ◆ Unstable currency

Institutional Differences Across Countries



Source: R.E. Hoskisson, R.A. Johnson, D. Yiu and W.P. Wan, "Restructuring Strategies of Diversified Business Groups: Difference Associated with Country Institutional Environments," in M.A. Hitt, R.E. Freeman and J.S. Harrison, The Blackwell Handbook of Strategic Management (Oxford: Blackwell Publishers LTD, 2001), p. 444, used with permission.

National Advantages: The Competitive Advantages of Nations



Source: Adapted with the permission of the Free Press, an imprint of Simon & Schuster Adult Publishing Group (see text for complete reference)

Four Characteristics of Countries

- ◆ *Factor conditions.*
 - ◆ Some nations enjoy special endowments, such as uncommon raw materials or laborers with specific skills or training. Often countries with excellent schools or universities that excel in particular areas produce laborers with superior skills.
- ◆ *Demand conditions.*
 - ◆ If a nation's buyers of a particular product or service are the most discriminating and demanding in the world, then firms must achieve product and service excellence just to survive. These companies can easily outperform foreign companies that compete in the same industry, even in the home countries of those foreign competitors.
- ◆ *Related and supporting industries.*
 - ◆ If suppliers in a particular country are the very best in the world, then the companies that buy from them are at a relative advantage. Firms in related industries that are also global leaders can also help create a nationally based competitive advantage.
- ◆ *Firm strategy, structure, and rivalry.*
 - ◆ If the management techniques that are customary in the nation's businesses are conducive to success in a particular industry, then the firms in that nation are at a competitive advantage relative to firms from other countries.
 - ◆ Another advantage can come from having an industry that attracts the most talented managers in the nation.
 - ◆ Finally, if industry rivalry is strong in a particular industry, then firms are forced to excel. This is similar to the argument with regard to discriminating buyers.

Responsibilities of Development Directors

- ◆ Developing a strategic plan for the designated geographic area.
- ◆ Establishing a network of productive contacts, such as real estate developers, individual and institutional investors, hotel owners, hotel management companies, municipalities, and governmental development organizations.
- ◆ Selling the value proposition of the brand, particularly to potential franchisees.
- ◆ Assisting franchisees with applications and fee payments, and developing relationships with existing local franchisees and owners.

Strategic Management for the Future

- ◆ Increasing Levels of Global Trade and Global Awareness
- ◆ Global and Domestic Social Turbulence
- ◆ Increased Terrorism and a World-Wide Effort to Eliminate It
- ◆ Increased Sensitivity to Ethical Issues and Environmental Concerns
- ◆ Rapidly Advancing Technology, Especially in Communications

Strategic Management for the Future

- ◆ Continued Erosion of Buying Power in the U.S. and Other Economies
- ◆ Continued Development of Third World Economies
- ◆ Increases in U.S. and Global Strategic Alliances
- ◆ Revolution in the U.S. Healthcare Industry
- ◆ Greater Emphasis on Security and Crisis Management

Preparing for the Future

- ◆ *Pay global attention* by looking after the global traveler at home and the local traveler abroad and by extending the global reach of your portfolio.
- ◆ *Uncover the unexpected* experiences that excite and delight your customers.
- ◆ *Invest in your guest* by developing a comprehensive framework for guest interactions.
- ◆ *Become agile* by integrating your businesses across business units, brands, and locations into a common business infrastructure for back-of-house and key front-of-house functions, and consider strategic outsourcing opportunities.
- ◆ *Rethink revenues* to focus on “return on investment management.”
- ◆ *Polish your “guest experience managers.”* to transform front-line staff into *GEMs*.
- ◆ *Extend the experience* before the trip begins and after it ends.

Major Concepts

- ◆ Firms make foreign investments for a variety of reasons, including seeking new markets, better resources, efficiency, risk reduction or as a competitive countermove
- ◆ Global strategic management provides challenges and opportunities not found in domestic markets and strategies
- ◆ International expansion involves building an expanding operational presence, while global integration is the process through which a multinational organization integrates its worldwide activities into a single global strategy

Major Concepts

- ◆ Organizations seem to evolve through four stages of international development, which are domestic, international, multinational and global
- ◆ The role of foreign subsidiaries is changing from being simply branch locations to a full role in the development of new competencies, capabilities, resources and products
- ◆ A multidomestic product/market strategy entails custom tailoring products and services by country, whereas a global product/market strategy offers one approach throughout the world. A transnational product/market strategy is a compromise between the two approaches

Major Concepts

- ◆ Common international expansion tactics include exporting, licensing, franchising, joint ventures, wholly-owned subsidiaries and acquisitions
- ◆ A global merger and acquisition wave has created enormous, diversified global companies; however, refocusing is also evident as firms pursue related acquisitions and discard unrelated businesses
- ◆ Foreign markets should be carefully evaluated before investments are made. Factors that should be evaluated include the social environment, economy, political/legal environment, the state of technology and other factors specific to each industry

**NEW TOURISM CLUSTERS IN THE FIELD OF SPORTS AND
HEALTH; THE CASE OF ALPINE WELLNESS**

12th International Tourism and Leisure Symposium

Barcelona, April 2003

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ABSTRACT

The present crisis of the tourism industry (in terms of declining destinations) can be considered as a logical consequence of its created core destination strategies which have been established in the period of mass tourism (1960-1990), and which lacked both a conceptual and a customer focus. Big socio-demographic shifts, health awareness and changes in consumer behaviour and values have become important determinants and critical factors of success for what might be termed “new tourism”. The transformed tourist demand calls for new innovative products (Poon & Weiermair) such as e.g. “Alpine Wellness”, which is defined as the balance between the three spheres of Body, Spirit and Mind, which the alpine tourism industry is practising as a problem solution. New tourism clusters in the field of sports and health will in consequence constitute the only way to package and offer a complete and holistic range of wellness services.

Below an attempt is being made to illustrate the functioning and show the effects of clusters in general and give examples as to its applicability on the development of a new product Alpine Wellness. To initiate a cluster it is not sufficient that some suppliers cooperate and work together. Vertical and horizontal cooperations (alliances) along and within the tourism value chain are essential, because thick interactions and functional relationship between firms and industries characterize successful clusters. One of the aims of future research at the Center of Tourism and Service Economics is to show with some detail as to how clusters in general and the alpine wellness cluster in particular function and how this cluster can grow.

1. INTRODUCTION

Over the last years many tourist destinations have transformed, reengineered or rejuvenated themselves through the development, production and marketing of new tourism experiences and/or the reconfiguration of tourism product bundles. New technologies, more experienced customers, global economic reforms and environmental restrictions to growth have been only some of the challenges facing the industry. As a case in point alpine destinations have sought to continuously differentiate their products and have done so by emphasizing initially sports and relaxation followed by the focus on the family and now contain a wide array of differentiations reaching from business and seminar to cultural and health related tourism. Many of the past created core destination strategies and destination images were developed during the period of mass tourism (1960-1990) and lacked both conceptual

and customer focus (Weiermair 1998). As to alpine tourism developments during the last 50 years, mass tourism leads has resulted in an increasing absence of the classical summer tourist and a declining demand of winter tourism (Baumhackl 1995). The crisis of the tourism industry is a logical consequence of key-social, economic, political and technological influences after the Second World War. “Sun-lust” and inexperienced tourists, together with the availability of cheap package tours to sun destinations, charter flights and cheap oil ensured the demand for mass tourism. By the 1970s and early 1980s, mass tourism was a common benchmark for best practice in the industry. But the energy- and environment-intensive production patterns of mass tourism place an enormous stress on natural assets. Mass tourism destroys exactly what it is supposed to portray: such qualities as peace of mind, solace, genuine cultures and landscapes, unpolluted waters, intact reefs, mountains, ski slopes, wildlife and virgin forest (Poon 1993). Yet the aforementioned resources and resource uses are conditions for future customer driven tourism. Changes in consumer behaviour and values have given rise to the “new tourism”, which will be analyzed next.

2. THE NEW TOURIST - CHANGES OF VALUES AND ATTITUDES

Decision and behaviour patterns of the “old tourist” are greatly different from those of the new one. The new tourist has been described as more experienced, more flexible, more independent, more quality conscious and “harder to please”. Quality and value for money are the prime determinants of the market place. Today’s tourists are hybrid in nature and do not consume along linear and predictable lines. The new tourist wants to be different from the crowd and asks for individualized products (Poon 1993, Weiermair 2003). Individualization in this sense also implies optimising opportunities for the customers by choosing best fitting solution to their needs (Horx 2001). For suppliers in tourism this means that they will have to guarantee better quality, greater flexibility in attracting the tourists suggesting that more attention should be paid to psychographics than has been the case until now.

Demographic changes are similarly depict the new consumer. One of the most prominent and important driving force among the socio-demographic factors is the phenomenon of population aging associated with most western cultures (Foot 2002, Mühlhausen 2000). In the OECD-countries each third person will be over 60 years by 2020 (Horx 2001). According to trend research, the “aged tourist of the future” will constitute the wide majority in tourism and can be characterized as being in relatively better health with more travel experience and with relatively higher level of income, which

translates into increases in both the frequency and the intensity of travel (Horx 2000, Horx 1999, Godbey 2002).

All above mentioned factors suggest a need to reinterpretate and reposition many tourism sports products away from competitive sports aimed at pure sportive achievements as consumer benefits towards individualized “anti-aging” strategies and activities. It appears that sports in leisure and tourism have undergone a paradigm shift towards infotainment, experience orientation, health concern and questions of life balance (Mikunda 2002, Pine and Gilmore 2000). “Multi-optional tourists” ask for product bundles and complete service offerings (Weiermair 2001). Vacation is now an extension of life and new tourists go on vacation to experience something different, something to break away from every-day life or something to correct and readdress basic life questions.

Furthermore, a dominant motive for vacation has become health. In the year 2000 30,4 % of those Germans interviewed as tourists in the “Reiseanalyse 2000” said, that it is very important to do something for their health in their holiday (Lohmann and Aderhold 2000). Health is becoming one of the most important services and markets in the developed world (Bratl et al. 2001). It is predicted, that wellness-vacations in particular may become the most favoured holidays by the year 2003 (Kagelmann and Guthmann 2003). This should not surprise, for well developed products in tourism, as will be shown below, constitute the most appropriate problem solutions for the above described changes in consumer values, attitudes and preferences.

3. THE CASE OF ALPINE WELLNESS

In 1961 the American physician Dr. Halbert Dunn developed the term wellness as a composition of the words “wellbeing” and “fitness”. He called this state of the human body and mind in terms of a great personal contentment “high-level wellness” (Nahrstedt 2002). Authors like Ardell in 1977, Travis in 1984, Benson and Stuart in 1992 adopted the term “wellness” in connection with their health-related publications. Wellness tourism can be regarded as a subcategory of health tourism (Müller and Lanz 1998). Wellness can be defined as the balanced state of body, spirit and mind, including such holistic aspects and dimensions as self-responsibility, physical fitness/beauty care, healthy nutrition, relaxation, mental activity and environmental sensitivity as fundamental constitutional elements (Müller and Lanz-Kaufmann 2001). Wellness can also become a kind of “finding yourself” in an era of mega-stress. Wellbeing should therefore be understood as a holistic philosophy for life. The final goal should not only be the aiming for temporary feelings of happiness but also include long-term contentment (Schobersberger 2002).

The following graphic depicts the main elements of wellness:

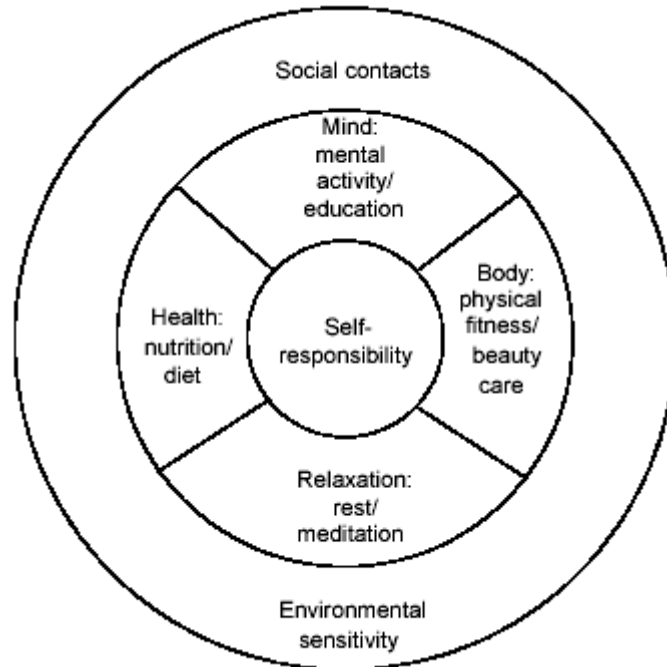


Figure 1: Elements of wellness (Müller and Lanz-Kaufmann 2001)

In 1948 the WHO (World Health Organization) defines health as a state of complete physical, mental and social well-being and not only the absence of disease. Classical medicine moved from a cure to a prevention orientation (Nefiodow 1996, Müller and Lanz 1998). People need self-responsibility to maintain their vitality (Nahrstedt 2002). In line with the above discussed changes in values and attitudes wellness vacations can be considered as the best possibility to satisfy the needs of the “new tourist”:

1. Wellness is the adequate method for health prevention and preservation in an aging society.
2. Wellness supports the trend of individualization, because wellness helps to discover one’s own personality and the ability to spend time with oneself and his/her appearance.

3. Wellness, in its holistic aspect, can offer a wide range of different services. Multi optional consumers can choose between relaxation, mental training, different kinds and intensities of sport offerings and beauty treatments.
4. Wellness tourism as can constitute an opportunity to combine fun, entertainment and adventure with health care and/or with the goal of building up strengths for everyday life.
5. Finally wellness may be considered as an opportunity to find a desired life balance between family, job and environment (Horx 2001).

The initiators of the wellness movements in Europe are the wellness hotels in Germany, Austria and Switzerland (Nahrstedt 2002). Particularly in Austria, there are now different initiatives on the way to develop and promote a new trademark “Alpine Wellness”:

For example a new destination development corporation “Wellbeing Destination Austria GmbH” has become responsible for the management of this cluster initiative. Five alpine provinces, Vorarlberg, Tyrol, Upper Austria, Salzburg and Carinthia have joined a platform or module to present their Alpine Wellness products as a group (Austrian National Tourist Office 2002). The Austrian Moderate Altitude Study (AMAS 2000) has examined the effects of vacationing in the mountains at moderate altitude levels. It was the first scientific field project of this nature which demonstrated beneficial effects during and after three weeks of holidaying and hiking in the mountains in patients showing the metabolic syndrome (hypertension, obesity, disturbances in fat and glucose metabolism) (Schobersberger 2000).

Alpine Wellness is not a revolutionary new product. But in contrast to wellness in lower altitude mountains nature and natural alpine resources can play a vital role. The product bundling of wellness services in mountainous regions is a good way to attract enthusiastic alpine tourists who prefer mountains instead of the sea. Austrian mountains are visited by over 10 million hikers and mountain climbers each year, the Alps by about 40 million. Worldwide, approximately 100 million people spend holidays in altitudes around 2000 metres (Schobersberger 2000, Berghold 2000). The Alps offer good conditions for the development of wellness projects: Nature, mountain air, clear and clean water and an interesting mountain panorama, good infrastructure for hiking, skiing, mountain biking or walking (Liebl 2003). Natural alpine resources similarly allow special wellness applications like e.g. hay bath, bio sauna or herb packs to mention only a few. One of the main results from the Austrian Moderate Altitude Study was the proof, that a stay in the alps can activate the metabolism, reduce body fat, enhance the quality of the red blood cells and improve the neuro-psychological values

(Schobersberger 2000). As such medical benefits can be documented Alpine Wellness can - beside health prevention – contribute demonstratively to an improvement of health among alpine tourists.

4. NEW TOURISM CLUSTERS IN THE FIELD OF SPORTS AND HEALTH

New tourism clusters in the field of sports and health will be the best method to supply and deliver in the holistic sense a whole range of wellness services. Some loose forms of alliances or cooperation already exist in winter sports, e.g. single ski cards for multiple regions (Güthler 2003). But the realization of Alpine Wellness requires a much broader vertical, horizontal and diagonal cooperation ranging from education, financing, research, design, product development, infrastructure and marketing to sales among and with different related branches of economic activity.

The development of tourism is essential for a region, because tourism can create jobs, stimulate investments in infrastructures, supplies governments with tax and fee revenues, and thus makes an important contribution to the domestic and international GDP (Whelan 1998). Marshall, one of the early economists to theorize on the cluster phenomenon, recognizes already in 1890 in his book: "When an industry has so chosen a locality for itself it is likely to stay there for long: so great are the advantages which people following the same skilled trade near neighbourhood to one another" (Marshall 1890). In this quote Marshall emphasised three observations, which capture attention in later publications:

- Industrial output is spatially concentrated
- Regional concentration typically encompasses related industries
- Once in place, agglomeration structures prove very persistent (Stuchtey 2000)

Since the early 1990s, particular with the publications by Michael Porter, there has been an increasing interest in industrial clusters and networks. But cluster research in the service sector, particularly in health tourism, is new and until now has remained a much less investigated field. In some way tourism clusters are subject to the same development principles as other industrial clusters. Thus, the existing work and results from industrial clusters can at least be partially used and applied to such tourism clusters as "Alpine Wellness".

4.1 CLUSTERS: SOME GENERAL OBSERVATIONS

Clustering has become a primary driving force for economic development in many locations. The OECD estimates 35 countries to have cluster development initiatives under way (Koziarski and Williams 2001). Firms in a given industry are often located in close proximity to each other and they often have dominated an industry for decades or even centuries. Clusters in general are an old phenomenon. Even though Silicon Valley and Hollywood may be the world's best known clusters (Enright 1990, Porter 1998a).

Today's economic map of the world is dominated by what Porter calls clusters: critical masses - in one place - of unusual competitive success in particular fields. Clusters are not unique, they are extremely typical - and therein lies the paradox: the enduring competitive advantages in a global economy lie increasingly in local settings (knowledge, relationships, motivations) which distant rivals cannot compensate (Porter 1998b). In a cluster, interconnected companies, specialized suppliers, service providers, firms in related industries and associated institutions (for example universities, standard agencies, and trade associations) both compete but also cooperate in different fields of activity. (Porter 1998a). The function of a cluster is to create a forum for a growth oriented dialogue between key regional stakeholders. All too often the initial cluster meetings are for many participants the first time that prospective cluster participants meet each other (Koziarski and Williams 2001). Cluster boundaries are defined by the linkages and complementarities across industries and institutions which are important in market competition. Many clusters fit within political boundaries, although they can reach beyond state or even national borders. A chemical cluster in Germany for example crosses over into the German-speaking part of Switzerland.

What is the key question in this context: E.g. How can clusters evolve and what are the benefits from cluster based strategies? The next section addresses this question.

4.2 ORIGINS AND EFFECTS OF CLUSTERS

Clusters typically do not develop as a group of firms which join to pursue a common purpose or goal. Clusters exist, they have their own development and dynamic which can be influenced by private and public activities, but it is very difficult to purposefully construct them (The Cluster Competitiveness Group 2002). Three main origins for the birth and evolution of clusters and three major effects of clusters can be observed as shown below (the first in small, the latter in capital letters):

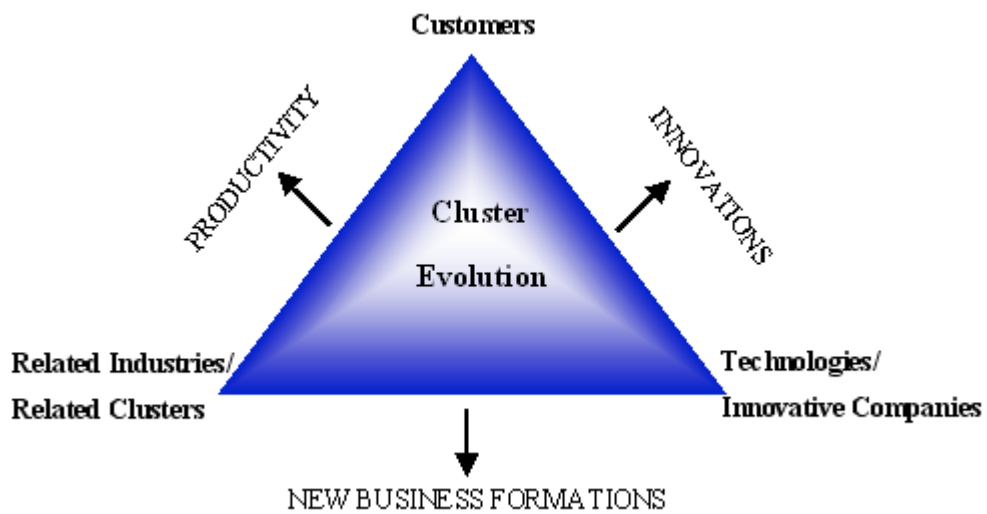


Figure 2: Seeds and effects of clusters (Porter 1998b)

In the following each of these six criteria will be discussed in general and applied to the development of Alpine Wellness products.

A local demand can be a source for a new cluster. Local **customers** know the region, the resources and sophisticated “lead users” (Herstatt et al. 2002) and can give good cues for desired products and services. The environmental cluster in Finland for example emerged as a result of pollution problems created by local process industries such as metals, forestry, chemicals and energy (Porter 1998b). Alpine tourists are a very good source for new wellness ideas and products, because tourism stakeholders know the region and existing resources and are familiar with their own patterns of local consumption. Additionally, a spatial agglomeration of firms or wellness offerings usually allow customers to pursue comparison shopping (Eberts and McMillen 1999) and to obtain the different elements of wellness services from diverse local suppliers.

Related industries or **related clusters** can be another driving force. The golf equipment cluster in San Diego for example has his roots in southern California’s aerospace cluster. Before this new cluster in San Diego was found, almost all golf players were using steel shafts, steel irons and wooden-headed-woods for playing. Accordingly golf equipment with these materials was heavy. The new materials pioneered in aerospace formed were the basis for a new generation of golf equipment. Now nearly all golf clubs are made out of graphite and the cluster in San Diego has created a pool of suppliers for

castings and advanced materials as well as engineers with experience in these technologies. For a tourism wellness cluster important related industries lie in the medical field and the sports and fitness industry. A functional food cluster nearby similarly can have a positive impact on how nutrition can be integrated as an element of wellness.

Last but not least new **technologies** or **innovative companies** can form the basis for a new cluster. The existence of one or two innovative companies can stimulate the growth of many others. New technologies can help with product or process innovations, which are created as a close cooperation with suppliers, universities, related industries or institutions. MCI and America online e.g. have been hubs for growing new businesses in the telecommunications cluster in the Washington D.C. urban area (Porter 1998b). New alpine technologies in Tyrol can be sources for a wellness cluster. The first destination in Austria to apply the results of the AMAS 2000 study and to offer the AMAS Welltain vacation is Lech/Zürs. The already existing close cooperation to the regional tourist industry, suppliers and universities offer a good framework for extending the network. When a cluster begins to form, a self-reinforcement cycle promotes his growth. Maybe in a few years a tourism health cluster will be established in the region around Lech/Zürs.

The effects of clusters can be summarized in terms of three flows. **Productivity** enhancements can be observed. Companies in a wellness cluster have better access to qualified employees and suppliers, who know the health and tourism branch and who are frequently located in their proximity. Economies of scale and scope can be achieved and transaction costs can be reduced when companies of the same industry work together (Keller 1998, Lanz-Kaufmann 1999). Market or special wellness information accumulate in a cluster and facilitate the information flow. Institutions or universities can be used mutually and capital expenditures in regional marketing, infrastructure or education programs can be employed and shared together. Alpine Wellness services are very staff demanding and the necessary infrastructure is likely to be capital intensive (Müller and Lanz 1998). Especially for small suppliers it is more effective to cooperate and not to offer everything alone in-house. Additionally, productivity savings can be realized by benchmarking. It is easier and more evident to compare one's own performance with cluster participants, who share common circumstances than to benchmark with foreign companies from abroad.

The second effect of clusters are increases in **innovations**. Alpine tourists are a good window of opportunity to the market. Sophisticated travellers are usually part of a tourism cluster and therefore they should be identified for empirical research. When ideas for innovations are generated, realization within a cluster is carried out more rapidly and often cheaper, because the necessary resources are closely situated nearby. The continuous observation of other wellness cluster participants allows to

learn from the “neighbourhood” and windows of opportunities for innovation become more visible. Competitive pressure, peer pressure and constant comparisons appear in a cluster and makes them centers of innovation for years.

Beside productivity and innovation, clusters can also contribute to **new business formation**. Barriers to entry for new suppliers in the health care or leisure industry are lower

within a cluster than in isolated locations. A concentrated customer base (e.g. the located wellness hotels and service providers) lowers the risks for new entrants. Employees who identify existing gaps can build new businesses. Moreover, local financial institutions and investors are familiar with the branch and know the cluster companies for years, so that investment decisions can be done with more background information and with less risk (Johann 2002, Porter 2002, Porter 1998b).

In the above section the origins and effects of clusters in general and wellness clusters in particular were shown. But the “inner life” of clusters still remains a black box. Hence let’s try to shed some light onto the typical inner structure and workings of an “Alpine Wellness cluster”.

4.3 TOURISM CLUSTER: ALPINE WELLNESS

Through cluster based collaboration the forementioned benefits can be increased, because the multiplier effects of more productivity, innovations and business formations in a cluster influences most other branches of economic activity in that region.

Although there are similarities with industrial products there are also some notable differences between industrial products and tourism products, which have consequences for tourism cluster strategies. A main difference is the fact, that tourists must come “to the production site”, the region where different goods and services are produced. The tourist will consume a set of individual products and services that add up to the composite outcome of a visit. Other intermediaries like travel agents, air carries, hotels and tour operators get involved in organizing or delivering the tourism experience. In contrast to industrial clusters, seasonality can therefore constitute a problem in a tourism cluster. However, the advantage of the product “Alpine Wellness” is, that it is a year-round tourism produced without seasonality breaks.

Research has shown that tourism development is a venue in which cooperation is often more important than competition (Inman et al. 1998). In Alpine Wellness this is particularly true, because alpine resources are limited and the holistic aspect of wellness requires that different skills and experience complement each other. Furthermore, the long and complex value chain in tourism makes cooperation

necessary (Lanz-Kaufmann 1999). A cluster based development should try to build the value chain within each cluster in the region. A cluster strategy places all public and private stakeholders in the position of being producers and suppliers to one another, and seeks for constructive ways to define and carry out mutually beneficial action. The value chain is central to the tourism cluster concept, as it demonstrates how tourism can generate benefits to the economy beyond the tourism sector through linked industries (Gollub et al. 2002). The following chart shows a general value chain for Alpine Wellness services:

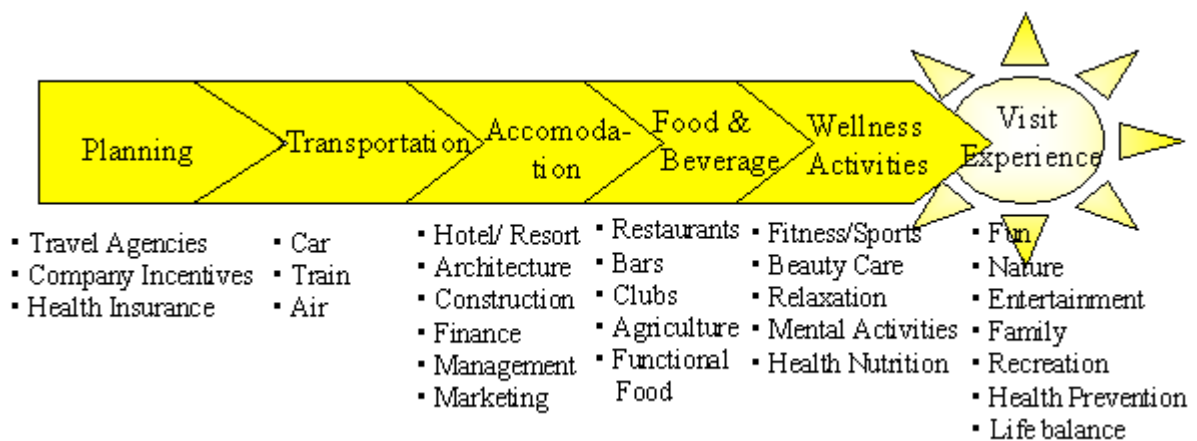


Figure 3: Alpine Wellness value chain

For travel planning, beside general travel agencies, few specialized travel agencies exist so far, e.g. FIT Reisen or IKD Reisen. Two different groups of wellness tourists can be distinguished: The first group is around 30 years and the second between 40 and 60 years, often in their “midlife crisis” (Steinbach 2000). Most of these tourists book their holidays themselves. But Alpine Wellness holidays can also be used for company incentive programs. Firms can demonstrate responsibility for the health of their staff. Through health prevention programs, the company ITT Automotive Europe could e.g. save about 1.25 million Euro by reducing illness levels among workers (Mühlhausen 2000). For health insurance companies, too, it would make sense to promote Alpine Wellness holidays. From a macroeconomics point of view it is much cheaper to prevent diseases than later pay for medical treatment and recovery.

Most of the Alpine Wellness tourists in Austria come by car from Germany, Switzerland and the Netherlands. Construction and building of wellness hotels is mostly on a large-scale and the architecture of the hotel should blend with the landscape of alpine regions. A close cooperation with local architects, civic engineers and finance institutes is therefore required. To get skilled staff for

management or marketing good contacts to management schools and universities must exist. Regional schools should offer tourism related education programs. In a full board type of accommodation tourists eat mostly in the hotel, but sometimes they wish to taste authentic and genuine regional food beyond the health food offered in the wellness hotels. All of the food related industries are co-producers of the tourism experience or tourism value chain. It is important to include all the relevant restaurant and bar suppliers, that form part of the value chain. For enjoying a complete wellness vacation nutrition should fit with the health program. To pursue health nutrition a close cooperation with bio-farmers and the regional food industry should be established.

Wellness activities constitute the core elements of an Alpine Wellness vacation. To supply wellness products and services, a capital intensive infrastructure must be developed and wellness coaches in hotels have to be familiar with the associated soft skills. Cooperation linkages with leisure, medical and sports industry are important for developing and producing the necessary wellness services. Other important related industries must also exist. A second Ph.D. thesis at the Center of Tourism and Service Economics deals with the development of new alpine wellness products. When such prospective wellness products are identified, a corresponding value chain can show in detail as to where cooperation is necessary.

Tourism products are very service intensive, which requires a very close and intensive collaboration between different service providers, as they together influence the holiday experience. In the Alpine Wellness value chain the visit experience lies in consuming the wellness services in combination with nature, fun, and entertainment. Similarly the aim of an Alpine Wellness holiday can be to spend time with one's family, to recreate, to do something for health prevention or to find the necessary life balance. When wellness is offered in a qualified and holistic sense many stakeholders are involved in creating the tourism products. Vertical and diagonal integration and/or collaboration along the value chain is essential for cluster building. It is, however, not enough, if only some suppliers work together. To initiate cluster networks vertical and horizontal cooperations have to be sought. It is the pattern of interaction and functional relationship between firms and industries which characterizes well functioning clusters.

Besides the value chain, cluster initiatives have to analyse factor conditions, the demand situation and firms' strategy, structure and rivalry. Chance and government influence can also affect the cluster building (Porter 1990, Fernau 1997).

Worldwide some wellness clusters have already been identified and initiatives for promoting those clusters were mounted: The region around Calgary (Penman 2000), New Zealand and Rotorua in Finland are but a few (Koziarski and Williams 2001). In Southern Australia, cluster strategies have

already been recognized years ago. First observations from Australia for the period 1995-2000 indicate that the benefit cost ratio (new exports to financial grants) is 10:1 including fully costing voluntary time (Koziarski and Williams 2001). Although there are different natural, governmental and cultural conditions in Austria and Australia, the example illustrates that benefits far outweigh costs.

Porter’s “Diamond Model” can be fruitfully employed as a framework for characterizing and identifying a cluster. This model is very established, as it includes all relevant market forces and factors of competitiveness.

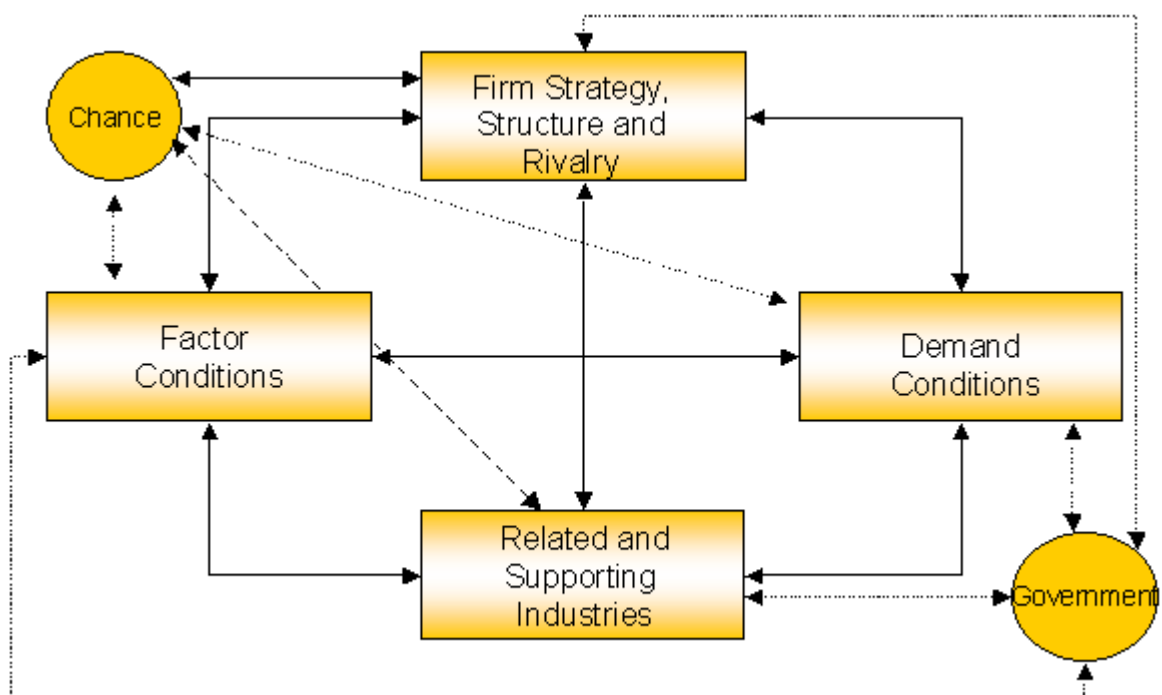


Figure 4: Porter’s Diamant (Porter 1990)

Together with Theiner’s more demand-side-oriented Ph.d. research on new Alpine Wellness products/services Steinhauser’s Ph.d. work at the Center for Tourism and Service Economics focuses on the characteristics of Alpine Wellness clusters. As a starting point the above described Porter model will be used. Empirical research based on these hypotheses will later show what types of vertical and horizontal cooperation already exist now and which collaborative programs should be introduced in the future to optimise cluster effects. In the end the entire cluster “Alpine Wellness” with all of the required interactions and collaborations should emerge. As a starter, major factor conditions so far

include alpine resources, the Alps as a geographic location, health-related knowledge and wellness coaches. The related and supporting industries will come from leisure, sports, cosmetic and health care. The principal form of managing transactions within a wellness cluster must be long-term business relationships based on new strategic business plans (Enright 2000).

In summary, Alpine regions represent an ideal starting point for what may be called Alpine Wellness. At the moment the Alps are still far away from having well defined wellness clusters. First signs for collaborations between wellness suppliers however exist. Single ski cards for multiple regions or a common wellness infrastructure for several hotels (Müller and Lanz 1998) can only be considered starting points for a growing network. Intensive exchange and interaction processes between institutions, agencies, universities and customers are as important as the related supplier industries for a functioning and growing sports and health cluster. It is time to react and to start the cluster developing process, because it takes years until a network of critical size can be created, the core competencies of the partners are developed and trust can be formed (Johann 2002).

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HANDBOOK OF RESEARCH IN
INTERNATIONAL HUMAN RESOURCE
MANAGEMENT

Handbook of Research in International Human Resource Management

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1 International human resource management research: an introduction to the field

Ingmar Björkman and Günter K. Stahl

The field of ‘international human resource management’ (IHRM) research has grown extensively over the last few decades. Since André Laurent in 1986 described the field as being in the infancy stage of development (Laurent, 1986), we have witnessed a rapid transformation of the field of IHRM research. The establishment in 1991 of the *International Journal of Human Resource Management*, that mostly publishes articles within IHRM, was an important milestone. For the first time there was a ‘home journal’ for scholars pursuing IHRM research. At the same time, a significant number of IHRM articles were published in prestigious management journals like *Academy of Management Journal*, *Administrative Science Quarterly* and *Organization Science*. The number of conferences and workshops dedicated to IHRM research has also increased. By the time this book is in print, the Eighth Conference on International Human Resource Management will have been held.

While growing in size, the field has also expanded in scope. It has shifted from an early focus on the topic areas of top management attitudes and staffing decisions in multinational corporations (MNCs) (Edström & Galbraith, 1977; Perlmutter, 1969) and expatriate adjustment and performance (Torbiörn, 1982; Tung, 1981) to a field characterized by a high degree of diversity, cross-fertilization of ideas from different disciplines, and ambiguous delineations of what is included in the field and what is not. In this *Handbook* we define the field of IHRM broadly to cover all issues related to the management of people in an international context. Hence our definition of IHRM covers a wide range of human resource issues facing MNCs in different parts of their organizations. Additionally we include comparative analyses of HRM in different countries.

Development of the field of IHRM research

Although the coining and spreading of the term ‘international human resource management’ took place only in the late 1980s and early 1990s, the history of what we view as IHRM research arguably covers a time span of some 30 years. Much of the early work focused on staffing decisions in

2 *Handbook of research in international HR management*

MNCs and how to manage expatriate managers from the corporation's home country. Perlmutter's seminal article 'The tortuous evolution of the multinational corporation' (1965 [in French]/1969) is arguably the first influential article published within IHRM. In this article the author distinguishes among three different attitudes of MNC headquarters executives: ethnocentric (home country-oriented), polycentric (host country-oriented) and geocentric (world-oriented). In MNCs where headquarters has an ethnocentric attitude, managers from the home country are seen as superior to those of the other countries in which the MNC has operations. In the IHRM literature, Perlmutter's headquarters orientations became the standard way to classify international HRM strategies, in particular staffing policies and practices, and the terms 'ethnocentric', 'polycentric' and 'geocentric' are today widely used (Collings & Scullion, this volume; Harzing, 2004a). Heenan and Perlmutter (1979) later added a fourth category: 'regiocentric'.

Subsequent to Perlmutter's important contribution, two streams of work soon began to emerge: one focusing on the management of expatriates, where much of the emphasis was on the expatriate job choice process and factors that contributed to the adjustment and performance of the expatriate (for example, Ivancevich, 1969; Miller, 1973; Miller & Cheng, 1978); the second focusing on the roles that the transfer of people across units played in the management of the MNC (for example, Franko, 1973; Heenan, 1970), with some authors trying to integrate the two research streams (for example, Robock & Simmonds, 1973; Zeira, Harari & Nundi, 1975). Empirical studies focused almost exclusively on US MNCs and expatriates. Tung (1981, 1982), in her work on international staffing, was one of the first to examine how MNCs from different regions (USA, Europe and Japan) selected and trained managers for overseas assignments.

Throughout the 1980s and in the early 1990s much was written about the management of expatriates (for example, Black, 1988; Black, Mendenhall & Oddou, 1991; Harvey, 1998; Mendenhall & Oddou, 1985), reflecting the heavy emphasis on expatriate management issues among the HR staff responsible for IHRM in the MNC headquarters organization (see also Thomas and Lazarova, this volume, for a critical review of research on expatriate adjustment and performance, and Caligiuri and Tarique's chapter on expatriate selection, training and development). For instance, Reynolds (1997) reports that IHRM staff in US MNCs in the 1970s devoted almost all their time to managing expatriate assignments.

Edström and Galbraith's (1977) research on the motives for transferring managers across units became highly influential among IHRM researchers. They describe three motives for international assignments: to fill positions when qualified local nationals are not available; as management

development (that is, to develop the expatriates through the experiences they gain during their international assignments); and as organization development (through socialization of expatriates, as well as through the development of interpersonal linkages across MNC units). Studies published in German by, among others, Pausenberger and Noelle (1977) and Welge (1980) (cf. Harzing, 2004b) presented similar if not identical classifications of motives for the deployment of expatriate managers. This line of research later became integrated with a growing literature on international business strategy and the management/organization of MNCs (Bartlett & Ghoshal, 1989; Hedlund, 1986; Prahalad & Doz, 1987). Researchers who at the turn of the century began studying interpersonal and inter-unit relationships within MNCs from social network or social capital perspectives (for example, Tsai & Ghoshal, 1998) are at least indirectly building on the classic piece by Edström and Galbraith (1977).

One of the many management issues facing MNCs is the extent to which to transfer management practices across borders. Some of the early work on this issue developed from Hofstede's (1980, 1991) research on cultural differences among the countries in which the IBM corporation operated. Other scholars, such as Laurent (1986), strongly argued that national cultural differences have a significant impact on HRM practices and that MNCs need to pay attention to cultural factors when deciding upon HRM policies in their foreign operations. It was also proposed that cultural features of the home country of the MNC had an impact on the kind of HR policies and practices used by the MNC. However, in the 1990s, some of the emphasis among IHRM scholars shifted from a cross-cultural perspective on HRM to studying MNC practices in overseas affiliates within institutional theory (for example, Rosenzweig & Nohria, 1994) and national business system (for example, Ferner & Quantanilla, 1998) perspectives. The potentially positive aspects of transferring HRM found to be efficient elsewhere to other parts of the MNC have also received attention in the literature (for example, Evans, Pucik & Barsoux, 2002).

Another trend that emerged was an increased emphasis on the strategic role of HRM. The early to mid-1980s saw the emergence of the term 'human resource management' (HRM) and hence HRM as a recognized field of study. Most observers trace the birth of the field to the foundational conceptual models of the 'Harvard' (Beer *et al.*, 1984) and 'Michigan' (Fombrun, Tichy & Devanna, 1984) schools. A central aspect of HRM that clearly distinguishes it from the previously dominating 'personnel management' is the link between HRM and strategy. HRM scholars such as Guest (1987) argued that HRM is long-term, proactive and strategic, and that it constitutes an integrated approach to the management of people. The new HRM discourse originated in the USA and was focused on the domestic

operations of US corporations, but it did not take long for scholars based outside North America as well as researchers doing work on HRM within MNCs to become influenced by the new HRM concept. This led, not only to a surge in studies aiming at examining how HRM was related to organizational performance (for example, Arthur, 1994; Huselid, 1995; Macduffie, 1995), but also to critical reactions towards the alleged and/or proposed trends towards HRM (for example, Storey, 1995; see also Peltonen, this volume) and critique of the notion that there might be a universal model of HRM regardless of the national context within which the corporation operates (for example, Brewster, 1995; Brewster, this volume).

In this way, the new HRM discourse contributed to reinvigorate the comparative studies of industrial relations and personnel practices in different countries that had already been carried out for some time. The interest in comparative research had to no little degree been a result of the rise of large Japanese corporations in the 1970s and 1980s, and the rich literature on the people management practices found in these corporations (for example, Boxall, 1995; Pucik, 1984). More recently, research on HRM practices found in foreign affiliates, the increasing reliance on alliances and joint ventures, and a surge in mergers and acquisitions of firms from different countries have contributed to an increased cross-fertilization of insights from comparative studies of HRM in different countries with research focusing on the operations of MNCs (Budhwar & Sparrow, 2002). For many years already, there has been a large group of IHRM scholars carrying out comparative research on HRM across countries not only with an interest in understanding the effect of cultural and institutional factors on HRM but also with an agenda to shed light on cross-national processes of convergence and divergence of HRM (Brewster, Mayrhofer & Morley, 2000, 2004; Brewster, this volume).

However the biggest impact of the HRM concept on IHRM research was probably in terms of its influence on efforts to link HRM policies and practices to the organizational strategy of MNCs. Within this body of literature – sometimes called Strategic International HRM, and building increasingly on recent developments in strategy and organizational research such as the resource-based view of the firm (Barney, 1991) – scholars, among others, have developed comprehensive models of the causal factors influencing HRM policies and practices in MNCs (Schuler, Dowling & De Cieri, 1993; Taylor, Beechler & Napier, 1996). But researchers have also come to believe that there are strong opposing forces facing MNCs, dualities that firms need to understand as they develop HRM policies and practices in a world where successful operations require multidimensional organizational capabilities (Evans & Doz, 1989; Evans *et al.*, 2002). One particularly important duality that global organizations

must manage and that has major implications for IHRM policies and practices is that of centralization (or global integration) versus decentralization (or local responsiveness) (see Prahalad & Doz, 1987; Rosenzweig, this volume).

In addition to the streams of research outlined above, IHRM researchers have expanded their work into a wide range of other topic areas. For instance, extensive work has been conducted on the management of people in alliances, mergers and acquisitions (Stahl & Mendenhall, 2005). Scholars have also devoted much attention to studying multinational (and often virtual) teams, global leadership development and career issues, performance management, cross-border transfer of knowledge and organizational learning, global outsourcing and organizational culture development – all from an IHRM perspective. And the HR function itself and the roles it plays in the functioning of the MNC have also received increased attention. Finally IHRM scholars have increasingly framed their research in terms of organization theories (cf. Wright & McMahan, 1992). In short, the field of IHRM research has developed into a large, complex and constantly developing field of study.

Objectives and scope of this handbook

The work with this *Handbook of Research in International Human Resource Management* was triggered by what we saw as a gap in the IHRM literature. Although several excellent books have been written on IHRM (recent book publications include Briscoe & Schuler, 2004; Dowling & Welch, 2004; Evans, Pucik & Barsoux, 2002; Harzing & Van Ruysseveldt, 2004; Scullion & Linehan, 2005; Sparrow, Brewster & Harris, 2004), their foci and objectives are somewhat different from ours. The present volume is directed to the scholarly community: our intention was to put together a book on IHRM studies that would serve as a guide to existing and future IHRM researchers from all parts of the world. Hence our main target audience is our own colleagues, doctoral students and others interested in IHRM research.

Our goal with this book has been to bring together leading IHRM scholars to provide a comprehensive overview of the field, including emerging topic areas and exciting new research findings that may shape the field of IHRM research in the years to come. The 48 authors of the 29 chapters that form this *Handbook* were encouraged not only to review critically previous research within the scope of their chapters, but also to provide a foundation for and concrete suggestions regarding how, through forthcoming research, we are to further develop our knowledge of important issues in the area of IHRM. The authors are affiliated with academic institutions located in Europe, North America, Africa, Asia and Australia, lending the

Handbook a truly global flavour. While the authors differ widely in their academic backgrounds, paradigmatic orientations and theoretical and methodological approaches to IHRM, they all share an active interest in augmenting our understanding of people management issues in the global arena.

Before presenting an outline of this book a word of caution about its limitations seems warranted. The study of IHRM is a relatively new area of research, as described earlier in this chapter; it is also a highly dynamic and constantly evolving field, with new themes emerging that transcend traditional approaches. The chapters in this volume provide insights into the latest theoretical thinking and cutting-edge research on IHRM. However, in spite of the many important contributions that have been made, it would be unwise to state that the research efforts described are much more than a first step towards a thorough understanding of the phenomena under investigation. There is a rich research agenda here, and the chapters in this book open up a number of questions and avenues for future studies. However definite answers to the questions raised are unlikely to be found any time soon, because the underlying phenomena are, by their very nature, highly dynamic and complex. Chris Brewster (in this volume) captured some of this complexity when he summarized the convergence–divergence debate and concluded:

The situation is, inevitably, complex. And the evidence can be selected to suit almost any position. . . . [S]ome aspects of industrial societies tend to converge, whilst others diverge, depending upon time and circumstances. . . . An alternative approach would be to consider whether some parts of the overall HR system might be converging, in some regions or geographies, whilst other parts might be diverging. Moreover, since HR operates at multiple levels including philosophy, policy, programme, practice and process . . . there might be convergence at one level but divergence at another, even within one firm, never mind between nations.

IHRM scholars face similar complexities in most other areas of inquiry within this field.

Content and outline of this handbook

IHRM scholars (for example, Dowling & Welch, 2004; Sparrow *et al.*, 2004) have argued that IHRM involves the same activities and dimensions as domestic HRM but operates on a much larger scale, with more complex strategic considerations, more complex coordination and control demands and some additional HR functions. Additional HR functions are considered necessary to accommodate the need for greater operating unit diversity, more external stakeholder influence, higher levels of risk exposure and more personal insight into employees' lives and family situation.

However others (Bird & Osland, 2004; Lane, Maznevski & Mendenhall, 2004; Prahalad, 1990) have argued that global management – including people management – differs from management in a domestic context not only in *degree* (broader scope, more complex coordination demands and so on) but also in *kind*, because the challenges faced by individuals and the organization are qualitatively different from those faced in a domestic context. These demands include increased ambiguity surrounding decisions and related outcomes; wider and more frequent ‘boundary spanning’; a more challenging and expanded list of competing tensions that need to be balanced; a heightened need for cultural understanding; and more challenging ethical dilemmas relating to globalization. As Bird and Osland (2004) put it, ‘the transition from purely domestic to global is a quantum leap’ (p.61). This is particularly true for HRM, and throughout this book we are reminded of the significantly greater challenges faced by global HR functions, compared to the role of HRM in a domestic context.

This *Handbook of Research in International Human Resource Management* is divided into five parts:

- I The Role of International Human Resource Management
- II Research on Global Staffing, Performance Management and Leadership Development
- III Research on International Assignments
- IV Research on International Teams, Alliances, Mergers and Acquisitions
- V Theoretical Perspectives on International Human Resource Management

The chapters comprising Part I provide the overall context for the rest of the book. The theoretical approaches and empirical studies presented in these chapters explore the role of IHRM from a variety of perspectives. The authors look at the nature of HRM from a comparative perspective and consider the dual logics behind IHRM, namely pressures for global integration and local responsiveness; they explore how IHRM is associated with global knowledge management and organizational learning; and they consider the role of the HR function in global corporations and the link between IHRM and organizational performance. Throughout this part of the book, the authors emphasize the importance of linking IHRM policies and activities to organizational strategy.

The chapters in Part II review research on a variety of global HRM issues related to staffing, performance management, leadership development and diversity management. The emphasis here is on broader HR issues than expatriate management, reflecting how the field of IHRM has

evolved from its early focus on the selection and training of expatriate managers to encompass a much broader spectrum of topics and issues. However international assignment issues still figure prominently in this book, owing to their importance in the global coordination and integration of resources and operations (Evans *et al.*, 2002) and the continuing stream of research on expatriation (Dowling & Welch, 2004; Harzing & Van Ruysseveldt, 2004).

Consequently Part III of the book deals with a variety of international assignment issues, from the perspective of both the individual and the organization. Its five chapters cover activities relating to expatriate management, such as career-pathing, selection, training, support and repatriation of expatriates, as well as other issues deemed critical in managing international assignments. These issues include the antecedents of expatriate adjustment and performance, the challenges confronting women while on international assignments, and dual career issues. The contributors also show why it is important that organizations take a wider view of mobility, including short-term assignments and frequent flying, and examine how the international HR function can manage both the organizational and the personal implications of mobility.

In Part IV of the book, the contributors consider the role that IHRM can play in the management of global teams – be they colocated or virtual – as well as the management of cross-border alliances, mergers and acquisitions: topic areas that have recently received increased research attention thanks to their special relevance to global organizations.

The *Handbook* concludes with a synopsis of the rich theoretical foundations of and influences on the field of IHRM research. The theoretical perspectives discussed in Part V include the resource-based view of the firm, institutional theory, social network and social capital theory, and economic theories of the firm. In addition, contributors explore IHRM processes and issues from a variety of perspectives, such as fairness and trust, linguistic, gender and feminist perspectives, and apply critical theory to the study of IHRM. These chapters illustrate that IHRM research is theoretically eclectic, drawing upon a range of paradigms and perspectives; and, second, that the field has overcome the theory deficit that was characteristic of the early days of IHRM research.

The chapters in this book address a range of critical issues involved in the management of people in a global context from rich, novel perspectives. Thus this book attempts to act as a catalyst for scholars who work in the field of IHRM by providing them with a wider scope of theoretical understanding regarding the complexity of variables and processes that affect the effectiveness of IHRM policies and practices. It is our hope that this book will spur innovation in both theory and practice in IHRM.

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PART I

THE ROLE OF INTERNATIONAL HUMAN RESOURCE MANAGEMENT

2 Strategic international human resource management in multinational enterprises: developments and directions

Helen De Cieri and Peter J. Dowling

Globalization has brought remarkable developments in the diversity and complexity of international business and multinational enterprises (MNEs).¹ Concomitant with these developments has been increasing awareness that the management of a global workforce is a critical dimension of international business. A major aspect of MNE management relates to the area of 'strategic international human resource management' (SIHRM) (Milliman, Von Glinow & Nathan, 1991; Schuler, Dowling & De Cieri, 1993), which we relabel as 'strategic human resource management in MNEs' (De Cieri & Dowling, 1999). This field of research and practice draws upon HRM as a disciplinary base, and is embedded in the context of international business.

The first aim of this chapter is to explain the development of the field of SHRM in MNEs and to review the theoretical perspectives that inform research in this field. Second, we present a revised framework of SHRM for MNEs, based on recent developments and emerging directions in research and practice. Our third aim is to discuss the implications of this framework, to provide some guidance for future research in this field.

Strategic human resource management in multinational enterprises

The field of international human resource management has been characterized by three broad approaches (Dowling, 1999). Early work in this field (for example, Laurent, 1986) emphasized cross-cultural management issues. A second area of research has been developed in comparative HRM research (for example, Brewster, 1998; Hendry, 2003; Rowley, Benson & Warner, 2004). Third, much of the research in international HRM has focused on aspects of HRM in MNEs. This latter area is most widely recognized as international HRM, involving the same elements as HRM within a single country, yet with added complexity due to diversity of national contexts and inclusion of different national categories of workers (Dowling & Welch, 2004). A major aspect of international HRM research has developed

understanding of micro-level variables related to the cross-national transfer of employees and management practices (for example, Caligiuri, 2000; Engle, Mendenhall, Powers & Stedham, 2001; Zhang, 2003).

Parallel to the development of research on strategic HRM issues, international HRM researchers and practitioners have paid increasing attention to more macro-level issues, such as the strategic nature of international HRM and implications for organizational performance (McWilliams, Van Fleet & Wright, 2001). This work raised awareness of the emergence of SIHRM, which has been defined as:

human resource management issues, functions, and policies and practices that result from the strategic activities of multinational enterprises and that impact the international concerns and goals of those enterprises. (Schuler *et al.*, 1993: 422.)

This definition is consistent with, yet expands upon, the definition of strategic HRM offered by Wright and McMahan (1992). Schuler *et al.* (1993) sought to build upon the work of Wright and McMahan (1992) and to build connection, rather than separation, between *strategic* and *international* HRM. This definition has been adopted by other writers in the field (for example, Taylor, Beechler & Napier, 1996).

The identification of SIHRM as a distinct area of research has been a useful step in differentiating the emergent 'strategic' and 'international' issues, but we argue that this has been an interim step which may be of greater benefit if we balance our search for distinctiveness from 'domestic' HRM with recognition of the similarities. We suggest that it is more appropriate to speak of 'strategic HRM in MNEs' when describing this area.

Schuler *et al.* (1993) presented an integrative framework of SIHRM, in which they concluded that a fundamental issue is the tension between the needs for global coordination (integration) and local responsiveness (differentiation) (Doz & Prahalad, 1991; Quintanilla & Ferner, 2003; Rosenzweig & Nohria, 1994). The framework showed factors exogenous and endogenous to an MNE that influence SIHRM issues, functions, policies and practices, thereby influencing the realization of MNE concerns and goals. Schuler *et al.* (1993) presented their framework as a conceptual model for exploratory analysis, and the framework has been noted as a useful tool that brings together the strategic and international dimensions of HRM (Kamoche, 1996; Taylor *et al.*, 1996).

In an important development in this field, Taylor *et al.* (1996) developed a theoretical model of the determinants of SIHRM systems in MNEs. These authors acknowledged the importance of the endogenous factors identified by Schuler *et al.* (1993), namely strategy, international experience of the firm, organizational structure and headquarters' international

orientation, and suggested the importance of additional endogenous factors, such as organizational life cycle. Taylor *et al.* (1996) also recognized the influence of external factors on an MNE, and particularly on SHRM. They identified reciprocal influences between organizational factors, such as MNE strategy or life cycle stage, and SIHRM. Further they present a simplified version of SIHRM constituents, reducing Schuler *et al.*'s (1993) 'SIHRM issues, functions, policies and practices' to 'SIHRM orientation' (analogous to HR function strategy) and 'SIHRM functional focus' (comprising all HR practices). Similarly, De Cieri and Dowling (1999) presented a revised framework, highlighting the theoretical bases informing the framework and reviewing empirical research that reflected the substantive developments in this field throughout the 1990s.

While previous frameworks have provided useful and informative steps in the development of SHRM in MNEs, recent global events, represented by tumultuous events such as corporate scandals, terrorism and the 2004 tsunami disaster in Asia, suggest the need for a paradigmatic shift in our research approaches and practical applications, in order to build a contemporary vision of SHRM in MNEs. For example, Czinkota, Knight & Liesch (2004) make the point that the impact of terrorism is geopolitical and pervasive and has influenced risk management in MNEs in a fundamental way. In this context, it is pertinent to note that risk management has received scant attention in the extant literature related to SHRM in MNEs. Czinkota *et al.* (2004) discuss the increase in the level of *uncertainty* in the following areas:

1. consumer demand for the firm's goods and services;
2. supply of needed inputs, resources and services;
3. government policies and laws enacted to deal with terrorism, thereby altering the business environment and the ease with which business is conducted;
4. macroeconomic phenomena; and
5. the nature of relations among countries.

SHRM in MNEs is involved closely with the first three of these five areas. The HR function in MNEs has been particularly affected by changes in the economic, geopolitical, social and biospheric environment. A comprehensive understanding of SHRM in MNEs in the new global context requires much more than a traditional focus on micro-level IHRM issues. Macro-level factors, particularly those external to the MNE, demand attention and investigation to reveal their implications for SHRM policies and practices in MNEs, and inevitably for MNE concerns and goals. We suggest that developments in these areas bring the need for a revised framework for

SHRM in MNEs. The complexity of globalization and global events invites multitheoretical, multi-level analysis. Following Guillén's (2001: 255) sociological analysis of the debate surrounding globalization, we suggest that we need a framework to encourage the integration of theoretical perspectives and research methodologies that bridge the micro–macro gap, 'i.e., that move across levels of analysis from the world-system to the nation-state, the industry, sector, community, organization, and group'. Before presenting our framework, in the following sections we acknowledge the theoretical and empirical bases for this framework.

Theoretical perspectives of SHRM in MNEs

Several theoretical perspectives have been applied to SHRM in MNEs, including institutional, economic and behavioural theories (see subsequent chapters of this book for detailed discussions). The theoretical perspectives vary in their philosophical assumptions and their foci: from exogenous (market-based) to endogenous (intraorganizational); from macro-level to micro-level; from strategic to non-strategic (De Cieri & Dowling, 1999). Although few of the theories were developed with human resources in mind, their application to SHRM in MNEs is worthwhile. Our framework, and those upon which it is built, draws from various theoretical perspectives, including institutional theory (Meyer & Rowan, 1977), resource dependence theory (Pfeffer & Cohen, 1984), transaction cost theory (Williamson, 1981), strategic choice theory (Child, 1972) and resource-based theory (Penrose, 1959).

In the following section we briefly review those perspectives which have received most research attention, which represent a broad spectrum of views and which appear most promising for explication of SHRM in MNEs.

The institutionalism perspective

The institutionalism perspective (DiMaggio & Powell, 1983; Scott, 1987) encompasses a broad range of perspectives. A common assumption is that 'the structural forms (as well as the identities and values sustaining these) of relevant external institutions map themselves on to organizations which depend on them for legitimacy, resourcing or staffing' (Child, 1997: 45). Institutional analysis focuses on the manner in which societal bodies accord social legitimacy to organizations and thereby contributes to achievement of organizational success and survival (Meyer & Rowan, 1977; Powell & DiMaggio, 1991).

When applied to HRM, an institutional perspective may help to explain the institutional pressures that may be powerful influences on HR strategy, programmes and practices. For example, it has been suggested that 'larger organizations should adopt more sophisticated and socially

responsive HRM activities because these more visible organizations are under more pressure to gain legitimacy' (Jackson & Schuler, 1995: 245–6). An institutional (or neoinstitutional) perspective highlights the importance of external stakeholders such as regulatory bodies or communities of practice (Tregaskis, 2003). Overall a wide range of external factors, across the contexts of industry, nation and region, may influence organizational factors, SHRM in MNEs and the achievement of MNE concerns and goals.

The resource dependence perspective

In common with institutional theory, resource dependence theory (Pfeffer & Cohen, 1984; Pfeffer & Salancik, 1978) is focused upon relationships between an organization and its constituencies. A resource dependence perspective, however, considers that central to these relationships are exchanges of resources, in contrast to institutional theory's emphasis on concerns about social acceptability and legitimacy (Pfeffer & Cohen, 1984). A resource dependence perspective views the environment as the source of scarce and valued resources, which are essential for organizational survival. This perspective is focused on power relationships, identifying the ability of external parties to have command of resources that are vital for the operations of an organization as the basis for power over that organization (Child, 1997). An organization will be vulnerable if external parties control vital resources, such as knowledge, and the organization will strive to acquire control over those resources that minimize their dependence. Tregaskis (2003: 432–3) suggests that combining ideas from neoinstitutional and resource dependency theory is 'particularly powerful given the conflict between the need both for conformity (in response to isomorphic pressures) and for differentiation (in terms of having critical and valued resources), and given the diversity of institutional contexts influencing multinationals' operations'. As one example of application in research, these theories could help to explain the acquisition and transfer of knowledge through interorganizational and intraorganizational networks.

Taylor *et al.* (1996: 960) also viewed the resource dependence perspective as useful in the identification of 'situations in which MNCs will exercise control over the SIHRM system of their affiliates'. These authors combined resource dependence with a resource-based perspective and applied these to develop their theoretical model of the determinants of SIHRM systems in MNEs. Therefore we suggest that a resource dependence perspective supplements our knowledge of the influence of both external and organizational factors and their reciprocal relationships with SHRM policies and practices in MNEs.

The transaction cost perspective

This perspective, which informs much of international business theory (Buckley, 1996), has been noted as a potentially useful perspective for strategic HRM (Wright & McMahan, 1992). Transaction cost economics focus on the ‘adaptative adjustments which organizations need to make in the face of pressures for maximizing efficiency in their internal and external transactions’ (Reed, 1996: 39). From the transaction cost perspective, it is assumed that firms choose governance structures which economize transaction costs associated with establishing, monitoring, evaluating and enforcing agreed upon exchanges (Williamson, 1975, 1981). Several environmental factors and human factors will influence organizational efforts to minimize the costs associated with these exchanges. This perspective has direct implications for SHRM in MNEs, and the manner in which SHRM practices may be utilized to achieve a governance structure which enables the management of multiple implicit and explicit contracts between employers and employees (Wright & McMahan, 1992). Transaction cost economics may have particular applicability in the case of multinational joint ventures or strategic alliances. For example, Kabst (2004) has used this perspective to argue that selective control via functional gatekeepers, such as expatriate managers assigned to key joint venture positions, will provide an efficient mechanism to reduce opportunistic behaviour in joint venture relationships.

The transaction cost perspective has not received a great deal of attention in the SHRM literature, with some notable exceptions (cf. Festing, 1997; Kabst, 2004). While recognizing that transaction cost economics provides additional support for the idea that there are reciprocal relationships between endogenous factors, SHRM and MNE concerns or goals, we note that a criticism of this perspective is that it fails to provide ‘any sustained interest or concern with social power and human agency’ (Reed, 1996: 39).

The strategic choice perspective

A strategic choice perspective focuses on the interaction of people and environment (Child, 1972, 1997). For example, organizational members belong to external bodies, and can influence them, through actions such as lobbying, or through social networks. Strategic choice is defined as ‘the process whereby power-holders within organizations decide upon courses of strategic action . . . Strategic choices are seen to be made through initiatives within the network of internal and external organizational relationships – through *pro-action* as well as *re-action*’ (Child, 1997: 45–6). Strategic choice is essentially a political phenomenon, and the term ‘strategic’ is used to identify matters of importance to the organization as a whole, particularly issues with impact on performance.

From a strategic choice perspective, it is argued that managers create and select environments by choice of domain, representing a view of managers as more proactive than the contingency view. Child (1997) recognizes constraints on managers, but argues that they still have significant latitude for decision making. The influence of environmental factors is recognized, but is viewed as mediated by managerial choice. The process of strategic choice may be viewed as a dynamic social process. Actors, both individuals and firms, are capable of learning, and organizational structures and routines are both affected and modified by the learning process (Child, 1997). HR managers' values influence strategies and practices, and determine decisions made across a range of areas. Hence the HR manager in an MNE has the opportunity to play a strategic role in the adoption of strategies that deal with a variety of demands and have potential for significant positive outcomes for the organization.

We suggest that a strategic choice perspective contributes to our understanding of SHRM in MNEs by emphasizing the influence of organizational factors, such as managers' international orientation and experience, on SHRM and MNE concerns and goals. The work by Brewster, Tregaskis, Hegewisch and Mayne (1996) highlights the reciprocity between HR function strategy and the organizational factors of corporate-level and business-level strategy.

Resource-based perspective

The resource-based view of the firm has been applied in research related to SHRM in MNEs; for example, relationships between strategic issues and SHRM in MNEs have been highlighted by research applying a resource-based perspective (Kamoche, 1997; Li, 2003; Park, Mitsuhashi, Fey & Björkman, 2003). However several scholars have identified challenges or limitations encountered by resource-based approaches to HRM (for example, Coff, 1997; Lei, Hitt & Bettis, 1996). As Delery (1998: 290) has noted, 'while the resource-based view provides a nice backdrop, explaining the importance of human resources to firm competitiveness, it does not deal with how an organization can develop and support the human resources it needs for competitive advantage'. Recognizing such limitations, several researchers have advocated an integrative approach, recognizing the explanatory power of other theoretical perspectives, which complement or build upon the resource-based view (for example, Colbert, 2004).

In addition to the theoretical perspectives discussed above, we note the emergent application of other perspectives. For example, political influence theory (Judge & Ferris, 1991, cited in Novicevic & Harvey, 2001) has been applied to explicate the increasing influence of the corporate HR

function in MNEs. This perspective appears to have potential to provide useful new insights, and to raise new areas for research in SHRM in MNEs, to complement the understanding gained via strategic and rational perspectives. Furthermore we note some emerging interest in critical and post-modern perspectives of international management (Welge & Holtbrügge, 1999) and SHRM in MNEs (De Cieri, Wolfram Cox & Fenwick, 2001).

Each of the perspectives discussed above, and others, holds potential for useful contributions to understanding of SHRM in MNEs. However we acknowledge that, overwhelmingly, the SHRM field has been influenced in the past decade or so by the resource-based view of the firm (Penrose, 1959; Boxall & Purcell, 2003; Wright, Dunford & Snell, 2001). Overall SHRM in MNEs may be best understood via integration of multiple disciplinary bases and theoretical perspectives, to explain the complex phenomena under investigation. Indeed there are 'signs that a more integrated, eclectic approach is emerging . . . as researchers strive to weave together elements taken from a variety of theoretical perspectives' (Quintanilla & Ferner, 2003: 364).

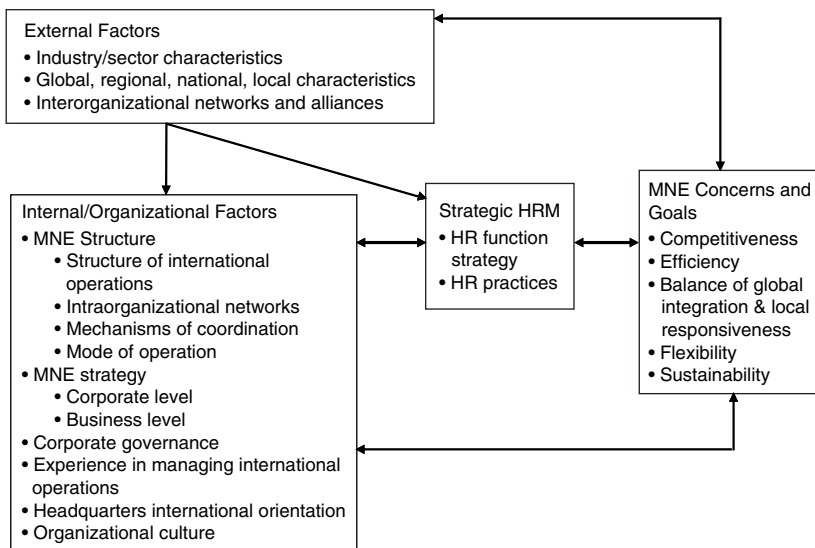
Development of research on SHRM in MNEs

While early work in the international management field was criticized for being atheoretical or monotheoretical, the past decade has shown substantial progress in theory development and empirical research design applied to SHRM in MNEs. Despite progress, some problems are enduring. Many studies of SHRM in MNEs suffer from small sample size and low response rates. Much of the research has been restricted to quantitative analysis, often using proxy measures, although there is increasing use of qualitative methodologies and multi-method approaches. A large proportion of research on SHRM in MNEs uses HR managers as the sole respondent for each MNE represented in their sample. Use of reports directly from managers and employees (parent, host and third country nationals) would serve to validate the reports of HR managers, particularly with respect to the perceived effectiveness of SHRM strategy and practices.

Overall early research related to SHRM in MNEs has been atheoretical or monotheoretical. While this has been an important research phase, it was necessary to move on to the next iteration, by implementing theory-based, hypothetico-deductive research designs. More recent research is theory-driven, with integrative, multitheoretical approaches and more rigorous research designs. To assist in the development of this research, we propose a conceptual framework to build upon extant literature and to provide some guidance for future research seeking to examine relationships between the factors relevant to SHRM in MNEs.

Development of a framework of SHRM in MNEs

As mentioned earlier in this chapter, Schuler *et al.* (1993) presented an integrative framework of SIHRM. In our view, developments in research and practice relevant to SHRM in MNEs have brought the need for continuing revision of the framework (De Cieri & Dowling, 1999). A revised framework of SHRM in MNEs is shown in Figure 2.1 and discussed in the following sections, including examples of recent developments relevant to each section of the framework. It is important to acknowledge that our framework provides a somewhat simplified representation of the dynamic interrelationships between the elements shown in the various boxes. It should also be noted that, while Schuler *et al.* (1993) presented the integration–differentiation balance as the management of strategic MNE components, an issue separated from other elements of SIHRM, research by Kamoche (1996) has suggested that this balance is perhaps more accurately represented as integral to the concerns and goals of MNEs; we represent this balance in our revised framework in this way.



Source: Adapted from H. De Cieri & P.J. Dowling. 1999. Strategic human resource management in multinational enterprises: theoretical and empirical developments. In P.M. Wright, L.D. Dyer, J.W. Boudreau & G.T. Milkovich (eds), *Research in personnel and human resources management: strategic human resources management in the twenty-first century*: 318. Supplement 4, Stamford, CT: JAI Press.

Figure 2.1 A framework of strategic HRM in multinational enterprises

External factors

MNEs operate in the context of worldwide conditions, including the influences of industry or sector, and global, regional, national and local markets, which include geopolitical, legal, cultural and economic characteristics (Cheng & Hitt, 2004; Hitt, Keats & DeMarie, 1998; Katz & Darbshire, 2000). Recent research suggests that external factors exert direct influence in a number of ways. We suggest that external factors have direct influence on both internal/organization factors and SHRM strategy and practices. Furthermore we suggest that external factors have a direct influence on MNE concerns and goals. For example, research in countries undergoing significant economic transformation, such as Poland or China, indicates that the human resource function has been substantially influenced by the changing external environment (Weinstein & Obloj, 2002; Zhu, Cooper, De Cieri & Dowling, 2005). Furthermore concerns about security and global risks (Suder, 2004) have led many MNEs to rethink their approaches to SHRM strategies and practices, such as those related to global mobility of employees (Cendant Mobility, 2002; GMAC Global Relocation Services, National Foreign Trade Council & SHRM Global Forum, 2003). In this context, SHRM in MNEs might include, for example, reducing the use of expatriates; altering the nature of international assignments, relying more on virtual assignments (Harris & Brewster, 2003; Welch & Fenwick, 2003) and/or ceasing operations in a location that has become too difficult. These options involve important decisions with implications for management of employees, management of risk (financial and personal) and the strategic management of the MNE.

Another feature of the external environment is the emergence of the global knowledge economy as a challenging competitive environment for business and management (Doz, Santos & Williamson, 2001). In order to compete effectively in global markets, managers need to move away from competition and imitation as the basis for relationships with other organizations and focus on adding value and innovation through cooperation (Kim & Mauborgne, 1999). Studies show that interorganizational networks and alliances have increased and are a crucial aspect of globalization (Pettigrew *et al.*, 2003). Interorganizational networks and alliances may be complex relationship webs based upon personal relationships and trust; non-binding social contracts that may be, nevertheless, long-term, pervasive and strong in nature (Gulati & Gargiulo, 1999). Networks may include parent country managers and employees, host country managers and employees, host country governments, and investors. Central to network management is an emphasis on human resources that recognizes that knowledge, power and perceived trustworthiness are often person-specific rather than organization-specific. One implication for SHRM in MNEs is

that interorganizational networks need to attract, motivate and retain people who have strong personal networks and who excel in collaborative work (Tung, 2002).

Internal/organizational factors

Internal/organizational factors have been a major focus of international business and SHRM research throughout recent decades. These factors are suggested to hold implications not only for areas such as SHRM, but also for overall organizational MNE performance. Following developments in the literature (for example, Taylor *et al.*, 1996), we suggest that there are reciprocal relationships between internal factors, SHRM and MNE concerns and goals.

Referring to Figure 2.1, internal factors are shown in order of most 'tangible' to most 'intangible'. First, the *organizational structure* literature has shown the importance, not only of the structure of MNEs (Kidger, 2002), but also of intraorganizational networks (Wolf, 1997), mechanisms of coordination (Harvey & Novicevic, 2002; Hedlund, 1994) and mode of operation, for SHRM in MNEs (Barkema, Bell & Pennings, 1996). Second, we note that developments in the *organizational strategy* literature have substantial implications for SHRM (McWilliams *et al.*, 2001; Wright *et al.*, 2001). Of particular relevance here, the relationship and possibility for reciprocity between organizational strategy and human resource management, and their relationship with firm performance, have received much attention over the past two decades (for example, Björkman & Xiucheng, 2002; Li, 2003). Third, issues related to *corporate governance* and incorporating ethical principles and values into international business practice have become increasingly important for MNE managers, particularly in light of cases of corporate wrongdoing, yet this is fraught with challenges for SHRM in MNEs (Dowling & Welch, 2004). For example, HR managers may be required to play important roles in corporate governance, such as the design, implementation and maintenance of corporate codes of conduct (Beatty, Ewing & Tharp, 2003), but training in and enforcement of codes of conduct are difficult across the complex context of an MNE (Dowling & Welch, 2004). Fourth and fifth, we note that *experience in international business* and *headquarters' international orientation* (Caligiuri & Stroh, 1995; Kidger, 2002) are well established as important factors for SHRM in MNEs. Finally we include *organizational culture*, the 'sense of common identity and purpose across the whole organisation' (Kidger, 2002: 81), in our framework. Researchers have recently investigated the relationship between organizational culture and SHRM in MNEs. For MNEs, particularly those seeking a high level of global integration, organizational culture, sustaining a shared global mindset, may provide a

valuable resource to support HR practices and enhance firm performance (Chan, Shaffer & Snape, 2004; Engle *et al.*, 2001).

SHRM: HR function strategy and practices

Referring again to Figure 2.1, we now focus on the elements of SHRM: HR function strategy and HR practices. As with other functional areas of management, such as information technology and marketing, it is necessary to identify the relevant HR function strategy at the relevant level of the MNE (corporate- or business-level). Dyer (1985) suggested that the HR function should be integrated into processes of strategy formulation and strategy implementation. Dyer (1984) differentiated the content and process of strategy making in HRM, and emphasized the fluid, dynamic nature of emergent strategy. He emphasized the importance of the presence of an HR director at board level, proactivity in the HR function and coherence between HR strategy and practices. More recently globalization of business has increased the pressure for the HR function in MNEs to perform at a strategic level, influencing and enabling systems for global leadership development, managing diversity and global mobility management (Dowling & Welch, 2004; Novicevic & Harvey, 2001; Scullion & Starkey, 2000). For example, the HR function can play valuable strategic roles when it broadens its function to that of change agent developing global mindsets in a boundaryless world (Sanchez, Spector & Cooper, 2000).

HR practices involve attracting, motivating and retaining staff to support business goals and objectives (Dowling & Welch, 2004; Hiltrop, 2002). These practices typically include all HR programmes conducted in MNEs across national borders (see later chapters in this book for detailed discussions of HR practices). These may include global shared services, worldwide training programmes, expatriation management, and so on. Their role in enhancing less formal aspects of organization, such as relationship building and network development has recently been noted (Novicevic & Harvey, 2001). Several studies have shown that HR practices such as expatriate management are influenced by both external and internal/organizational factors, and have positive implications for organizational outcomes. One example of the strategic value of human resources and organizational learning is evident in the knowledge acquired by expatriates on assignment and transferred across the organization (Hocking, Brown & Harzing, 2004).

Effective SHRM is expected to improve MNE competitiveness overall. This view is influenced by the emerging body of SHRM literature that examines the relationships between internal/organizational factors, HR strategy and practices, and MNE performance. A recent trend in research on SHRM in MNEs has been to examine the overall system of HR practices, rather than individual HR practices. Empirical findings overall have

provided some support for the hypothesis that a ‘high performance’ HR system will contribute to organizational performance, including firm financial outcomes (for example, Björkman & Xiucheng, 2002), although the relationship between HRM and organizational performance has been hotly debated in the HRM literature (see, for example, Paauwe, 2004; Wright, Gardner & Moynihan, 2003). While a focus on large MNEs has dominated this research field, it is recognized that small and internationalizing firms also face significant issues with regard to their human resources (De Cieri & Dowling, 1999; Dowling & Welch, 2004).

MNE concerns and goals

Consistent with Schuler *et al.* (1993), we suggest that MNEs have numerous strategic concerns and goals, which may include *competitiveness, efficiency, balance of global integration and local responsiveness, flexibility and sustainability*. These concerns and goals relate to outcomes towards which each MNE is striving; the importance and relevance of each outcome will vary across organizations; organizational outcomes are related to and result, at least in part, from each of the preceding elements in our framework.

The first four of these outcomes have been discussed in previous research (see, for example, De Cieri & Dowling, 1999). In revising the framework, we have added corporate *sustainability* as a desired MNE outcome. As noted earlier with regard to organizational factors, HR managers in MNEs are under increasing pressure to establish and maintain high standards of corporate governance, in order to achieve the goal of corporate sustainability. The traditional focus of corporate governance with regard to MNE concerns and goals is on financial performance, reporting to shareholders and protecting shareholders’ interests. However society in general, and employees and customers in particular, expect executives and managers to demonstrate the highest standards of ethics, transparency and responsiveness. Hence there is increasing pressure for the focus of corporate governance to broaden, to address the concerns of all stakeholders (Daily, Dalton & Cannella, 2003) and to aim for corporate sustainability, which refers to the continuing, voluntary commitment by companies to establish and maintain a systematic approach to the management of environmental, social, economic and governance issues. This requires companies and managers to behave in ethical ways and to contribute to economic development while improving quality of life for employees, their families, the local community and society in general (Global Reporting Initiative, 2002; Hemingway & Maclagan, 2004).

In endeavouring to achieve desired outcomes, such as sustainability, organizations increasingly derive value from human resources; this strategic importance of the global workforce makes decisions about SHRM in

MNEs critical to organizational success. Therefore we suggest that HR metrics that show a connection between HR and key organizational outcomes are essential (De Cieri & Boudreau, 2003).

Often links between the HR function in an MNE and organizational success are not easy to demonstrate as the assessment of HR performance and its relationship with organizational performance is a complex and often difficult task. A simple indicator may not adequately measure performance, as organizations have different goals relating to effectiveness and efficiency. A recent survey of 249 executives worldwide conducted on behalf of Deloitte Touche Tohmatsu by the Economist Intelligence Unit found that the majority of board directors and senior executives considered specific factors such as customer satisfaction, innovation, supplier relations and employee commitment as critical to corporate success, although they recognized that these factors are difficult to measure. When they were asked why board members and senior managers lacked information on intangible assets, such as the contribution of HR, respondents identified two main barriers: the absence of developed tools for analysing non-financial measures and scepticism that such measures would directly affect the bottom line (*Human Resources*, 2004). A well-thought-out measurement system needs to act as a guide for evaluating HR's contribution to strategy implementation and provide a valid and systematic justification for resource allocation decisions (Becker, Huselid & Ulrich, 2001). A measurement system should provide the HR function with the opportunity to demonstrate its contribution to organizational success.

Overall SHRM in MNEs requires a comprehensive and flexible framework to fit a great variety of situations because managing across national boundaries requires attention to and measurement of external factors, internal/organizational factors, HR strategy and practices and MNE concerns and goals.

Future directions for SHRM in MNEs

In the following sections we consider the potential directions for SHRM in MNEs, with respect to theory, research, teaching and practice in this field.

Implications for theory development

The various theoretical perspectives discussed in this chapter and in subsequent chapters of this book are all valuable but unlikely to be sufficient for an explanation of SHRM in MNEs. Thus we argue that future research will be most likely to benefit from multiple theoretical perspectives. It is recognized that progress will be iterative and protracted, but, as Jackson and Schuler (1995: 256) have suggested, 'research driven by incomplete theories is more likely to accumulate to form a meaningful body of knowledge,

compared to research driven by no theory at all⁷. Cross-fertilization of ideas and issues seems a productive approach to take to the development of theory and empirical research for SHRM in MNEs.

Implications for research

Although research on SHRM in MNEs has made several important steps forward, inadequacies remain. The frameworks that have been developed, including our own, tend to be broad and somewhat unspecified. While intended to provide a comprehensive and useful overview of issues/factors to consider when examining SHRM issues in MNEs, the frameworks contain few specified relationships between the different boxes and between items within each of the boxes. We suggest that there are a number of areas that require attention in future research. Researchers may seek to develop understanding of the implications of various theoretical perspectives for SHRM in MNEs. We present our framework as an exploratory model of SHRM in MNEs. We encourage researchers to adapt and revise the framework further as understanding of the field develops. For example, much of the research in this field has focused on large, stand-alone, profit-based MNEs. To retain broad applicability in the 21st century, testing of the framework in application to diverse organizational forms is recommended. While this is intended to be a general and comprehensive framework, it may need adaptation to be applicable to international non-government organizations (INGOs) (Ramia, 2003; Teegan, Doh & Vachani, 2004). There is widespread recognition of the emerging importance of INGOs, which are in part different because they are *value-driven* (the INGO response to the tsunami disaster in Asia is an excellent example). SHRM in INGOs may have much in common with SHRM in MNEs but additional factors, such as the voluntary workforce and value-driven nature of INGOs, would need to be considered as organizational factors (Fenwick, in press). Terrorism is also value-driven and this is the hallmark of the change to risk management for MNEs dealing with the problem (Czinkota *et al.*, 2004). Future research is needed to explicate the role of SHRM in MNEs in developing effective risk management in the 21st century.

It may be worthwhile to re-examine the factors we have identified and to further explore the relationships within and between the elements in our framework of SHRM in MNEs. In order to do so, researchers may choose to develop specific research propositions or hypotheses that operationalize their particular research focus.

Further work is needed to overcome methodological problems and develop an integrative and multidisciplinary understanding of the field with theoretical rigour and concrete operationalization of terms (Schuler & Florkowski, 1996). Sundaram and Black (1992) have suggested that the

multidisciplinary nature of MNEs has implications for the manner in which scholars are trained, as it may be necessary to train scholars who are willing and able to assimilate views outside a particular discipline. An alternative approach would be to build research teams incorporating various specializations, to overcome the limitations of any individual's area of knowledge or expertise. Research on SHRM in MNEs may require multidisciplinary and multicultural collaborations in order to understand and explore complex phenomena, although there are inherent challenges to the conduct of such research (cf. Brewster *et al.*, 1996; Teagarden *et al.*, 1995).

Implications for practice

On some issues related to SHRM in MNEs, it is evident that a research–practice gap exists, with research lagging behind the current needs of HR practitioners and managers in MNEs. The gap may not be easy to fill, as there are complex issues to define, measure and address. The complexities of international research remain daunting. There is also a practice–research gap, with SHRM practice in MNEs in some aspects lagging behind research. In many organizations it could be said that the state of practice lags far behind the state of knowledge (De Cieri, Fenwick & Hutchings, 2005; Wasti & Robert, 2004). We encourage knowledge sharing between academics and practitioners, to bridge these identified gaps and develop the field.

Conclusion

As global integration builds up and more businesses expand their operations across national borders, issues around SHRM in MNEs have become critical to organizational sustainability and success. As this occurs, the importance of SHRM in MNEs as a field of academic endeavour is becoming more pronounced. While there are many complexities and challenges for the development of SHRM in MNEs, the opportunities for progressing this field are substantial.

Note

1. Throughout this chapter, the term 'multinational enterprise (MNE)' is used as a generic title for organizations identifiable by the various criteria offered by Sundaram and Black (1992), and Bartlett and Ghoshal (1992).

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3 The dual logics behind international human resource management: pressures for global integration and local responsiveness

Philip M. Rosenzweig

The many chapters of this handbook address a full range of dimensions of international human resource management, from HRM practices and tasks, to the distinctive contributions of headquarters to the responsibilities of local HR management, to the difficult challenges of successful execution. This chapter examines IHRM through the lens of what has been an important and useful organizing principle, that of global integration and local responsiveness. This framework has helped bring an incisive and valuable perspective to the field of international business in general, and is highly useful for understanding the topic of interest: human resource management in multinational organizations. The chapter proceeds in three parts. First, we trace the origins of the framework, from its general application to organizations, to its more recent use in MNCs, and finally to the HRM function. Second, we review some of the research that has been conducted about HRM, noting the ways the framework has illuminated finer distinctions and tradeoffs. Third, we offer an evaluation of where this line of research stands and suggest how it might be advanced.

The integration–responsiveness framework: an overview

The roots of the integration–responsiveness framework can be traced back at least as far as the work of Paul Lawrence and Jay Lorsch (1969), who defined a central management problem as that of achieving requisite internal differentiation, usually in response to environmental complexity and turbulence, while also developing sufficient integrating mechanisms to coordinate the organization’s activities. Their treatment was about organizations in general, with only slight mention of organizations that span national lines. Soon, however, the basic framework was explicitly applied to multinational corporations by Doz, Bartlett and Prahalad (1981) in an article whose title laid out the central argument: ‘Global competitive pressures versus host country demands: managing tensions in multinational corporations’. An MNC is, after all, composed of a set of organizations

which operate in their respective local environments and must be sufficiently differentiated to respond to the demands of these locales, which may be regions, or countries, or even smaller areas within countries. If a company fails to respond to local differences, perhaps in a misguided belief that being 'global' means doing the same things everywhere, it may fail to compete successfully against more nimble and sensitive rivals, able to fine-tune their offerings for local customers and to compete effectively against national rivals. On the other hand, an MNC is a single organization that needs to coordinate its far-flung operations to capture fully the benefits of scale and scope. If an MNC does not realize these benefits, it remains a collection of independent local entities – and forfeits many of its potential advantages (Hout, Porter & Rudden, 1985).

Over the years, the basic tradeoff was explored more deeply. Prahalad and Doz (1987) explicitly presented the challenge facing multinational firms in terms of a need to pursue a global vision while meeting local needs. This balance was, they said, the distinctive mission of the multinational firm. Bartlett and Ghoshal (1989) extended the tradition by describing the challenge facing multinationals as that of simultaneously achieving global integration and local responsiveness while also facilitating worldwide learning – not merely balancing opposing pressures. Achieving the best of both called for a new generation of organizational capabilities, the so-called 'transnational solution', which replaced a hub-and-spoke model of the MNC with a network model, emphasizing the many dense connections among nodes around the world.

Bartlett and Ghoshal extended the integration–responsiveness framework in several directions. First, they showed that the forces for global integration and local responsiveness exerted different pressures by *industry*: consumer electronics, for example, offered high benefits for integration, owing to scale economies in manufacture and research, but did not require extensive local responsiveness; whereas consumer packaged goods demanded very high attention to local needs, owing to differences in taste and preference, but did not offer high benefits for integration, owing to the relative lack of scale economies in manufacture. They also showed how the framework could help elucidate pressures at play on finer levels *within* the corporation, namely business divisions, functions and tasks. A diversified corporation might have many business divisions, each of which would be somewhat differently shaped by pressures of integration and responsiveness for its particular industry. As an example, Unilever's chemical, detergent and packaged good businesses would need to be managed differently given the different forces impinging on each for integration and responsiveness.

Next, within a given business there might be a full range of functions and these, too, could usefully be understood as shaped by pressures for global

integration and local responsiveness. As a rule, upstream functions show a greater need for global integration, and downstream functions tend to demand local responsiveness. Thus a company may have one or just a few centres of basic research, since this activity has very high scale economies but little need for adaptation to local markets; it may have practised manufacturing in a handful of sites, perhaps one in each major region, based on the tradeoff between economies of scale and transportation costs; and procurement, as well, may benefit from global coordination for at least a handful of items that are expensive and bought in high volumes. Of course this is a stylized general model; there are wide differences by industry, where, for instance, manufacturing in consumer electronics may lend itself to very high benefits of integration thanks to high economies of scale in production and low transportation costs in distribution, whereas building materials may require local manufacturing because of a relatively high transportation to value ratio. Similarly, as we move downstream, functions may require greater tailoring to local tastes, demands for functionality, levels of disposable income, climate, regulations, and more. In general, marketing, sales and customer support tend towards local responsiveness.

The usefulness of the integration–responsiveness framework does not end there. Within a given function, certain tasks may also tend more to integration and others toward local responsiveness. As an example, Bartlett and Ghoshal depicted the marketing function as involving tasks ranging from product policy to advertising, to pricing, to distribution, to promotion, again demanding either greater attention to global integration, as in consistency for product standards or a single message in advertising, or greater local responsiveness, as in point of sale promotion or customer support.

Over the years, the basic integration–responsiveness framework became rather well entrenched in the international business field. The dual pressures on MNCs were also described in organization-theoretic terms, thinking in terms of pressure for internal consistency on one hand and pressure for isomorphism with the local environment on the other (Rosenzweig & Singh, 1991). Drawing on institutional theory, they identified three motivations for local isomorphism: mimetic, coercive and normative isomorphism (DiMaggio & Powell, 1983).

HRM and the integration–responsiveness framework

In recent years, considerable research has been directed towards the human dimension of international management. This emphasis is well placed, for no matter how sound the strategy of a multinational corporation (MNC), or how carefully designed its structure, success or failure is likely to depend upon the MNC's ability to attract, develop and deploy talented employees in a multinational setting, and to get them to work together effectively

despite differences in culture, language and location (O'Hara-Devereaux & Johansen, 1994).

As noted above, Bartlett and Ghoshal used the integration–responsiveness framework to illustrate the pressures on particular functions, showing how upstream functions tended more to offer benefits from global integration while functions closer to the customer demanded greater local responsiveness. They did not, however, explicitly address activities such as finance, legal or regulatory affairs, health and safety, and our present concern, human resource management. These support functions are pervasive, not limited to upstream or downstream, and therefore do not fit neatly into the basic diagram.

Yet the integration–responsiveness framework can be useful for understanding these activities, as well. For support functions, no less than in those that move materials from procurement to final customer use, there are pressures on one hand to operate as a single integrated entity as well as to respond to the local environment. Indeed the relevance of the framework was evident in the same year that Bartlett and Ghoshal wrote their seminal work, while Evans, Doz and Laurent (1989) noted that HRM practices, too, are shaped by the dual pressures for internal consistency and local adaptation.

HRM compared to other functions

Some early empirical research suggested that, of all the functions, human resource management tends to be the one which most closely adheres to local practices (see, for example, Kobayashi, 1982). In a study of the management practices of 249 US affiliates of foreign-owned firms, the author found that, of four functions studied (marketing, manufacturing, finance and human resource management), only the finance function tended to resemble more closely practices in the parent country than those of the local market (Rosenzweig, 1994). Furthermore, of the three functions that tended more closely to resemble local firms, the resemblance was significant but moderate for manufacturing, stronger for marketing, and by far the strongest for HRM. This overall tendency of HRM within MNC affiliates to resemble practices of the local environment was not surprising, as HRM practices are often mandated by local regulation or shaped by strong local conventions. Moreover since an MNC affiliate, in most instances, has little choice but to hire its employees from competitive local labour markets, it is hard to diverge too far from local norms. Thus, using the vocabulary of institutional theory, HRM faces coercive isomorphism when it comes to following laws and regulations and mimetic isomorphism when it comes to wanting to look like local companies, overcoming a liability of foreignness, as well as normative isomorphism, meaning adoption of

policies and practices that are more effective for reasons quite apart from regulatory demands or a desire to appear local.

The general tendency for HRM to be closely linked to the local environment was also evident when it came to the nationality of key executives. The same study asked about the nationality of three key executives, the top officer, the head of finance and the head of human resources, asking whether he or she was a host country national, a parent country national or a third country national. The respondents reported that of their top officers, were 60 per cent American, 33 per cent parent country nationals and 8 per cent third country nationals. (When Japanese companies were removed, the numbers were 68 per cent, 22 per cent and 10 per cent, respectively.) Heads of finance were 73 per cent American, 24 per cent parent country nationals and 3 per cent third country. (When Japanese countries were removed, the numbers shifted to 84 per cent, 12 per cent and 4 per cent.) The heads of human resources, meanwhile, were overwhelmingly host country nationals: fully 94 per cent were American, with just 5 per cent parent country nationals and 1 per cent third country nationals. (Removing Japanese companies brought the numbers to 97 per cent, 2 per cent and 1 per cent.) Once again, we find evidence that HRM is the most local of functions: the one most closely shaped by local responsiveness, or isomorphism with the local environment.

Extending the integration–responsiveness framework

After these initial empirical studies, the integration–responsiveness framework was used to probe more deeply into several dimensions of human resource management in MNCs. The dimensions examined included HRM tasks, MNC home country, MNC host country, MNC strategy and level of employee. Some studies looked at just one of these dimensions, while others examined more than one.

Regarding tasks, HRM covers a broad range of elements, which, based on Huselid (1995) can be grouped into the following: (1) recruitment and selection; (2) education and training; (3) job design; (4) labour–management relations; (5) performance appraisal; (6) incentive compensation and benefits; (7) career progression planning. Another scheme organizes HRM into (1) staffing, including recruiting and job selection; (2) training, including technical training and management development; (3) performance evaluation systems, including developmental, results and behavioural measures; (4) compensation, including variable or performance-based plans (Youndt, Snell, Dean & Lepak, 1996). These various elements are analogous to the tasks which, as Bartlett and Ghoshal describe, may respond differently to pressures for global integration and local responsiveness.

In a study of US affiliates of foreign-based MNCs, conducted in 1991, Rosenzweig and Nohria (1994) tested whether HRM practices were closer in their resemblance either to local firms or to the parent firm in its home country. Six practices were identified to represent a range of HRM practices: extent of employee benefits, extent of annual paid time off, extent of variable compensation for managers, extent of participation in executive decision making, gender composition in management and extent of employee training. They found that four of these (paid time off, employee benefits, gender composition and training) were much closer to local practices than to parent country practices, with a statistical significance of $p < 0.0001$. The two remaining practices, variable compensation and participation in executive decision making, were very slightly closer to local practices but not at a statistically significant level.

The close similarity of four practices to local practice very likely reflects the presence of local labour laws, as in the case of paid time off and employee benefits, which may compel the adoption of specific practices (so-called 'coercive isomorphism'), as well as perhaps also very clear local practices – in the case of training and gender participation – which induce the local affiliate to want to adopt local practices (mimetic isomorphism). The remaining two practices pertain largely to executives rather than to the workforce in general, and in these instances any pressure for local isomorphism is offset by a need to achieve consistency within the MNC. In sum, the authors inferred that HRM practices for which there are well-defined local norms, and which affect the rank-and-file of the affiliate organization, were likely to conform most closely to the practices of local competitors, whereas practices for which there are diffuse or poorly defined local norms, or which are seen as being critical to maintaining internal consistency or arriving at critical decisions, were less likely to conform to local norms.

By extension, it is likely that, in a multinational corporation, the forces for integration and responsiveness do not affect all levels equally; and indeed, from a normative standpoint, forging policies that take into account organizational level may be wise. For employees at lower levels of the organization, where the great majority of employees are likely to be local nationals, hired from the local population, working locally, the forces for local responsiveness are likely to be strongest. Elements of HRM should be expected to conform more strongly to local practices for lower-level employees than they do for employees further up the hierarchy. As we move up the hierarchy the relative importance of integration and responsiveness is likely to shift, in part because of a lessening need for local responsiveness, but much more as a reflection of a growing need to manage the workforce as an integrated, coherent whole.

Here the reasons have to do with equity among managers in different countries, as well as the ability to optimize the workforce through career progression and international assignments. MNCs will want to bring about a consistency in outlook and purpose, as described by Bartlett and Ghoshal (1989) as the forging of a shared vision among managers and a common sense of purpose. Moreover MNCs often rely on a strong core of managers, often home-country expatriates, to manage far-flung subsidiaries. Examples include Philips' 'Dutch Mafia', Heineken's Dutch brew managers and cadres of Japanese executives who lead overseas affiliates. Edstrom and Galbraith (1977) note that the use of expatriates is a way to ensure coordination and control. MNCs therefore may feel pressure to bring about consistency in such things as performance appraisal and incentive compensation, as inequities among managers around the world may present obstacles to the smooth flow of managers, thus discouraging much-needed transfers for development and deployment. Deployment of executives, too, can be optimized when there are consistent policies relating to education and development, as well as career assignments. As an example, managers at Colgate-Palmolive were hired locally and spent the first years of their career locally; but if they progressed to a level where they would be sent for key jobs abroad, they shifted from a home-country HRM system and became global employees, with benefits and retirement pension planning that conformed to a worldwide policy. Only 100 or so managers worldwide were part of this programme, and they held the most important positions in key countries as well as the top positions in regional and corporate headquarters. Bringing about consistency in career evaluation, progression and compensation was critical for a smoothly functioning global managerial pool.

Research that was explicitly based in the integration–responsiveness framework, this time based on data from 100 subsidiaries of Japanese, US and European MNCs in Taiwan, was conducted by Hannon, Huang and Jaw (1995). They found that the nature of HR practices was largely shaped by the interaction of two forces: an environmental force including host country pressures, and internal forces that included firm strategy and the parent culture. On the topic of firm strategy, they found support for the typology set out by Jarillo and Martinez (1990) that classified subsidiaries as 'autonomous' (high responsiveness, low integration), 'receptive' (high integration, low responsiveness) or 'active' (high responsiveness and high integration), meaning some degree of autonomy in the host country, but closely coordinated with the rest of the organization. They concluded, 'When a subsidiary is highly dependent on the parent to provide crucial resources, it is common for the MNC to exert control through formal coordination mechanisms and through IHR strategies' (Hannon, Huang & Jaw, 1995: 548–9). The result was an effort to adopt HR strategies that could

lessen the tensions of needing to balance global integration and local responsiveness.

Dowling (1999: 30) argued that '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'. He suggested that the activities of the HRM function are moderated by five elements: cultural environment, industry, extent of reliance on home country or domestic market, attitudes of senior management, and complexity involved. Scullion and Starkey (2000) found support for this claim, noting that MNCs could usefully be typified in terms of their degree of global centralization or decentralization, and that, not surprisingly in centralized/global firms, the corporate HR function played a more active role, undertaking a greater degree of management development, succession and career planning, making key staffing decisions, including the deployment of expatriate managers, and also determining rewards for top managers. Given these differences, they found significant variation in the role played by the corporate HR function in different types of international firms.

The global integration–local responsiveness framework has also been used in the study of European MNCs. Particularly important has been an extensive database of HR practices gathered since the late 1980s by the Cranfield network on European human resource management (Cranet-E). Using this database, Tregaskis *et al.* (2001: 34) asked whether 'foreign subsidiaries act and behave as local firms, or adopt practices that resemble those of the parent'. Examining data on 600 organizations based in the UK and Ireland, they found that MNCs adapt their practices to accommodate local differences: 'Results support the hypotheses proposed, namely that MNCs operating in Ireland and the UK adapt their practices in light of country differences' (*ibid.*: 44). They also found significant differences among HR practices, noting that localization is stronger in 'career traditions' and 'labour market', but that MNCs maintain a more similar internal approach to 'training frameworks': need identification and delivery. Gunnigle *et al.* (2002) also used the Cranet-E database to examine firms in the UK, Ireland, Denmark, Germany and Sweden. They found that subsidiaries of US MNCs in Europe were less localized and used more standardized HRM policies than their European counterparts, suggesting the importance of home country preferences. They also found evidence, consistent with the predictions of institutional theory, that home country influence was reduced as host country regulation increased, forcing MNCs to adhere to local practices.

Finally, the global integration–local responsiveness framework has been used in examining the HR practices of Chinese enterprises (Zhu &

Dowling, 2002). During the Communist era, state-owned enterprises (SOEs) followed Maoist policies of full employment, centralized labour allocation and lifetime tenure. With enormous economic development, including both the stimulation of privately owned Chinese enterprises (POEs) and mushrooming foreign direct investment, leading to the establishment of a large number of Foreign Investment Enterprises (FIEs), a key question is whether HR practices are also experiencing transition. Zhu and Dowling asked whether convergence in staffing practices could be observed in China's industrial enterprises. In particular, they asked: 'To what extent have the staffing practices commonly used in the advanced Western market economy, such as job analysis and selection processes, been adopted by the Chinese industrial enterprises?' (ibid.: 570). Their study of 440 Chinese companies concluded that 'we are witnessing the emergence of a more complex, hybrid management model' (ibid.: 592) with a growing adoption of Western practices, especially within FIEs and POEs, yet with many distinctive features retained from the traditional Chinese model, especially in the SOEs. Once again, we find that thinking in terms of similarity to local practices or adoption of Western management models has been a useful organizing framework.

Assessing the global integration–local responsiveness framework

From the studies reviewed above, it is clear that the global integration–local responsiveness framework has been widely embraced and largely fruitful in the study of MNCs during the 1990s. The basic logic of integration and responsiveness remains widely used to this day, and for good reason, as it resonates with the challenges facing managers in MNCs. It can be used to suggest, among other things, the appropriate design for a complex organization. Galbraith (2000) identifies the so-called 'front–back' organization as one that groups upstream activities organized by business division, and downstream activities organized by geography, so as to take full advantage of the integration benefits upstream while also ensuring local responsiveness downstream. The framework also remains central in discussions of IHRM. Evans, Pucik and Barsoux (2002) explicitly draw on the integration–responsiveness framework to describe the forces that shape the HRM function. They write that achieving an alignment with corporate goals, bringing about a desired standardization of activities, and also achieving specialization of particular affiliates, are all furthered by effective HR policies. Furthermore a key element in achieving global integration is through the use of expatriates, which again relies on effective HR policies. At the same time, the authors note, MNCs must be locally responsive, which calls for the development of local staff through recruitment, training and development, and retention.

As a basic organizing principle, identifying some inherent tradeoffs, the framework has been and is likely to continue to be useful. We should, however, pause to evaluate the record of these empirical studies. In the main, a decade and a half of empirical studies have tended to show two things: first, that the framework is usefully applied at a relatively fine-grained level, isolating patterns that apply, not to the MNC as a whole, nor even to the HRM function, but for different HRM tasks, related to employees at different hierarchical levels, in companies of different strategies, and in host countries with different cultures and regulatory pressures; second, looking across the many studies mentioned above (which do not even constitute an exhaustive list) the general sense is that, while there are statistically significant patterns of difference, they tend mainly to confirm the hypotheses advanced. Put another way, a considerable amount of research has yielded relatively few surprises.

The question, then, is: *What next?* Is the global integration–local responsiveness framework still able to pose the most incisive questions for study, or should we be moving on increasingly to different frameworks? This is not a new question. Indeed, as early as in the mid-1990s, the framework was thought by some to be reaching a point of diminishing returns. (In 1994, I took part in a conference at the University of Michigan, organized by Tom Murtha and C.K. Prahalad, at which the late Gunnar Hedlund voiced some dismay at the ubiquity of the integration–responsiveness framework and asked whether we could not get beyond it. He was not criticizing it for any particular shortcoming, but merely wondering if a reliance on the framework was limiting our research and preventing us from posing new questions.) If it was already a bit stale in the 1990s, could it be that this framework, for all its inherent strengths, runs the risk of being a cliché today, an easy and natural way of conceiving of issues but one which may indeed distract attention from other, more promising, avenues of inquiry?

My sense is that, whereas the global integration–local responsiveness framework remains relevant, and has an intuitive appeal to practitioners and theorists alike, there are diminishing returns to continuing to go over the basic areas of empirical work. Instead, I would hope that fresh thinking might be pursued along a few dimensions, as indicated below.

The link to performance

Almost all studies have been purely descriptive, observing patterns of similarity and difference, whether by nationality or host country environment or by HRM task. Researchers have revealed statistically significant findings based on their testing of hypotheses about these differences. Rarely addressed are underlying performance issues. Do MNCs that allow internal differentiation achieve higher performance? Does erring too far on the

side of integration stifle local initiative or lead to subsidiaries being unable to attract and retain key employees? Does erring too far on the side of local responsiveness lead to fragmentation and chaos? Surely there are some anecdotes to support these claims, but can we show some systematic relationship to performance? There are, naturally, many methodological challenges to studying firm performance, especially at the subsidiary level, and these must not be minimized. Yet if a link to performance can be established, the value of the global integration–local responsiveness framework would get a new breath of life.

Convergence among local environments

We live in an age where host country environments show signs of converging, both because of commercial and cultural interchange, and because of the influence of regional institutions such as the European Union and NAFTA. In the vocabulary of institutional theory, changes in the environments themselves may take place for both mimetic and coercive reasons. Thus the nature of local responsiveness is itself undergoing change, and is surely a topic worthy of study. So far, most empirical treatments have taken local environments as fixed, but to capture their evolution, too, may be a valuable area of inquiry.

Change in ownership patterns

The advent of large scale outsourcing, most recently regarding high-technology jobs to India, as well as contract manufacturing with companies like Flextronics, has opened up an important area of study that fits uneasily in the integration–responsiveness framework. Simply put, the basic variable of interest – the foreign subsidiary or affiliate, with some ownership interest, leading to classification as foreign direct investment – is no longer the inevitable or even most interesting form of organization for global enterprise. While joint ventures have been a major area of study for 20 years, they still constitute FDI. The advent of a myriad of supplier and outsourcing relations raises a further set of questions.

Special attention to China and India

Linked to the preceding point is the enormous influence, growing in the present and of monumental importance in the future, of China and India. China is already one of the great recipients of FDI, which few if any MNCs are prepared to ignore. Yet its scale and industrial policy have already shown it is able to rewrite rules by which companies manage their global activities. It is a good sign that numerous scholars have already focused on China (see, for example, Zhu & Dowling, 2002, mentioned above) and it is to be wished that such efforts continue.

As an enduring and useful way to think about managing MNCs (in all functions, but certainly in the case of IHRM) the global integration–local responsiveness framework is not likely to become obsolete any time soon. It is likely to remain an important organizing principle, valuable both to academics and to practitioners. For it to remain at the forefront of research, however, it would be most useful to see new areas of study along the above four dimensions, and perhaps others. It is to be hoped that researchers will not simply continue to refine an existing framework, but to push it into new areas, and thereby invigorate what has been a valuable means to understand international business.

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4 The human resource department: roles, coordination and influence

Philip Stiles and Jonathan Trevor

There have been many predictions for the future role of the HR department, its role, function and size. The predominant tenor of such calls has been for the HR function to be more strategic and to create value within organizations (Beatty & Schneider, 1997; Beer, 1997; Bennett *et al.*, 1998; Pfeffer, 1994; Ulrich, 1997). HR functions have traditionally come under fire because of their perceived unresponsiveness, their administrative rather than strategic focus and their perceived nature as cost centres rather than wealth creation centres (Truss *et al.*, 2002). In the face of growing internationalization of organizations, the HR function is seen to be a key subunit in the development of capability and the coordination of practice (Ferner, 1997). But, as Pucik (1997: 321) argues, 'paradoxically, in spite of the value adding opportunities for HR contribution to competitive advantage driven by the demands of business globalizations, in many companies today the HR function is still perceived not as a full partner in the globalization process'.

The rise of the resource-based view of the firm and the development of human capital management have given cause for optimism about the future role of HR (Barney, 1991; Ulrich, 1997, 1998; Wright & McMahan, 1992) but, as Hunt and Boxall (1998: 770) argue, 'the dominant view in the international literature is that HR specialists, senior or otherwise, are not typically key players in the development of corporate strategy'. A good deal of research has shown HRM's importance to business performance (Becker *et al.*, 1997; Becker & Huselid, 1998; Huselid, 1995; Schuler, 1990; Ulrich, 1997) but the influence of the HR department within the organization has been less evident. Though Sisson (2001) finds evidence in the Workplace Employee Relations survey (WERS98) to show that HR departments are becoming more strategic than once thought, the weight of evidence suggests that most HR departments play a tactical role, with little consistency in HR interventions (Ulrich, 1998; Purcell & Ahlstrand, 1994; Kochan & Dyer, 1995; Torrington, 1998). This may be because the HR function is subject to a number of ambiguities in its role (Legge, 1978; Purcell & Ahlstrand, 1994). These include a clear distinction between the HR and line; doubts over the professional expertise of HR staff being encroached upon by line and top management; a lack of clarity

over roles and responsibilities; marginality in management decision-making processes, especially at a strategic level; lack of clarity or accountability in specifying the goals, business outcomes or the contribution of the HR function; and tensions in sustaining an ethos of mutuality in the face of the opposing interests between management and employees (Legge, 1978; Storey, 1992; Tyson & Fell, 1986; Watson, 1977).

An additional tension for international HR departments is the requirement to balance the demands for central integration with the need to retain and develop local responsiveness. For HR to work effectively there must be consistency and fairness of practice and delivery, but cultural difference and local market conditions, and legislation, require variation and differentiation (Caliguirri & Stroh, 1994; Martin & Beaumont, 2001; Scullion & Starkey, 2000). Little is known about the way international HR departments organize and structure themselves to meet such challenges. The aim of this chapter is to assess how the HR function operates in multinational companies. Our aim is to examine three major aspects of the international HR function. The first is to explore the roles the HR function is supposed to carry out. Though there are calls for a greater strategic role, we shall argue that such calls should be viewed against a backdrop of ambiguity and tension with other roles the HR department is given. Second, we shall explore the balance between centralization and decentralization. This is held to be the definitive tension within the management of the HR department. Third, we shall examine issues of power within the HR department and how the HR department in international firms attempts to move beyond stereotypes of low departmental power to make claims for greater added value within organizations.

This chapter uses data from two multinational companies to illustrate issues that emerge from the preceding review. In the first case, a Japanese multinational, we draw on extensive empirical work in Japan and China to understand the context of the company, its current state in terms of human resource practices and the structure and capabilities of its human resource department. In all, 40 interviews were conducted at both head office and plant level, with HR corporate managers, HR line managers and line managers included in the sample. The second case is intended by way of comparison, and draws heavily on secondary data to develop a picture of a European multinational's approach to structuring and managing the HR department and its operations in China.

Multinational firms and the HR function

Roles

Reviews of HR department development stress the function's traditional 'personnel' past, where the focus was on administration and industrial/

employee relations issues. The term 'personnel' department seems to date from around 1909 and grew strongly in 1920s, following the industrial welfare movement and the growth of recruitment and selection tests and motivational instruments developed in World War I, as well as the growth of trade unions. The human relations movement provided the rationale for improving workers' conditions and jobs and social environment. The development of system theory encouraged the view that strategy and the management of people could be interlinked and so HR could have wide consequences for the prosperity of the firm. Though this growth in understanding the human resource of organizations has been considerable, the HR department has remained locked into operational and transactional issues until recently (Schuler, 1990; Ulrich, 1997, 1998). A number of scholars have argued that a shift towards greater strategic presence has emerged, however, with an emphasis away from traditional auditing and back-office record keeping, to embrace work on the management teams of businesses, involvement in change and organizational design (Ulrich, 1997; Mohrman, Lawler & McMahan, 1995). However, as Ulrich himself states: 'most assessments of HR roles are wanna be statements made by HR people who "wanna-be" involved, respected and admired by their client' (Connor & Ulrich, 2000).

As with HR functions in traditional organizations, the emphasis in the literature on the MNC HR department is to call for greater attention to the strategic element of the function. Pucik (1997) has argued that increasing internationalization of organizations will lead to a more strategic role for HRM. The enabling of strategy through facilitating change and building capabilities are claimed to be of central importance (Evans *et al.*, 2002), an argument reinforced by the resource-based view of the firm (Barney, 1991). The role of the international corporate HR function in supporting globalizing strategies of MNCs was recognized by Ghoshal and Bartlett (1990), who argued that the recruitment, training and management development of managers was crucial to MNC success. Brewster *et al.* (2002) identified four major roles: talent management, management through global networks, development of intellectual integration through the management of knowledge, and the global e-enablement of HR processes. Scullion's work on international management cadres (1995) also places the development of senior management teams with international experience as a prime responsibility of the corporate HR department. The ability to capture and promote diversity and to have a clear understanding of cultural issues have been seen as key HR disciplines (Pelled, Eisenhardt & Xin, 1999). However there is recognition that such high-profile activities must not be done at the expense of traditional administrative roles and the fostering of traditional technical HR expertise. The e-enablement of HR has been viewed as an

important mechanism to ensure that key administrative tasks and services can be standardized and made available across the businesses, departments and functions of the organization (DeFidelto & Slater, 2001) with some commentators claiming that such enablement can be used at a transformational level as well as at a transactional level (Harris *et al.*, 2002), with the implication that the HR function becomes gatekeeper of what is centralized, what is decentralized and how information and knowledge are transferred from one location to another (Brewster *et al.*, 2002).

Though evidence has been collected to show that HR departments are becoming more strategic around the world (Bowen *et al.*, 2002; Harris *et al.*, 2002), research remains patchy. Bowen *et al.* (2002) provide evidence to show that there is cross-country variation in the status of HR departments across the world, according to national cultural and strategic posture dimensions. Harris *et al.* drawing on CRANET data, state that 'in around half of the organizations in the UK, the personnel manager is a member of the top management team. In Sweden, on the other hand, and even more so in France and Spain, at least three quarters of their organizations have an HR representation on the board. Some countries, such as Germany or those in Central and Eastern Germany, have much lower levels' (2002: 71). It is debatable whether board representation is an accurate proxy for the HR department's strategic influence, nevertheless these data are revealing. However it may be with this aspect of the HR department's role, a number of commentators have urged that the emphasis on the strategic role should not detract from the other putative roles the HR department should play.

The work of Ulrich has been prominently trying to understand the roles of the HR function. He defines four main roles for the HR professional along two axes: strategy versus operations and process (HR tools and systems) versus people. The four roles are (1) strategic partner, (2) administrative expert, (3) employee champion, and (4) change agent (Ulrich, 1997). He argues that human resources are the 'dominant lever for creating value' and that managers, employees, consultants and HR professionals will all work together to achieve this overarching goal (*ibid.*: 42). Ulrich argues that each of the four roles is important and the typology should not be viewed as hierarchical, but though this model has become pervasive, it is heavily prescriptive and seems to gloss over the possibility of conflict between these roles (Caldwell, 2003).

In the literature of international HR departments, Ulrich (1997) has devised a model of HR activities based on degrees on integration and differentiation. On this account, for some HR activities, high integration and high differentiation interventions such as leadership development, would be in the domain of a corporate HR department, whereas low integration and low differentiation interventions, such as payroll or blue-collar

recruitment, would be candidates for outsourcing. In the conceptual middle (moderate integration and differentiation) service centres or centres of excellence could be located, where expertise is brought together in one space to service regions or global operations, often encompassing compensation and benefits, performance management, pensions and benefits (Evans *et al.*, 2002; Ulrich, 1997).

However, typologies such as these suffer from their static nature and 'a reduction of the complexities of organizational behaviour to one or two dimensions' (Edwards *et al.*, 1996: 24), as well as emphasizing a structural determinism. The issue of possible conflict between roles is also pertinent here. Certainly there can be conflict between these roles; for example, moves to become a strategic partner can increase the sense of the HR function as a consultancy role, thus losing much of its traditional power base and influence as an employee champion and administrator. Also the HR department, unlike many organizational subunits, has to contend with multiple objectives and multiple constituencies. As Tsui (2000) argues, the HR department has to serve simultaneously the institutional (advising executives and ensuring compliance with employment law), the instrumental (providing a capable and motivated workforce) and the individual (providing training and development and coaching that enhances individual talent and opportunities). Such multiple objectives and constituencies also make measuring the performance of HR problematic, 'not because of the lack of goals, but because of the presence of multiple objectives that are often divergent and potentially inconsistent' (*ibid.*).

Devolution and coordination

A number of statements of multinational HR operations have stressed the issue of synergy, with vertical and horizontal integration between operating units, or financial control, with the management of business units made on the lines of financial rewards or sanctions (Marginson *et al.*, 1995; Edwards *et al.*, 1996). This reflects work in the strategy field on the issue of parenting styles within multinational organizations (Goold & Campbell, 1987). In this literature, a range of practice between HQ and subsidiary operations is identified, and a threefold classification proposed, reflecting whether the HQ acts as strategic control, strategic planning and financial control, where explicit financial targets and returns are monitored and used as a discipline to ensure subsidiary performance. For the central HR department, adopting an appropriate 'parenting' style with the diverse local HR units is an important consideration. The role of the centre is generally considered to have four elements (Goold & Campbell, 1987): stand-alone influence, linkage influence, influence through central functions and services, and corporate development activities. Stand-alone influence refers

to the involvement the centre has with each individual division, the extent to which it is engaged with agreeing and monitoring performance and budgetary targets and approving major capital expenditures and selecting heads of the division. Linkage influence refers to the centre's creation of value by developing cooperation and synergy between the divisions. The provision of central functions and services is intended to support business effectiveness and bring certain economies of scale. Corporate development activities would include acquisitions, divestments, alliances and new ventures. There are potential downsides to the centre's involvement in these activities and, if practised inappropriately, they can destroy value, for example, in the stand-alone influence role, setting inappropriate targets, misallocating resources; and selecting the wrong partners to head the divisions can be highly counterproductive.

Scullion and Starkey argue that 'corporate HR has a key role to play in the international firm and that this needs to be understood in terms of the dilemmas surrounding the tension between integration/differentiation and . . . learning' (2000: 1063). Within multinational firms, techniques of formalization and centralization are used to provide consistency of practice and to reduce uncertainty and to underpin the legitimacy of the corporate decision making process (Ghoshal & Bartlett, 1990).

A number of HR mechanisms have been suggested as likely to improve control and coordination, in particular strategic global staffing, global task forces and global leadership programmes (Taylor & Beechler, 1993). These integrating mechanisms are intended to develop into the 'soft' structures within global organizations, which function both as informal control monitoring devices and as cocoordinating 'inducers' of subsidiary collaboration and competition for strategic projects (Birkinshaw & Hood, 1999).

Recent work by Sparrow and colleagues (2002) has highlighted three major roles for HR, transactional work, capability development and business development, supported by key delivery mechanisms for HRM such as e-enabling HRM: using new information and communications technology, knowledge management and cost-reduction strategies, and creating centres of excellence to avoid replication and duplication of effort. But these authors and others admit that variation among multinational firms in terms of their HR practice and HR function operation remains, in terms of industry, employee and life cycle effects, but also in terms of the effects of nationality (Bowen *et al.*, 2002; Ferner & Quintanilla, 1998). This later issue, 'the extent to which MNCs take elements of their national "baggage" with them when they operate abroad' (Ferner & Quintanilla, 1998: 710) has been shown to have a clear impact on organizational approaches to managing (Rosenzweig & Nohria, 1994). Japanese firms, for example, 'have been portrayed as global firms that limit the roles of overseas subsidiaries

to the assembly and sale of standardized products designed and developed in Japan' (Whitley *et al.*, 2003: 644). This does not necessarily imply that formal systems and standard policies are apparent and there has been a strong reliance on expatriate managers to ensure tight control with Japanese ways of working (Debroux, 2003; Ferner & Quintantilla, 1998; Whitley *et al.*, 2003).

Power and influence

But though the HR department may want to become more strategic, much depends on issues of power, influence and status to enable this to happen. This theme, however, has received scant attention in the literature. Subunit power has focused on departments other than the HR department. One exception is the study by Galang and Ferris (1997), which examined 242 organizations and concluded that symbolic actions such as espousing values and norms similar to those of senior management and being the embodiment of social values within the firm predicted greater HR departmental power and greater access to organizational resources. 'Hence, merely being present in an organization is not enough; taking an active role may differentiate the more influential HR departments from those who enjoy less power' (*ibid.*: 1418).

Tsui (2000) examined the effectiveness assessments of different constituencies for the influence of HR departments. She found that HR departments used one of two strategies: cooptation was linked to the satisfaction of managers with the performance of the HR unit, and responsiveness was linked to employee satisfactions, both confirming resource dependence theory.

Legge (1978) identified two strategies used by HR departments to increase power and influence: conformist innovation and deviant innovation. In an economic environment characterized by difficult conditions, the conformist innovation strategy is deemed more appropriate, chiefly owing to the absence of slack resources within the organization. Here the personnel specialist 'defines his professionalism in terms of acquiring expertise that will enable him to demonstrate a closer relationship between his activities (means) and organizational success criteria (ends)' (*ibid.*: 79). A deviant innovation strategy is considered more effective in more benign economic circumstances, and represents an opportunity for the personnel manager to extend his or her influence on the organization by influencing organizational strategies and building a different set of criteria for the effectiveness of the organization (Townley, 2004). Conformist HR strategies may focus on HR accounting techniques and manpower planning, whereas a deviant HR strategy may be informed by organizational development programmes and corporate social responsibility considerations (*ibid.*).

In terms of the international HR department, Novicevic and Harvey (2001) argue that explicit norms of control within the businesses of the MNC must be supplemented by informal personnel control: 'To be an effective and relevant actor in a leadership-driven globally diversified organization, the corporate HR has to redefine its traditional role of the bureaucratic administrator or the quasi-strategic partner [of the top management team] and become an effective political "influencer".' The means of influence are cited as global staffing, the development of worldwide competencies and labour bargaining. This prescriptive argument is supported by work by Ferner (2000) who also advocates a political approach to the running of bureaucratic control systems such as HR within MNCs; 'the existence of formal systems does not mean they will be implemented in practice. Systems may operate ineffectually or have fallen into disuse. The exercise of central "will" in the form of the deployment of power resources is required to activate formal systems' (Ferner, 1997: 537).

But as Novicevic and Harvey (2001) argue, such mechanisms are 'not sufficient because, in addition to the explicit internal/external sources of uncertainty in a global organization, there are many latent sources of uncertainty in the decision-making environment' (ibid.: 1255). This political approach stresses the need to show the interlinkage between formal bureaucratic control systems and the informal control dependent on the deployment of power resources. Much depends, Ferner claims, on the 'power of the centre to make things happen [which] has to confront the power of local units to resist or subvert the operations of formal systems' (Ferner, 2000: 537).

This work provides insights into the issues of power and influence, and there seems to be a consensus that the HR department should take on a more active strategic role but is hampered by a number of considerations: 'becoming a strategic partner remains an elusive goal for many HR professionals' (Connor & Ulrich, 2000: 46). Measurement has been cited as one issue (Connor & Ulrich, 2000), involving a lack of clear metrics to show the impact of HR and the HR department. Despite the prevalence of human capital measures and benchmarking techniques, plus the installation of HR scorecards, this remains largely true.

Two case illustrations

In this section we examine evidence from two MNCs, J-Electric and Philips, and consider their HR structure, roles and the management of devolution and coordination.

J-Electric

J-Electric, founded in 1950, has a capitalization of 150.0 billion yen, with net sales in 2002 of 1780.0 billion yen. The company operates in the

electronics and engineering sectors, with chief product categories: electronic devices, industrial and commercial equipment, home appliances and audio-visual equipment. Headquartered in Tokyo, Japan, J-Electric has over a 100 business bases worldwide and employs 65 000 people.

Four SBU groups drive the organization: consumer, commercial, component and services. These business units are supported by a headquarters that provides platform services in finance, research and development, market development and human resources.

The strategy of the firm is to move towards a business model which stresses innovation and 'ideas generation' and away from a standard manufacturing model of incremental product improvement, embracing a much more market and customer-driven approach. The company has ambitious financial growth targets, and is seeking capitalization of regional and global emerging markets, such as digital products and Asia Pacific consumer markets. In difficult conditions, J-Electric is attempting to consolidate its brand and market position in established 'white' goods markets.

J-Electric's presence in China is extensive, with 50 subsidiary and affiliate companies, and all major divisions represented in the country. It is headquartered in Beijing, and employs more than 20 000 people in China. Sales in China in 2004 were worth US\$2000 million. The company entered China in 1986 when China was changing to a market economy. Each division has its own HR department, with a small HR team at each of the factory/manufacturing sites. Budgetary control for HR remains in Japan but otherwise there is almost total discretion for HR practice within each division. However, this discretion is more apparent than real, since the divisions in Japan are run almost exclusively by Japanese expatriates who instil a 'Japanese mindset' including HR processes and practices from Japan.

Philips

Royal Philips Electronics of the Netherlands is Europe's largest electronics company, with sales of EUR 32.3 billion in 2001. Its 184 000 employees in more than 60 countries are active in the areas of lighting, consumer electronics, domestic appliances, components, semiconductors and medical systems (Ghemawat & Nueno, 2003).

Philips is organized into the following divisions: Components, Consumer Electronics, Domestic Appliances, Personal Care (DAP) and Lighting, and five regions, Western Europe, North America, Latin America, Asia Pacific and Eastern Europe. Philips has operations in 60 countries and has service companies in 150 countries (Ghemawat & Nueno, 2003).

Philips' trading record with China stretches back to the 1920s and its investment in 2002 was more than US\$2.5 billion, with sales revenue of

US\$6.7 billion. The company has over 20 manufacturing plants in China and has total employee numbers there of 20 244. Since the expansion of Philips into China, the organization grew to have 22 HR departments in different units and 171 HR staff. The Towards One Philips programme, introduced in late 2001, aimed to reduce this proliferation, and the first step was to set up shared service centres – Philips People Services' (PPS) – to serve all the Philips companies, plants and units in China (Mobley & Fernandez, 2004).

The two cases reveal some differences and also strong similarities between the European and Japanese MNCs in the way the HR function is managed and used to control and coordinate HR practice and knowledge. First, in terms of similarity, in both companies there is a tripartite approach to managing the HR function; corporate HR, line HR and an internal consultancy function, intended to give coverage of both strategic and operational HR to all stakeholders within the organization. These stakeholders are predominantly located in product divisions, to which a large degree of autonomy has been ceded by corporate HQ. But though this structural similarity exists, it masks differences in terms of the relationships between the various parties, and the level of embeddedness within the organization they have achieved.

Within J-Electric, the three-part HR function comprises corporate HR, line HR and a consultancy business, J-Electric HR consulting. The human resources strategy has placed strong emphasis on globalizing J-Electric. As a result of the divisionalization of J-Electric into four product groups, with each division having its own distinctive context and business demands and environmental pressures, responsibility for HR matters is devolved to the divisions, except for a number of core activities, including global staffing, specifying headcount targets, and certain performance management frameworks, in particular the common appraisal scheme. However this has worked only for the Japanese operations of the product divisions. For the country operations, HR has no formal link to Japan at all, save for budget and headcount reporting.

At Philips, the three HR roles are administrative, business and functional. Administrative HR focuses on non-business specific HR processes. The role is performed by shared service centres. The objective is to provide shared services to all the Philips companies, plants and units, centralizing the resources in one place. By centralizing administrative HR services, the shared service centres could lower HR operational costs and improve efficiency. These shared service centres were in recruitment, HR administration, HRIS (HR Information Systems) administration, payroll and benefits administration, relocation, rewards management and people development (Mobley & Fernandez, 2004; Ghemawat & Nueno, 2003).

The business HR role is to concentrate on strategic HR at the division level to align people and businesses. In performing this role, HR will act as a consultant and a business partner to the division management team and help translate business needs into HR solutions. Also business HR supports the execution of business-specific HR policies and programmes, such as performance management, talent management and management development. The business HR personnel are within the product divisions, because all product divisions had different strategies and different positions in the market (Mobley & Fernandez, 2004).

The role of Functional HR is to ensure HR programme excellence and also to ensure that the link between shared services and business HR is effective. This is present at global, regional and country levels: 'The functional HR is to ensure consistency and coherence among global, regional and country HR processes; rewards management, industrial relations, recruitment/employment branding, people development' (company documentation, 2003).

In the case firms, there were different operating assumptions in terms of devolution and coordination. In J-Electric, traditionally, the corporate HR function designed and developed HR practices and systems and it was the responsibility of the groups to implement these as far as possible. But the changes to corporate structure have brought an increasingly more fragmented HR approach, with each division developing its own practices to suit its particular conditions. At Philips, the building block of the One Philips vision is the consistent sharing and streamlining of support functions in IT, finance, purchasing and HR and, wherever possible, sharing internal resources.

At J-Electric the parenting role of HR is minimal. In China, there is a highly fragmented regional structure, with no horizontal integration of practice across the group of Chinese businesses, and vertical integration extends between the individual China-based operation and the Japanese business unit headquarters. There is little or no consistency of practice, with no transfer of knowledge and best practice, and strong duplication of work. For example, there is no common recruitment policy or provider, even for different operations employing the same staff in the same localized labour market. There is also a good deal of inconsistency in practices, such as a high dispersion of pay and working conditions for employees doing work of equal value.

The HR department fulfils the role of personnel administrator rather than strategic partner in China. Employees are considered 'an element of the production process' and there is a highly transactional employment relationship. This is to be expected, given that the business model is low-cost manufacturing and that the basic practices are staffing, grievance,

discipline and dispute resolution, payroll and welfare. The regional centre is on hand to provide HR support and guidance, but, in reality, their services are not called upon. Nor is Japanese corporate HR consulted. In each of the divisions, there is total local management discretion about staffing, contingent on production levels, a highly informal system of appraisal based on supervisor discretion, rewards based on fixed local market rates, and no performance link to pay. Training and development are likewise informally and sporadically run.

At Philips, the world-class HR campaign that led to three distinct roles for HR was rolled out to China. Three shared service centres, one for commercial and two for the industrial group, were set up, and run on a contract basis to the businesses. The business HR groups were located in the product divisions and were responsible for aligning HR with the distinctive context of the particular product division's strategy. The functional HR aim was to standardize processes across regions and countries. The application of intranets allowed greater speed and ease of use with this. Philips created a career centre, e-learning systems, people performance management and a salary automated system, all of which were e-enabled. Continuity and consistency among practices and processes within Philips was therefore a major aim, with coordination tightly managed (Mobley & Fernandez, 2004).

Both companies stressed the need for corporate HR to have strong parenting roles in certain key aspects, primarily through the use of global staffing and global leadership programmes. These linking mechanisms are at different stages of maturity, with J-Electric just initiating, while Philips has had such approaches in place for a number of years. In this scenario, the corporate or global headquarters houses the leadership development effort and local, regional and/or business HR units should cooperate with corporate HR in their efforts to coordinate management development (MD) programmes and to glue the units together.

At J-Electric an internship programme involves the director of J-Electric Human Consulting and colleagues forming networks with major business schools worldwide and selecting strong international potential candidates for the organization. This is the ground work to make J-Electric into 'a truly global' company. Each year 40 interns are selected and brought to Japan to work in various divisions and from these a number are selected and offered job contracts.

The high potential scheme, just launched, identifies the global 1000 high potentials and has a dedicated team which has developed a competency framework and series of assessments to determine high potential within J-Electric.

At Philips, the foundation of the management development process is the Philips Leadership Competencies, a set of common personal characteristics

to be found in leaders, which are needed for outstanding performance. The six competencies define the behaviour that is required to achieve business success. It is implicit that the criteria for management development effectiveness are generally applicable across product divisions (PDs) and countries and are measurable and observable. Management at every level is accountable for recognizing and developing the skills and talents of its employees, the importance of early identification, the structural approach to individual career development and succession planning.

Succession planning takes place across the company, with a strong awareness that managers needed international skills if their career was to progress within the company. In J-Electric, however, the HR department lacks such formal coordination and a clear link to strategy and corporate competitiveness. It also lacks any kind of database or coordinating mechanism to track managerial and leadership talent across the J-Electric group.

In terms of common practices across countries, there is wide variation. At J-Electric, the corporate HR function generates a suite of global practices, called 'global standards', for use in business units, including the performance management system and the pay system, but though the term 'global' is used, in reality these practices do not extend beyond Japan and the corporate HR is given the informal title 'domestic corporate HR'. The corporate HR also seems to lack a coordination process with HR in line, except for twice-yearly meetings, and there seems to be little by way of monitoring whether the businesses are actually implementing these practices/standards correctly. There seem to be few mechanisms for transferring best practice across HR activity, and indeed seemingly little desire on the part of line HR to seek this out. HR in the strategic business units is engaged in support to the line, but, according to the line managers, has variable value. Line HR members are seen to have reasonable expertise and knowledge of the business, but the lack of formal reporting relationships to corporate HR is a key issue in terms of effectiveness.

At Philips, the major programme, One Philips, was intended to transform Philips from a conglomerate into a more homogeneous company. The 'One Philips' idea summarizes what working together as one company entails: leveraging the potential in the enterprise by working together as one global team, sharing knowledge, technology, processes, customers, talent and one brand (Ghemawat & Nueno, 2003).

Discussion and conclusions

The international HR department has much in common with other staff functional units: it aspires to a more strategic role, it has strong claims for its central contribution to organizational success, and it has problems in

terms of power and influence that have seen its de facto role as primarily tactical and often marginalized. We have examined the existing literature on the HR department from three perspectives: its roles, the nature of devolution and coordination that exists within the HR department and its units, and its power and influence.

With respect to the first issue, the strategic role is a complex problem. Despite the welter of prescriptions there is only patchy evidence to suggest that the HR department in international firms is really playing this role. The HR department is a multi-role unit, answering to multiple constituencies (Caldwell, 2003; Tsui, 2000) and so focusing on the strategic role alone cannot reflect the reality of the department's endeavour. Prescriptive notions that suggest that the multiple HR department roles (strategic partner, change agent, administrator, employee champion – Ulrich, 1997; Storey, 1992) are reconcilable and consistent seem wide of the mark; in truth a theoretical position that embraces the notion of tensions or paradoxes or dilemmas seems to be the most accurate reflection of the lived experience of HR professionals (Evans *et al.*, 2002).

The second issue we examined concerned devolution and coordination. The literature here supports a contingency model of HR department approaches to 'fit', depending primarily on strategic posture and national cultural issues. The requirements of integration and differentiation (Ulrich, 1997) have different implications for the international HR department depending upon issues of strategy and synergy and internationalization approach. Even within the same industry and with the same expansion plans, we saw with the two case illustrations that the variation in HR department approaches could be very different indeed. The Japanese model highlights a traditional country-of-origin effect (Ferner & Quintanilla, 1998) with the MNC's pattern of managing its subsidiary one of 'application rather than learning from local institutions and practices' (Whitley *et al.*, 2003: 646). Expatriate managers dominated on the operational side, though in the HR department, this was less so. The autonomy given to local operations of product divisions was high but, in reality, the firm required chiefly low-skilled employees and given labour market conditions, and the need to build commitment amongst employees was low (Debroux, 2003). However, given the importance of China to J-Electric's growth ambitions and their stated aim of increasing the innovative potential of their employees, greater attention is being given to these issues. Within this organization there are signs of movement towards the European MNC in terms of approach and HR department structure and even in terms of coordination. However to understand whether any kind of convergence is taking place more generally would require a study that includes longitudinal dimensions and broader sample of cases.

The third issue, the power and influence of the HR department, has long been a subject of attention, with barely concealed bafflement that, given the recognized importance of human resources for the success of the business, the role of the HR department seems mired in perceptions of ineffectiveness and moribundity. Like most subunits, the HR department suffers through a perceived lack of accountability and problems of measurement or outcomes and, perhaps because of this, a lack of visibility to the organization as a whole, except for delivering routine processes such as payroll and recruitment, or, in the worst case, enforcing redundancy programmes. The importance of the HR department influencing mechanism and how it seeks to build a power base has rarely been examined. Our view is that, for the international HR department, given the issues of coordination and control and the need to build a case for corporate HR that exhibits added value, notions of power and influence are central to understanding the nature of international HR departments (Novicevic & Harvey, 2001; Ferner, 1997, 2000; Galang & Ferris, 1997). A common assertion on the part of organizations is that, for the HR department to get a seat at the strategic table, it must first perform the basic HR practices efficiently and effectively (Gratton *et al.*, 1999). This thought suggests that the way to build power and influence is to secure credibility for delivering HR in a professional manner and to secure understanding of the HR requirements of the organization and its context. The wealth of studies highlighting a gap between the rhetoric and reality of human resource management within organizations indicates that such delivery is problematic in many cases (Watson, 1977, 1986; Guest & King, 2004).

Future research

A simple recommendation would be to call for more research into the HR department period. There is much received wisdom and many myths that surround what the international HR department does (or should do). While much of the HRM literature has focused on the link between HR practices and organizational effectiveness, little attention has been given to the delivery of many HR practices and the designer of HR systems, the HR department. Perhaps this research neglect is a reflection of the traditional low status of the HR department, in which case this is a particularly vicious cycle of neglect.

A related further issue for research is the extent to which isomorphic pressures are driving changes in HR departments in international countries and the need to examine where these influences are experienced and how organizations respond to them. Though a number of articles (for example, Sparrow, Schuler & Jackson, 1994; Von Glinow *et al.*, 2002) have sought to examine whether there is a convergence worldwide around certain HR

practices, the degree to which HR departments are being structured and assigned roles in light of responses to normative or coercive forces remains unknown. Institutional theory has focused on practice adoption, but little on departmental structure convergence, and this may add a fruitful line of inquiry for both theoretical disciplines.

We would support calls to study the power relations within and around HR departments and to examine the enablers and constraints to their influence (Galang & Ferris, 1997). Other support functions, such as IT and finance and marketing, have been subjected to detailed investigation, while HR has remained unattended. For the international HR function to increase its influence, detailed case studies of HR departments, preferably conducted over time, showing the processes of interaction between behavioural dynamics within and around the HR department and the prevailing structural conditions, would be valuable.

Last we would urge the examination of the HR department at multiple levels of analysis. If the HR department serves the organization, group and individual levels (Tsui, 2000), then the interconnections and interactions between these levels should be explored and greater insights found into the roles and effectiveness of the HR department, beyond traditional and rather narrow concerns over strategic contribution (Ostroff & Bowen, 2000).

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5 Comparing HRM policies and practices across geographical borders

Chris Brewster

Comparative Human Resource Management can be distinguished from international human resource management (Boxall, 1995; Harris, Brewster & Sparrow, 2003). International human resource management (IHRM) is concerned with the way that organizations that operate across national borders manage their employees, and increasingly the term is applied to all their employees and not just those who are working internationally (Sparrow, Brewster & Harris, 2004). This is a significantly more complex task than managing human resources in one country (Dowling, 1988), given the dual requirements of systematizing their management processes (global integration) and remaining aware of the differences between countries (local responsiveness), which mean that it is not possible, or rational, to manage people in exactly the same way in different circumstances (Ashkenas *et al.*, 1995; Hamal & Prahalad, 1985; Yip, 1995). Comparative human resource management is about understanding and explaining what differences exist between countries in the way that human resources are managed. Whereas most of the rest of this book is concerned with IHRM, this chapter focuses on comparative human resource management.

Comparison is the method used in social sciences to replace the experiment in the natural sciences. Most studies of HRM take place within one country and their findings relate to that country even if they are often assumed to be universally applicable. International comparisons are not only a good way of checking our assumptions about the systems and practices that operate in HRM, they are also a valuable way of checking our basic assumptions about the meaning and understanding of HRM.

HRM research has been focused on North America and Europe, although many writers have accommodated the Japanese system, and more recently the other 'East Asian Tigers'. Few include the full range even of European systems; other Arab, Asian, South American and African countries have only more recently begun to feature in the literature.¹

It is not possible, even in summary, to avoid 'the danger of lapsing into either vacuous description or superficial comparison' (Shalev, 1980: 40) with any attempt to cover all differences between nation states in their management of human resources; nor is it possible to cover all the elements of

HRM or all the theoretical or practical issues that arise in international comparisons of HRM. This chapter, therefore, has just three aims: to explore some of the assumptions of the universalist approach to HRM; to compare that with the national differences argument (and to examine some of the reasons advanced for there being these national differences); and then to consider whether these differences are diminishing (the convergence thesis) as globalization becomes more widespread.

The universalist model

It has been argued, amongst the 'classic' management theorists, that efficiency imperatives create pressure to identify and adopt a 'one best way' in management, irrespective of cultural or national context (Smith & Meiskins, 1995). Thus Taylor, Barnard, Mayo, Mouton and Blake, among others, were seeking to identify management principles which can be universally employed as 'best practices'. One consequence of the increasing pressures of competition and globalization is a growing need to learn systematically from management practices regarded as the most successful (see, for example, Levitt, 1983; Mueller, 1994) and, given the economic power of the USA, that has tended to be seen as a recipe for following the US models of management. Very similar arguments can be applied to the human resource aspect of management.

And at one level, of course, human resource management (HRM) clearly is universal. Every organization has to utilize and, hence, in some way, to manage, human resources. However HRM practices vary across the world. There are significant differences in the way human resource management is conceptualized, the research traditions through which it is explored and the way HRM is conducted. In conceptual and research terms two different (ideal type) paradigms might be classified as the *universalist* and the *contextual* (Brewster, 1999a, 1999b).² The notion of paradigm is used here in Kuhn's (1970) sense as an accepted model or theory. The corollary is that different researchers may be using competing models or theories.

The *universalist paradigm*, which is dominant in the USA, and is widely used elsewhere, is essentially a nomothetic social science approach. Generalizations of an abstract and lawlike character are created and tested empirically against a 'yes/no' criterion in a way that can lead on to prediction. As in other related areas of the social sciences, the universalist paradigm tends to seek general laws. This paradigm assumes that the purpose of the study of our area of the social sciences, HRM, and in particular strategic human resource management (SHRM); (see, for example, Fombrun, Tichy & Devanna, 1984; Ulrich, 1987; Wright & McMahan, 1992; Wright & Snell, 1991), is to improve the way that human resources are managed strategically within organizations. The ultimate aim of this

work is to improve organizational performance, as judged by its impact on the organization's declared corporate strategy (Tichy, Fombrun & Devanna, 1982; Huselid, 1995), the customer (Ulrich, 1989) or shareholders (Huselid, 1995; Becker & Gerhart, 1996; Becker *et al.*, 1997). 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: 298). Boxall and Purcell (2003) focus on the close link between HRM and business strategies in HRM and even deal with social legitimacy as primarily a firm-level issue. Much of the research base in this paradigm is centred on a small number of private sector 'leading edge' exemplars of 'good practice', often large multinationals, generally from the manufacturing or even specifically the high tech sector.

The value of this paradigm lies in the simplicity of focus and the coalescing of research around this shared objective. It also has a clear relationship with the demands of industry, which often funds such research either directly or indirectly. 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; Legge, 1995; Kochan, 1999).

There is no agreed list of what constitutes 'good' HRM policies and practices. However, in general, there is a coalescing of views around the concept of 'high performance work systems'. These have been characterized 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 organization,
- 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.

Whilst there are 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 US researchers in HRM would find very much to argue with in this list, particularly if they are likely to

label their studies as SHRM. However, in other countries, researchers and practitioners might find such a list contrary to experience and even to what they would conceive of as good practice. Thus they might argue for sharing information with representative bodies such as trade unions or works councils, for flexible work boundaries, for group reward systems. They might argue that the 'low trust' inherent in attitude monitoring, appraisal systems and so on are culturally inappropriate. And they might identify quite different meanings in the term 'careful' recruitment, and others.

Differences in national contexts

This section of the chapter addresses our second issue: the argument for the importance of focusing on national differences in our attempts to understand HRM. This section explores an alternative paradigm for understanding and researching HRM and uses that to critique the relevance of the universalist model outside the USA; examines the problems of researching comparative HRM; identifies some of reasons that have been advanced for those differences; and attempts to draw some messages about understanding these static distinctions before briefly considering time and change as a lead-in to the final section on the concept of convergence.

The contextual paradigm (Brewster, 1999a, 1999b) is idiographic, searching for an overall understanding of what is contextually unique and why. It is focused on understanding what is different between and within management in various contexts and what the antecedents of those differences are. Hence 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 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) are of less interest to contextualists than identifying the way markets and organizations work and what the more typical organizations are doing. This affects, not just the contingencies within which the firm operates, but also our notions of the management process. Clark and Mueller (1996: 126), for example, argue that 'firms are so embedded, constrained and encultured by their national homes that the room for corporate agency and its zones of manoeuvre could be, and perhaps is, rather small'.

Currently a powerful strand in this line of argument is Business Systems Theory, summarized by Whitley (1999) as arguing that specific nations are locked on a particular developmental trajectory reflecting differences in

both institutional configuration and corresponding social agency; these variations are reflected in the role and structuring of firms. Thus, amongst the classical studies of management, Bendix (1956) argues that managerial authority is contingent on the use of ideology; this inevitably varies from context to context and is moulded by the relative extent of government controls and patterns of political decision making. The outcomes reflect predominant cultural dynamics and the specific nature of national class formation. For Whitley (1999) business systems constitute mechanisms and structures for regulating market relations. Whilst, at least partially, they may be backed up by coercive power, they are most visible in shaping, moulding and making possible everyday exchange relationships through imitation and network ties.

Most, perhaps, of the exponents of such theories have tended to work with rather simplistic binary models. Thus Dore (2000) argues that important differences persist between the shareholder-driven Anglo-Saxon model and varieties of capitalism where the rights of owners are circumscribed by the rights of other stakeholders, including employees, customers, suppliers and community. Applebaum *et al.* (2001) argue that the development and persistence of 'high performance work systems' are closely bound up with the regulatory environment. Hall and Soskice (2000) draw a sharp distinction between 'co-ordinated market economies' and 'liberal market' (Anglo-American) ones; the former are reconstituted through systemic checks and balances (see also Lincoln & Kalleberg, 1990; Gooderham *et al.*, 1999).

Whitley's *Business Systems Theory* (1999) is rather more ambitious in seeking to identify a greater number of systemic archetypes, characterized by a wider range of defining features. The book is not coherent or consistent in its analysis, but does go a long way towards reflecting the messy reality of comparative research: the world is not coherent or consistent. Whitley emphasizes the fact that institutional effects comprise both formal regulatory and associated administrative structures (including the state, education and financial systems) and personal ties, attitudes, norms and values. Thus human resource management is explicitly accorded a distinctive role in defining the difference between these systems.

HRM is the aspect of management most subject to local influences (Hendry, 1991; Müller, 1999; Rosenzweig & Nohria, 1994) and the aspect, therefore, where the contextual paradigm is most relevant. What matters to HRM specialists working in this paradigm are explanations – any link to firm performance is secondary. It is assumed that HRM can apply to societies, governments, regions and firms. The focus is more likely to include public sector organizations. There is no necessary assumption that an organization's objectives and strategy will be 'good' either for the organization or for society: indeed 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 organization will be the same, or any expectation that an organization will have a strategy that people within the organization will 'buy into'. The assumption is that not only will the employees and the unions have a different perspective from the management team (Keenoy, 1990; Storey, 1992; Purcell & Ahlstrand, 1994), 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 HRM, are issues for empirical study. This paradigm emphasizes external factors as well as the actions of the management within an organization. Thus it explores the importance of such factors as culture, ownership structures, labour markets, the role of the state and trade union organization as aspects of the subject rather than external influences upon it. The scope of HRM goes beyond the organization 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 legislation or in working with trade unions and tripartite institutions.

It has been argued that the USA is an inappropriate model for Europe (see Brewster, 1993, 1995b; Cox & Cooper, 1985; Pieper, 1990; Thurley & Wirdenius, 1991), for Japan (Dore, 2000; Okazaki-Ward, 1993; Sano, Morishima & Seike, 1997) and for many other countries (see, for example, Kamoche *et al.*, 2004; Budhwar, 2004). The vision of the US models of HRM is culture-bound; in particular a view of HRM as based on the largely unconstrained exercise of managerial autonomy has been attacked as being peculiarly American (Guest, 1990; Brewster, 1995b). In most other places in the world, organizations are not so autonomous. They exist within a system which constrains (or supports) them, at the national level, by culture and by extensive legal and institutional limitations on the nature of the contract of employment and, second, at the organizational level, by patterns of ownership (by the state, by the banking and finance system and by families) which are distinct from those in the USA. The very subject matter of HRM in the contextual paradigm is wider. The firm is less often the focus since more coordinated market systems such as Germany and Japan involve a close linkage between the firm, the educational system, sector-level arrangements for industrial training and public policy. Outside the USA, much research into HRM is located 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 organizations operate. It is worth noting here that there are powerful calls from North Americans for a contextual paradigm to be used in the USA too (see, for example, Schuler & Jackson, 1987; Dyer & Kochan, 1995; Kochan, 1999).

Researching comparative HRM

Comparative research in HRM has been rare (comparative research in the fields of industrial and employment relations, rooted in institutional explanations, has been more common). The main reason for this is that it is difficult. There are, as one recent article (Mayrhofer & Brewster, 2005) put it, 'noble and not so noble' problems: those of conceptualization and the practical difficulties.

Different scientific traditions in methodological and epistemological terms exist across countries. In the Latin countries of continental Europe, for example, there is a long tradition of interpretative research. Struggling with the issue of 'likeness' and equivalence is one of the big topics in international comparative research (Cavusgil & Das, 1997). The same empirical phenomena can be labelled differently in different countries and, vice versa, different things can carry the same labels. Likewise the same data-gathering procedures can yield quite different results. Therefore comparative research 'is concerned with attempting to compare like with like. In international settings this is not an easy task' (Tregaskis *et al.*, 2004: 440). Practically, given the complexity of people from one culture trying to understand differences in other countries, effective comparative research requires the creation and maintenance of international teams of researchers. There are also complex problems of identifying comparable research issues, databases, methodologies and analytical methods (Cavusgil & Das, 1997; Elder, 1976; England & Harpaz, 1983; Mayrhofer, 1998; Sanders, 1994; Sekaran, 1983; Tregaskis *et al.*, 2004). Keeping research teams together over a long time period is particularly difficult, which partly explains why we have such limited data on the crucial issue of convergence.

Nonetheless comparative HRM has experienced a steady growth in research efforts and publications, especially in the last few years. European researchers in particular have made a number of significant contributions to theoretical, empirical and methodological advances in the field of comparative HRM (for example, Brunstein, 1995; Pieper, 1990; Poole, 1990; Gooderham *et al.*, 1999; Brewster, Mayrhofer & Morley, 2004). There have also been important contributions from other parts of the world: in Asia (see, for example, Budhwar, 2004; Zanko, 2002; Zanko & Ngui, 2003), in Africa (Kamoche *et al.*, 2004) and in the developing countries (Budhwar & Debrah, 2001a, 2001b).

Explaining national differences

Inevitably, trying to explain the differences found by this research is complex and difficult. Broadly, two types of explanatory factors have been identified: the cultural and the institutional (Sorge, 2004). The cultural explanatory factors argue that national values are deeply embedded in a

society and, though often invisible to the actors involved, structure the way that 'big questions' (good or bad, decent or indecent, fair or unfair, and so on) are answered. The management of people is an obvious area where these cultural differences come to the fore. The institutional explainer has two strands: one arguing that, as institutions respond to the same features across the world, they will create convergence (the role of MNCs is seen as crucial here); the other arguing that, since most countries have unique institutions, these will create and sustain national differences.

Culturally a distinction has been made between emic and etic approaches (see, for example, Ronen, 1986; Thomas, 1993; Holzmüller, 1995). 'Whereas emics apply in only a particular culture, etics represent universality – they apply to all cultures in the world' (Ronen, 1986: 47). At the most general level, while the empirical data on national cultural differences are limited (see, for example, Hofstede, 1980, 1991, 2001; House *et al.*, 2004; Schwartz, 1992, 1994), they do demonstrate considerable diversity. Cultural differences have a direct impact on HRM. It does not require much experience of international travel and particularly international work to understand that the way people respond to authority, the way they relate to their peers, the impact of gender and the importance of face-to-face contact, to mention just a few items, vary considerably from country to country.

Critiques of this literature would point to the limited databases used, the static nature of the evidence and in particular to the (con)fusion of culture and country. There are countries in the Arab world, and in Africa, for example, where the boundaries have been drawn only recently and cut across traditional boundaries. There are countries as different as Switzerland and India, which include several different linguistic, religious and national groupings. A fascinating recent study of the bicultural state of Belgium (Buyens *et al.*, 2004) concluded that, in some of the HR practices, the two communities (French Catholics and Flemish-speaking Protestants) are very close together, whilst in others the French-speaking region is closer to France and the Flemish-speaking region to the Netherlands.

At the institutional level, a wide range of institutions affects HRM. Institutions represent 'a system of patterned expectations defining the proper behaviour of persons playing particular roles' (Parsons, 1951). Business systems theory takes as fundamental the view that it is nationally based institutions that make the difference. Institutions such as the educational system, the labour market, macroeconomic policy making by government, employment legislation and trade unions are nearly always national (with a few exceptions amongst, for example, employment legislation in the European Union and US/Canadian and UK/Irish unions). In most countries, mechanisms for determining basic pay and conditions of employment continue to operate primarily at the national level. Two significant

institutional variations between countries lie, first, in the persistent centrality of state power (cf. Burnell, 2003: 247; Traxler, Blaschke & Kittel, 2001), with its associated formal regulatory structures and, second, in patterns of ownership (Brewster, 1993). Public ownership, which links the two, has decreased to some extent in many European countries in recent years; but here as around the world it is still far more widespread than in the USA.

These two explanators are not necessarily mutually exclusive. Organizations are not completely (or even in some cases, very) rational. Issues of history and personality play a great part. Of course, just as individual behaviour and social structure are reciprocally constituted (Giddens, 1986), so are cultures and institutions. Thus the culturalists point out that institutions within a state will reflect the culture of that territory; and institutionalists tend to include national culture as an institution. The conclusion must be that 'both institutional and cultural dimensions . . . have an important impact on HRM practices in different countries' (Romani, 2004: 163). Institutional configurations are, anyway, nested at a range of levels from subregional to transnational (cf. Hollingsworth & Boyer, 1997b) so that it is unsurprising that elements of HRM operate at each level.

A major critique of both the cultural and institutional literature (though particularly the cultural texts) is that, generally, it takes no account of change over time. Indeed, as indicated in the section above on research difficulties, many articles either supporting or, particularly, opposing convergence take their evidence from one time point, which, simply logically, cannot provide any data on the presence or absence of convergence. Equally much of the discussion on convergence is theoretical and prescriptive and lacks time series evidence.

But situations do change over time: and sometimes at a quite fundamental level. For example, a recent study of managers in Hong Kong found that, not only did their work values differ from those of other territories, but these values changed over time according to economic and political circumstances. On a wider and more general scale, the contribution of HRM practices to the success of the Japanese economy during the 1970s and 1980s (Inohara, 1990), which was presented as an inspirational role-model (Ouchi, 1981; Peters & Waterman, 1982), is now less often perceived as being worth learning from (Smith, 1997; Yoshimura & Anderson, 1997).

This raises the questions of time and change. An overemphasis on comparative national differences is in danger of becoming a purely static analysis, unable to cope with change over time. In particular it raises the question of convergence (and, by implication, divergence and stasis). If the Japanese model has fallen out of favour, are we moving towards the US models, or towards some other alternatives, or is each country continuing to go its own way?

Evidence of convergence?

This third section of the chapter explores (necessarily briefly) the concept of convergence in HRM policies and practices around the world. Convergence is the process of structures, practices and values in different countries, in this case, becoming more similar. The concept accepts the fact that policies and practices are different, but argues that these differences are being, or will be, decreased. Are the differences between countries being reduced as the pressures to conform become stronger; and, if so, what are they converging towards?

Convergence and non-convergence in the management literature

Many of the seminal management and, specifically, HRM texts are written as if the analysis applies at all levels: what Rose (1991) has called 'false universalism'. The early management theorists were generally clear that practice in all countries would converge towards the most efficient model. Powerful market forces ensure that more productive firms with lower costs will be successful and in a process of organizational evolution others will be driven to copy them to survive. Given the power of the US economy, this 'was, after all, premised on the rest of the world copying the US' (Smith & Meiskins, 1995: 244). Authors who focus on the importance of learning from best practice in order to increase national competitiveness are more positive about cross-national convergence (see, for example, Child & Kieser, 1979; Hannerz, 1996; Tomlinson, 1999; Toynbee, 2001). An institutional version of this theory (sometimes termed the 'North-American phenomenological neo-institutionalism' – Djelic & Bensedrine, 2001) argues that institutions reflect power relationships and so there will be coercive pressure to ensure that similar structures and practices are adopted throughout the world (such as the deregulation 'strings' typically tied to IMF loans to underdeveloped countries). It has been argued that one effect of this global institutional isomorphism is that the role of nation states becomes less significant (Meyer, 2000). Normative pressures (from professional bodies, international associations and the growing internationalization of executive education) and cognitive isomorphism (as international organizations attempt to spread their policies and cultures around the world) are reinforcing this trend (DiMaggio & Powell, 1983). More recently, 'transaction cost theorists argue that there is one best organizational form for firms that have similar or identical transaction costs' (Hollingsworth & Boyer, 1997b:34; see also Scott, 1995).

An alternative version of the institutional analysis sees room for regional convergence. For example, there are developments at the level of the European Union which have an impact upon all organizations in Europe. In a historically unique experiment, European Union countries have

agreed to subordinate national legislative decision making to European-level legislation. These developments have indirect effects upon business and management through their effects on the market and economy of the region and direct effects through the EU's adoption of legislation supporting and constraining businesses. Thus this strand of the debate would see convergence, not on a worldwide basis, but rather towards different regional groupings based on the developing regional institutions.³ The European Union, where these institutions are far stronger than they are in any other regional bloc, is a test case and may create a convergence towards a distinctly European practice – different from the market convergence model.

A different view is, of course, taken by those authors who stress the embeddedness of management in its national cultural and institutional context. They see little room for convergence. This view may be based upon an institutionalist perspective, in which organizational choice is limited by institutional pressures, including the state, regulatory structures, interest groups, public opinion and norms (DiMaggio & Powell, 1983; Meyer & Rowan, 1983; Oliver, 1991; Hollingsworth & Boyer, 1997a). Or it may be based on the notion that cultural differences mean that the management of organizations (and particularly of people) is, and will remain, fundamentally different from country to country. National differences in ownership, structures, educational systems and laws all have a significant effect on the architecture and the practices of employing organizations.

These are non-convergence rather than divergence theorists. They argue, not that countries are getting further apart in their management policies and practices, but that, since national, and in some cases regional, cultures and institutional contexts are slow to change, they are unlikely to move together either. They argue that change is path-dependent. In other words, even when change does occur this can only be understood in relation to the specific social context in which it occurs (Maurice *et al.*, 1986; Poole, 1986). The goals of business leaders in different countries might be quite distinct (Hofstede *et al.*, 2002) so there seems little reason to expect that their behaviours would be becoming increasingly alike. Performance criteria or goals are, at any point in time, socially rather than economically or technologically selected, so that they reflect primarily the national culture and the idiosyncratic principles of local rationality.

Convergence and non-convergence in the HR literature

Similar arguments have been applied to HRM. The universalists tend to be also convergers and often assume that the convergence will be towards the US pattern. Müller (1999: 126) argues that the American concept of HRM 'has emerged as one of the most important prescriptions for

a world-wide convergence of managerial practices'. There are signs of policies of deregulation and decontrol of labour markets, for example, spreading from the USA to Europe (Locke *et al.*, 1995) and signs too that this is spreading to other countries. The world financial institutions often make deregulation of the labour market, for example, a condition of their loans (Stiglitz, 2002). The ILO has sought to spread collective bargaining systems throughout the former socialist Central and Eastern Europe states (Martin & Bamber, 2004). In the business world, MNCs attempt to create global human resource strategies, with sophisticated policies and practices rolled out internationally, policed by a central human resource function (Brewster, Sparrow & Harris, 2005; Dowling, Welch & Schuler, 1999; Ferner & Quintanilla, 1998; Sparrow, Harris & Brewster, 2004). It is argued that human resource management is a dependent variable that evolves in response to technological and economic change, rather than with reference to the sociopolitical context, so that 'much of what happens to management and labor is the same regardless of auspices' (Kerr, 1983).

In HRM too there is a regional version of convergence, perhaps, at least in the European case, more persuasive than in the general management context, given the attention that the European Union pays to social issues. Thus some researchers see the current economic and political integration of European Union countries reflected in a convergence towards a distinctly European practice (Due, Madsen & Jensen, 1991). This concept would see regional convergence, but not global convergence, potentially generating a 'European' model of HRM (Brewster, 1995b).

As with the more general management literature, there is a stream of writers on HRM who emphasize national differences. Indeed it seems that human resource management is increasingly acknowledged to be one of the areas where organizations are most likely to maintain a 'national flavour' and is the point at which business and national cultures have the sharpest interface. A number of studies show the differences between various aspects of HRM in European countries (for example, Pieper, 1990; Vickerstaff, 1992; Brunstein, 1995; Brewster, Mayrhofer & Morley, 2004). A large survey of HR directors of the biggest firms in Germany, the USA and Japan (Pudelko, 2000) found that 'statistically significant differences between the three countries can be reported in 57 out of 80' HR issues. There is recent evidence that, even in the most centralized MNCs, forms of control (Harzing & Sorge, 2003), work systems (Geppart, Williams & Matten, 2003) and teamwork (Woywode, 2002) vary by country and that, in practice, the form of implementation of 'worldwide' policies is negotiated or varied at national level (Ferner, 1997; Wächter *et al.*, 2003). Industrial relations theory, in particular (as Martin & Bamber, 2004, point

out) has maintained a national focus, with limited comparative work (though see, for example, Bamber & Lansbury, 1998; Katz & Darbshire, 2000; Traxler, Blaschke & Kittel, 2001) and almost no international versions. However some authors here have found evidence, not just that these countries are different, but that they stay different over time: non-convergence. Traxler and colleagues, for example, note that, between 1980 and 1996, the coverage of collective bargaining increased in five countries (Finland, France, the Netherlands, Portugal and Spain), declined in five (Australia, Britain, Germany, Japan and the USA), stayed the same in two (Belgium and Sweden), with incomplete data for three (Austria, Canada and Denmark) (Traxler, Blaschke & Kittel, 2001: 197).

Another look at the convergence debate in HRM

The situation is, inevitably, complex. And the evidence can be selected to suit almost any position. As Piore and Sabel (1984) observed, some aspects of industrial societies tend to converge, whilst others diverge, depending upon time and circumstances. Objective and transnational institutions and associated cultural forces do not have simple homogenizing effects; they are reshaped, resisted and redeployed by the socially embedded processes of the host locale (Comaroff & Comaroff, 2001: 14). Global market forces are moulded and ameliorated by the strengths and homogeneity of institutional configurations (D'Aunno *et al.*, 2000: 680). Equally, national business systems are subject to the pressures of isomorphism. It is no surprise that elements of both convergence and divergence can be seen in most areas of management. In HRM, the convergence–divergence debate tends to assume that the HRM system as a whole has to converge or remain divergent. An alternative approach would be to consider whether some parts of the overall HR system might be converging, in some regions or geographies, whilst other parts might be diverging. Moreover, since HR operates at multiple levels including philosophy, policy, programme, practice and process (Schuler, 1992) there might be convergence at one level but divergence at another, even within one firm, never mind between nations.

We might also examine the notion of convergence itself. The meaning most commonly assumed in the literature (even if rarely stated explicitly) is of movement leading to greater similarity. At the comparative national level of HRM this would mean countries becoming more like each other in the way that they manage their human resources. Much of the evidence that is adduced for this, however (found in the literature cited above), comes either from a single point in time, or from the identification of similar trends across countries. Logically these cannot prove movement towards greater similarity. An attempt has been made, therefore, to disaggregate the notion of convergence in comparative HRM so that we can consider three

forms of convergence (Mayrhofer *et al.*, 2002). These forms are ‘directional convergence’ in which the trends tend in the same direction (but different starting points may mean that countries remain parallel, staying in the same relationship to each other, or even diverging somewhat); final convergence, where the practice of HRM in these countries becomes more similar (even though that might, on occasion, mean that different countries are heading in different directions); and ‘majority convergence’ where organizations within one country become more alike (again, perhaps by some heading in opposite directions to others).

The best evidence that we have on convergence comes from the European part of the repeating Cranet studies (see Brewster, Mayrhofer & Morley, 2004). Indeed there are significant differences between the countries in all major functional areas of HRM. There is little room here to go into detail, or to explore the many caveats that are necessary, but Table 5.1 indicates the range of practice in Europe for a few chosen HR domains. The table illustrates a remarkable degree of difference: what is widespread or standard practice in one country plays much less of a role in others.

*Table 5.1 Range of selected HRM practices in Europe
(percentage of organizations, 1999/2000)*

	EU average	Highest	Lowest
Formal representation of HR function at the highest board	54.5	88.2 (F)	29.9 (P)
Involved in development of corporate strategy from the outset	58.1	72.0	43.5
Internal recruitment of senior management	52.0	65.9 (GR)	7.0 (DK)
>10% of workforce on part-time contracts	24.9	63.3 (NL)	2.3 (P)
No part-timers employed	7.4	68.7 (P)	0 (NL)
Proportion of annual salaries bill spent on training & development			
<1%	12.9	26.3 (I)	0.3 (F)
1–1.9%	27.3	42.0 (E)	7.8 (F)
2–2.9%	20.1	31.2 (DK)	12.1 (P)
3–4.9 %	19.4	37.5 (F)	9.6 (E)
5–9.9%	15.6	31.1 (F)	1.8 (I)
>10%	4.9	9.3 (P)	1.5 (FIN)

Note: F = France; P = Portugal; GR = Greece; DK = Denmark; NL = Netherlands; I = Italy; E = Spain; FIN = Finland.

Source: Mayrhofer and Brewster (2005).

Table 5.2 *Change in selected HRM practices in Europe
(percentage of organizations, 1999/2000)*

Formal representation of HR on board	1991	1995	1999/2000
Spain	86	75	75
France	86	82	87
Germany	30*	42	46
Sweden	89	80	79
UK	50	52	47
>10% workforce on part-time contracts			
	1991	1995	1999/2000
Spain	5	5	11
France	13	26	17
Germany	22*	31	21
Sweden	43	43	38
UK	25	22	31

Note: * West Germany only.

Over time the pattern is that HRM in these countries tends not to change very much and that countries tend to hold their position in relation to each other. Table 5.2 gives two examples. The role of HRM at board (or equivalent) level changes very little and the countries retain their positions, with the single exception of a clear trend in Germany towards more organizations having an HR director on the board. A completely different example, the number of companies with more than 10 per cent of their workforce on part-time contracts, shows more fluctuation, but less sign of any obvious pattern or trend.

These examples could be multiplied, but overall there are consistent developments towards *directional* convergence in Europe to be found in four areas: decreases in the size of the HR department relative to the overall workforce, small rises in the percentage of the annual salaries bill spent on training (which, of course, may reflect a growing disparity between wage growth and the growing costs of training rather than a 'real' growth in the amount of training), increases in the amount of information being given to employees about company strategy and financial performance, and a more frequent use of contingent compensation systems. This was termed strong evidence of directional convergence. (In other areas of HRM, such as the use of flexible work arrangements, the level at which the HR policy is determined and the responsibility shift from HR departments to line managers, the evidence is mixed or rather weak.) It would seem that, where economic

necessities, institutional requirements and/or management folklore point in the same direction, a more or less consistent trend could be seen. Good examples of this may be the reduction in the comparative size of the HR department or the increasing amount of money spent on training and development.

In terms of *final* convergence, however, the overall evidence, for all the HR practices analysed, is unequivocal: there is no trend towards final convergence. Moreover the data show a relatively constant picture throughout the 1990s. This should be an antidote to the 'change frenzy' that has infiltrated much of scientific and practitioner-oriented writing about HRM. The combination of the heterogeneity of national differences and this stability adds a further weapon to the critique of 'ultimate solutions' and 'best practices' that are supposed to lead inevitably to organizational success and related models (Marchington & Grugulis, 2000).

In general, it seems clear that we need a more nuanced view of convergence in HRM policies and practices than has been apparent hitherto. Manifestly there are differences between countries and, while things appear to change slowly in HRM, there seems to be at least some clear indication of directional convergence in some areas. However, looking at final convergence, it is obvious that the country recipe remains very powerful. HRM varies by country, sector and size of organization, by subjects within the generic topic of HRM, and by the nature of the organization (life-stage, governance, market and so on). And we need to separate the policy intentions of those at the top of organizations from practice on the ground. Overall, however, the internationally comparative dimension of HRM is one that is demanding ever more attention from practitioners as they strive to cope with globalization: researchers are increasingly paying comparative HRM the same attention.

Conclusions

Adding a comparative dimension to HRM adds a further level of complexity. Simplistic notions of similarity or difference, of cultural or institutional explanations for the differences, of convergence or non-convergence, are simply inadequate. Simplifying complexity so that we can see some of the patterns in social activity is an important tool for the social sciences but we also have to remember the complexity and factor it back in when we try to understand the significance of what actors are doing. In HRM in particular, because our subject concerns the social actors, there is a continual tension between the isomorphic pressures for similarity and the local resistance to such pressures: in both cases, perhaps, mostly invisible to those involved. Through deliberate delay or obfuscation, through genuine misunderstanding or through well-intentioned actions that, in a different

context, have different consequences, what is proposed from the centre of an organization rarely looks the same at the local level. When getting to the local level involves crossing national boundaries, the problem for the centre is exacerbated.

In each of these dichotomies, there is sufficient evidence for the committed to come down firmly on one side or the other, but the impartial observer will note that, whilst strictures and structures may tend towards commonality, values and practices probably remain fundamentally local.

There is a rich research agenda here. In many areas of comparative HRM we lack adequate theory to explain the complexity of the differences between the meaning, policies and practices of HRM in different countries. There are many countries in the world about which we still have little information; and in many cases the information we have is stereotyped, inadequate or non-comparable. At this point in our knowledge we still need the deep, but narrow, understanding of meaning and process that can be provided by detailed comparative case studies; the wide, but shallow, evidential base that large-scale surveys can bring; and the further exploration of the secondary data provided by governments and international organizations. And if our evidence about and understanding of national differences remains a research gap, there is a research chasm in developments over time that can only be filled by longitudinal research.

Although comparative and international HRM are distinct fields of study, the increasing reliance on strategic partnerships and joint ventures, coupled with a trend towards localization, has made the need to understand how HRM is delivered in different country contexts more important. Consequently there has been a degree of convergence in thinking between the comparative and international HRM fields (Budhwar & Sparrow, 2002). The future task will be, perhaps, to define an integrated theory covering both fields.

Notes

1. For good introductions to these less studied areas, see the stream of books in the Routledge Global Human Resource Management series. Other useful texts are, on Asia, Zanko (2002) and Zanko and Ngui (2003) and, on Africa, Debrah (2002) and Jackson (2002).
2. This notion of paradigms has been applied to HRM elsewhere (Wright & McMahan, 1992) and given similar but slightly different terminology and meaning, e.g., 'universalism/contingency' (Delery & Doty, 1996); 'culture-free/culture-bound' (Lammers & Hickson, 1979) and 'universalism/institutionalism' (Smith & Meiskins, 1995).
3. For attempts to summarize the differences between the North American and European models, see Brewster, 1995a, 1995b; Pudelko, 2000. In general, such comparisons are blighted by a lack of comparable evidence. For an attempt to summarize the regional blocs within Europe, see Brewster, 2005; Mayrhofer & Brewster, 2005; Ignjatovic & Sveltic, 2003.

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6 International human resource management and firm performance

Jaap Paauwe and Elaine Farndale

As interest has grown in the strategic dimension of human resource management (HRM), there has been an increasing desire to relate aspects of people management with firm performance. Particularly over the last decade, many popular articles and books appeared on this topic, exploring how organizations can achieve competitive advantage through their people (for a full overview, see Paauwe, 2004). In this chapter we will focus both on the HRM and firm performance relationship in general and on the specifics of the relationship in the context of multinational corporations (MNCs). We broadly take an institutional theory perspective to address issues that arise owing to the diversity of contexts in which MNCs are operating, which include different meanings of the concept of firm performance, and potentially different outcomes of HRM policies and practices.

The starting point for much of the work in the area of HRM and firm performance was an article by Huselid (1995) which appeared in the highly acclaimed *Academy of Management Journal*, arguing that high performance work practices are linked with increased sales and market value per employee for the firm. Equally the work by Pfeffer (1994, 1998) was influential in identifying so-called 'best practices' in HRM argued to contribute towards achieving sustained competitive advantage. Empirical work in this area has continued on both sides of the Atlantic since (see, for example, Boselie, 2002; Fey & Björkman, 2001; Guest & Peccei, 1994; Laroche, 2001; Wright & Gardner, 2001).

As this body of literature has grown, increasing attention has been paid to producing measurable outcomes of HRM practices in terms of firm performance, particularly in the USA-based literature. The academic interest in the relationship between HRM and firm performance has been paralleled by a more practitioner and consultancy inspired approach towards the development of metrics in order to establish the added value of HRM interventions. We have thus witnessed in the last decade growing interest in balanced scorecard techniques applied to HRM (see, for example, Becker *et al.*, 2001; Paauwe, 2004, ch.9; for an overview of related techniques and approaches).

Many of the early studies in the field of HRM and performance were based on work carried out in the USA. Only gradually were studies also

carried out, firstly, in the United Kingdom and, later, in other countries across mainland Europe. As this geographical spread occurred, questions were raised about the extent to which there are actually HRM 'best practices' which firms can adopt to improve firm performance. Commentators started to ask why all firms should not have these identical best practice systems in place, especially in different countries around the world. This also raises the issue of firms adopting particular HRM practices beyond considerations of anticipated financial performance outcomes. Hence discussions emerged developing a distinction between universalistic, contingency and configurational approaches to HRM (Delery & Doty, 1996), a significant development which we will discuss in detail in this chapter.

Alongside the generic discussions of relationships between HRM and firm performance and how to measure this linkage, there are also more specific discussions relevant to the international HRM context and particularly to HRM and MNC performance. Little empirical work has as yet been carried out in this field (Park *et al.*, 2003). In this chapter, we develop the argument for a contingency model to analyse the link between HRM and firm performance in MNCs. We raise questions regarding the extent to which MNCs can and do adopt HRM best practices, and the extent to which the practices they do adopt are constrained by corporate, national and local considerations.

In summary, the chapter starts with an overview of the extant literature on HRM and firm performance, looking at the different models or lenses we can use to explore this relationship. Here we cover in depth the debate between 'best practice' and 'best fit' models of HRM and firm performance. We then raise some of the methodological challenges still outstanding in the HRM and firm performance literature which affect our interpretation of the linkage. In the following section we introduce the Contextually Based Human Resource Theory. This theory builds on previous models and addresses the factors we need to consider when exploring the linkage between HRM and firm performance in an international context. The chapter concludes by dealing with the concepts of leeway and strategic choice in order to highlight the room for manoeuvre within international organizations for creating optimal links between HRM and firm performance.

Relating HRM to firm performance

High firm performance is reliant on achieving (sustainable) competitive advantage, which, according to Pfeffer (1995) comprises three elements: it distinguishes an organization from its competitors; it provides an organization with positive economic benefits; and it is something that is not readily duplicated by other organizations. This definition is built upon a

resource-based view (RBV) of the firm, as is Huselid's (1995) seminal work on HRM and firm performance. This resource-based view emphasizes the effective and efficient utilization of organizational resources to achieve sustainable competitive advantage (Barney, 1991). This can only be achieved when the resources available are valuable, rare, imperfectly imitable and imperfectly substitutable – such as an organization's human resources (Huselid, 1995; Paauwe, 1994; Wright *et al.*, 1994).

Despite the overall desired outcome of competitive advantage, there are multiple ways of exploring the relationship between HRM practices and firm performance. These depend on what factors are considered important in the relationship and the causal link then created between these factors. One framework provided by Delery and Doty (1996) is a useful starting point for this discussion, as they distinguish between three categories of extant models in this field: *universalistic*, *contingency* and *configurational* models.

Universalistic models relate to the concept of 'best practice': there is one best way of performing a certain process in order to achieve maximum economic gain for the organization. This approach makes three assumptions: a linear relationship between HRM practices and organizational performance; best practices being universally applicable and useful; and firm performance being best measured through financial performance, such as profit, market share and sales levels (Paauwe, 2004: 53). As we have seen, this model is usually grounded in the resource-based view of the firm. Osterman (1994), Pfeffer (1994) and Huselid (1995) are examples of commentators taking this perspective, arguing that their models will produce superior performance across all types of organization.

In contrast, the contingency model suggests that relationships between individual independent HRM practice variables and dependent firm performance variables will be modified by other variables, predominantly company strategy (Delery & Doty, 1996: 807). Delery and Doty cite Schuler and Jackson (1987) and Gómez-Meija and Balkin (1992) as examples of this stream. Boselie *et al.* (2005) review of the literature in this area highlighted other significant contingency factors as being industry and firm size. Other factors may also include firm age, degree of unionization, capital intensity, geographical location, local demographics and technology. Particularly on an international scale, the different business systems and cultures of different countries are said to have an impact on both the specific combination and outcomes of HRM practices (Whitley, 1992). This contingency approach aligns itself closely with neoinstitutional theory, as we shall discuss further below.

The configurational model focuses on the bundling together of HRM practices in order to maximize firm performance. Whereas the contingency

model looks at the way individual independent variables are related to the firm performance dependent variable, the configurational model is concerned with how the pattern of multiple independent variables is related to the dependent variable. For example, Arthur's (1994) control and commitment HRM systems are based on the idea that the closer an organization's HR practices resemble the correct prototypical system (for its business strategy) the greater the performance gains. HRM practices are thus seen as affecting firm performance not individually, but as interrelated elements in an internally consistent bundle or system of HRM practices (MacDuffie, 1995). However there is no single best configuration of HRM practice bundles: multiple unique configurations are capable of maximizing firm performance (Delery & Doty, 1996). The configurations used in this kind of research are very often ideal types rather than empirically observable phenomena. Also, in addition to achieving the synergistic internal fit between HRM practices within an HRM system, the overall system must be congruent with other organizational systems such as management accounting systems as well as organizational culture (Paauwe, 2004: 54).

Most existing studies exploring the link between HRM practices and firm performance have been carried out in a domestic setting, predominantly in the USA. Many of the studies that do look beyond national boundaries from a US perspective have largely explored the extent to which HRM best practice is being adopted. MNCs are argued to attempt to apply the management practices they are most familiar with or which appear to promise high returns in performance, regardless of the location of their subsidiary (Gooderham & Nordhaug, 2003). Although this approach can address the issue of strategic fit within multinational organizations by aligning practices internally, this can raise problems for environmental fit owing to operating in multiple businesses in multiple countries.

The idea of universalistic best practice is often associated with high performance work systems (HPWS) and the Japanese management practices of the 1980s, which companies elsewhere were encouraged to adopt to create lean and agile manufacturing systems (McCurry & McIvor, 2002). The characteristics of these systems were linked with four core HRM practices: employee development; flexible job design in terms of employee participation and teamwork; incentive-based payment systems; and investment in recruitment and selection (Boxall & Purcell, 2003; Boselie *et al.*, 2005). These practices became accepted amongst manufacturing companies as appropriate practices to adopt in order to improve firm performance. Empirical studies explored the transfer of these employment practices and found that US manufacturers that adopted a full system of innovative Japanese HRM practices achieved higher levels of productivity and quality than those manufacturers who only adopted certain individual practices

(Ichniowski & Shaw, 1999; Park *et al.*, 2003). However the number of US manufacturers found to be adopting full systems of Japanese HRM best practice remained minimal; this would imply that there are factors other than pure anticipated performance outcomes affecting the choice of HRM practices.

In general, we have thus seen a predominance of universalistic models in domestic empirical studies, and a scarcity of studies considering the contingency or control variables relevant to the HRM and firm performance literature (Björkman & Xiucheng, 2002). Although such variables are sometimes included, their relevance is often played down. When considering the added complexity of the international context of multinational corporations, this highlights a shortfall in empirical studies to date.

There are, however, some examples of studies focusing on the contingency perspective. Fey and Björkman's (2001) study, looking at the link between HRM and firm performance in a US MNC with subsidiaries based in Russia, emphasizes differences in national culture between the two countries. These include the stronger hierarchy in Russia, less willingness to share information and higher levels of employee–management mistrust. Although some support was found for previous domestic-setting findings linking HRM practices to firm performance, they conclude that specific bundles of practices aimed at specific categories of staff in Russian subsidiaries show the strongest links with firm performance, rather than a universal application of HRM best practices across all staff in all subsidiaries regardless of country location.

Some studies have considered the exogenous factors influencing the adoption of HRM practices which are then argued to lead to a certain level of firm performance. For example, Ten Have (1993) emphasizes the prescriptive and prohibitive influences in an organization's environment (such as legislation and collective agreements) restricting management's choice in the adoption of HRM policies and practices. This has led to a lack of fit between HRM practice and overall corporate strategy; however this lack of fit was not found to have an effect on firm performance. Despite Huselid's (1995) arguments emphasizing the need for vertical fit between HRM and strategy, as yet there is thus no conclusive empirical proof of this necessity to maximize firm performance (Paauwe, 2004).

Paauwe (1998) also argues that contingency factors affect the range of choices of both management and the organization as a whole. For example, Paauwe found that the majority of the 16 best practices identified by Pfeffer (1994) had all been in place in almost every Dutch company since the 1970s. This would imply that the majority of Dutch firms long ago predicted best practice in HRM, adopted these practices and now all have high performance outcomes. However the discussion is not so straightforward.

The underlying point being made by Paauwe (1998) is that we must look to find a clearer understanding of the reasons why firms adopt particular HRM practices beyond considerations of anticipated financial performance outcomes. Neoinstitutional theory is a useful mechanism for exploring this further.

Neoinstitutional theory rejects the optimization assumptions of economic rationality with actors capable of enacting strategic choice as advocated in functionalist contingency theories, and argues instead that societal expectations are more influential in deciding organizational practice (Paauwe, 2004). Organizations conform to contextual expectations in order to gain legitimacy and increase their probability of survival (Greenwood & Hinings, 1996). In the process of conforming, organizations become more alike, hence the isomorphic characteristics of institutionalization. DiMaggio and Powell (1983) describe institutional isomorphism in terms of three mechanisms: coercive, normative and mimetic forces. There are therefore external forces limiting the choice options for organizations in selecting HRM policies and practices.

So far, our discussion has largely taken a critical approach to adopting a best practice approach; however to assume that contingency models help us explain the HRM and firm performance relationship is also flawed. Institutional theory argumentation has been criticized in that it does not address issues of organizational strategic choice. The role of organizational self-interest and active agency need to be considered when exploring how organizations respond to the institutional pressures they face. As organizations use different strategies to respond to institutional pressures, similar environmental conditions do not necessarily lead to similar outcomes. Oliver (1991) puts forward a framework for predicting the occurrence of alternative corporate strategies in dealing with isomorphic pressures, suggesting that strategic responses range from passive conformity to proactive manipulation through stages of compromise, avoidance and defiance.

Institutional and strategic choice factors thus influence the shaping of HRM policies and practices and therefore have an impact on the HRM and firm performance linkage (Paauwe & Boselie, 2003). The choice between HRM strategies occurs at an interactive level between the organization and its environment. We therefore argue that it is imperative, particularly when conducting international research, owing to the complex diversity of institutional contexts of different countries, to adopt a contingency-based approach to observing the relationship between HRM and firm performance, and at the same time not to ignore the implications of corporate strategic choice. A similar plea has also been made in the broader HRM field calling for further development of institutionalist theories (Legge, 2005: 41). We will return to this important point later in the chapter after

further consideration of the challenges still facing researchers in the broader HRM and firm performance field.

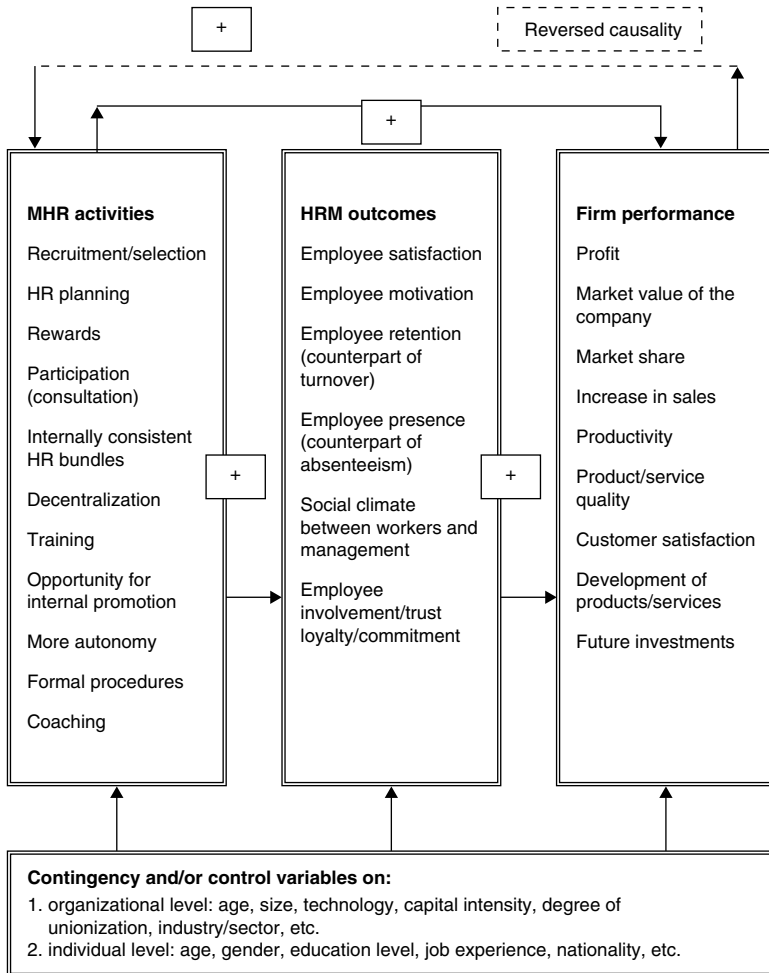
Methodological challenges for future research

Despite considerable research exploring the linkage between HRM and firm performance, and the interesting results which have been achieved to date, there are still significant gaps in our understanding and some important challenges facing the field. Below we highlight a number of these issues. Further issues can also be identified in other studies (see, for example, Guest, 1997; Wood, 1999; Wright & Gardner, 2001; Gerhart, 2004; Paauwe & Boselie, 2005); however here we focus on those issues especially relevant from the perspective of conducting research in an international setting.

The linkage between HRM and firm performance: how many boxes?

All of the models and theories described so far do little to explore the causal relationship between HRM and firm performance; rather they make assumptions about the outcomes of certain individual (or clusters of) HRM practices. Some conceptual models have, however, been developed to test empirically the causal relationships. Although it is inappropriate to go into the detailed outcomes of each of these studies here, a useful summary of findings can be found in the framework developed by Paauwe and Richardson (1997), as shown in Figure 6.1. The framework is based on an overview of more than 30 articles that have studied empirically the relationship between HRM practices, HRM outcomes and the subsequent effect on firm performance.

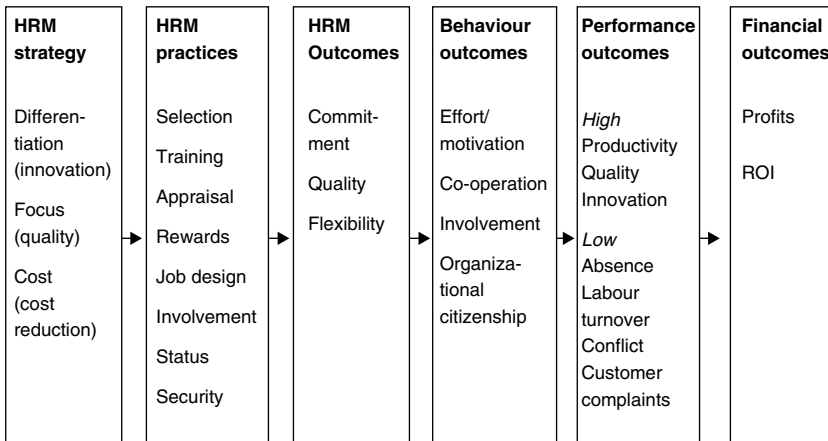
The debate centres on how many boxes need to be incorporated in a model representing HRM impact on firm performance, and what variables each of these boxes should contain. The overview framework presented by Paauwe and Richardson (1997) resembles an *open systems* approach of HRM activities, HRM outcomes and firm performance, all affected by contingency variables. Although this provides a good overview of research findings in this area, psychologists are more in favour of specifying the desired HRM outcomes in terms of worker attitude and subsequent effects on worker behaviour. If HRM activities indeed have an impact on HRM outcomes and firm performance it will only occur provided worker attitude, and especially worker behaviour, is affected in a certain way. The concept of the effect of behavioural outcomes on firm performance is emphasized in the framework by Guest (1997), shown in Figure 6.2. This framework assumes that only when all three HRM outcomes are achieved (high commitment of the workforce, high quality of staff knowledge and skills, and high functional flexibility) will this lead to behaviour change and higher firm performance.



Source: Paauwe & Richardson (1997) adapted in Paauwe (2004: 60).

Figure 6.1 Linkage between HRM activities, outcomes and firm performance

There are also variations in opinions on what should appear in the 'firm performance' box. The majority of USA-based empirical research in the field adopts a shareholder perspective, focusing on productivity or financial performance indicators such as return on investment, assets or equity (see, for example, Arthur 1994; Huselid, 1995; Kalleberg & Moody, 1994; Koch & McGrath, 1996). These studies pay little attention to the impact of HRM



Source: Guest (1997).

Figure 6.2 Linking HRM and performance

on other firm stakeholders such as employees, trade unions and society at large (Paauwe, 2004). In contrast, studies in the UK (Guest & Peccei, 1994; McNabb & Whitfield, 1997) and in the Netherlands (Boselie *et al.*, 2001) have tended to take more of a stakeholder approach, also adopting a contingency rather than universalistic approach to exploring HRM and performance relationships.

The meaning of HRM

There appears to be no consensus on what we mean by HRM. Is it the effectiveness of the HR department (Teo, 2002) at corporate and other levels? Is it the value of the human resources (employees) as human capital contributing to performance (Wright *et al.*, 1994)? Or is it the HRM practices themselves either separately (Batt, 2002) or aligned as systems (Cappelli & Neumark, 2001)? The majority of studies focus on the latter dimension: individual practices or systems (bundles) of practices and their link with firm performance. Analysing 21 academic papers, Boselie *et al.* (2005) conclude, however, that there is no consensus on which HRM practices to include. Nevertheless, they describe the most commonly used as being employee training, employee involvement in decision making, reward and compensation, and communication and information sharing. All of these practices appear to be relevant in both a domestic and an international firm setting.

Intended, implemented and perceived practices

The majority of prior research on HRM and firm performance is focused on intended HRM practices, designed at corporate level. For this reason Wright and Nishii (2004) make a plea for paying more attention to the difference between intended and actual HRM practices. This is especially important from the perspective of an internationally operating company. In MNCs, there is a large distance between corporate headquarter initiatives, which are transferred to regional and divisional levels, which are then passed on – very often in an adapted version – to operational level, where they finally take effect (or not). As a result the difference between intended and actual practice as perceived by the employees can be substantial.

It is also important to include the workers' perspective and their perception of HRM activities as an important link in the chain from HRM to firm performance (Bowen & Ostroff, 2004; Guest, 1999; Peccei, 2004; Wright & Nishii, 2004). Different employee groupings within the organization can have divergent views on the nature and intentions of HRM activities. There is also likely to be variation in the way in which practices are both accepted and implemented by line management and employees (Truss & Gratton, 2003). This is especially relevant for multinational corporations with an enormous variety of employee groupings, working in different countries, different cultures and different contexts.

Distance versus proximity

Related to the previous discussion, and also to that on the number of boxes there should be in an HRM and firm performance model, is the issue of relative distance. The distance between some of the firm performance indicators (such as profit and market value) and HR interventions is too large and potentially subject to other business interventions (for example, research and development activities and marketing strategies) (Guest, 1997; Kanfer, 1994). To study the effects of HR interventions, whether studying multiple individual HR practices or bundles of practices, it is preferable to use outcome variables that are presumably closely linked to these interventions, such as attitudinal outcomes (employee satisfaction, motivation, commitment, trust), behavioural outcomes (employee turnover, absence), productivity outcomes (output per unit effort) and quality outcomes in terms of services or products.

The notion and nature of strategy

The notion of strategic or vertical fit is one of the most prominent fits in HRM and firm performance research. The underlying idea is that matching the overall company strategy with the HR strategy will result in increased firm performance. Unfortunately there is no convincing empirical evidence

for this proposition (Purcell, 2004). Huselid (1995), for example, does not find any empirical evidence for increased performance when aligning the overall company strategy with the HR system of a specific organization.

As Paauwe and Boselie (2005) state, there are different plausible explanations for this lack of evidence. First, strategy is often defined in probably simplistic Porter-like definitions such as differentiation/innovation, focus/quality and cost reduction. The organizational reality is much more complex and not easy to capture in a simple dichotomy. The Porter-like definitions of the 1980s are rather static and do not take into account the possibility of hybrid strategies or combinations of strategies that companies might use, serving different markets at the same time. Second, both Gerhart (2004) and Purcell (2004) underline the complexity of management research in large companies, in particular multinational corporations. Often these large companies are conglomerates of strategic business units that all have their own markets, customers and products/services. Therefore Gerhart (2004) states that there are fewer reliability problems with plant-level analysis than in prior company-level analyses. In order to advance the field, we should therefore ensure in IHRM and firm performance research that we focus on the appropriate organizational level of analysis (preferably plant and/or subsidiary level) to be able to conclude something substantial about the relationship between strategy, HRM and firm performance.

Direction of causality

There is some discussion over the assumed linearity and direction of causality in the empirical models tested to date (Wright & Gardner, 2001). Most studies take a cross-sectional perspective from which causality is inferred, rather than adopting a longitudinal approach to test the causal link between HRM and firm performance over time. Paauwe and Richardson (1997) and Hiltrop (1999) explicitly raise the reverse causality argument by mentioning the effects of growth or decline of profit on the degree of investment in HRM policies and practices. This is confirmed in a study by Guest and colleagues (2003) based in the UK, which uses both cross-sectional and longitudinal (one year lag) data. The study applies subjective performance indicators of both productivity and financial performance. It supports a view that profitability creates scope for more HRM practices (reverse causality) rather than showing HRM practices to cause higher performance. Further empirical work is still required to explore this issue of causality in greater depth.

Time-lag issue

Finally there is no convincing theory or strong empirical evidence on the possible time-lag between an HR intervention and its effect on firm

performance. The few studies on HRM and firm performance that take a longitudinal perspective (d'Arcimoles, 1997; Guest *et al.*, 2003; Paauwe, 1989) suggest that the majority of HR interventions have a time-lagged effect on firm performance, sometimes even up to two or three years, before generating effects.

Some HRM practices (such as individual performance-related pay) might have a direct, short-term effect on firm performance (such as productivity), but the effect of most practices (such as training and development, participation, teamwork and decentralization) will probably take one, two or even three years to be seen; or potentially the effect is never directly observed. Initiatives from corporate headquarters in MNCs might fail to generate any real effect on firm performance in the short term, which may be being aggravated owing to the long distance (not only physically but also in terms of difference in mindset and culture) between corporate headquarters and local subsidiaries.

To summarize, if we measure a positive association between HRM activities and firm performance based on cross-sectional data, it might simply be a matter of reverse causality, a matter of coincidence, the accidental moderating effect of one or more unknown variables (for example, a sudden boost or collapse in the economy), or it might be the result of HRM practices implemented some two or three years earlier. These are some important issues which must be considered in the future development of the HRM and firm performance field.

A 'best fit' model of HRM and firm performance

In our exploration of existing models which claim to represent the relationship between HRM and firm performance, we have highlighted both positive and negative aspects of the universalistic and contingency/configurational models. On balance, there appears to be increasing evidence, particularly when looking at organizations on an international rather than domestic scale, that the principle of best practice is difficult to uphold. Contexts are so varied that it is difficult to see how multinational organizations are able to, and want to, implement exactly the same HRM processes in exactly the same way in all their subsidiaries around the world, hoping to generate the same kind of firm performance gains. Moreover there is a debate around the concept of firm performance and its meaning in different settings.

In this section, we therefore consider in greater detail the range of contextual factors affecting the linkage between HRM and firm performance in an international setting. We do so by making use of the Contextually Based Human Resource Theory, which can be used both from a comparative perspective (in terms of analysing different companies operating in different national contexts) and from the perspective of internationally

operating companies. We will use this model in order to highlight the different contextual factors, but also the degree of leeway still available for making strategic choices; a topic which will be dealt with in more detail in the following section.

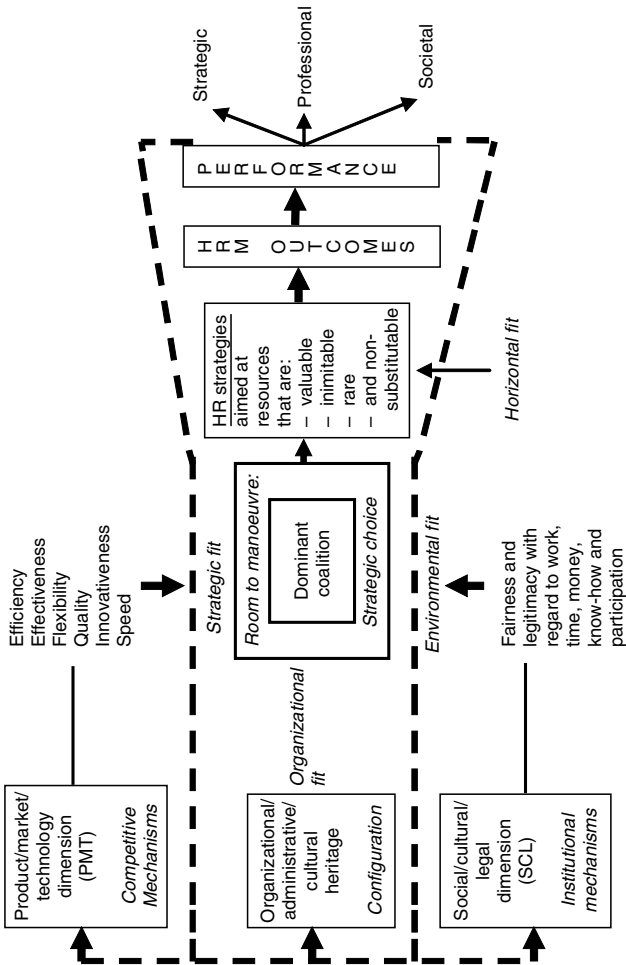
The Contextually Based HR Theory (CBHRT) developed by Paauwe (1994, 2004) is an example of a ‘best fit’ model incorporating contingency and configurational approaches to exploring the relationship between HRM practice and firm performance (see Figure 6.3). The underlying argument of the model is based on the resource-based view of the firm, which highlights that people fit the criteria of added value, rareness, inimitability and non-substitutability – all necessary conditions for organizational success, as we discussed earlier. At the same time, though, inspiration is also drawn from institutional and coevolution theory, emphasizing the importance of organizational context and managerial intentionality, as well as discussions surrounding strategic choice and power and politics within organizations.

The CBHRT model shows how two dimensions of the environment in particular (the product/market/technology competitive dimension and the social/cultural/legal institutional dimension) dominate the crafting of HRM. The P/M/T dimension is affected primarily by the choice of corporate or business strategy given changing developments in the product or service being delivered, the markets in which the company is operating and the technologies available to carry out corporate activities. The S/C/L dimension focuses on external factors such as local culture, national institutions and local legislation that have an impact on corporate activities. These S/C/L dimensions in the international HRM context are covered extensively in Brewster (this volume).

The third environmental dimension is the unique historical heritage and configuration of the organization which have a role to play in terms of organizational, administrative and cultural legacies. This organizational, administrative heritage is the outcome of past choices and constraints which the organization has endured, resulting in a unique pattern of relationships existing between HRM policies and practices and other organizational characteristics such as organizational culture and reputation (see, for example, Hartog & Verburg, 2004, on the effects of organizational culture, and Ferris *et al.*, 1998, on how reputation acts as an important moderator in the relationship between HRM systems and organizational effectiveness).

The CBHRT model incorporates four dimensions of fit (based on Wood, 1999):

- *strategic fit*: vertical fit between HRM practices and the competitive or corporate strategy of the organization (the P/M/T dimension);



Source: Adapted from Paauwe (2004: 91).

Figure 6.3 A contextually based human resource theory

- *horizontal* fit: internal fit between HRM practices as coherent and consistent bundles (preferably shaped from a resource-based perspective in order to safeguard sustained competitive advantage);
- *organizational* fit: between HRM practices and other systems in the organization (the organizational and administrative heritage); and
- *environmental* fit: between HRM practices and the organization's social, cultural and legal environment (the S/C/L dimension).

The model also introduces the notion of leeway by adopting an actor's perspective (Lammers *et al.*, 2000), denoting the impact of the dominant coalition of the organization on the making of strategic choices. This element moderates the external and internal contingency factors noted so far, and gives an indication of the leeway available, the room for manoeuvre, for shaping HRM policies and practices within an organization. The dominant coalition may include top management, supervisory boards, works councils, shop stewards and the HR department, and its outcomes will depend on the (power) relationships between members and the way in which they differ or agree with respect to perceived constraints and opportunities.

HRM practices are therefore shown to be shaped by both external and internal contingency factors including strategic choice inputs. The resultant fits are thus designed to be organization-specific in order to deliver maximum HRM outcomes which in turn contribute to the performance of the firm.

Measuring performance

We raised earlier the question of how performance is actually measured and, particularly, how this might vary in an international setting. We have seen already how HRM practices themselves are affected by institutional factors in the organization's environment. Equally, different measures of performance become legitimized in different contexts based on institutionalization processes, as well as being a result of competing shareholder and stakeholder theories. The issue of ascertaining appropriate performance measures to judge the outcomes of HRM practices in different contexts is therefore discussed further here.

The most common approach to measuring the relationship between HRM and firm performance has been to adopt the open systems model which asserts that certain HRM activities lead to identifiable organizational and employee outcomes, which in turn lead to higher or lower levels of firm performance. However, as argued earlier, these three levels (inputs, outcomes and performance) are insufficient indicators alone, as they are all affected to a greater or lesser extent by contingency variables.

Equally there are multiple dimensions of performance which are not explored by many of the HRM and firm performance conceptual models. For example, as we have seen, the majority of performance metrics are related to financial indicators such as turnover and profit. However we are interested in the performance of the organization in meeting the needs of a broader range of stakeholders than shareholders alone: combining both economic and relational rationality. Paauwe (2004: 69–72), drawing largely on the work by Beer and colleagues (1984), has suggested a multidimensional model of HRM performance to address these issues, measuring a combination of *societal* and *professional* performance indicators in addition to *strategic* performance indicators which focus on the priorities of the board of directors, shareholders and financial institutions.

Societal performance considers aspects of company performance of relevance specifically to employees and their representatives, such as productivity, health and safety conditions, employment security, employee development, wages, employee satisfaction and work pressure. Governments are also keen to see organizations complying with both legislation and guidelines promoting particular employment practices to help boost the country's economy as a whole. Societal performance is thus largely a matter of meeting criteria for internal equity, fairness and legitimacy in the eyes of the major stakeholders, and hence achieving relational rationality.

Professional performance considers the particular activities of the HR department within the organization. Guest and Peccei (1994) have argued a link between the level of performance of the HR department and the overall effectiveness of HRM policies and practices. They argue in addition to the necessity of vertical and horizontal fit between HRM practices and corporate strategy as well as between individual HRM practices, that there also needs to be functional integration (appropriate staffing and location of the HR department to achieve organizational goals) and process integration emphasizing the efficiency and quality of HR processes and customer service.

In summary, the CBHRT model can be used in research to analyse the context of multinational corporations in terms of the different dimensions (the strategic P/M/T dimension, the socio-political S/C/L dimension, and the organizational, administrative heritage dimension) and how these forces influence the development of HR policies and their subsequent effects upon different dimensions of performance (strategic, societal, professional). It can be used at different levels of analysis: contrasting the subsidiaries of MNCs operating in different countries, or contrasting the corporate level of MNCs operating in the same sectors worldwide but which differ in country of origin (see, for example, Pot & Paauwe, 2004,

who use the model to compare the shaping and performance effects of HRM policies for globally operating chemical companies, which differ in country of origin). In the following section, the centrally located dimension of the CBHRT model, room for manoeuvre and the role of the dominant coalition, are discussed in further detail.

Leeway and strategic choice

Based on an analysis of the various contextual factors, the dominant coalition has a certain degree of leeway, room for manoeuvre, for making strategic choices regarding the development and transfer of HRM practices across business unit boundaries and national borders, and for adapting them to meet local requirements. The underlying rationales for making these choices can be classified as follows (Edwards, 2004): *rational*, for reasons of efficiency and sharing best practice (economic rationality, competitive pressures); *culturalist*, meeting the need to adapt to local culture and institutions (relational rationality, institutional pressures); or *political*, enabling key agents to maintain or increase their power.

The previous sections here have explored the rational (best practice) and culturalist (best fit) reasoning for practice transfer and adaptation; however now we focus on the remaining reason, political elements of the organization environment, and particularly the role of strategic choice and the dominant coalition in a firm. The dominant coalition must balance competitive demands to gain competitive advantage against institutional demands to gain legitimacy. This balancing act is especially important for MNCs as they operate in a variety of countries and are normally highly visible because of their size of operation, reputation and brand.

Using a growing stream of research addressing the interaction between competitive and institutional forces (Baum & Oliver, 1991; Dacin, 1997; Oliver, 1997), Deephouse (1999) focuses our attention on the need for companies to be *different* in order to reduce competition and on the other hand to be *similar* in order to gain legitimacy. In this way, Deephouse develops an integrative theory of strategic balance, which claims that firms having intermediate levels of differentiation will benefit from reduced competition while maintaining legitimacy.

This theory can also be applied to the field of HRM and firm performance in an international setting, as MNCs face both competitive demands and institutional pressures in their diverse countries of operation. On the one hand, firms want to be unique in the marketplace by developing HRM policies and practices that will differentiate them from other firms and allow them to outperform others. On the other hand, institutional pressures (including state regulations, legislation, collective agreements and works councils) will lead to similar HRM policies and practices between

organizations in a certain sector or country in order to avoid legitimacy challenges. There needs to be a tradeoff between competitive pressures (the P/M/T dimension of the CBHRT) and institutional pressures (the S/C/L dimension of the CBHRT) that pull the HRM system in two different directions.

This tradeoff has implications for the performance of the firm. When a company conforms to institutional pressures it is likely to perform well with respect to societal factors like internal equity, fairness and legitimacy, which enhance the company's reputation in society at large (societal performance). Yet at the same time the company risks lower financial performance because of this conformity and being less able to distinguish itself from its competitors. However, when the firm focuses on being different in order to escape competitive pressures, financial performance may improve, but at the same time the company faces the risk of losing legitimacy and damaging its reputation.

It therefore remains of interest to see how IHRM research in the future can explore how the dominant coalition (and who is part of it or not, and why) deals with this tradeoff between competitive pressures and institutional pressures in order to develop and shape HRM policies and practices, and the related firm performance outcomes. These outcomes will not limit themselves purely to financial firm performance indicators like growth, profitability or ROI, but will also focus on reputational and societal effects (based on organizational climate, culture or fairness). The latter will benefit the firm in terms of being better able to attract and develop the best possible human resources for operating in highly competitive international markets.

Conclusion/epilogue

In this chapter we have provided an overview of the extant knowledge regarding the linkage between HRM and firm performance. We have considered both a universalistic and a contingency/configurational framework to construct this linkage, and have argued that, within the context of multinational organizations, it is the contingency approach which appears most convincing.

Considering the HRM and firm performance link in the specific context of MNCs, we have discussed a range of challenges for future research in this area. Bearing in mind the importance of company context, we have presented the Contextually Based Human Resource Theory as a framework to enable researchers to understand and consider all the factors affecting the HRM and firm performance link. We have, however, also highlighted the point that, although contingency factors are important, they are not in themselves deterministic. Legislation in different

countries may demand adaptation of corporate policy, but organizations still have an element of choice in how they deal with conflicting and competing demands: they must determine their own models of best fit for the organization in order to optimize the link between HRM and firm performance.

Although, as yet, there is only weak evidence of particular HRM best practices being guaranteed to deliver high firm performance, irrespective of the organization and its location, there are indications that some HRM practices more than others are capable of being implemented universally across organizations. In short, further research is still required in the HRM and firm performance field in general, and within the context of MNCs in particular, before we can be sure of the performance benefits of HRM practices and the right balance and tradeoff between adaptation and conformity on the one hand and differentiation and uniqueness on the other.

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7 Global knowledge management and HRM

Paul Sparrow

Desouza and Evaristo (2003: 62) noted recently that ‘the literature addressing management of knowledge in a global context is best described as sparse. To date there is yet to be a significant undertaking that looks at issues in managing knowledge across borders’. When analysing the capabilities that are deemed necessary to support a knowledge-based enterprise (Beckman, 1999; Grant & Baden-Fuller, 2004; Nevis, DiBella & Gould, 1997; Ruggles, 1998; Staples, Greenaway & McKeen, 2001) three clusters arise:

1. knowledge acquisition and creation: generation of new knowledge fundamental to the long-term viability of the enterprise;
2. knowledge capture and storage: creation of an inventory of knowledge so the organization knows what knowledge it possesses, and where it resides. The maintenance of current knowledge in usable form so that it remains valuable;
3. knowledge diffusion and transfer: subsequent mobilization and flow of knowledge within the organization that creates knowledge-based value.

There the consensus ends. If we ask *how* such capabilities may be put into action and what they actually look like there is much speculation. Theory often precedes any strong evidence base and there are still weaknesses in our knowledge about knowledge management. This chapter, it is hoped, contributes by highlighting a series of integration mechanisms that are necessary to assist in the acquisition, capture and diffusion of knowledge in international organizations. The chapter outlines five main forms of global knowledge management, or integration mechanisms: (a) organizational design and the specific issue of centres of excellence, (b) managing systems and technology-driven approaches to global knowledge management systems, (c) capitalizing on expatriate advice networks, (d) coordinating international management teams, and (e) developing communities of practice (COPs) or global expertise networks.

The successful development of each of these forms of global knowledge management in itself represents an important capability that has to be

developed inside organizations. The theoretical bases that underlie analyses of these integration mechanisms include resource-based theory of the firm, institutional theory, social capital theory and concepts from within the field of organizational learning such as the development of absorptive capacity. Space does not allow for discussion of these theories (readers are directed to the appropriate chapters in this volume and to Sparrow and Braun, 2006) but the chapter does introduce a number of relevant concepts, theories and debates from strategy, international management, organization theory and organizational psychology fields. Throughout the chapter we will also discuss the roles that the HR function may play in these different 'forms' of knowledge management. The chapter concludes by examining the five forms of global knowledge management against the three knowledge management capabilities (knowledge generation, capture and storage, and diffusion and transfer).

The nature of knowledge management

Before examining each form of global knowledge management we must return briefly to the general topic. Two fields have been central to the operationalization of global knowledge management processes: information systems and human resource management (HRM). There has been little overlap of interest between these fields and indeed, even within the HRM field, there are very separate dialogues and academic discourses currently taking place. There is then little discussion between the psychology, economic and knowledge engineering research communities about the phenomenon of global knowledge management. The consequence? Our understanding of the field is fragmented, full of much prescription that does not work outside the narrow applications on which the prescription was based, and many analyses are distinctly subject-biased (a notable exception is the integration of strategic management and organization behaviour perspectives by Moingeon and Edmondson, 1996). Scarbrough (2005: 135) points out that 'the exploitation of knowledge as an organizational resource is . . . a complex endeavour which extends across technical, social and economic dimensions'. Economic perspectives view knowledge management as a response to the need to intensify the creation, exploitation and throughput of knowledge. Technical perspectives highlight the centralization of currently scattered knowledge and the codification of tacit knowledge. Social and political perspectives highlight the collectivization of very situational knowledge so that it no longer remains the exclusive property of individuals and groups.

What is meant by knowledge in the context of international management? Various taxonomies of knowledge exist (see, for example, Collins, 1993; Sackmann, 1991, 1992; Zack, 1999). They all show that knowledge is

culturally dependent. Baba, Gluesing, Ratner and Wagner (2004: 549) observe that knowledge 'is both an integral component of cognition and one of its key products'. Knowledge represents aspects of cognition whose accuracy or correctness can be validated externally (Mohammed & Dumville, 2001) or it represents information that is validated through human action (Nonaka & Takeuchi, 1995). Beliefs arise when such knowledge is considered to be truthful, as evidenced through personal experiences and actions that demonstrate the veracity of the knowledge. Knowledge management therefore involves changes to cognitions and the way in which events or objects are described, and the content of the schemata of managers as a whole (changes in their descriptive theories of action, prescriptive theories of action, and/or their fundamental beliefs). It also requires changes in the way that knowledge is socially constructed, transfer through participation in social networks, and exploration and synthesis among different communities.

A review of the literature on organizational learning and knowledge structures (Hodgkinson & Sparrow, 2002) tells us that, whilst organizations do not think, there is knowledge that is socially recognized and codified and resides at the organizational level. Such knowledge is embedded in either organizational systems (such as rules, procedures for communication and strategies) or technical systems (hardware, software and technical operating procedures). It operates in much the same way that knowledge operates at the individual level (it serves as an interpretative scheme, the purpose of which is to inform managerial action) but it can only develop when organizations (or rather their members, via systems, structures and cultures as engineered through the actions of the managers) perceive, interpret, reconstruct and communicate new information.

The scale of the challenge of managing knowledge on a global scale is therefore obvious. Organizations are composed of many diverse, interdependent workgroups, such as new product development teams and manufacturing planning teams, all of which have unique decision domains and develop unique perspectives in response to differential tasks, goals and environments. Although managers can act autonomously within each of these decision domains, they are affected by each other's actions. Consequently mechanisms of integration (and the underlying capability to manage these integration mechanisms effectively) are needed above and beyond the simple summation of the different perspectives that exist within the organization (Scarbrough, Swan & Preston, 1999; Staples, Greenaway & McKeen, 2001).

Knowledge management by design: centres of excellence

The brokering of knowledge inside global organizations through formal structures is one such mechanism. Can organizations improve knowledge

management by design? The traditional and evolutionary progression of MNEs through international, multinational, global and transnational/network/heterarchy is well understood and generally discussed in the context of the tradeoff between global integration and local responsiveness (see Rosenzweig, this volume). However, as MNEs change their organization design in response to the need to build more international capability, as part of their natural development they often establish dedicated organizational forms to facilitate this. One such form is the centre of excellence (Ohmae, 1990, 1996) and this is the first integration mechanism discussed in this chapter.

MNEs have relied on specialized and network-based structures to coordinate their activities for a while, but now have to coordinate increasingly dispersed activities. They have responded to this dispersion by adjusting their level of coordination and control to reflect the role of the subsidiary and the strategic importance of the mandate that it has (Bartlett & Ghoshal, 1989). A variety of missions can be assigned to subsidiaries, but one particular mission has recently gained prominence: that of the centre of excellence (COE) (Holm & Pedersen, 2000). A COE is an organizational unit that embodies a set of organizational capabilities. Frost, Birkinshaw and Prescott (2002) note that these capabilities must be explicitly recognized as an important source of value creation. There needs also to be a strategic remit, such as the intention to leverage or disseminate these capabilities to other parts of the firm. At the subsidiary level, COEs tend to be established as a consequence of a long and slow internationalization process within the organization, or as a deliberate part of organization design where HQ managers decide to grant autonomy to units that have also been given a specific strategic mandate. Increasingly small teams or units *within* either subsidiaries or central functions take a lead COE role in one area, with other units taking the lead in different areas of capability. While the leadership of a COE might be vested in a physical location, the centre itself may be virtual, spread across networks of teams in different geographies.

Various labels other than that of COE are now used to describe this process of progressive global knowledge transfer: centres of competence, centres of expertise or communities of practice. Common to all these forms is the fact that they take on a strategic role in the global organization that reaches beyond local undertakings, have to be tightly integrated with their surrounding technical or professional communities, and must have both high competence and high use of their competence throughout surrounding units if they are to survive (Sparrow, Brewster & Harris, 2004).

Helping the organization understand the role, design, competence and leadership needs of its own, COEs are a major challenge and opportunity for global HR functions as understanding of the managerial issues

involved is rudimentary: ‘. . . a growing body of anecdotal evidence suggests that the COE phenomenon is increasing amongst the world’s major MNEs, at the same time that this evidence also suggests that many firms are struggling with the managerial issues involved’ (Frost, Birkinshaw & Prescott, 2002: 1016). Much of our knowledge is therefore normative. However, researchers should not decry this, or be tempted to overtheorize organization design decisions that are often not based on rational or logical criteria.

What is a more useful research enterprise is to understand what is necessary to build these more globally distributed centres of excellence into viable operations. The role of the global HR function initially has been reactive: coping with the need to relocate staff into new countries, considering the special terms and management conditions that should surround such units, and eventually applying the concept of COE to its own structures (Sparrow, Brewster & Harris, 2004). IHRM researchers should now consider more pertinent questions. What activities, processes and capabilities might constitute a COE and how should such units be mandated (that is, what has to happen in terms of capability building investments, decision-making autonomy, requisite levels of connectivity to other sources of competence inside the organization, leadership and processes of knowledge management)? What are the indicators of success under what contingencies? To what extent do institutional factors preclude or support long-term survival and contribution of COEs?

We know already that COEs are not just specialized in their own knowledge-base (Holm & Pedersen, 2000). In order to endure they must be able to maintain one or several critical fields of knowledge that have a long-term impact on the development of activity in the other subsidiaries and units of the MNE. COEs may be seen as high value subsidiaries that have a strategic role due to products, services or functions that cross geographic boundaries and markets (Moore & Birkinshaw, 1998). Examples include IBM’s intelligent agent group, ITT’s fluid technology group, Hewlett Packard’s centre of manufacturing expertise in Singapore that handles the migration of low value activity to low cost activities. A COE might also only represent one part of the overall capability and mandate of a global unit, and therefore be considered instead as a source of best practice. In the latter context, the global HR function should help to devise roles and performance management systems that clarify the mandate and ensure that the design enables the unit and its key actors to act (a) as a focal point for knowledge development that serves people with related skills or disciplines, (b) as a conduit for the dissemination of knowledge within the firm, and (c) as a problem-solving unit that provides advice and fosters new competences within the firm.

Second, COEs must have the ability to manage dispersed capabilities and leverage pockets of expertise effectively as a source of competitive advantage. For a unit to be truly deemed a COE, it must have physical presence within a site or dispersed team; focus on a superior set of capabilities that create value including tangible resources (equipment, licences, patents) and intangible resources (knowledge, experience); have explicit recognition or declaration of its role; and have the intention of deriving value from the unit's capabilities for the broader organization (Frost, Birkinshaw & Prescott, 2002).

Third, the advice offered by the global HR function has to help the global firm manage the evolution and survival of COEs. Moore and Birkinshaw's (1998) work in service firms is helpful in this regard. They conducted 54 interviews in 18 global service firms in the consulting, financial service, engineering and transportation sectors (including Andersen Consulting, McKinsey, Ernst and Young, KPMG, IBM, Unisys, DHL, Royal Sun Alliance and Oxford University Press) and found that:

1. Competitive advantage was gained through their ability to transfer intangible assets such as the corporate name, image and reputation, proprietary services, operating procedures, and know-how about key customer bases.
2. New knowledge primarily came from interactions with clients and creative solutions developed within project teams.
3. The process of developing global COEs, even in MNEs, is often surprisingly individualized and small-scale. Three types of COEs could be placed in broad evolutionary sequence: charismatic (individual-based), focused (practice-based) and virtual (codification-based).

Some pragmatic observations should be made here. This researcher recently came across a decision on where to locate its European RHQ by a major consumer products multinational that was based on the CEO's connections with a well-known city orchestra rather than any business logic. Such idiosyncratic and theory-unpredictable decision making around the location of structural coordination mechanisms is not uncommon. In a strategic workshop with the senior IT management team of a European automobile firm it was evident that the development of centres of excellence was central to the global strategy and had already begun with the function, yet with such units already in existence there was no managerial consensus on their role, remit and success criteria and indeed limited understanding of how this structural solution would have to be enacted. Sadly action generally precedes comprehension even in the most apparently

sophisticated organization. We should then beware decrying normative research and being tempted to overtheorize what is often an irrational and idiosyncratic design process. However we surely can test hypothesized links between assumed outcomes, the development of underlying knowledge management capabilities and the contribution of HR interventions (see the Conclusion and Table 7.1).

Global knowledge management systems

The second integration mechanism discussed is that of global knowledge management systems. The increased availability of computing and communication technologies has enabled more geographically dispersed transfer (or export) across this knowledge infrastructure and organizations have begun to seek better ways to invest, manage, and harvest their intellectual capital, responding broadly on two fronts:

1. E-commerce initiatives, to foster greater efficiency in their transaction processes. Attempts to better link the internal transactional systems and processes to the outside world, using different models (for example, business-to-business, and business-to-consumer) that link internal and external stakeholders of the organization.
2. Knowledge management initiatives, to leverage their intellectual capital by turning attention away from the pursuit of streamlined internal transactions and towards a focus on internal collaborative endeavours that facilitate the sharing of information and knowledge.

Kocharekar (2001) argues that two (currently unconnected) strategic drives inside global organizations towards transaction efficiency and intellectual capital effectiveness are converging through the use of global knowledge management systems. The resultant web of interactions has come to be known as the 'intraorganizational information market' (Hansen, 1999; Hansen & Haas, 2001; Hansen, Nohria & Tierney, 1999). Global managers act as information brokers, managing a web of natural 'interactions' that take place within the organization. Interactions and brokerage occurs in many forms. Global managers have to seek the right party with whom to exchange information, arrange the presentation of the information, manage its brokerage, integrate it with information from other databases and monitor the performance of the interaction. In these markets employees search internal databases and information media to help them complete their tasks. This information is associated with distinctive suppliers (individuals or subunits) such as practice groups and business functions that are responsible for gathering, selecting, editing, codifying and publishing codified knowledge.

A plethora of developments have taken place under the knowledge management umbrella that are highly reliant on information technology and the design of knowledge management systems (KMS) to handle and support tacit knowledge capture and transfer (Davenport & Prusak, 1998). Organization memory information systems, supported by distributed artificial intelligence programming techniques, are considered to contribute to knowledge-intensive and global work processes in a number of ways (see Decker & Maurer, 1999; Schwartz, 1999; Staples *et al.*, 2001).

Again most of the evidence is normative. Chiesa and Manzini (1996) looked at the transfer of knowledge within 12 MNEs and found that the main instruments and mechanisms for knowledge flows were electronic communication systems, forums, temporary assignments, international teams, internal markets, cross-border assignments, boundary spanning roles and personnel flows. Davenport *et al.*'s (1996) study of 31 knowledge management projects in 24 global companies showed that the success of the projects depended on the creation of an effective culture and process, common purpose, and creation of common language to help identify knowledge. Desouza and Evaristo (2003) interviewed 29 senior managers from 11 firms in the telecommunications, insurance, pharmaceutical, manufacturing, software and consulting sectors and considered how these organizations integrated disparate sources of knowledge across different geographical contexts and summarized the different competitive, IT system and knowledge management strategies that were found.

The knowledge management outcomes and associated HR roles are summarized in Table 7.1. From this table it is clear that, while these systems may be regarded as a prerequisite for knowledge management within global organizations and feature heavily in capture and storage, they are not sufficient in themselves. The table also shows that the main issues surrounding their effective operation are all HRM-related (see Barrett, Cappleman, Shoib & Walsham, 2004; Newell, Scarbrough & Swan, 2001; Shapiro, Furst, Spreitzer & von Glinow, 2002) and by inference solvable where an HR function is involved and given due influence in the design process. Knowledge management systems challenge the power and hegemony of global managers. It would be wrong, however, to conclude that technologically enabled systems are all bad. The informal networks that they can create, when suitably managed, can have great strategic importance (see, for example, the work of van der Merwe, Pitt & Berthon, 2004, on the creation of informal associations between individuals and organizations facilitated by Internet networks). What then needs to guide these informal associations and networks? Might some of the dysfunctions of a purely technological solution to global knowledge management be overcome? In the next sections we consider some of the

more valuable ways in which networks contribute to global knowledge management.

Expatriates and their advice networks

The third integration mechanism discussed is expatriates and their advice networks. Expatriates are clearly an important vehicle more for knowledge capture and transfer than for knowledge generation (see Table 7.1). It is only relatively recently that there has been empirical study or detailed theorizing about this phenomenon (see Athanassiou & Nigh, 2000; Bonache & Brewster, 2001; Cerdin, 2003; Kostova & Roth, 2002; Makela, 2004; Smale & Riisala, 2004).

Attention focuses on the superior cognitive processes and social networks of expatriates. The earliest debates on international management strategy argued that strategic capability is ultimately dependent on the 'cognitive processes' of international managers and the ability of organizations to create a 'matrix in the minds of managers' or a transnational mentality (Bartlett & Ghoshal, 1989: 195). There are two aspects to this mentality: *attitudinal/values components* and *cognitive structures*. First, the 'attitudinal attribute' of an international orientation is assumed to correlate with both the extent and the quality of international experience (Kobrin, 1994). Researchers have developed measures that correspond to the core dimensions of managers' thinking about international strategy and organization and have shown how this mindset changes over time. For example, Murtha, Lenway and Bagozzi (1998) conducted a study of cognitive change towards a more global mindset in 410 managers over a three-year period within a single MNC. They identified a core value set or logic that was associated with global operations. Second, in relation to earlier comments about information markets, global managers need to have a 'good' mental model of how knowledge and information are shared across the people with whom they need to interact if they are to deliver an important global business process, product or service (Hodgkinson & Sparrow, 2002).

Social capital theory and social network theory are also crucial to our understanding of the management of global knowledge transfer (see Lengnick-Hall & Lengnick-Hall, this volume, for a full explanation of these perspectives) through expatriate networks (Wang & Kanungo, 2004). For an expatriate, the actors in the network can be individuals, such as peer expatriates, local working partners and local friends. These network ties serve as channels for social resources, such as informational, emotional, instrumental and appraisal support (Wang & Kanungo, 2004). Network size, network cultural diversity, network closeness and contact frequency have all been found to influence expatriate psychological well-being (Reagans & McEvily, 2003). For the global HR function, this suggests a

change in emphasis away from traditional concerns with expatriate skill and international management competencies towards the need to assist expatriates in the development and quality of their social network.

While discussing issues of individual cognition and international mindset, it is important to note that a number of research streams show considerable stickiness when assessing the transfer of knowledge from one culture to another. It is unwise to assume that knowledge generation, capture and transfer are occurring in quite the depth that it might seem. Research at the individual level tends to demonstrate the deep persistence of nationality. If for example an international HR director gets HR managers from around the world together at a global forum and presents the HR strategy and constituent practices, even though country HR managers may nod at the mention of certain practices this means little in relation to the way in which they will (or will not) support the business logic behind the strategy, or the outcomes they intend to create by the pursuit of a particular practice. The first problem is that, even within an apparently like-minded cadre, team or network, there are often still different logic recipes involved. Sparrow and Budhwar (1997) showed that, when asked about the perceived relevance of specific HR practices to the competitive advantage of their organizations, there is a clear imprint of nationality. HR professionals packaged HR practices into a series of recipes concerning, for example, the range of practices that created a sense of empowerment through changes to organization structure, the range of practices that accelerated the pace at which human resources could be developed within the organization, the practices to develop an employee welfare, an efficiency orientation or a long-term perspective. Practitioners agree on the practices and the implicit logic represented by these underlying recipes, but they will rate their importance to the creation of competitive advantage in fundamentally different ways from one country to another. The second problem is that there may be different cognitive maps about the resultant cause and effect processes inherent in any intervention. Even when there is agreement around the assumed importance given to a best practice, there are marked differences in the perceptions: why such a practice might be important and the outcomes anticipated. Budhwar and Sparrow (2003) examined the logics of British and Indian HR professionals around the issues of integration of HR with the business strategy and devolvement of HR to line managers. Although in surveys both sets of professionals rated these policies as being extremely important, when cognitive mapping techniques were used to reveal why they were important and what the assumed cause and effect outcomes would be, the professionals were working to fundamentally different logics.

Researchers are therefore forced to consider whether *knowledge* and *belief* should be considered as separate or to be intertwined. Sadly there are

still competing views on this question even amongst the cognitive scientists, let alone international management researchers. Some work on team cognition considers that knowledge and belief can be separated from each other, so that knowledge may be considered as objective and beliefs as more subjective. A more social-constructionist perspective considers that all forms of knowledge, whether declarative, procedural or evaluative, are built into cognitive structures, but there are complex networks of associations between cognitive schema that reflect actual experience and memory. These cognitive structures are then connected to beliefs that are validated by cultural experiences. This is not just some quaint academic debate and the answer needs resolving, for it has pragmatic implications for the sorts of tools, techniques, processes and mechanisms that global organizations must employ in order to get the knowledge generation, capture and transfer benefits suggested in Table 7.1.

Knowledge management within international and globally distributed teams

Much collaboration in international organizations takes place through virtual or globally distributed teams and they have long been a central topic within the field of IHRM (see, for example, Gibbs, this volume; Maznevski, Davison & Jonsen, this volume). This represents the fourth integration mechanism. In relation to global knowledge management, teams take on especial importance in two circumstances: when subsidiaries are considered to be rich in knowledge, or when it is appreciated that there are continuous changes in the state of knowledge within the organization (Ireland & Hitt, 1999).

They are considered to help renew organizations during times of heightened need for inter-unit learning, trust, commitment and coordination (Ghoshal & Bartlett, 1995; Mohrman, Cohen & Mohrman, 1995). Global teams therefore tend to facilitate global knowledge management in a number of ways (see Table 7.1). In order for the outcomes to be produced we need to better understand how knowledge must be managed in these teams. Work on shared cognition and team mental models (traditionally conducted by human factors experts and specialists in military training environments, for whom the study of team cognition was and is a necessity) is relevant in this regard (see, for example, Canon-Bowers *et al.*, 1993; Canon-Bowers & Salas, 2001; Klimoski & Mohammed, 1994). Hodgkinson and Sparrow (2002) reviewed the literature on team and collective cognition, team knowledge, team mental models, shared knowledge, transactive memory and shared mental models. No fewer than 20 labels have been used by work, social and cognitive psychologists, and experts in decision making and organizational behaviour to outline various concepts of shared cognition. However the methodologies used across these other

fields to understand what is shared, what this sharing means, how such sharing might be measured and what outcomes result from effective sharing of cognition could well be applied to the study of international management teams.

Collective cognition is defined in terms of the group processes involved in the acquisition, storage, transmission, manipulation and use of information: 'collective cognition does not reside in the individuals taken separately, though each individual contributes to it. Nor does it reside outside them. It is present in the interrelations between the activities of group members' (Gibson, 2001: 123). It is an important indicator of a team's readiness or preparedness to take on a strategic task (Cooke *et al.*, 2000; Mohammed & Dumville, 2001). Hodgkinson and Sparrow (2002) developed three core competencies involved:

1. *Information sharing and sampling*: the process skills needed to overcome biased sampling and the introduction of favoured shared information
2. *Transactive memory*: complementary overlapping knowledge that reflects an understanding of the distribution of expertise within the wider team, the ability of team members to compensate for one another, predict each other's actions, provide information before being asked, and allocate resources according to member expertise.
3. *Cognitive consensus*: the integration of perceptions, judgments and opinions of group members to a greater degree through exchange of multiple views and the development of mutual perspective taking.

These competencies have their counterparts at the organizational level of analysis as well as within teams and individuals.

International HR functions need to take a more central role in fostering such shared cognitions. Currently they often (mistakenly) begin from a perceived need to elicit 'best practice'. Rather they need to instigate team processes that capture the underlying mindsets and belief structures that guide members of international teams and use these cognitions to 'educate' other team members (see Hodgkinson & Sparrow, 2002, for a discussion of various knowledge elicitation tools and techniques used in the study of top teams in this regard, such as policy capturing and causal mapping approaches).

Attention is also being given to globally distributed teams (as opposed to international management teams). This latter variant represents another specific challenge from a knowledge management perspective. They have been defined as interdependent workgroups comprising culturally diverse members based in two or more nations who share collective responsibilities

for making or implementing decisions related to a firm's global strategy (Cohen & Mankin, 1999) or as semi-permanent groups assembled to facilitate cooperation and communications between headquarters and subsidiaries (Harvey & Novicevic, 2002). Team-based (that is, interdependent and with shared charters) structures, rather than looser workgroups, are increasingly used in order to facilitate both knowledge sharing and the creation of new knowledge (Mohrman, 1999). Effective communication in international teams seems particularly critical in this regard. Maznevski's (1994) review of research on diverse teams concluded that the common element in high performing groups with high member diversity was integration of that diversity. Diversity leads to a higher performance if members achieve mutual understanding, combine each other's ideas, and build on each other's ideas.

For such integration of diversity, communication is an absolute prerequisite and meaning has to be conveyed 'as it was intended' in order that global integration might take place. Maznevski (1994) argues that perspectives on reality within international teams are negotiated, as are the roles and norms for behaviour. This negotiation is particularly apparent in different cultures, as each culture adheres to different views of reality, which in turn leads to different interpretations of the same message. Maznevski and Peterson (1997) looked at integration in diverse teams depending on communication preconditions, and the role of sense-making approaches in explaining how members of international teams may differ in their event management, how this influences team interactions and how it can be managed. Although the international teams literature describes communication in ways in which cultures can differ with regard to communication styles, communication in international teams has generally not been studied in detail, especially in the context of new forms of work organization such as virtual teams.

However researchers (in particular anthropologists and psychologists) have begun to examine knowledge sharing and processes of mutual adjustment within international teams and are beginning to question the efficacy of globally distributed teams as a vehicle for knowledge sharing, and therefore challenge assumptions about performance gains which might arise from this coordinating mechanism. For example, Baba, Gluesing, Ratner and Wagner (2004) have examined the process through which the cognitive structures of globally distributed team (GDT) members become more similar to one another over time using longitudinal and ethnographic research methods. They studied six teams in a US manufacturing multinational from 1993 to 2001. The findings from a 14-month tracking of one of these teams (a 20-person team operating across one US and six European and Asian sites) support other studies in noting that shared cognition

across an international team in itself is not enough to account for performance gains in globally distributed teams. Because of a lack of four things (observation of others at work, conversations that include joint problem solving, testing of ideas and resolving discrepancies) cognitive differences persisted. There were culturally-grounded beliefs about overall business models that contradicted each other, which meant that team members rejected certain aspects of knowledge held by the other (especially declarative and procedural types of knowledge).

Knowledge-sharing processes in themselves do not produce shared cognitions. Rather team members have to undergo separate but parallel learning experiences in a common context. Hidden knowledge in remote sites has to be surfaced, often by third party mediators or knowledge brokers. Issues of self-interest and power (historical, cultural and linguistic issues can be exploited by team leaders to further their own agendas) have to be shifted towards more collaborative and task-interdependence work processes. In a cross-cultural context, sharing of knowledge has to include the beliefs upon which evaluative knowledge is based. Using a biological and genetic metaphor, Baba *et al.* (2004) argue that evaluative knowledge acts as a control gene and regulates whether other forms of more structural knowledge will be switched on (accepted and integrated into the team's cognitive structure) or switched off (rejected). It would be nice to see more testing of such a proposition.

Maznevski and Athanassiou (2002) note that effective globalization therefore requires recognizing and working with the complexity associated with different cultures, institutions and economic and political systems. To manage global business processes effectively organizations will have to rethink many of their traditional management mechanisms (see Maznevski, this volume). Global teams have created an explosion in the quantity and complexity of interrelationships among the various national systems that exist inside international organizations. As researchers, we need richer and more complex tools to help them be effective and this means conceptualizing, measuring and analysing the complexity of interpersonal processes within MNEs by using new methodologies (Athanassiou & Nigh, 1999, 2000, 2002). In their empirical study of 450 employees in 20 global account management teams in a large professional services firm, Maznevski and Athanassiou (2002) looked at the teams through the lens of social capital theory which they operationalized as the assets contained in relationships among people, and the social networks, or configurations of relationships, that hold and carry the social capital (Borgatti, Candace & Everett, 1998; Lin, 2001) and argued that we must build new models of decision-making processes to facilitate the various modes for global expansion.

Transfer through communities of practice and global expertise networks

An important theme throughout this chapter is that, in order to integrate knowledge, organizations must be designed and administered in ways that first create, capture and protect valuable knowledge (Liebeskind, 1996), whilst the subsequent rapid transfer of knowledge across global units (whether business units or country operations) can only be achieved through the pursuit of broadened networks (see Lengnick-Hall & Lengnick-Hall, this volume). In discussing both the first integration mechanism of centres of excellence and the fourth mechanism of international management teams it was noted that global organizations can also comprise less formal networks of people who nonetheless are tasked with common strategic purpose. The fifth and final integration mechanism discussed is the transfer of knowledge through global expertise through a series of broadened networks. Networks are configurations of individuals that move in and out of some chartered purpose in a multidimensional and dynamic way. They represent much more loosely connected groups of people or units than might typically be found in globally distributed teams. They interact on a regular but more informal basis but are considered a powerful vehicle for organizational learning. In contrast, teams are more static and tend to be more formally constituted. Global expertise networks or communities of practice can produce the same generation, capture and transfer outcomes as those shown for international management teams in Table 7.1, but, depending on the nature of the network and its management, knowledge is considered to be capable of being generated, captured and transferred in a different manner. They can also serve a much stronger capability development role.

Knowledge management within broadened networks has been studied under the labels of 'communities of practice,' 'communities of interest' (Brown & Duguid, 1991; Orr, 1990), 'global expertise networks' or 'global leadership networks' (Sparrow, Brewster & Harris, 2004). The terms are sometimes used interchangeably. A community of practice (COP) is defined as 'a group of people who have common tasks, interact, and share knowledge with each other, either formally or informally' (Desouza, 2003: 29). The knowledge management literature tells us that, unlike more formally defined teams, these communities learn through the development of their own identities and skills. These identities and skills are generated because networks can operate in ways that allow them to create themselves and understand their own strategic trajectories. However, in order for communities to be effective, organizations have to have cultures, structures and systems that enable the acquisition of learning through such things as team processes of learning, reflection and appreciative enquiry, joint planning forums, long time-span projects, co-inquiry and discourses across

Table 7.1 The main forms of global knowledge management and theorized outcomes as integration mechanisms

Form of global knowledge transfer	Knowledge generation and creation	Knowledge capture and storage	Knowledge diffusion and transfer	Role of HR function
<i>Centres of excellence and regional headquarters structures</i>	<ul style="list-style-type: none"> • Focal point for knowledge development serving people with related skills or disciplines • New insights from client interactions and project teams • Identification of emerging practices • Concentration of resources around activities that generate mission-relevant knowledge • Role as a problem-solving unit fosters new competences as by-products of solutions 	<ul style="list-style-type: none"> • Establish standardized processes for maintaining one or several critical fields of knowledge • Advice offered on problems captured and then internalized • Networks built up around charismatic individuals provide greater legitimacy to work, facilitating capture • Finance resources that can be dedicated to the upgrading of knowledge • Codification of knowledge when supported by databases and proprietary tools, systems and methods 	<ul style="list-style-type: none"> • Remit to develop professional capability in others • Send signals about the fields of knowledge that create superior sets of capabilities • Add value to the organization by influencing resource allocation and workload systems • Progressively admit members into a 'guild' and provide a system by which key individuals keep in touch and share know-how • Develop activity in other subsidiaries/units • Bring expertise to related work, optimizing 	<ul style="list-style-type: none"> • Audit the employment/location attractiveness • Relocate staff into new countries • Consider the special terms and management conditions that should surround such units to ensure knowledge generation, capture and transfer • Assess the quality of the strategy that surrounds such units and provide advice to ensure that conditions are in place to ensure units' survival and endurance • Communicate, recognize and declare specific roles needed,

- Routinization and institutionalization of knowledge into core skills in the organization, e.g. into training processes for others
- management practices
 - Transfer intangible assets (e.g. corporate image and reputation, proprietary services, operating procedures, organizational capability)
- and articulate how they derive value for the broader organization
 - Devise performance management systems that clarify the mandate and ensure that the design enables the unit and its key actors to act in line with the mandate
 - Ensure that changes in business process/structure do not interfere with the skill intensity inside COEs
- Ensure that HRM processes allow for trust-based negotiations around the information
 - Provide incentives to share knowledge and ensure staff receive rewards for their participation in the internal knowledge market through performance

Global knowledge management systems

- Record explicit or structured data against pre-developed database logics
- Create new knowledge demands as a result of linking internal transactional systems and processes to outside stakeholders, or integrating organizational processes across
- Established around internal collaborative endeavours that require sharing of information and knowledge
 - Augment capability to identify, package, retrieve and update knowledge
 - Association with a coordinating forum, systems or processes can be used to extract
- Knowledge from within silos made more freely available
 - Social communities who participate in the knowledge expanded
 - Knowledge maintenance roles delineate and clarify the distinctive suppliers of information (individuals or subunits)

Table 7.1 (continued)

Form of global knowledge transfer	Knowledge generation and creation	Knowledge capture and storage	Knowledge diffusion and transfer	Role of HR function
	interorganizational boundaries	<p>and interpret culturally embedded knowledge</p> <ul style="list-style-type: none"> • Act as organization memory information systems by introducing documents, models and "war stories" and other artefacts into strategic exercises • (Potentially) capture and codify previously tacit knowledge (best practices, design rationales, process knowledge) into formal knowledge bases • Knowledge captured and brokered by market intermediaries, whose role is to add value to the communication 		<p>evaluations and social rewards such as status</p> <ul style="list-style-type: none"> • Manage disruption of power structures and effort-withholding behaviours • Recognize dangers of homogenization and deskilling of different knowledge groups and subsequent reduction of diversity of knowledge inside the organization

Expatriate advice networks

- Boundary spanning roles enhance social capital and generate new knowledge through access to relevant sources of information/key actors
 - Technical expertise of expatriate renewed and deepened thanks to more focused, directed information search and task pursuits
- or information flow by augmenting it
- Superior cognitive attitudinal attributes (interpretative frame/ international mindset of manager) allows access rather than denies entry to ideas
 - Richer cognitive maps about cause and effect relationships associated with global strategies lead to better capture
- Leverage expertise globally through high personal travel
 - Develop 'good' mental models of *how* knowledge and information are shared across the organization and the people with whom you must interact
 - Build high-quality networks that have strong business validity to support implementation
 - Diffuse knowledge into top teams through access to advice network and network ties (channels to informational resources)
- Develop better assessment methods of attitudinal and values facets of international mindset
 - Measure and consider social capital as part of expatriate selection, placement and performance evaluation processes
 - Mentor and assist expatriates in the development and quality of their social network
 - Monitor development of local successors and transfer of expatriate expertise (mental models) into units

International management teams

- Ideas exchange forum
 - Develop collective cognitions (team knowledge, team
- Mediate headquarters—subsidiary conflicts leading to higher
- Shift selection and development systems to a focus on superior team competencies,

Table 7.1 (continued)

Form of global knowledge transfer	Knowledge generation and creation	Knowledge capture and storage	Knowledge diffusion and transfer	Role of HR function
<ul style="list-style-type: none"> • mental models) within important decision-making forums/strategic teams • Sharing of knowledge across team constituencies creates new insights into global connectivity of organization • Produce new complementary/overlapping knowledge within team that reflects an understanding of the distribution of expertise within the wider team • Generation of new interpretations through observation of others at work, 	<ul style="list-style-type: none"> • Greater sensitivity to and capture of changing knowledge levels in all local units • Surfacing of hidden knowledge in remote sites • Integrate perceptions, judgments and opinions of group members through exchange of multiple views and the development of mutual perspective taking • Capture of knowledge more efficient because the beliefs upon which evaluative knowledge is based are more transparent • Capture of separate but parallel learning 	<ul style="list-style-type: none"> • transfer of information • Build networks of expertise and transfer knowledge through involvement of access to decision implementers • Mobilize support for and then transfer knowledge through (subsequent) initiation of collaborative global projects • Facilitate inter-unit learning as members return insights into host unit • Facilitate development of global processes and protocols to coordinate teams which are then used 	<ul style="list-style-type: none"> • e.g. information-sharing and sampling behaviours, cross-cultural team skills • Instigate team processes that capture underlying mindsets and belief structures that guide members of international teams • Foster communication processes that allow for a negotiated reality between team members • Use captured cognitions to 'educate' other parts of the organization 	

<p>conversations leading to joint problem solving, testing of ideas and resolution of discrepancies</p>	<p>experiences in a common context</p>	<p>to work out development priorities, benchmarks for other activities</p>
<p><i>Global expertise networks</i></p> <ul style="list-style-type: none"> ● Network formation/ecology reflects a bottom-up generation of new membership and expertise rather than a top-down logic about constituency relevance ● Knowledge generated through the development of unique identities and skills as networks can choose and understand their own strategic trajectories ● Reinforce a corporate culture that enables the acquisition of new learning 	<ul style="list-style-type: none"> ● Progressive processes of knowing through joint planning forums, long timespan projects, coinquiry and discussions across communities 	<ul style="list-style-type: none"> ● Learning from communities of practice acts as source of leadership for broader organization ● Networks serve developmental role and build the level of capability within a wider geographical community
		<ul style="list-style-type: none"> ● Careful management of strategic charters of networks ● Ensure there are strong team processes of learning, reflection and appreciative enquiry ● Ensure linkage of networks through formal learning transfer processes such as corporate universities, learning directors and expertise transfer roles

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communities (Elkjaer, 1999). The expert–student relationship created through headquarters control of country operations, or the presupposed constituency relevance of international teams, therefore rarely fosters effective knowledge management (Sparrow, Brewster & Harris, 2004).

A technological infrastructure to support the formation and initiation of COPs, while important, is not always necessary, and networks not strongly reliant on technical support can form an important part of strategic change processes (Sparrow, Brewster & Harris, 2004; Brewster, Sparrow & Harris, 2005). The findings of their research were as follows:

- Common global team processes (network management protocols) were established through which teams worked out their own development priorities, developed world-class and internal benchmarks against which the results of their initiatives would be compared, and formed their own networks of expertise and decision implementors.
- Once these networks were formed, and developed their own learning processes, this led to the development of protocols to ‘manage’ the network, driving subsequent consistency and communality into geographically dispersed operations through the use of a common process of ‘finding out’ what was happening, what could be learned to create a new global system, and what things going on in the business could be capitalized on.
- Global networks were used to develop organizational capability within wider geographical communities as global network leaders were tasked with getting country or local operations to a position where, if the network were no longer to provide the ideas exchange forum or service for them, the solution would still be implemented effectively.

Conclusion

Novicevic and Harvey (2001) note that the IHRM literature has generally not explained how the transition from the multidomestic MNC to a global integrated/coordinated networks changes the roles of the corporate HR function, but are clear that one of these new roles clearly has to be as managers of (or rather facilitators of) high-quality knowledge management. By way of conclusion, Table 7.1 takes each of the five forms of global knowledge management covered in this chapter and notes the role that they play in each of three knowledge management capabilities (generation, capture and transfer). The table lists a series of outcomes that (in theory) should result for each capability from each knowledge management form. In some cases the outcome may be positive or negative, depending on the actions of the organization. Table 7.1 then articulates the research agenda in the field,

in that the creation of the outcomes represent propositions that need testing and validation.

Table 7.1 also highlights some specific implications for the HR function that result from the need to manage the three knowledge management capabilities. The HR function clearly has specific expertise in ensuring that this happens and so should put itself forward as a custodian of the activities and thought processes that result from these global forms of knowledge management. We also need to test whether the prescribed HRM roles in fact take place and, if so, whether they are associated with producing the outcomes. This raises an important point. It could be argued that other functions – indeed managers themselves – should or could take on many of these roles. To some extent this is true, but experience often shows that these knowledge management activities fall by the wayside. The HR function, in its role as business partner, is, it is hoped least likely to ignore these issues.

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PART II

RESEARCH ON GLOBAL STAFFING, PERFORMANCE MANAGEMENT AND LEADERSHIP DEVELOPMENT

8 Global staffing

David Collings and Hugh Scullion

Companies operating in the international business environment are faced with a great variety of cultural and institutional variations which make managing in a multinational context particularly complex (Doz & Prahalad, 1986). Managers of multinational corporations (MNCs) are increasingly realizing the importance of HR practices in ensuring the profitability and viability of their business operations, and global staffing is increasingly seen as a primary HR practice used by MNCs to control and coordinate their spatially dispersed global operations (Dowling & Welch, 2004). Indeed global staffing has emerged as a critical issue in international management for several reasons.

First, there is growing recognition that the success of global business depends most critically on recruiting the desired quality of senior management in the MNC (Schuler, 2000). Second, staffing issues are different and more complex in the international environment (Torbiorn, 1997). Third, the performance of expatriates continues to be problematic and the evidence suggests that the consequences of poor performance in international assignments are often costly in human and financial terms (Dowling & Welch, 2004). Fourth, shortages of international managers are a growing problem for international firms and frequently constrain the implementation of global strategies (Scullion, 1994). Fifth, global staffing issues are becoming increasingly important in a far wider range of organizations partly owing to the rapid growth of SME internationalization (Anderson & Boocock, 2002). Finally, recent research shows the growing importance of staffing strategies such as inpatriation which reflect the growing need for MNCs to develop a multicultural international workforce (Harvey *et al.*, 1999b). The significance of staffing as a key HR concern in MNCs is not likely to diminish in the future owing to the rapid growth of emerging markets such as China and India (cf. UNCTAD, 2003, 2004) which is leading both to an increasing need for managers with the distinctive competences and the desire to manage in these culturally and economically distant countries and to a greater competition between MNCs for managers with the context-specific knowledge of how to do business successfully in these markets (Garten, 1997; Björkman & Xiucheng, 2002).

In evaluating the evolution of the literature on global staffing we can point to a number of key trends. Firstly, much of the early work on

international staffing was drawn from research focused on North American MNCs and the main topic of attention was the explanation of expatriate failure, a concept which has recently received an amount of critical attention (Harzing, 1995). Much of this early work was largely descriptive, prescriptive and lacking in analytical rigour. A notable exception was the work of Tung (1981, 1982) which highlighted the fact that expatriate performance was a particular problem for US MNCs. The management of expatriates continued to be a key issue in international staffing and North American academics 'set the agenda' in this field through exercising a defining influence on research and theory in this field (Scullion & Brewster, 2001). However there was growing criticism that many American-based theories implicitly assumed universality despite a large body of empirical research substantiating the cultural diversity of values and the impact of such diversity on organizational behaviour (Hofstede, 2001).

A further critique suggested that staffing policies are often developed in isolation from other expatriation policies and companies often fail to connect expatriate selection to the company's international strategy (Brewster & Scullion, 1997). More recently, however, research has shifted towards considering staffing questions in a more strategic context. In an effort to consider the range of possible headquarters–subsidiary relationships, researchers are suggesting more 'variety' (Bonache & Fernandez, 1997) in approaches to staffing and other IHRM activities, and recent work has highlighted the advantages of mixed staffing approaches rather than adhering to a particular policy. Researchers are further drawing attention to the need to consider global strategy as well as local conditions in determining appropriate staffing approaches (Bonache & Cervino, 1997). Drawing on the theoretical notions of the resource-based view, recent research has attempted to explain the strategic dimensions of expatriate selection (Bonache & Fernandez, 1999). This reflects a new body of work which illuminates the linkage between expatriate assignments and competitive advantage by highlighting the importance of the transfer of tacit knowledge to new markets. It also highlighted the need to pay attention to the international transfer of teams and not just individual managers, which conflicts with the dominant trends in the literature.

During the last decade there has also been a rapid growth of research on international staffing outside North America, and particularly in Europe, which has added to our knowledge of expatriation by contributing to a deeper understanding of the importance of context in which international staffing takes place. This is an important development as studies suggest that there are major differences between US, Asian and European firms with regard to staffing practices (Ondrack, 1985; Kopp, 1994). This

research also highlights the different staffing issues and challenges which firms face during the various stages of the internationalization process (Scullion & Brewster, 2001). Harzing's (1999) study highlights the importance of country-specific factors and reports large differences between European countries in international staffing practices. Also this study paid attention to the country of location of the subsidiary, the industry and the country of origin of headquarters as well as the characteristics of the subsidiary. While much of the research in this field is less descriptive and more analytical than earlier work, it still has an operational and practical orientation rather than a strategic orientation (Ferner, 1997).

In this chapter we will focus on some key themes and issues relating to international staffing. Following our introduction, the second section examines motives for using expatriates. The third section addresses the issues of staffing foreign subsidiaries. Inpatriation and top management staffing will be discussed in the fourth section. Finally, in the fifth section, we examine some recent developments in international staffing relating to new forms of international working as well as the strategic constraints which aspects of international staffing can have on the implementation of international strategies.

Motives for using expatriate employees

We begin our discussion by considering some of the reasons why MNCs use expatriate assignees to staff their foreign operations.¹ This is significant as empirical research has shown that the reasons why expatriates are sent on assignment may have an impact on job performances, adjustment and roles performed (Shay & Baack, 2004) although it is important to note that many assignments generally have more than one rationale (Sparrow *et al.*, 2004) while there may be few 'pure' cases whereby assignments have a singular purpose. We first consider a seminal work in the field of international staffing, the Edström and Galbraith (1977) study.

Edström and Galbraith (1977) identified three key motives for utilizing international transfers. Firstly, when qualified local country nationals were not available, particularly in developing countries, expatriates were used to fill positions. Secondly, organizations use international assignments (IAs) as a means of developing individual employees. This type of assignment is aimed at developing the global competence of the individual manager and indeed organizations utilizing this type of assignee are likely to do so regardless of the competence of employees in the host environment. Finally, IAs could be utilized as a means of organizational development. In this instance IAs are used to transfer knowledge between subsidiaries and to modify and sustain organizational structure and decision process. The significance of Edström and Galbraith's study is reflected in the fact that,

since its publication, it has formed the basis of almost all research on the functions of international assignments.

In theoretically developing Edström and Galbraith's typology, Pucik (1992) differentiates between demand-driven and learning-driven motives for expatriation. Assignments for the purposes of position filling or control are generally classified into the former category while assignments for the purposes of individual or organization development fit the latter. Drawing on Pucik's earlier work, and also taking into account the duration of international assignments, Evans *et al.* (2002) have, without empirical support, developed a framework for classifying the duration and purposes of international assignments; this is presented below (see Figure 8.1). This differentiation is important because, as Shay and Baack (2004: 218) postulate, on the basis of their empirical study: 'Managerial development reasons for the assignment will foster expatriate personal change and role innovation, whereas control reasons will focus attention on the expatriate making personal changes and on role innovation in the subsidiary.' Thus, in learning-driven assignments, the expatriate changes his/her frame of reference to adapt to the new environment and indeed adapts his/her behaviour to meet the requirements of the new environment. While in control-driven assignments, subordinates are expected to absorb the new demands of the expatriate manager and change their frames of reference, and further role requirements are adapted to meet the transferred manager's expectations (Shay & Baack, 2004).

Assignment Duration	Long	Corporate Agency Control/knowledge transfer	Competence Development
	Short	Problem Solving	Career Enhancement
		Demand-driven	Learning-driven
Assignment Purpose			

Source: Evans *et al.*, 2002: 119. Permission granted from McGraw-Hill.

Figure 8.1 *The purpose of expatriation*

Evans *et al.* (2002) posit that, traditionally, expatriate assignments were predominately demand-driven. Assignees of this type were considered either position fillers who acted as corporate agents by transferring knowledge or assisting in controlling newly established subsidiaries, or problem solvers. These assignments tend to be longer-term (that is, over three years' duration). Problem-solving expatriates perform similar roles but they are categorized as such by the singular purpose and duration of their assignment, which is determined by the length of time required to complete a specific task. These assignments are generally driven by short-term or start-up problems. Demand-driven assignments are usually utilized where there is a lack of suitably qualified host-country national's (HCNs) and are teaching-driven.

As the name would suggest, learning-driven assignments focus on learning rather than teaching. These assignments become more common as subsidiaries develop local managerial and technical capability, and the initial skills gap experienced by the firm reduces. Again learning-driven assignments can be categorized by duration and purpose. Assignments whose purpose is to increase cross-national, organizational coordination capabilities are generally longer-term assignments with the focus on developing a global mindset within the organization (see, for example, Osland *et al.* in this volume). Finally organizations are increasingly identifying high potential employees who, as part of fast track career programmes, are provided with the opportunity to gain international experience through short-term foreign assignments. These assignments are aimed at enhancing the careers of the employees concerned.

In examining the empirical evidence on the utilization of expatriates for demand-driven assignments we can point to a number of key trends. Firstly, Harzing (2001a) found a clear and consistent link between home and host countries and the purpose of expatriate assignment. Specifically she found that US and UK MNCs were most likely to utilise parent country nationals (PCNs) in position-filling roles, and thus IAs were demand-driven in these companies. The use of PCNs as position fillers was also more common in developing countries where local expertise was not available. Control and coordination-driven assignments emerged as the more significant in Japanese and German MNCs.

Looking next at learning-driven assignments, there is a growing emphasis on developing a global mindset in managers of MNCs in the IHRM literature. This global mindset is achieved primarily through learning-driven assignments. Thus these assignments are gaining increasing research attention in the literature. They were most common in German, Swiss and Dutch firms in Harzing's (2001b) study, where the emphasis was on individual management development. Learning-driven assignments have,

however, recently received some critical attention in the literature. Indeed, on the basis of their empirical study, Shay and Baack (2004: 228–9) argue: ‘It is not apparent that making an expatriate assignment for managerial development reasons results in any additional benefits than are already delivered by an assignment made for control reasons.’ Thus they postulate that expatriate assignments should be made ‘primarily, if not exclusively, for control reasons’ (ibid.). They argue that linking expatriate assignments to control objectives helps to identify a link between the assignment and operational effectiveness of the firm and, thus, debates about the need and value of these assignments may be reduced or even eliminated.

Staffing foreign subsidiaries

Having examined the reasons why MNCs use expatriates in their foreign subsidiaries, we will now take a more strategic focus and look at the factors which influence the composition of senior staff in multinational subsidiaries. We take Perlmutter’s (1969) seminal paper as our point of departure in this regard. Perlmutter introduced a classification of multinationals which differentiated between firms on the basis of their attitude toward the geographic sourcing of their management teams. Initially he identified three approaches to the staffing of MNCs: *ethnocentric*, where all key positions in subsidiary operations are filled by parent-country nationals (PCNs) or citizens of the country where the HQ is located; *polycentric*, where foreign subsidiaries are primarily staffed by host-country nationals (HCNs) or managers from the subsidiary location; and *geocentric*, which involves filling positions at both HQ and subsidiary level with the ‘best person for the job’ regardless of nationality; in later work he introduced a fourth approach, the *regiocentric* approach, where organizations are conceptualized on a regional basis and managers are generally selected on the basis of ‘the best in the region’ with international transfers generally being restricted to regions (Heenan & Perlmutter, 1979).

It is important to remember that this typology is primarily concerned with staffing policies for key positions within the MNC, and thus its focus is on top management team (TMT) positions at HQ and subsidiary locations (Torbiorn, 1985; Harzing, 2004). Furthermore the typology represents a number of ideal types of organization and it is unlikely that many MNCs will exactly fit any of the ideal types; indeed most organizations will display elements of more than one type (cf. Bonache & Fernandez, 1999). Nonetheless Perlmutter’s work provides a useful starting point and indeed Schuler *et al.* (1993) posit that, by managing the mix of PCNs, HCNs and third-country nationals (TCNs) (nationals of one country, working in a second country and working for an MNC headquartered in a third country) (Gong, 2003b), an MNC may increase its

ability to achieve learning, innovation and corporate integration. While a discussion of the advantages of filling key positions with these categories of managers is beyond the scope of this chapter owing to space restrictions (cf. Harzing, 2004: 253–6; Dowling & Welch, 2004: 63, for a discussion), we focus on the factors which influence the use of HCNs, PCNs and TCNs in filling key positions in MNCs.

In interpreting the findings of the studies referred to below it is important to be cognizant of a number of broadly consistent limitations of the literature on the broad area of international assignments. Firstly, many studies in the field fail to analyse the link between the expatriate policies pursued by the company and the international strategy of the company (Bonache *et al.*, 2001; Sparrow *et al.*, 2004), a consideration that we will return to below. Secondly, the literature has primordially focused on single aspects of the expatriate cycle and thus the literature is quite fragmented in parts. With a few notable exceptions (cf. Harzing, 2001b) the studies in this field are limited because of their small sample sizes. For example, Black's (1988) influential study was based on a sample of only 77 respondents. The data in these studies are also generally self-report data and thus there have been calls for more rigorous research designs to control better for cultural biases (Schuler *et al.*, 2002).

Although the evidence is not conclusive in a number of areas, a number of broadly consistent themes emerge in relation to staffing debates in MNCs (cf. Thomas, 1998, for a discussion of contradictions in the literature). We look first at the impact of an MNC's country of origin on the debate. At one extreme Japanese organizations are consistently identified as the most likely to utilize PCNs in key positions in subsidiary operations (Tung, 1982; Harzing, 1999). Perhaps surprisingly, given that it has been argued that ethnocentrism is inherent in US-based organizational theory and management education (Boyacigiller, 1990), US organizations represent the other extreme and they generally have lower levels of PCNs in subsidiaries than their Japanese and European counterparts (Harzing, 1999; Young *et al.*, 1985; Tung, 1982). It has been argued that the reduction of expatriates in US subsidiaries, which was largely in response to a posited high expatriate failure rate of US MNCs, had gone too far, resulting in problems of coordination and identity with corporate strategic objectives (Kobrin, 1994). While it has been argued that the majority of European firms rely heavily on PCN presence (Mayrhofer & Brewster, 1996; Scullion, 2001) it is important to note that the European case is one of heterogeneity, with empirical evidence suggesting that German firms are closer to the Japanese model while UK firms are more akin to their American counterparts (cf. Harzing, 1999). It has also been argued that pragmatic rather than strategic considerations influence staffing patterns in European MNCs (Torbiorn, 1994).

The host country also emerges as a significant moderating factor on the use of PCNs. In this regard, the extant research points to a lack of suitably qualified HCNs, particularly in developing countries (Harzing, 2001a; Boyacigiller, 1990) and also lower levels of educational attainment (Gong, 2003a; Harzing, 2004) as significant predictors of the presence of PCNs in key positions. If, however, the knowledge and skills required are generic, MNCs may train HCNs relatively easily and thus may not be required to utilize PCNs (Gong, 2003a), an option which may become more popular in the context of drives to reduce the cost of expatriate assignments (cf. Brewster & Scullion, 1997) and the fact that assignments in developing countries are increasingly being recognized as difficult assignments for expatriate managers in terms of quality of life and cultural adjustment (cf. Harvey *et al.*, 2001). Thus one needs to differentiate between generic, technical knowledge and corporate, context-specific resources such as corporate culture and managerial process. In the case of the latter the use of PCNs is called for because of their socialization into the company and also the potentially smaller shared knowledge base in developing countries (Gong, 2003a).

The cultural distance between the home and host country is also positively correlated to the use of PCNs in key positions in subsidiary operations (Gong, 2003a; Boyacigiller, 1990) although cultural distance raises a number of issues with regard to the willingness of PCNs to accept assignments. Harvey *et al.* (2001) argue that overseas work in developing countries may represent particularly challenging assignments for PCNs, particularly in terms of cultural adjustment. Thus they call on MNCs to focus on the possibility of hiring HCNs and TCNs and socializing them into the MNC through assignments in the HQ, a process they term 'in-patriation'. This, they argue, potentially increases subsidiary performance and minimizes the risk of costly expatriate failures. In considering the possible reasons why cultural distance may mediate the use of PCN employees, one can point to a number of plausible explanations. For example, the HQ may not trust employees in the host environment because of the dissimilarities in culture. This represents a promising area for future research and studies could focus on measures of trust or the proxy measure of confidence in subsidiary (HCN) managers while controlling for cultural distance.

On balance, the age of the subsidiary also appears to have an impact on the nationality of staff in key positions. While Boyacigiller (1990) found no relationship between the age of the subsidiary and the penetration of PCNs, a growing body of research points to an inverse relationship between the age of the subsidiary and the presence of PCNs in key subsidiary positions (Franko, 1973; Harzing, 2001a; Gong, 2003a). Thus the longer the

subsidiary is in operation the lower the penetration of PCNs, although it is important to note the potential impact of other factors such as cultural distance on this finding. Closely related to age is the stage in the internationalization process through which the MNC is passing. Welch (1994) found that organizations' staffing requirements change to meet organizational needs as firms pass through different stages of the internationalization process (see also Adler & Ghadar, 1990; Milliman *et al.*, 1991). It is also apparent that the number of PCNs utilized by MNCs in the early stages of internationalization for control purposes is high; it then tends to grow for a short period and then levels off at a level necessary to ensure continuity in the international environment (Briscoe & Schuler, 2004).

A final area which requires consideration is the role of internationalization strategy on subsidiary staffing requirements. Studies in this area have generally failed to consider the impact of the internationalization of business on corporate HR roles. A notable exception was Scullion and Starkey's (2000) empirical study of 30 UK MNCs which examined the role of the corporate HR function specifically in the context of the international firm. They identified three distinctive groups of companies: centralized HR companies, decentralized HR companies and transition HR companies. The role of strategic staffing in each of these approaches will be discussed below.

The first group, the centralized HR companies, comprised ten companies with large corporate staffs operating in a large number of countries which were characterized by a high degree of coordination and integration of their foreign operations. These firms adopted a strategic approach to global staffing and centralized control was maintained over the careers and mobility of senior management positions worldwide, reflecting an increasingly strategic role for the corporate HR function. International assignments were increasingly linked to the career development process which became increasingly important for developing high-potential HCN and TCN managers (Evans & Lorange, 1989) (see the section on inpatriation below).

The second group, comprising 16 companies, operated with a decentralized approach which reflected the trend towards a reduction in the size of corporate offices in many UK organizations (Goold & Campbell, 1987; O'Donnell, 2000). These companies tended to have a small number of corporate HR managers who undertook a more limited range of activities than their counterparts in the first group. However a key finding of the research was that two-thirds of the decentralized companies reported an increased influence of corporate HR over global staffing, and in particular over the management of top management and senior expatriates in the previous five years, reflecting a shift away from the highly decentralized approach of the early 1990s (Storey *et al.*, 1997). In these firms the coordination of international transfers of managers was more problematic owing

to greater tensions between short-term pressures and long-term strategic management needs. Empirical research highlighted a number of staffing strategies and methods which were used to address this problem, including job rotation, developing informal networks, forums to encourage cross-border transfer of knowledge and learning and, finally, encouraging other informal communication channels (Paauwe & Dewe, 1995).

The final group, the transition HR companies, comprised four highly internationalized companies who had grown mainly through acquisitions. They were transition HR companies in the sense that they were in the process of shifting away from the highly decentralized approach adopted in the first half of the 1990s. There was a greater degree of central control over global staffing, including the management of expatriates, than in the decentralized companies, and strategic staffing had emerged as an important issue thanks to the growing importance of international acquisitions. This supports recent findings which call into question the view that central control over staffing in the international firm has been abandoned (Arkin, 1999).

While this list is not exhaustive, and indeed it has been argued that we have 'a very incomplete picture of what might motivate firms to fill a position with an expatriate' (Thomas, 1998: 240), we point to a number of key variables which may affect the staffing of key positions in multinational subsidiaries. In developing research in this field we can point to a number of useful areas for future study. Firstly, research could focus on the impact of cultural and institutional distance on staffing decisions. Currently most of the literature in this regard is overly reliant on theorizing, without adequate empirical foundation. As noted above, research could also examine the link between corporate strategy and subsidiary staffing decisions. In particular these studies could focus on the strategic antecedents and outcomes of staffing decisions. Longitudinal studies of individual expatriate assignments through the entire expatriate cycle would be a useful addition to the literature. Qualitative studies could prove particularly useful, because most studies in this field to date have been mainly quantitatively based. While these studies are useful in providing a broad picture of the key patterns with regard to patterns and trends in expatriation, they are less useful in determining some of the underlying factors behind specific phenomena such as the adjustment/performance of expatriates. Well developed qualitative studies, which triangulate findings through cross-level interviewing could shed new light on these debates, and also help to reduce the criticism of self-report biases levelled at many quantitative studies. Finally research could focus on the link between foreign market entry strategy and staffing policy, an area which is likely to be of increasing importance given the increasing evidence of cross-border mergers and acquisition (cf. Schuler *et al.*, 2004).

Top management staffing and inpatriation

In this section the role of inpatriation and strategic top management staffing will be discussed and linked to the previous discussion on the role of the corporate HR function in the international firm. The majority of the extant literature focuses on staffing multinational subsidiaries as opposed to headquarter operations. Indeed there is a paucity of research on the role of HCNs and TCNs in corporate top management teams (Evans *et al.*, 2002). Changes occurring within the globalization process have rendered traditional bureaucratic and unidirectional models of management staffing in MNCs less suitable for organizations operating in the global sphere (Harvey *et al.*, 2000) and this lack of global orientation also represents a constraint on the success of MNCs in the global business environment.

The practice of developing HCNs and TCNs through developmental transfers to corporate HQ, that is, inpatriation (Harvey *et al.*, 1999b), was becoming increasingly important in global firms referred to above. In these firms the growing importance of inpatriation as a strategy for developing the talent pipeline across global operations reflected an increasingly strategic role for management development. While inpatriation was also being used in the decentralized multinationals, this was often in the early stages of development, less systematic and more limited in scope compared to the global companies. In practice the implementation of inpatriation strategies in the decentralized businesses was more problematic because of the weaker corporate HR role in staffing and management development. Inpatriation was established as a more significant international staffing practice in the transition HR companies as their staffing strategy became more global, reflecting the more global orientation of their international strategy. The growing use of inpatriation strategies in such companies also reflected the shift away from decentralization with respect to strategic staffing and reflects the growing integration and coordination of foreign operations in globalizing companies (Scullion & Starkey, 2000).

There is a growing body of literature on inpatriation and it has been suggested that the impact of inpatriate managers may be more significant than the impact of the well-researched area of expatriate managers. This is because the majority of MNCs retain a large percentage of their personnel, production operation and research and develop capability in their home country (UNCTAD, 2003). The key drivers of the recruitment of inpatriate managers include (a) a desire to create a global core competency, a diversity of strategic perspective, or a multicultural frame of reference amongst the top management team (Harvey & Buckley, 1997; Harvey *et al.*, 1999b); (b) the emergence of developing markets, which, as noted above, are increasingly being recognized as difficult assignments for expatriate managers in terms of quality of life and cultural adjustment and thus less

likely to be accepted by traditional expatriate pools (cf. Harvey *et al.*, 2001; Peterson, 2003); (c) a desire to increase the capability of organizations to 'think global and act local', which can be aided through including inpatriate managers in the decision-making process at HQ level (Harvey *et al.*, 1999b) and (d) the provision of career opportunities for high potential employees in host countries. The growing use of host and third country nationals was also increasingly linked to a more strategic approach to management development in the global environment (Harvey *et al.*, 1999b). Inpatriate managers not only provide a subsidiary perspective on decision making within the organization but also assist in a number of other strategic issues within the MNC (Reynolds, 1997).

Inpatriate assignments are not without their problems, however, and their successful integration into the HQ team presents a number of significant challenges for the MNC. Although it has been argued that the challenges associated with selecting and managing inpatriate managers are the same as those associated with expatriates, except in reverse (Briscoe & Schuler, 2004), a review of the literature would suggest that, while some of the issues are similar, the process is more complex. Specifically inpatriates not only have to adjust to a different external cultural environment, they may also be newcomers to the organization and thus may also have to adjust to the organizational culture (Harvey *et al.*, 1999a). Also, while PCNs assigned to subsidiaries also enhance their status as HQ employees in gaining acceptance in foreign operations, inpatriates may find they are not as well received in the HQ operation (*ibid.*). In addition, HQ employees may fear a loss of authority or power to successful inpatriates, which could lead to the former withdrawing cooperation and thereby limiting the effective integration of inpatriate employees (Harvey *et al.*, 1999b). In summary, while inpatriate assignments are not without significant challenges, there are a variety of reasons (discussed above) which suggest that they are likely to become a more common alternative for staffing in MNCs in the future. These issues will be increasingly important areas for future research in global staffing.

Discussion

This section will briefly discuss some of the major international staffing challenges and constraints faced by international firms who seek to develop a pool of global managers. It will highlight the strategic importance of these constraints in relation to the implementation of global strategies. These issues are becoming more significant as shortage of international management talent emerges as a critical strategic issue for many international firms and often constrains the implementation of global strategies (Evans *et al.*, 2002).

We begin by looking at constraints on the supply of international managers. First, we consider the position of women in international management. Despite the growing shortages of international management talent (Scullion, 2001), the evidence suggests that the participation of women in international management remains relatively low (Taylor *et al.*, 2002) and many women are denied opportunities to expand their career horizons through access to international careers (Adler, 2002). As global competition intensifies, competition for global leaders to manage overseas operations will steadily intensify and MNCs must develop new ways to identify, attract and retain new pools of international executive talent (Black *et al.*, 2000; Mayrhofer & Scullion, 2002), yet recent studies suggest that important formal and informal barriers remain to increasing women's participation in international management (Linehan, 2002).

The repatriation of managers has also been identified as a major strategic staffing problem for multinational companies in Europe and North America (Black *et al.*, 1999), and research shows that the failure by many companies to address this issue impacts adversely on the supply and staffing of international managers. There is growing awareness that potential expatriates will be more reluctant to accept the offer of international assignments in companies which fail to handle repatriation issues effectively (Scullion, 1994). Black *et al.* (1999) show that, while retention of expatriate managers was a growing problem for many US MNCs, in recent years the repatriation problem had also become more acute for European MNCs because internationalization had often taken place at the same time as downsizing of the domestic business, which reduced opportunities for expatriate managers on re-entry (Scullion, 1994). Studies confirm that many firms continue to adopt ad hoc approaches to repatriation and suggest the need for MNCs to develop a more strategic approach to repatriation and international career management (Lazarova & Caligiuri, 2001).

The growing barriers to international mobility are a further constraint on the ability of MNCs to implement their internationalization strategies. The demand for expatriates is increasing steadily, but the availability of people who are willing to accept global assignments is not increasing at the same rate (Adler, 2002). For many MNCs, finding the required numbers of people with the desired competencies for international assignments is a major strategic international HRM challenge (Gupta & Govindarajan, 2002). A recent review indicated that international mobility was becoming more of a problem in many firms due to several factors including uncertainties associated with re-entry, the growing unwillingness to disrupt the education of children, the growing importance of quality of life considerations and, finally, continued uncertainty regarding international terrorism and political unrest (Scullion & Linehan, 2004). There is some evidence to

suggest that families are less willing to disrupt personal and social lives than was the case in the past (Forster, 2000). Dual career problems are also seen as major barriers to future international mobility in many different countries and pose considerable restrictions on the career development plans of multinationals (Harvey, 1998). The changing nature of the barriers to international mobility and their impact on international staffing is another promising area for future research.

Finally there is a need to comment briefly on the emergence of non-traditional forms of international assignment. There is a need to go beyond studying the traditional expatriate assignment in order also to examine the emergence of newer, shorter-term, international assignments. An excellent review of the different types of international assignment is provided in the chapter by Welch and Worm in the present volume. The two main reasons for the growth of non-standard forms of international assignment are the shortage of managers willing to accept long-term international positions (see above) and the high costs of expatriation (Dowling & Welch, 2004). The management of staffing issues in non-traditional and non-standard international assignments is a promising area for future research and the research questions around the psychological contract in these newer forms of international assignments are particularly challenging (Scullion & Pate, 2005). Recently there has been a rapid growth in virtual international teams, which are being utilized to help global firms to use the best talent wherever it is located (Welch & Welch, 1994). However, while there is a consensus that the capacity to develop and maintain trust-based relationships is critical to the performance of virtual organizations in the international context, role conflict, dual allegiance, identity issues and establishing trust have been identified as important areas for future research with respect to the management of virtual teams (Clases *et al.*, 2004).

Note

1. In explaining the choices management make we assume a bounded rationality perspective (cf. Simon, 1957, 1982). Specifically, in making decisions regarding staffing subsidiaries, managers make rational decisions based on the information available. These decisions generally centre on maximizing the profitability of the subsidiary. The decisions are bounded as management may have imperfect information and limited mental schemas in making these decisions. An alternative perspective would be an institutional view where management make decisions based on seeking legitimacy from other external stakeholders which leads to mimetic effects.

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9 The compensation of expatriates: a review and a future research agenda

Jaime Bonache

The academic research on the compensation of expatriates is an under-developed area. In a review of recent developments in international management in the 20 top management journals from 1996 to 2000, Werner (2002) has shown that the literature on expatriation has focused recently on a wide number of issues, including assignment acceptance (Aryee *et al.*, 1996), concerns and expectations of dual career expatriates (Harvey, 1997), adjustment (Caligiuri *et al.*, 1998; Shaffer *et al.*, 1999), psychological withdrawal (Shaffer & Harrison, 1998), pre-departure thoughts (Garonzik *et al.*, 2000), and commitment (Gregersen & Black, 1996). However no study focusing on expatriate compensation can be found in those journals in recent years. Going back further, we find this same lack of academic literature on this issue. For example, of 174 references selected in the early 1990s from *The International Journal of Human Resource Management* (May, 1994) on issues specially related to international HRM, only one of them (Reynolds, 1986) dealt with the compensation of expatriates in MNCs. This is in sharp contrast to the abundant references that exist from that same time on managerial compensation in the domestic human resources literature. In this field, according to a study by Gómez-Mejía (1994), more than 300 empirical studies on the determining factors of managers' compensation could be found.

To find analyses of this issue, it is necessary to refer to magazines and work more oriented towards practitioners (Becker, 1993; Bishko, 1990; Burns, 2003; Crandall & Phelps, 1991; Freeman & Kane, 1995; Hodgetts & Luthans, 1993; Hymer, 1993; O'Reilly, 1996; Reynolds, 1997, 2000; Senko, 1994; Wentland, 2003). This work reflects the concerns of professionals and there prevails a highly applied and descriptive orientation, focused on 'how' MNCs compensate their expatriates rather than on the causes and effects of their compensation strategies. Two issues dominate this highly descriptive literature: the difficulties that are encountered when designing an expatriates' pay system, and the approaches and elements usually included in an international compensation package. We will begin by reviewing these two issues and, after that, we will point out some areas that may guide further study.

Challenges and objectives

Designing a pay system is always a challenging process, but doing so in multinational corporations (MNCs) is particularly complex and difficult (Harvey, 1993a, 1993b; Suutari & Tornikoski, 2000, 2001). A set of situational factors not normally encountered in a strictly domestic situation must be taken into account when designing the compensation package of an expatriate. For example, the nationality of the individual, their family situation (number and ages of their children, work situation of the spouse), floating exchange rates, differences in living costs, taxes and inflation rates, the need to reconcile home and host-country laws and regulations for compensation and benefits, and the geographically imposed problems of communication and control are all of great importance. These issues increase the complexity of the situation, and the information needed as regards the individual and his/her destination (Suutari & Tornikoski, 2001).

In addition to these situational factors, there are a number of objectives that must be incorporated in the design of expatriates' pay packages. According to Freeman and Kane (1995) and Suutari and Tornikoski (2001), an ideal expatriate compensation system should include five main objectives: (1) to attract personnel in the areas where the multinational has its greatest needs and opportunities, (2) to facilitate the transfer of international employees in the most cost-effective manner, (3) to be consistent and fair in the treatment of all its employees, (4) to facilitate re-entry into the home country at the end of the foreign assignment, and (5) to contribute to organizational strategy (that is, to support organizational goals, foster corporate culture and help motivate employees to contribute their efforts to further organizational success). Taken individually, these objectives seem logical and achievable. However the implementation of one may well contradict another. As an example, let us consider the first objective in relation to the others.

Attracting personnel to international service by offering generous compensation packages is a widespread practice in many MNCs (Aryee *et al.*, 1996; Toh & Denisi, 2003; Bonache, 2005). This initiative is designed to break the frequent barriers to international mobility. In addition to family and personal issues (such as the growing unwillingness to disrupt the education of children and the growing importance of quality of life considerations; see Black *et al.*, 1992; Shaffer *et al.*, 1999), and the continued uncertainty regarding international terrorism and political and social unrest of certain destinations (Scullion, 1995), it is well documented that the career implications of international assignments are often frustrating. A lack of respect for acquired skills, loss of status and reverse culture shock upon return are recurring problems in many companies (Daily *et al.*, 2000;

Stahl, Miller & Tung, 2002). Because of these barriers, a logical way of encouraging individuals to accept a foreign assignment is to provide generous compensation packages for expatriates.

Yet this way of attracting individuals to the international service may conflict with other objectives of the system. Firstly, it leads to costly assignments. This, in turn, puts an economic strain on the company, and finally leads it to reduce the costs of assignments, in an attempt to save money. In doing so, the company might also reduce the pool of qualified candidates, thereby making the recruitment process all the more difficult (Hamil, 1989; Suutari & Tornikoski, 2001). Thus there is tension in the achievement of the first two objectives of the system. Second, it might also conflict with the repatriation objective. The incentives and allowances designed to encourage employees to take up a foreign assignment are not sustained when the expatriate return home, leading to a substantial loss of income. In fact, such a loss of income is cited as one of the main difficulties upon return (Harvey, 1989). In other words, a less attractive pay package facilitates re-entry but reduces the ability of the company to attract employees for the international service. Finally, the generous incentives designed to help attract overseas employment have the side-effect of creating large pay gaps between expatriates and local employees. The less fortunate position of the local employees relative to that of the expatriate may damage their perceptions of the company's procedural and distributive justice (Chen *et al.*, 2002; Toh & Denisi, 2003), thus failing to achieve the objective of fairness.

That some empirical studies have pointed out the relative dissatisfaction with the expatriate compensation system (Harvey, 1993b) is perhaps the logical consequence of the difficulty of satisfying objectives that may work in opposite directions. As in many other areas of human resources, the compensation policy for multinational expatriates is bound to confront various dilemmas and conflicts. For example, the company faces the potential conflict of maintaining some form of internal equity while providing sufficient incentive to attract and motivate overseas assignees (Torbiorn, 1982; Toh & Denisi, 2003). There is no magic formula that can solve these dilemmas, and so one should be wary of those who present this area of management as a science, with which one can limit oneself to applying technical solutions.

Approaches and components

Bearing in mind the situational factors and objectives outlined above, the MNCs have a number of ways to deal with the retribution of expatriates (Reynolds, 1986; Dowling & Schuler, 1990). Each way reflects the MNCs' priorities when paying expatriates. Three main approaches, each with its

Table 9.1 *Retribution approaches and their impact on compensation objectives*

Objectives of an international compensation system	Retribution approach		
	Host country	Home country	Global
1. To attract personnel for the international service	–	+	+
2. To be cost-effective	+	–	–
3. To be fair			
with respect to local employees,	+	–	–
with respect to other expatriates from a different nationality in the same location,	+	–	+
with respect to other expatriates in another location	–	+	+
4. To facilitate re-entry	–	+	–
5. To support the company's international strategy	0	0	0

Note: + = positive impact, – = negative impact, 0 = irrelevant.

strengths and weaknesses in achieving the five objectives (see Table 9.1), have been developed. The first is the *host-country approach*. The main intention of this approach is to fit the expatriate into the assignment location salary structure. This approach is satisfactory when a number of eligible candidates for the particular position have a personal interest in living abroad, and so a local salary does not seem unattractive. In addition to reducing costs, this approach helps to create a sense of equity between expatriates and local employees, since nobody feels underprivileged. However this method only has limited use in motivating international mobility, as worldwide variations and the consequent inconsistencies may inhibit the transfer of expatriates. This approach is usually adopted when the expatriate has become replaceable by a local hire but wants to remain abroad for personal reasons (O'Reilly, 1996).

The second is the *global approach*. The intention is to pay on an international scale, with allowances derived from that base. An international basket of goods would be used across all expatriates regardless of country of origin (Freeman & Kane, 1995). This approach is most relevant in the case of expatriates who are expected to move to more than one foreign country, thereby losing direct connection with either their home country or their host country grading and pay structure (O'Reilly, 1996). The high

costs and difficulties of re-entry are often mentioned as the main shortfalls of this system (Dowling & Schuler, 1990).

The third is the *home-country approach*. The idea of this approach is to provide the expatriate with equivalent purchasing power abroad in order to maintain his/her standard of living in his/her home country. This is consistent with the so-called balance sheet approach (Senko, 1994). This system applies home country deductions and pays differential allowances (cost of living differential, housing allowance) to arrive at net disposable income which should maintain the expatriate's home country standard of living.

According to the 2002 Worldwide Survey of International Assignment Policies and Practices, conducted by the Organization Resources Counselors, Inc. (ORC), a New York-based consulting firm, most companies report that their intention is to provide expatriates with equivalent purchasing power abroad to help them maintain a home country lifestyle. This is the common practice among 70 per cent of European, 65 per cent of Asian, and 79 per cent of North American companies. The advantage of this approach is that, by keeping expatriates in line with conditions at home, they can readily fit back into their home country after their overseas posting. In addition, it enables a company to achieve worldwide consistency in its expatriate employment practices. However it is not without drawbacks, which arise when different nationalities work together in similar jobs. Yet there exist solutions to this problem too. For example, Endesa, a Spanish electrical company, gets around this problem by giving all peer group expatriates the same host country element, such as housing or goods and services allowance.

Moreover the home country approach is expensive, especially for some nationalities. For example, American expatriates are usually subject to higher income taxes abroad. The maximum marginal rate in the USA is 31 per cent, compared with 65 per cent in Japan, 53 per cent in Germany and 45 per cent in Spain (Mercer HR Consulting, 2003). Maintaining the same level of net salary entails receiving a higher level of gross salary. The employers will have to carry that cost as part of the assignment terms. One should consider the possibility that these higher costs of expatriates of some nationalities influence recruitment policies. For example, according to a survey by Kopp (1994), American MNCs are less inclined to use expatriates than their European and Asian counterparts. Although there are no figures to back up this supposition, it could be the case that the reason for the ethnocentricity of many North American companies is not only their general philosophy, but also economic factors.

Though we know the prevalence of the above three approaches in MNCs, we do not know the reasons or determinants that lead companies to adopt them. Nor do we know the connection they may have with the

international strategy of the MNC. Despite the claim that expatriate pay should be consistent with the overall strategy of the MNC (Freeman & Kane, 1995; Reynolds, 1997), the truth is that no indication is provided as to how the design of expatriate compensation packages can help to implement the company's international strategy (Bonache & Fernández, 1997). This omission regarding the connection between compensation and strategy was noted from the beginning of the literature on expatriation. Thus Edstrom and Galbraith (1977: 253) justify the omission of the compensation system from the strategic dimensions involved in international transfers as follows: 'Compensation packages . . . do not differ with reasons for transfers; that is, all companies use compensation to maintain the expatriate's standard of living or slightly better it.' Subsequent empirical research has been developed along the same lines. For example, Welch (1994), in her analysis of four Australian multinational firms, showed that, in spite of their differences in strategy, all four adopted a standardized focus on expatriate compensation (the balance sheet). More recently another empirical study (O'Donnell, 1999) showed that few firms appear to be using compensation programmes as a tool for implementing subsidiary strategy. Many companies limit themselves to using only standard compensation policies.

These 'state of the art' compensation policies, mentioned by O'Donnell (1999), consist of including in the compensation package a series of key ingredients, such as cost of living and housing allowances, foreign service premiums (mobility premium, hardship pay), income tax reimbursements, assistance programmes (education, shipping and storage, travel and club membership) and performance incentives (for a detailed description of how these elements are typically built and combined in a compensation package, see Suutari & Tornikoski, 2000). The ORC 2002 survey (European edition) documents the prevalence of these different elements in an expatriate compensation package (see Table 9.2).

The sum of all these elements allows us to understand the high costs incurred by employing expatriates. The data are quite compelling. The average compensation package of expatriates, according to Reynolds (1997), is two to five times as much as that received by their counterparts at home, and a great deal more than that received by the local nationals in the developing countries. For instance, in China, it was estimated that expatriates earned between 20 and 50 times more than local employees (Chen *et al.*, 2002). Likewise, in a survey conducted in 1996 by the Conference Board, more than two-thirds of the 152 respondents reported that expatriates cost at least three times their salary.

Given such high costs, it is usual to debate the different ways or initiatives that companies can use to reduce the cost of expatriation, ways that

Table 9.2 Compensation components in European MNCs

Elements	European MNCs n = 187
Cost of living and housing allowances	
Cost of living allowance (COLA)	86%
Housing	
Free assignment housing	44%
Other (for example, housing differential)	48%
Foreign service premiums	
Mobility premium	
For moves within the same continent	56%
For moves from one continent to another	60%
Hardship pay	57%
Income tax reimbursements	
Tax policy	
Tax equalization	65%
Tax protection	8%
Tax free	4%
Other (for example, laissez-faire)	23%
Assistance programmes	
Education allowance	
Always	44%
If no suitable free education is available	47%
Shipping and storage cost	
Shipping costs	96%
Storage costs	75%
First or business class air travel	
For senior management	49%
Other expatriates	19%
Club membership	
For senior management	59%
Other expatriates	39%
Performance incentives	93%

Source: Based on 2002 *Worldwide Survey of International Assignment Policies and Practices*, European edition, Organization Resources Counselors.

will help to minimize or eliminate some of the items in Table 9.2. Among these initiatives, one should mention the following:

- *Selection initiatives* To employ a greater number of local employees, expatriating only the most essential personnel (Dowling &

Schuler, 1990). Organizations should establish a selection process which ensures that only employees who are interested in expatriate assignments are assigned to overseas positions (Wentland, 2003). The consequence of this would be that foreign service premiums, hardship premiums and cost-of-living adjustments would be paid only to employees who accept assignments in undesirable or hazardous locations. Within Europe, where standards of living are converging, this initiative is relatively easy to implement, although there remain differences in tax systems, housing and education standards.

- *Career planning initiatives* An alternative to selection initiatives is to require managers to have international experience as a criterion for promotion to higher-level positions (Bonache & Fernández, 1997; Yan *et al.*, 2002). This is fairly straightforward when dealing with a certain type of expatriate. Younger employees can be required to possess international experience if they want to move up the career ladder. They may then give up short-term earnings in exchange for long-term benefits. However this initiative is not viable when dealing with more mature employees.
- *Shorter assignments* The figures show that short-term assignments are cheaper (Suutari & Tornikoski, 2001), as they do not include many of the items in Table 9.2. Perhaps because of this many MNCs have increased the use of short-term assignments (Bonache *et al.*, 2001).

Future research issues

The components included in Table 9.2, as well as the different alternatives that exist in each one of them, are the topics that attract the attention of professionals in this area. Often the focus is on the relative advantages of, for example, tax equalization (the employee pays no more or no less than he or she would have paid in the home country) over the tax protection policy (employee pays no more than he or she have paid in the home country, but may pay less in certain situations), or on the advantages of offering free housing over other alternative housing policies (for example, the company may pay a housing differential).

Though these issues will continue to attract the attention of practitioners, there are a number of topics which should also attract academics' interest and guide future research in this area. We will classify such topics around four main issues: satisfaction with expatriate packages, cost-efficiency, justice and strategy. The following is a brief analysis of these themes as well as the theories that can support their investigation.

Satisfaction with expatriate compensation packages

As has been mentioned before, MNCs often offer generous compensation policies to encourage international mobility. It would be reasonable to expect that this would lead to a high level of satisfaction among expatriates regarding their compensation. The evidence on this point is, however, contradictory. Suutari and Tornikoski (2001) studied the sources of salary satisfaction and dissatisfaction among Finnish expatriates and report a high degree of satisfaction among expatriates with the principles and levels of their compensation packages. Other studies on expatriates' attitudes, however, have uncovered low levels of salary satisfaction among these workers. For example, Black *et al.* (1992) assert that 77 per cent of expatriate employees are highly dissatisfied with their compensation systems. Similarly Hamil (1989) suggests that these low levels of salary satisfaction might explain the high rates of expatriate failure that have been widely documented by the international management literature. The issue of salary satisfaction among expatriates clearly deserves more attention.

Salary satisfaction can be explained in terms of the social comparison theory (Festinger, 1954; Adams, 1965). This theory asserts that satisfaction is a function of how 'fairly' an individual is treated at work. Satisfaction results from one's perception that work outcomes, relative to inputs, compare favourably to another's outcomes/inputs. Dissimilar ratios lead to perceptions of inequity. This proposition implies that the same organizational circumstance may be perceived as fair or unfair depending on which individual or group of individuals the worker chooses to compare himself to. Accordingly, a main concern when analysing people's satisfaction with their salary is identifying the referent used in the individual's comparisons (Chen *et al.*, 2002). The problem faced by expatriate workers is that there are multiple referents available to them when working abroad (Bonache *et al.*, 2001; Bonache, 2005). They can compare themselves not only to other expatriates within the same company and host country, but also to expatriates within the same company and other host countries, expatriates from other companies within their host country, local employees and so on. With all these referents, lack of equity with respect to other employees is a very likely possibility. From this point of view, the low levels of salary satisfaction among expatriates, reported by some studies, can easily be explained.

In any case, a low level of salary satisfaction is a very common problem among all types of employees (Gómez-Mejía *et al.*, 1995). This means that, even though expatriates might not feel satisfied with their pay, they might be relatively more satisfied than other groups of employees. However the evidence to hand does not lead to this conclusion. Thus in a recent study (Bonache, 2005) comparing job satisfaction among expatriates, repatriates and domestic employees with international experience, conducted on a

large sample of employees from a Spanish multinational, some significant differences in the satisfaction ratings on job characteristics, career prospects and internal communication among these three groups of employees were found. The study, however, did not find differences in the average level of satisfaction regarding salary. More research is clearly required on this issue.

The influence of nationality in the expatriates' attitudes towards their salaries is another important topic to examine. Some studies analyse the cross-cultural and motivational utility of various compensation strategies on managers and the larger workforce (Gómez-Mejía & Welbourne, 1991; Lowe *et al.*, 2002; Townsend *et al.*, 1990). Their goal is to compare pay practices or preferences for pay practices across cultures. For example, when compared to individualist cultures, collectivist countries place more value on seniority. They see compensation according to needs as being fairer. Drawing on these studies, it would be illustrative to conduct in-depth academic cross-cultural research analysing the motivational utility of various compensation strategies on expatriates from different nationalities. Such research would aim at providing some clues for companies as to which expatriate compensation strategy is most likely to mesh with a particular culture's values.

The issue of costs

Until now, the high costs of employing expatriates has been stressed. It is therefore surprising that MNCs continue to show a strong preference for expatriates to fill certain managerial positions (Maryhofer & Brewster, 1996). In fact this is the case of Japanese companies, where 75 per cent of their subsidiaries' top managers are expatriates, according to a survey by Kopp (1994). European and American MNCs follow a very similar pattern, with 54 per cent and 51 per cent of their top managers being expatriates, respectively. Moreover, according to the ORC 2002 survey of international assignment policies and practices, only 23 per cent of companies from different countries declare a decreasing use of expatriates assigned in recent years. In other words, it is not clear why, in a business context under unremitting pressure to keep costs down, MNCs should continue to implement such a costly solution. To explain this apparent paradox would require more theoretical guidance than past work on expatriation has received.

On this point, the theory of transaction costs (Coase, 1937; Williamson, 1975, 1985, 1993) could be very useful, as it considers a set of costs which are ignored in traditional expatriate compensation literature, but which must be accounted for when an MNC is filling a management position in a subsidiary. Drawing on Jones and Wright's (1992) classification of transaction costs in the employment relation, there are four main types of transaction costs that can be incurred when filling a management position in an MNC: (1) selection and recruitment costs; these are the costs of gathering

information about the candidate as well as the costs associated with negotiation and final drawing up of the contract with the appointed candidate; (2) training and socialization costs; these are costs associated with the development of the skills and firm-specific abilities of the managers in the subsidiary; (3) monitoring and evaluating a subsidiary's managers: the costs incurred in safeguarding the organization against moral hazard. These will include costs of managers from the HQs and managerial time spent on supervising the employees in the subsidiary, as well as costs associated with the implementation of appraisal and feedback systems; (4) enforcement: the organization will have to take action in the event of a breach of contract on the part of the subsidiary's manager. This will obviously produce new costs for the company.

The basic premise of transaction cost economics is that transactions will tend to take place in a form that minimizes the combined costs of the transaction. Accordingly, when deciding whether to recruit a local manager or an expatriate, relative salary levels are not the only economic items involved. Instead the organization will have to consider the total costs associated with each alternative and opt for the most efficient one; that is, the one that minimizes salary and transaction costs. Without a doubt, determining when the transaction costs of using expatriates are lower than those of using local managers is of interest.

The first step in this direction was made by Bonache and Pla (2005). Building on the existence of the above-mentioned transaction costs, we argue that, in companies with a lower level of international expansion, that are less technologically innovative, with a global strategy and with operations in very culturally distant environments, expatriates will have a lower level of associated transaction costs and, therefore, can be a cost-effective solution. We tested the viability of these arguments on a sample of 96 Spanish multinational companies. Our data did not support the hypothesis concerning the diminished use of expatriates when companies operate in increasingly culturally distant environments. However our empirical investigation supports our other three hypotheses, which illustrates the viability of this approach. Future research along these lines is clearly needed.

The issue of justice

In their review of HR literature, Ferris *et al.* (1999) insist upon the need to introduce the idea of justice into HR management. The topic of expatriate compensation provides an excellent opportunity to analyse the issue of justice. In fact it has been stated that a compensation programme should be fair in its treatment of all categories of employees (Milkovich & Newman, 1996). It is interesting to analyse this issue, not only from the point of view of the expatriates, but also from that of the local employees.

Equity theory is the point of reference from which to evaluate the extent to which employees judge the fairness of their compensation. According to this theory, employees compare what they give to what they receive. This is based on their own evaluation of their value, previous or later work, or what was promised to them. Such a comparison, as mentioned earlier, is made within a social setting, by taking other employees as referents for comparison. On occasion, the referents are employees that are considered to be 'similar', either in terms of age, seniority in the firm, or any other relevant variable. For example, the local employees may choose nationality as a variable and compare their level of compensation with that of other local employees, be it within the same MNC, other MNCs or in other local firms. Yet they also may choose 'different' people to whom they compare themselves, as would happen if local employees were to compare themselves to expatriates. As seen in Table 9.2, the different allowances, additions and deductions included in a typical expatriate package result in a pay package which is very different from that of other categories of employees (Guzzo *et al.*, 1993; Chen *et al.*, 2002). As compensation for their service abroad, it is logical that expatriates receive some of these elements (for example, overseas allowances, repatriation allowances), but other benefits (such as education allowances) are given to expatriates rather than to other groups (locals) with little justification.

Chen *et al.* (2002) analysed the reactions to such comparisons of Chinese employees working in MNCs. These workers were at a salary disadvantage compared to the expatriates, but at an advantage compared to other local employees. They found that local employees are more likely to feel a sense of injustice in compensation when comparing their salaries to expatriates' salaries rather than to locals'. This shows an egocentric bias: what they tend to see as fair is what benefits them the most.

The locals' perception of salary inequity when comparing themselves to expatriates is unfortunate because local nationals are valuable socializing agents, sources of social support, assistance and friendship to expatriates (Black *et al.*, 1992; Caligiuri & Cascio, 1998; Toh & Denesi, 2003). The disparity in pay may lead local nationals to become uncooperative or antagonistic, which may lower the effectiveness of the expatriate on the job (Crandall & Phelps, 1991; Wederspahn, 1992). Toh and Denesi (2003) have theoretically analysed factors that determine this perception of inequity. They state that this perception occurs when a local employee does not perceive a salary advantage over locals in other companies, when they do not see logical reasons for the high expatriate compensation and when expatriates do not have the appropriate interpersonal skills. Moreover Toh and Denesi assert that such perceptions are greatly influenced by the national culture of the local employee. For example, we can expect that differences

in salaries will be better accepted in cultures characterized by high power distance than by those of low power distance. Empirical investigation regarding the determinants and effects of salary inequity among local employees and expatriates are clearly needed.

Finally, while equity theory is the traditional reference used to analyse organizational justice, other approaches regarding justice are also possible. One possible and complementary alternative is Rawls' theory of justice (see Bonache, 2004, for an analysis of this theory as applied to HRM). According to this theory, different work arrangements for expatriates and local employees will be fair in cases where (a) the groups have the same basic labour rights and opportunities, (b) greater rewards correspond to greater merits, and (c) the greater rewards of the expatriates group (the most favoured group) improve those of the less favoured local employees group. Theoretical and empirical research on the topic using this (or other) theoretical frameworks may be very instructive.

Link to the subsidiary strategic role

The fact that the majority of companies are simply using the 'state of the art' compensation policy highlights an important issue. It is widely recognized that expatriates may perform different strategic roles and use different behaviour in different subsidiaries (Edstrom & Galbraith, 1977; Boyacigiller, 1990; Brewster, 1991; Gupta & Govindarajan, 1991; Bonache & Fernandez, 1997). In some, for example, they are expected to transfer knowledge and procedures from the HQs while working independently with regard to other subsidiaries. Others, in contrast, are expected to develop their network of contacts with employees of other subsidiaries in order personally to import and export the knowledge within the integrated network of the multinational (see Gupta & Govindarajan, 1991). Given that managerial compensation is an important mechanism to elicit different managerial roles and behaviours (Finkelstein & Hambrick, 1989), how is it possible that multinationals limit themselves to the use of 'state of the art' compensation policies instead of adapting the expatriate compensation system to the different roles of expatriates?

Although the strategic use of expatriate compensation (that is, compensation used to foster those behaviours required for the strategy of the company) has not been practically analysed, we have some evidence that suggests its presence. For example, if we analyse the data in Table 9.2, we see that there are two types of incentives. One is classified under the category of premiums and allowances (that is, cost of living and housing allowances, foreign-service premiums, hardship allowances, danger money, mobility premiums and relocation allowances). These incentives are basically tools to encourage employees to take international assignments, and, as such,

have had a prominent place in the traditional international compensation arena. We also see that performance incentives are used by around 93 per cent of European companies. These are expected to be a mechanism to elicit the managerial behaviours needed to implement the organization's strategy effectively. Little is known about these incentives, although they are the ones that hold a greater theoretic and strategic interest.

A useful perspective to analyse the strategic use of performance incentives is agency theory (Eisenhardt, 1989; Gómez-Mejía, 1994). This theory is relevant to situations that have a principal-agent structure. As Roth and O'Donnell (1996) have shown, the headquarters-foreign subsidiary responds to a principal-agent structure: HQ (the principal) delegates work and responsibilities to foreign subsidiaries (the agent). In this type of relationship, there is a risk that the 'agency problem' may arise. This refers to the possibility that agents will pursue their own interests, which may diverge from the interests of the principal (Eisenhardt, 1989). This is a real possibility in the multinational arena. For example, in a subsidiary located in a culturally different environment, it is possible for an expatriate to enjoy excellent work conditions while making very little effort. The resulting poor performance of the subsidiary can then be excused by attributing it to the lack of fit of the company's procedures to the local culture rather than to the expatriate's poor performance.

Incentive alignment is a traditional device used to address the agency problem. This is defined as the extent to which the reward structure is designed to induce managers to make decisions that are in the best interests of the principal (Gómez-Mejía, 1994). Properly designed, the reward structure promotes self-monitoring as it provides performance incentives that impel agents to minimize opportunism and promote their alignment with principal's interests. Through these performance incentives, expatriates, pursuing their own goals, will pursue the goal of the HQs.

From this theoretical perspective, one can analyse how different configurations of the incentives of the expatriates (that is, the proportion of bonuses and long-term incentives versus salary and benefits, the short and long time horizon of incentives, the quantitative and qualitative criteria used to trigger rewards) respond to the intentions of the multinational to solve the agency problem and procure an appropriate alignment of interests between the company and expatriates. Roth and O'Donnell (1996) carried out one such investigation in a sample of 100 foreign subsidiaries from five countries, yielding some relevant findings.¹ For example, they found that, when the senior manager of the foreign subsidiary has a lower level of parent commitment, the potential for opportunism increases and, as a result, (a) the percentage of senior management's incentive-based compensation increases, and (b) more weight is given to regional and corporate

performance. Although more work is clearly needed, these findings provide some support for the agency theory insight according to which particular compensation components are designed to reduce the agency problem by inducing managers to make decisions that are in the best interests of the headquarters.

Not only is more research needed on the determinants of expatriate compensation systems but also more research is needed on the effects of these systems on firms' competitive advantages. In this regard, and contrary to the basic assumption underlying much of the research on traditional compensation literature, competitive advantage cannot be attained if companies simply implant a 'state of the art' compensation package. As is well explained by the resource-based view of the firm, a competitive advantage must come from a resource that is valuable, rare and difficult to imitate (Barney, 1991; Wright *et al.*, 1994). Accordingly, instead of focusing on standard compensation packages, competitive advantage will come from crafting compensation and reward systems to create employment relationships that extract the value of firm-specific resources (Milkovich & Bloom, 1998). We have no information about the way in which expatriate packages can be designed to create a shared mindset, extract tacit knowledge, encourage innovation, creativity and responsiveness, and stimulate the development of important relationships among people. Investigation along this line would undoubtedly be of great academic and professional interest.

Conclusion

Traditionally the literature on the compensation of expatriates has had a very descriptive and practitioner orientation. It basically describes the many difficulties encountered by MNCs in designing an 'attractive' and 'cost-efficient' compensation approach that enables them to standardize salary decisions and apply the approach uniformly throughout the multinational network. Such an approach, however, is not easy to develop. As noted, there are conflicting objectives to be achieved, forcing MNCs to face a dilemma of achieving one objective at the expense of giving up another.

The difficulty involved in finding a satisfactory compensation system may explain why expatriate compensation literature has been dominated by interests of practitioners and has been characterized by an operative focus. Although these practical issues will continue to attract the attention of both practitioners and academics, this chapter has tried to show that this topic also brings to light many more theoretical issues, such as justice, satisfaction, costs and strategy in expatriate compensation systems. The main challenge for academics is, from different theoretical perspectives, to shed light on these issues about which we still know very little.

Note

1. It is important to note that Roth and O'Donnell (1996) analyse subsidiary management compensation without controlling for the nationality of the managers.

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10 Global performance management systems

Wayne F. Cascio

Performance is what an organization hires one to do, and to do well (Campbell, Gasser & Oswald, 1996). Current theories of job performance suggest that the performance domain is multifaceted and it is likely to include dimensions that are not highly or even positively correlated with each other (Borman & Motowidlo, 1993; Campbell, McCloy, Oppler & Sager, 1993).

Borman & Motowidlo (1993) identified two broad categories of performance factors: *task* performance factors and *contextual* performance factors. Task performance factors represent the core technical activity of the organization (for example, software development, automobile manufacturing). Contextual performance factors represent the performance components that support the organizational, social and psychological environment in which the technical core must function. They include factors such as showing perseverance and conscientiousness, offering extra effort on the job, volunteering to carry out task activities that are not formally part of one's job, and helping and cooperating with others.

At its most basic level, performance management refers to the evaluation and continuous improvement of individual or team performance. It is every bit as important in the global context as it is in domestic operations. Indeed the special considerations associated with international assignments, and with managing host-country nationals, make global performance management particularly challenging, as we shall see. Managers who do it well address three important areas: they define performance, facilitate performance and encourage performance.

The purpose of this chapter is to review extant literature and findings with respect to international performance management, and to identify research needs in the years ahead. There is much to learn in this evolving area, and it promises to challenge researchers for years to come.

The chapter focuses particularly on performance management systems for two categories of employees: host-country nationals of multinational enterprises (MNEs), and expatriates, including both home and third-country nationals. An expatriate is anyone who works outside of his or her home country, with a planned return to that or a third country. A third-country national is an expatriate who has transferred to an additional country while working abroad (for example, a German working for a

US-based MNE in Spain). A key assumption throughout the chapter is that employees and their managers are colocated. Performance management strategies for global virtual teams are beyond the scope of the current chapter. For more on that subject see, for example, Cascio and Shurygailo (2003).

The chapter is structured as follows. We begin by considering the current status of global performance management systems, followed by a discussion of the purposes of such systems, that is, evaluation and development. We then consider the overall process of performance management in some detail, using the tripartite theoretical approach of define, facilitate and encourage performance. Since appropriate training in the use of global performance management systems is particularly important to their successful implementation, our next section focuses on one demonstrably effective approach, namely, frame-of-reference training. The next two sections of the chapter address cross-cultural dimensions that make the implementation of a uniform, global performance management approach difficult to do. To illustrate these differences we highlight alternative ways of communicating performance feedback in three different cultures. The final two sections of the chapter address what is known about performance management for host-country nationals and performance management for expatriates. Rather than identify emerging research needs in one section at the end of the chapter, these issues are interwoven throughout.

Current status of global performance management systems

A recent survey of performance management systems and practices in 278 organizations, two-thirds of which were multinational enterprises, from 15 different countries, reported the following key findings (Bernthal, Rogers & Smith, 2003):

- Fully 91 per cent use a company-sanctioned performance management system, and three-quarters of them use the same system for more than 70 per cent of their employees.
- While 58 per cent have a yearly review, 41 per cent have reviews more often than once a year.
- Only 20 per cent use online or software-based performance management systems, but another third plan to introduce them.
- Training for managers (55 per cent) and non-managers (28 per cent) has doubled in the past ten years, but fewer than 40 per cent of firms hold managers accountable for the effectiveness of the performance management system.
- Managers rely on a balance of subjective (66 per cent) and objective (71 per cent) data in performance reviews.

- Over the past five years forced rankings have become more common (34 per cent of organizations use them), but few managers find them to be effective.
- The most effective performance management systems are consistently used throughout the organization, integrated with other systems (for example, compensation, promotions, succession planning), involve senior managers and employees, and are linked to organizational strategy.
- Poor compliance or usage of the system (60 per cent of responding organizations selected this overall) is the greatest barrier to system effectiveness. This includes lack of monitoring to see if the system is working as designed, and lack of accountability for completing reviews.
- Organizations with strong performance management systems are 51 per cent more likely to outperform their competitors on financial measures, and 41 per cent more likely to outperform their competitors on non-financial measures (for example, customer satisfaction, employee retention, quality of products or services).

These findings are consistent with those of other recent research on performance management systems (Lawler, 2003), namely that they are important management tools that can have positive outcomes when done properly. Tying rewards to the results of such reviews makes them more effective for two reasons: (a) when rewards (pay, bonuses, stock options) are involved, all parties are likely to take the system seriously; (b) when significant financial rewards (and continued employment) are on the line, it is more likely that organizations will spend more time developing and training individuals to use their performance management systems properly.

Purposes of global performance management systems

On the surface, the purposes and goals of such systems are quite similar for domestic and international operations, but do not be fooled. As Briscoe and Schuler (2004) have noted, the major difference is that *implementation* is much more difficult in the international arena. To a large extent, the nature of the overseas job, the degree of support from and interaction with the parent company, the nature of the environment in which the performance occurs and the degree of expatriate and family adjustment all affect the ability of a global organization to achieve the goals of its performance management system. Broadly speaking, the goals comprise two domains: evaluation and development.

Evaluation goals for global performance management systems in the international environment include: (a) providing feedback to employees at

all levels so they will know where they stand; (b) developing valid bases for employment decisions involving pay, promotions, job assignments, retention and termination decisions; and (c) providing a means to warn employees about unsatisfactory performance.

Development goals for global performance management systems in the international environment include: (a) helping employees at all levels to improve their performance and develop their professional skills; (b) diagnosing individual and organizational problems; (c) enhancing commitment to the organization through discussions of career opportunities, action plans and needs for training and development; and (d) using recognition to motivate continued or improved high performance.

The overall performance management process

Of necessity the process of performance management will be implemented somewhat differently in different situations, but it is important to highlight three features that appear to be common to the overall process. We might consider them to comprise a broad theory of the performance management process. While this approach tends to be normative or prescriptive in nature, many aspects of it have received strong research support. On the other hand, there is a pressing need to test its generalizability in non-Western cultures.

At a general level, therefore, performance management requires that managers responsible for implementation do three things well (Cascio, 1996, 2006): define performance, facilitate performance and encourage performance. The following sections explore each of these ideas briefly.

Define performance

A manager who defines performance ensures that individual employees or teams know what is expected of them, and that they stay focused on effective performance (Bernardin, Hagan, Kane & Villanova, 1998). How does the manager do this? By paying careful attention to three key elements: *goals, measures and assessment*.

Goal setting has a proven track record of success in improving performance in a variety of settings and cultures (Latham, 2004; Locke, 2004; Locke & Latham, 2002; Matsui, Kakuyama & Onglatco, 1987). How does it improve performance? Studies show that goals direct attention to the specific performance in question (for example, percentage of satisfied customers), they mobilize effort to accomplish higher levels of performance, and they foster persistence in achieving higher levels of performance (Latham, 2004; Tubbs, 1986). The practical implications of this work are clear: set specific, challenging goals, for this clarifies precisely what is expected and leads to high levels of performance (Knight, Durham &

Locke, 2001). Studies show that, on average, an individual can expect to improve his or her productivity by 10 per cent by using goal setting (Wood, Mento & Locke, 1987).

The mere presence of goals is not sufficient. Managers must also be able to measure the extent to which an employee has accomplished the goals that were set. Goals such as 'make the company successful' are too vague to be useful. Measures such as the number of defective parts produced per million or the average time to respond to a customer's inquiry are much more tangible. In the international context, goals might involve making customer contacts, establishing working relationships with union leaders and local government officials, community involvement, and improving the morale of the local workforce.

In defining performance, the third requirement is assessment. This is where performance appraisal and feedback come into play. Regular assessment of progress toward goals focuses the attention and efforts of an employee or a team. If a manager takes the time to identify measurable goals, but then fails to assess progress toward them, he or she is asking for trouble. As we saw in the survey of performance management practices cited earlier, more and more firms are assessing performance more than once a year. This is good practice, because it ensures that feedback will be provided in a timelier manner.

To define performance properly, therefore, it seems that those responsible for implementing performance management should do three things well: set goals, decide how to measure accomplishment, and provide regular assessments of progress (that is, evaluation and feedback). Doing so will leave no doubt in the minds of employees about what is expected of them, how it will be measured, and where they stand at any given point in time. There should be no surprises in the performance management process – and regular appraisals help ensure that there will not be.

Facilitate performance

Managers who are committed to managing for maximum performance recognize that one of their major responsibilities is to eliminate roadblocks to successful performance (Grensing-Pophal, 2001). Another is to provide adequate resources to get a job done right and on time, and a third is to pay careful attention to selecting employees.

Examples of obstacles that can inhibit maximum performance include lack of autonomy to accomplish important parts of one's job, outdated or poorly maintained equipment, delays in receiving supplies and ineffective work methods. In the international context, additional obstacles might include various types of government requirements (such as for permits, variances, inspections, reports), the need for representatives or intermediaries

and, in dangerous or politically unstable areas, personal security. Employees are well aware of these obstacles; it is the manager's job to learn about them and to eliminate them.

The next step is to provide adequate resources: capital resources, material resources or human resources. After all, if employees lack the tools to meet the challenging goals they have set, they will become frustrated and disenchanted. Indeed one observer has gone so far as to say 'It's immoral not to give people tools to meet tough goals' (Sherman, 1995).

A final aspect of performance facilitation is the careful selection of employees. The costs of hiring people who are ill-suited to their jobs (for example, by temperament or training) are well known: overstaffing, excessive labour costs and reduced productivity. The topic of staffing for international assignments presents special challenges. We do not address them here because the whole of Part III of this Handbook addresses that issue.

At this point it is important to emphasize that, if organizations and individuals are truly committed to managing for maximum performance, they will address each factor that might affect performance and leave nothing to chance. That does not mean that managers are constantly monitoring the performance of their employees. On the contrary, it implies greater self-management, more autonomy, and opportunities to experiment, take risks and be entrepreneurial. In many domestic as well as international work environments, doing this is entirely appropriate.

Encourage performance

This is the last area of management responsibility in a coordinated approach to performance management. To encourage performance, especially repeated good performance, successful managers seem to do three more things well: (a) they provide sufficient rewards that employees value, (b) they do so in a timely fashion, and (c) they do so in a fair manner.

A simple approach is to ask people what is most important to them, for example pay, benefits, free time, merchandise or special privileges. Then a manager might consider tailoring a company-sanctioned awards programme so that employees or teams can choose from a menu of similarly valued options.

Next, the manager must provide rewards in a timely manner, soon after major accomplishments. For example, if an employee lands a major contract from a local government, or if another employee finds a way to complete an assigned project ahead of time and under budget, it is important to provide some type of recognition or reward reasonably soon after the accomplishment. If there is an excessive delay between effective performance and receipt of the reward, reinforcement theory tells us that the reward loses its potential to motivate subsequent high performance (Luthans, 2004).

Finally, rewards should be provided in a manner that employees consider fair. Fairness is a subjective concept, and it may be interpreted differently across cultures, but North American research suggests that fairness can be enhanced by adhering to four important practices (Gilliland & Langdon, 1998).

1. Voice – as long as it is appropriate in the culture in which one is operating, collect employee input through surveys or interviews.
2. Consistency – ensure that all employees are treated consistently when seeking input and communicating about the process for administering rewards.
3. Relevance – as noted earlier, include rewards that employees really care about.
4. Communication – explain clearly the rules and logic of the rewards process.

These practices might appear to be universally applicable, but we do not know that they are. There is a strong research need to identify their generalizability to countries and cultures outside of North America.

In summary, managing for maximum performance requires that managers do three things well: define performance, facilitate performance and encourage performance. Like a compass, the role of the manager is to provide orientation, direction and feedback.

Training for global performance management

In the survey cited earlier about the current status of global performance management systems, we noted that training for managers (55 per cent) and non-managers (28 per cent) has doubled in the past ten years, but that fewer than 40 per cent of firms hold managers accountable for the effectiveness of their organization's performance management system. Implementing a global performance management system without training all parties in the way to use it as designed is a waste of time and money. Training managers, but then not holding them accountable for implementing what they have been trained in, is just as bad. Almost no research has been carried out on training raters to use global performance management systems, or on the relative effectiveness of alternative approaches to such training. However there is much to learn from rater training in the domestic context.

Some key topics to address with respect to performance management training include the following (Pulakos, 2004):

- philosophy and uses of the system,
- description of the rating process,
- roles and responsibilities of employees and managers,

- how to define performance and to set expectations and goals,
- how to provide accurate assessments of performance, minimizing rating errors and rating inflation,
- the importance of continuing, constructive feedback in behavioural terms,
- how to give feedback in a manner that minimizes defensiveness and maintains the self-esteem of the receiver,
- how to react to and act on feedback in a constructive manner,
- how to seek feedback from others effectively,
- how to identify and address needs for training and development.

In terms of training raters to minimize rating errors (for example, central tendency, leniency, severity, halo) and to provide accurate ratings, a considerable amount of research has focused on helping raters to improve their observational skills by teaching them what to attend to, and how to develop common standards for evaluating behaviour.

Of the many types of rater training programmes available today, meta-analytic evidence has demonstrated reliably that frame of reference (FOR) training (Bernardin & Buckley, 1981) is most effective at improving the accuracy of performance appraisals (Woehr & Huffcut, 1994). Moreover the addition of other types of training in combination with FOR training does not seem to improve rating accuracy beyond the effects of FOR training alone (Noonan & Sulsky, 2001). Following procedures developed by Pulakos (1984, 1986), such FOR training proceeds as follows.

1. Participants are told that they will evaluate the performance of three ratees on three separate performance dimensions.
2. They are given rating scales and instructed to read them as the trainer reads the dimension definitions and scale anchors aloud.
3. The trainer then discusses ratee behaviours that illustrate different performance levels for each scale. The goal is to create a common performance theory (frame of reference) among raters such that they will agree on the appropriate performance dimension and effectiveness level for different behaviours.
4. Participants are shown a videotape of a practice vignette and are asked to evaluate the manager using the scales provided.
5. Ratings are then written on a blackboard and discussed by the group of participants. The trainer seeks to identify which behaviours participants used to decide on their assigned ratings, and to clarify any discrepancies among the ratings.
6. The trainer provides feedback to participants, explaining why the ratee should receive a certain rating (target score) on a given dimension.

FOR training provides trainees with a 'theory of performance' that allows them to understand the various performance dimensions, how to match these performance dimensions to rate behaviours, how to judge the effectiveness of various ratee behaviours, and how to integrate these judgments into an overall rating of performance (Sulsky & Day, 1992). In addition, the provision of rating standards and behavioural examples appears to be responsible for the improvements in rating accuracy. The use of target scores in performance examples and feedback on practice ratings allows raters to learn, through direct experience, how to use the different rating standards. In essence, the frame of reference training is a microcosm that includes an efficient model of the process by which standards for each performance dimension are acquired (Stamoulis & Hauenstein, 1993).

Nevertheless the approach described above assumes a single frame of reference for all raters. Research has shown that different sources of performance data (peers, supervisors, subordinates) demonstrate distinctly different frames of reference and that they disagree about the importance of incidents of poor performance (Hauenstein & Foti, 1989). These effects are likely to be magnified further in the international context, especially where diverse cultural backgrounds may lead to distinctly different frames of reference. Although this issue is extremely important, there is almost no research on it to date. Training should highlight these differences and focus both on the content of the raters' performance theories and on the process by which judgments are made (Schleicher & Day, 1998). Finally the training process should identify idiosyncratic raters so their performance in training can be monitored to assess improvement.

Rater training is clearly worth the effort, and the kind of approach advocated here is especially effective in improving the accuracy of ratings for individual ratees on separate performance dimensions (Day & Sulsky, 1995). In addition, trained managers are more effective in formulating development plans for their subordinates (Davis & Mount, 1984).

Once raters are trained, the next steps are to implement the performance management system and to provide feedback to ratees. This is a critically important process that must be managed well. It goes without saying that managers who are not held accountable for effective implementation of performance management (for example, by being rated themselves on the extent to which they effectively manage the performance of their subordinates) have no incentive to execute that part of their jobs well. Conversely we know that, when managers' own appraisals (and subsequent rewards) are on the line, they tend to take the process much more seriously (Lawler, 2003).

Cross-cultural differences and performance management systems

It is one thing to institute a performance management system with a home-country manager on an international assignment. It is quite another to do so with a local manager or local employees whose customs and culture differ from one's own. To put this issue into perspective, consider some brief comments about culture and its impact on people.

Triandis (1998) emphasizes that culture provides implicit theories of social behaviour that act like a 'computer program', controlling the actions of individuals. He notes that cultures include unstated assumptions, the way the world is. These assumptions influence thinking, emotions and actions without people noticing that they do. Members of cultures believe that their ways of thinking are obviously correct, and need not be discussed. Individuals and companies that seek to do business in countries outside their own ignore cross-cultural differences at their peril. To understand what cultural differences imply, consider one typology, the theory of vertical and horizontal individualism and collectivism.

Vertical and horizontal individualism and collectivism

Triandis (1998) notes that vertical cultures accept hierarchy as a given, whereas horizontal cultures accept equality as a given. Individualistic cultures emerge in societies that are complex (many subgroups with different attitudes and beliefs) and loose (relatively few rules and norms about what is correct behaviour in different types of situations). Collectivism emerges in societies that are simple (individuals agree on beliefs and attitudes) and tight (many rules and norms about what is correct behaviour in different types of situations).

Triandis argues that these syndromes (shared patterns of attitudes, beliefs and norms, and values organized around a theme) constitute the parameters of any general theory about the way culture influences people. Crossing the cultural syndromes of individualism and collectivism with the cultural syndromes of vertical and horizontal relationships yields a typology of four kinds of cultures. Additional culture-specific attributes define different kinds of individualism or collectivism. According to Triandis, the following four may be the universal dimensions of these constructs.

1. *Definition of the self* – autonomous and independent from groups (individualists), versus interdependent with others (collectivists).
2. *Structure of goals* – priority given to personal goals (individualists), versus priority given to in-group goals (collectivists).
3. *Emphasis on norms versus attitudes* – attitudes, personal needs, perceived rights and contracts determine social behaviour (individualists),

versus norms, duties and obligations as determinants of social behaviour (collectivists).

4. *Emphasis on relatedness versus rationality* – collectivists emphasize relatedness (giving priority to relationships and taking into account the needs of others), whereas individualists emphasize rationality (careful computation of the costs and benefits of relationships).

Culture determines the uniqueness of a human group in the same way that personality determines the uniqueness of an individual (Hofstede, 2001). There are many implications and patterns of variation of these important differences with respect to performance management. Two of them are goal setting and reward systems (individual versus team-wide or organization-wide) and communications (gestures, eye contact and body language in high-context cultures, versus precision with words in low-context cultures). These differences suggest propositions such as the following:

Hypothesis 1: Managers in individualistic and collectivist cultures will ascribe the causes of poor performance to different factors.

Hypothesis 2: Individual goals and individual rewards will be preferred in individualistic cultures. Team or organization-wide goals and rewards will be preferred in collectivist cultures.

With respect to performance feedback, characteristics of the culture, vertical/horizontal or individual/collectivist, interact with the objectives, style, frequency and inherent assumptions of the performance-feedback process. This suggests propositions such as the following:

Hypothesis 3: Participation in the performance management and feedback process is more common in horizontal/individualistic cultures than in vertical/collectivist cultures.

Hypothesis 4: There will be no differences in the frequency of performance feedback between individualistic and collectivist cultures, but substantial differences in the manner in which it is delivered.

We will have more to say about this issue in a later section, but the point is that, when providing feedback, it is critically important to respect local culture and customs. Failure to do so can lead to unintended consequences. With respect to assessment practices, different cultures prefer different approaches, and there is the possibility of variation in validity across cultures. This is an underresearched issue that could benefit handsomely from some systematic attention. As just one example, consider the following propositions about self-appraisals, keeping in mind that in some cultures (such as India) disagreeing with one's supervisor is viewed as disrespectful and inappropriate:

Hypothesis 5: Self-appraisals are used more frequently in Western than in Eastern cultures.

Hypothesis 6: The validity of self-appraisals is significantly lower in Eastern than in Western cultures.

Having discussed the broad process of performance management, and the need to tailor it to the customs and culture of the country or region in question, the next step is to identify relevant, important measures of performance. As we shall see, the 'criterion problem' is particularly thorny in the international environment.

Cross-cultural differences in performance feedback

A formal system for delivering performance feedback should be implemented because in the absence of such a system some employees are more likely to seek and benefit from feedback than are others. For example, consider the relationship between stereotype threat (that is, a fear of confirming a negative stereotype about one's group through one's one behaviour; see Farr, 2003) and the willingness to seek feedback.

A study that included 166 African American managers in utilities industries found that solo status in the workplace was related to stereotype threat and stereotype threat was negatively related to feedback seeking (Roberson, Deitch, Brief & Block, 2003). Thus, if no formal performance feedback system is in place, it is likely that employees who do not perceive a stereotype threat will be more likely to seek feedback from their supervisors and benefit from it. This, combined with the fact that people generally are apprehensive about both receiving and giving performance information, reinforces the notion that the implementation of formal performance feedback systems is necessary (London, 2003). On the other hand, it is important to respect the customs of the culture in question, particularly when providing performance feedback to host-country nationals.

Ideally a continuous feedback process should exist between superior and subordinate so that both may be guided. In individualistic cultures, such as the United States, Great Britain and Australia, a popular topic in first-level supervisory training programmes is how to conduct appraisal interviews. Indeed the ability to conduct performance appraisal interviews well and the ability to communicate 'bad news' are considered key skills for a successful manager in such cultures.

By contrast, in collectivist societies, such as Korea, Guatemala and Taiwan, discussing a person's performance openly with him or her is likely to clash head-on with the society's norm of harmony, and the subordinate may view it as an unacceptable loss of face. Such societies have more subtle, indirect ways of communicating feedback, as by withdrawing a normal

favour or communicating concerns verbally via a mutually trusted intermediary (Hofstede, 2001).

The point is that it is crucial to be sensitive to local customs with respect to the process used to communicate feedback. Understanding those local customs, and mapping them across countries, is a continuing challenge for researchers interested in global performance management systems. As with domestic assignments, however, regular coaching and feedback are hallmarks of effective performance management systems, even though they may be expressed very differently in different parts of the world.

Table 10.1 illustrates some important differences in performance appraisal practices in three different cultures: Western culture (the United States), a Middle Eastern culture (Saudi Arabia) and a Far Eastern culture (Korea). Note the dramatic differences across these three cultures in every dimension listed in the left column of the table. Those responsible for implementing performance management systems ignore them at their peril.

Performance management for host-country nationals

Consider four broad constraints on the achievement of goals in the international context (Dowling & Welch, 2005). First, differences in local accounting rules or labour laws, may make it difficult to compare the relative performance of host-country managers of subsidiaries in different countries. Second, in turbulent international environments, long-term objectives need to be flexible. Third, separation by time and distance may make it difficult for performance management systems to take account of country-specific factors. Fourth, market development in foreign subsidiaries is generally slower and more difficult than at home. Hence host-country managers of MNEs need more time to achieve results.

Unfortunately, aside from anecdotal evidence, very little systematic research has been published on the performance effects of alternative approaches to performance management in different countries or on employee attitudes of host-country nationals toward these systems. In addition, psychological theories of motivation and performance (such as expectancy, equity and reinforcement theories) were developed in Western societies (principally North American) and much of the research that tests their theoretical propositions has been conducted in Western (that is, North American) settings. The fact is, we know very little about the extent to which the predictions of such theories will generalize to non-Western settings. Nor do we know very much about the relative effectiveness of globally standardized performance management systems that some MNEs use.

We know that concepts such as individual rewards for individual performance, and making explicit distinctions in performance among employees are not universally accepted. Indeed, where the prevailing view is that it

Table 10.1 Some characteristics of performance appraisal systems in the USA, Saudi Arabia and Korea

Issue	United States	Saudi Arabia	Korea
Objective	Administrative decisions, employee development	Placement	Develop relationship between supervisor and employee
Done by?	Supervisor	Manager several layers up who knows employee well	Mentor and supervisor
Authority of appraiser?	Presumed in supervisor role	Reputation (prestige determined by nationality, age, sex, family, tribe, title, education)	Long tenure of supervisor with organization
Style	Supervisor takes the lead, with employee input	Authority of appraiser is important; never say 'I don't know'	Supervisor takes the lead, with informal employee input
Frequency	Usually yearly	Yearly	Developmental appraisal monthly for first year, annually thereafter
Assumptions	Objective: appraiser is fair	Subjective appraisal is more important than objective; connections are important	Subjective appraisal is more important than objective; no formal criteria
Feedback	Criticisms are direct; may be in writing	Criticisms more subtle; not likely to be in writing	Criticisms subtle and indirect; may be given verbally
Employee acknowledgement and possible rebuttal	Employee acknowledges receipt; may rebut in writing	Employee acknowledges receipt; may rebut verbally	Employee does not see or sign formal appraisal; would rarely rebut
How praised	Individually	Individually	Entire group
Motivators	Money, upward mobility, career development	Loyalty to supervisor	Money, promotion, loyalty to supervisor

Source: W. F. Cascio & E. Bailey. 1995. International HRM: the state of research and practice (p. 29). In O. Shenkar (ed.), *Global perspectives of human resource management*. Englewood Cliffs, NJ: Prentice-Hall.

takes contributions from everyone to achieve continuous improvement (that is, the concept of 'kaizen' in Japanese enterprises), the practice of singling out one employee's contribution may actually cause that employee to 'lose face' among his or her fellow workgroup members. In other cultures where nepotism is common and extended family members work together, the primary objective is to preserve working relationships. That objective may cause host-country managers to overlook results that more objective observers might judge to be inadequate. Situations like these should provide clues about relevant hypotheses that might shed light on the generalizability of widely accepted Western theories of motivation and performance. This leads to propositions such as the following.

Hypothesis 7: The fundamental objective of performance management, that is, improving performance versus preserving a relationship, differs in individualistic and collectivist cultures.

Hypothesis 8: Motivation to perform well is based on upward striving and monetary rewards in Western cultures, but on the desire to show loyalty and to improve the relationship with one's supervisor in Eastern cultures.

At a more basic level, we need both descriptive and inferential (theory-testing) studies about performance management practices in, for example, French enterprises, German enterprises, Russian enterprises, in Chinese, Vietnamese and Thai enterprises, and so forth. In fact there is almost no published empirical research on the relative effectiveness of alternative performance management practices for host-country nationals across subsidiaries in the many countries in which MNEs operate.

Throughout this chapter we have emphasized the impact of culture on performance management systems, yet this is but one possible approach to comparative studies of performance management systems across countries. Another useful theoretical framework is institutional theory, which has been applied to the study of human resource management practices in MNE subsidiaries (Björkman & Lu, 2001), but might also be used to provide a deeper understanding of country-specific performance management systems.

Performance management for expatriates

A number of factors affect the actual level of job performance of expatriate managers (Davis, 1998; Oddou & Mendenhall, 2000). These include technical knowledge (95 per cent of expatriates believe it to be crucial for job success), personal (and family) adjustment to the culture, and environmental factors (political and labour force stability, currency fluctuations and cultural distance from one's home culture). While technical knowledge is important, the expatriate who is an expert in his or her field, but who ignores cultural variables such as procedures and customs that are import-

ant to job performance, will likely be ineffective. This was the case with an expatriate of a construction firm who was sent to India. Unintentionally he ignored local work customs and became an object of hatred and distrust. The project was delayed by more than six months because of his behaviour (Oddou & Mendenhall, 2000).

The degree of support from headquarters (benefits and services, including job-search help for the spouse and financial support for his or her children's education) also affects an expatriate's job performance. Finally characteristics of the host-country environment have a powerful impact – its stage of economic development, its physical demands on the expatriate (heat, humidity, cold) and the type of business operation (for example, international joint venture versus wholly owned subsidiary).

Measures of performance (criteria) for expatriates

What indicators should organizations use to assess the performance of international assignees? Perhaps the biggest mistake is simply to use whatever makes sense in the domestic environment in all other countries in which a multinational enterprise (MNE) operates. As Briscoe and Schuler (2004) noted:

MNEs cannot simply use standard appraisal criteria – developed in the domestic context – overseas and expect valid results. External factors usually influence the financial and operational results much more so in the overseas environment than they do domestically. Items like severe inflation, currency devaluations, local leave and holiday requirements, and thirteenth-month pay norms just are not issues in the domestic context for many MNEs. Thus MNEs need to construct criteria for evaluation according to each subsidiary's unique situation (Ibid.: 356).

A thorough review of research in this area led Sinangil and Ones (2001) to propose the following working model of the dimensions of expatriate job performance.

- Establishment and maintenance of business contacts – identification, development and use of such contacts to achieve goals.
- Technical performance, that is, task performance.
- Productivity: volume of work the expatriate produces.
- Ability to work with others: proficiency in working with and assisting others in the organization.
- Communication and persuasion – oral and written proficiency in gathering and transmitting information; persuading others.
- Effort and initiative: dedication to one's job, amount of effort expended in striving to do a good job.

- Personal discipline: avoidance of counterproductive behaviours at work.
- Interpersonal relations – the degree to which the expatriate facilitates team performance and supports others in the organization and unit.
- Management and supervision – proficiency in the coordination of different roles in the organization.
- Overall job performance: composite of all dimensions of expatriate job performance described above.

While this list is valuable, we know very little about the extent to which the various factors actually are measured when assessing expatriate job performance. To some extent, this may be a function of the stage of globalization of a given organization. Thus:

Hypothesis 9: Organizations with well-established international operations are more likely to assess factors in addition to technical proficiency and productivity indicators. Newly established international operations are more likely to focus exclusively on an expatriate's technical performance and productivity.

The list above reflects intangibles that are often difficult to measure (and usually are not measured) using typical performance appraisal methods. It also suggests that performance criteria for expatriates fall into three broad categories (Davis, 1998; Dowling & Welch, 2005): objective criteria, subjective criteria and contextual criteria.

Objective criteria include such measures as gross revenues, market share and return on investment. There are several potential problems with such measures. First, all financial figures are generally subject to the problem of currency conversion, and currency fluctuations may make accurate assessment of financial contribution difficult. Second, host governments may place restrictions on the repatriation of profits and also on currency conversion. Third, financial measures ignore the ways that results are obtained. That is, they ignore the behaviours used to generate the results. Especially when political or work environments are unstable (for example with frequent strikes), such behaviours are critical. These shortcomings suggest that additional criteria should be used to provide a deeper, fuller understanding of expatriate performance. Such criteria include subjective and contextual criteria. As we saw earlier in our examination of the current status of global performance management systems, most organizations use a combination of objective and subjective criteria.

Subjective criteria include judgments, usually by local executives, of factors such as the expatriate's leadership style and interpersonal skills. While local management tends to appraise the expatriate's performance from its own cultural frame of reference, such an evaluation is usually per-

ceived as more accurate than that from the home office (Oddou & Mendenhall, 2000). Janssens (1994) suggests that performance appraisals of managers of subsidiaries using objective criteria are often supplemented by frequent visits by staff from headquarters and meetings with executives from the parent company. Subjective criteria can be used to complement objective criteria and take into account areas that are difficult to quantify, such as integrity, customer orientation and teamwork.

Contextual criteria take into consideration factors that result from the situation in which performance occurs. They include organizational citizenship behaviours (helping and cooperating with others, working with enthusiasm, volunteering for activities, being flexible and open to change) as well as indicators of cross-cultural skill development (for example, language, host culture, communication, networking) (Davis, 1998).

Who should do expatriate appraisals?

Earlier we noted that host-country managers can take contextual criteria into account in assessing an expatriate's job performance, but they may have culture-bound biases that prevent them from putting the expatriate's performance into a broader organizational context. The reverse is true of home-country managers. They may not be able to take contextual criteria into account, but they can put the expatriate's performance into a broader organizational context. What about the expatriate's self-evaluation? It is important to take his or her insights into account in order to provide a balanced perspective and to give him or her credit for relevant insights into the interdependencies among domestic and foreign operations. This suggests the following proposition:

Hypothesis 10: The greater the 'cultural distance' between home and host country, the more likely it is that multiple raters will be used to provide feedback about an expatriate's job performance.

Conclusions

The terrain of global performance management systems is largely uncharted. Research needs span every facet of the overall process. Specifically we need cross-cultural, comparative research on how managers define work and set expectations, how they facilitate performance (including identification of the barriers to effective performance that they encounter) and how content, frequency and administration rewards differ.

With respect to procedural fairness, although we know that it matters across cultures, we know little about the ways in which the constructs of employee voice, relevance, consistency and communication of perceptions of procedural fairness are expressed across cultures. Nor do we understand

the relative contributions of these facets to perceptions of procedural fairness.

While there are anecdotal accounts of contextual variables that influence performance, it would be valuable to understand the determinants of expatriate and host-country national performance in terms of the relative contributions of objective, subjective and contextual criteria. Then we could begin to assign meaningful weights to the various components of performance in different contexts.

Finally, although commentators identify training in performance management as a sound practice, we know almost nothing about the behavioural outcomes or utility of such training. Likewise we know little about the relative payoff of culturally appropriate performance feedback. As should be obvious from this brief review of research needs, the overall domain of global performance management systems is rich with promise, along with the possibility of making meaningful contributions to the practice of international management.

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11 Developing global leadership capabilities and global mindset: a review

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What makes global leaders like Carlos Ghosn (President of Nissan Motors, Ltd and *Automotive News*' 2000 Industry Leader of the Year) tick? Born in Brazil and educated in France, Ghosn served seven years as head of Michelin in the United States and three years with Renault before becoming President and CEO of Nissan. He is responsible for Nissan's renowned turnaround effort and cross-border alliance with Renault.

Although cultural differences exacted a toll on other cross-border automotive alliances, such as Daimler-Chrysler, Ghosn sees them as opportunities. 'When you have taken the time to understand [that people don't think or act the same way] . . . and when you are really motivated and mobilized by a very strong objective, then the cultural differences can become seeds for innovation as opposed to seeds for dissention' (Emerson, 2001: 6). Ghosn contends that Europeans cannot call themselves 'international' after working in Italy, Germany or France: 'you have to go to countries that have a totally different way of thinking, a totally different way of organization, and a totally different way of life' (ibid.: 7).

With the rise of globalization, managers like Carlos Ghosn face complex challenges of leadership on a global scale. The nature of these challenges appears to be qualitatively different from those faced by international managers in the past. Consequently, there is a need to better understand what is required of these managers (Suutari, 2002) and to identify the mindset and personal qualities essential to effective global leadership.

The context of leading globally is complex and fraught with disorienting challenges. The term 'global' encompasses more than simple *geographic reach* in terms of business operations. It also includes the notion of *cultural reach* in terms of people and *intellectual reach* in the development of a global mindset. Lane and associates identify four aspects of the global context that combine to create significant challenges for global leaders (Lane, Maznevski, Mendenhall & McNett, 2004):

- *multiplicity* across a range of dimensions;
- *interdependence* among a host of stakeholders, sociocultural, political, economic and environmental systems;
- *ambiguity* in terms of understanding causal relationships, interpreting cues and signals, identifying appropriate actions and pursuing plausible goals;
- *flux* in terms of quickly transitioning systems, shifting values and emergent patterns of organizational structure and behaviour.

The authors maintain that the complexity of the global context can be addressed through attention to managing the following four processes (Lane *et al.*, 2004).

- *Collaborating*: working with others in relationships characterized by community, flexibility, respect, trust and mutual accountability.
- *Discovering*: transformational processes leading to new ways of seeing and acting which, in turn, lead to the creation of new knowledge, actions and things.
- *Architecting*: the mindful design of processes that align, balance and synchronize organizational behaviour.
- *Systems thinking*: seeing and/or discovering the interrelationship among components and levels in a complex system and anticipating consequences of changes in and to the system.

Rosen and associates (Rosen, Digh, Singer & Philips, 2000) took a different approach in delineating the context in which global leadership takes place. They sketched the specifics of globalization forces by identifying a host of worldwide trends that affect how multinational corporations operate and how global managers lead. On the economic front, they argued that international mega-mergers, the rise of regional economic powers, continued privatization of government-owned corporations, the expanding economic integration of Europe and China's growing economy and markets created new competitors and new consumers. On the social front, Rosen and associates pointed to increases in concern over the loss of national identities, increasing conflicts between the 'haves' and the 'have nots', ethnic strife, fundamentalist Islamic terrorists, a growing backlash against American influence and culture, significant demographic shifts due to rapidly aging populations in some countries, AIDS-devastated populations in some regions of the world, and escalating concerns about environmental degradation.

Within this context, corporate global leaders are often asked to accomplish near-Herculean tasks. To aid them, HR departments, consultants,

coaches, researchers and universities are attempting to define the parameters of global leadership and global mindset and determine how they can be developed in both individuals and organizations. Suutari's (2002) literature review concludes that developing global competence in leaders is acknowledged as a need and a high priority for firms. For example, a US Fortune 500 survey found that 85 per cent of the firms did not have an adequate number of global leaders, and 67 per cent of existing leaders needed additional global skills and knowledge (Gregersen, Morrison & Black, 1998). Furthermore the adoption of a global mindset has been viewed as a prerequisite to effectively managing transnational corporations (Bartlett & Ghoshal, 1992; Ohmae, 1989; Doz & Prahalad, 1991).

In order to gain a better awareness of the contributions of academe to the understanding of these pressing issues, we next summarize and identify general problems in the literature, and raise questions and suggestions to guide future research. Subsequently we review literature on the development of global leadership and mindset and propose a non-linear framework to describe the process of global leadership development. The chapter ends with implications for future research on developmental activities for both individuals and firms.

Literature review of global mindset

How well individuals and firms observe and interpret the complex environment described in the introduction determines their success (Gupta & Govindarajan, 2002). Given Ashby's (1956) law of requisite variety, a complex global environment should be matched by internal complexity in the form of 'managerial mindset' (Boyacigiller, Beechler, Taylor & Levy, 2004). Bartlett and Ghoshal (1989) claimed that mindset was more important than sophisticated structures and procedures. In this vein, for instance, the mindset of the chief executive is perceived as critical to a company's strategy (Paul, 2000). Rhinesmith (1993: 24) defines mindset as

a way of being rather than a set of skills. It is an orientation of the world that allows one to see certain things that others do not. A global mindset means the ability to scan the world from a broad perspective, always looking for unexpected trends and opportunities that may constitute a threat or an opportunity to achieve personal, professional or organizational objectives.

Maznevski and Lane (2004: 172) draw attention to the contextual application of Rhinesmith's 'orientation to the world' when they define global mindset as

the ability to develop and interpret criteria for personal and business performance that are independent from the assumptions of a single country, culture, or

context; and to implement those criteria appropriately in different countries, cultures, and contexts.

The concept of global mindset first appeared in Perlmutter's (1969) taxonomy of ethnocentric (home country mindset), polycentric (host country mindset) and geocentric (world mindset) MNCs. Bartlett and Ghoshal (1989) expanded geocentrism, calling it the 'transnational' mindset. In the last decade, numerous articles have been published on global mindset (Begley & Boyd, 2003; Gupta & Govindarajan, 2002; Jeannet, 2000; Kedia & Mukherji, 1999; Kefalas, 1998; Maznevski & Lane, 2004; Paul, 2000; Rhinesmith, 1992, 1993; Srinivas, 1995) that are based either on consultants' experiences or on academics' conceptualizations. Global mindset is assumed to correlate with strategic success in MNCs (Bartlett & Ghoshal, 1992; Ohmae, 1989; Doz & Prahalad, 1991), but there are few empirical studies on the topic (see Table 11.1).

There is also little agreement on how to define, measure or develop global mindset (Bouquet, Morrison & Birkinshaw, 2003). As a result, scholars have operationalized global mindset in a variety of different ways. For example, cognitive complexity (Wills & Barham, 1994); cognitive maps of CEOs (Calori, Johnson & Sarnin, 1994), the international experience of top managers (Sambharya, 1996), judgments about international HR policies (Kobrin, 1994), cognitive orientation of top management teams (Levy, 2001), top management team (TMT) behaviour (Bouquet *et al.*, 2003), global orientation in managers (Nummela, Saarenketo & Puumalainen, 2004) and top management team global orientation (Beechler, Levy, Taylor & Boyacigiller, 2004).

The dependent variables in these studies are measures of global strategy or performance, such as internationalization or international sales. Several studies prove that global mindset correlates with greater international scope (Calof & Beamish, 1994; Kobrin, 1994; Sambharya, 1996; Nummela *et al.*, 2004), global strategic posture (Levy, 2001) and international financial performance (Nummela *et al.*, 2004). In contrast, one study discovered that too much top management team attention to global issues (the authors' operationalization of global mindset) was as harmful to performance as too little attention (Bouquet *et al.*, 2003). Global mindset also correlated with two internal measures: higher employee commitment and excitement about their job (Beechler *et al.*, 2004). Owing to the nature of their design, most of these studies cannot settle the question of causality. Murtha, Lenway and Bagozzi (1998) found that global mindset increased during the implementation of a new global strategy. Some findings suggest that global mindset may follow strategy rather than the general assumption that strategy follows mindset

Table 11.1 A chronological list of empirical research on global mindset

Authors	Operationalization of global mindset	Method	Findings
Wills & Barham (1994)	Cognitive complexity	Interviews with 60 successful international managers in global organizations	Successful international managers were characterized by cognitive complexity, emotional energy and psychological maturity, in addition to learned behaviours and skills
Calof & Beamish (1994)	Global mindset defined as geocentric	Surveys of 38 Canadian firms	Firms that characterized themselves as geocentric, rather than ethnocentric or polycentric, reported greater international sales and export intensity
Kobrin (1994)	International HR policies as indicators of geocentrism	Survey with geocentrism index on international HR policies administered to 68 US manufacturing firms	Geocentric mindset is related to geographic scope of firm, but not to global strategy
Calori, Johnson & Sarnin (1994)	Cognitive complexity of CEOs defined as number of constructs and density of links between constructs	Sample of 26 French and British firms in four industries	CEOs of international firms have more complex maps of their industry than other CEOs. Cognitive complexity of the CEOs correlates with the geographic scope of the firm and interorganizational links, generally supporting 'requisite variety'
Sambharya (1996)	Cognitive state of the top management team as measured by their international work experience	Sample of 54 US manufacturing firms	International experience of top management team correlates with international diversification
Murtha, Lenway & Bagozzi (1998)	'Cognitive processes that balance competing country, business functional concerns' in managers	Longitudinal survey administered to 370 managers in 13 country and affiliates and US head office of an MNC	The change to a global strategy resulted in a cognitive shift toward increased global mindset across all managers

Table 11.1 (continued)

Authors	Operationalization of global mindset	Method	Findings
Levy (2001)	'Cosmopolitanism and cognitive diversity' in top management teams	Content analysis of letters to shareholders of 69 US-based tech firms	Global mindset in top management was linked to a global strategic posture
Bouquet, Morrison & Birkinshaw (2003)	Top management team behaviours: global scanning, CEO foreign travel, communication with overseas managers and discussions of globalization decisions	Questionnaires sent to 136 CEOs or presidents of MNCs	Global mindset is best explained by micro-level attention structures. Too little or too much attention to global issues decrease firm performance
Nummela, Saarenketo & Puumalainen (2004)	Global orientation attitude and international entrepreneurial behaviours	Web-based survey of 72 small Finnish information & communications technology companies	Managers' international work experience correlates with global mindset, as does the globalness of their market. Global mindset correlates with international financial performance
Beechler, Levy, Taylor & Boyacigiller (2004)	Global orientation of top management team	Surveys of 521 employees working in five countries for two Japanese MNCs	Employee perceptions of top management team's global orientation positively affected employee commitment and excitement about jobs

(Levy *et al.*, 1999). More research is needed to specify the contingencies that influence causality.

After reviewing how it has been used in the literature, Levy and her colleagues (1999) have attempted to define the global mindset construct. They reached the following conclusion: global mindset is a cognitive structure composed of two constructs, cosmopolitanism (an enthusiastic appreciation of other cultures) (Merton, 1957; Hannerz, 1996) and cognitive complexity (the ability to perceive situations as highly differentiated and to integrate these differentiated constructs) (Weick, 1979; Bartunek, Gordon & Weathersby, 1983). It remains to be seen whether or not this will be accepted as the standard definition of global mindset.

Problems with the global mindset research literature can be summarized in terms of three deficiencies. First, at present there is no generally accepted definition of the construct, and it has been operationalized in numerous ways. Second, some studies use international work experience as a surrogate measure, but not all international assignments have the same result, since some expatriates buffer themselves from the host culture and come home relatively unchanged without modifying their attitudes or world view. Third, the global mindset research has focused on various levels of analysis: individual managers and CEOs, top management teams, and firms as a whole. Is global mindset in individuals the same construct as it is for firms? Are there different types of global mindsets in firms with different strategies or in different industries depending on varying levels of required global/cultural knowledge and involvement?

Significant further effort is called for in addressing the following aspects of global mindset (GM) research.

- Further construct development or acceptance of the Levy *et al.* definition.
- Identification of different types of global mindset, perhaps at different levels of analysis.
- Creation and validation of a GM assessment instrument.
- Measurement of the impact of GM on performance outcomes.
- Identification of GM antecedents and clarification of causality.
- Determination of whether or to what extent GM can be developed in people.
- Identification of threshold personality characteristics, which can be used as selection criteria, that identify GM or facilitate its development.
- Identification of the cognitive processes related to GM.
- Identification of organizational and team contingencies related to GM.
- Exploration of different forms of GM and their relationship to global strategies or industries.
- Identification of GM capability in both teams and organizations.
- Development of GM process models that include interaction with the environment.
- Antecedents of GM effectiveness.
- Delineation of the relationship between GM capability and organizational culture.
- Determination of what constitutes an adequate level of GM capability for organizational effectiveness.
- Outcomes of GM development training methodologies.

Literature review of global leadership

Within the field of management science, the construct of global leadership was born out of the needs of corporations in the 1990s to adopt global strategies, expand internationally and compete in the global marketplace (Mendenhall & Osland, 2002; Von Glinow, 2001). Corporations realized that people with global capabilities were required to develop and implement their new strategic initiatives and, as a result, they created company-specific global leadership models to guide their management development efforts (Mendenhall & Osland, 2002). Because global leadership is a young field of study, many of these models and training programmes, including those offered by universities and consulting companies, are not based on an extensive body of empirical research that identifies effectiveness in global leadership or global leadership training.

In this chapter, global leadership is defined as a process of influencing the thinking, attitudes and behaviours of a global community to work together synergistically toward a common vision and common goals (Adler, 2001; Festing, 2001). To date, most scholars have approached the global leadership construct by asking two questions: 'What capabilities do global leaders need to acquire in order to be effective?' and 'How can managers most effectively develop these characteristics?' The earliest publications on global leaders were either extrapolations from the domestic leadership literature, interviews and focus groups or observations from the authors' consulting experiences (Kets de Vries & Mead, 1992; Tichy, Brimm, Charan & Takeuchi, 1992; Rhinesmith, 1993; Moran & Riesenberger, 1994; Brake, 1997). Two sources of current thinking, findings and implications for future research are the *Advances in Global Leadership* volumes (Mobley, Gessner & Arnold, 1999; Mobley & McCall, 2001; Mobley & Dorfman, 2003) and the edited volume by Mendenhall, Kühlmann and Stahl (2001). Additionally *Human Resource Management* (vol. 39, 2000), published a special issue on global leadership, and Mendenhall and Osland (2002), Hollenbeck (2001) and Suutari (2002) conducted reviews of the literature.

The extant empirical studies on global leadership are described in Table 11.2. Empirical studies of global managers (for example, Dalton, Ernst, Deal & Leslie, 2002; Leslie, Dalton, Ernst & Deal, 2002) and empirical work on comparative international leadership (for example, the GLOBE project) exist in the field as well. From the extensive study of the impact of culture on leadership in 62 nations, the GLOBE project identified 21 universally accepted leader attributes and the transformational leadership style as generally advisable (House, Hanges, Javidan, Dorfman & Gupta, 2004). Their subjects, however, were not global leaders, but middle managers and executives working in their own countries. These universal attributes may prove to be linked to effective global leadership; however

Table 11.2 A chronological list of empirical research on global leadership

Authors	Description	Method	Findings
Yeung & Ready (1995)	Identifies leadership capabilities in a cross-national study	Surveys of 1200 managers from ten major global corporations and eight countries	Capabilities: articulate vision, values, strategy; catalyst for strategic and cultural change; empower others; results and customer orientation
Adler (1997)	Describes women global leaders in politics and business	Archival data and interviews with women global leaders from 60 countries	Women global leaders are increasing. They come from diverse backgrounds; are <i>not</i> selected by women-friendly countries or companies; use broad-based power rather than hierarchical power; are lateral transfers; symbolize change and unity; and leverage their increased visibility
Black, Morrison & Gregersen (1999)	Identifies capabilities of effective global leaders and how to develop them	Interviews of 130 senior line and HR executives in 50 companies in Europe, North America and Asia, and nominated global leaders	Capabilities: inquisitive, character, duality, savvy. Development occurs via training, transfer, travel, teams
Kets de Vries & Florent-Treacy (1999)	Describes excellent global leadership	Case studies involving interviews with three global leaders	Identified best practices in leadership, structure, strategy, corporate culture
Ernst (2000)	Studies the impact of global leadership behavioural complexity on boss and subordinate perceptions of leadership effectiveness	Surveys of the bosses and subordinates of 174 upper-level managers from 39 countries working in four global organizations	Behavioural complexity variables were related to perceptions of leadership effectiveness. However the relationships were not stronger for leaders in global as opposed to local jobs

Table 11.2 (continued)

Authors	Description	Method	Findings
Rosen, Digh, Singer & Philips (2000)	Identifies leadership universals	Interviews with 75 CEOs from 28 countries; 1058 surveys with CEOs, presidents, managing directors or chairmen; studies of national culture	Leadership universals: personal, social, business and cultural literacies, many of which are paradoxical in nature
McCall & Hollenbeck (2002)	To identify how to select and develop global executives and understand how they derail	Interviews with 101 executives from 36 countries and 16 global firms nominated as successful global executives	Competencies: open-minded & flexible; culture interest & sensitivity; cognitively complex; resilient, resourceful, optimistic, energetic; honesty & integrity; stable personal life; value-added technical or business skills
Goldsmith, Greenberg, Robertson & Hu-Chan (2003)	To identify global leadership dimensions	Thought leader panels; focus and dialogue groups with 28 CEOs and an unspecified number of current and future global leaders from various firms; interviews with 202 high-potential next generation leaders; and 73 surveys from forum group members	Fourteen dimensions: integrity, constructive dialogue, shared vision, developing people, building partnerships, sharing leadership, empowerment, thinking globally, appreciating diversity, technologically savvy, customer satisfaction, maintaining competitive advantage, personal mastery, anticipating opportunities
Kets de Vries, Vrignaud & Florent-Treacy (2004)	Describes the development of 360-degree feedback instrument, GlobeInvent	Based on semi-structured interviews with a number of senior executives	Twelve dimensions/psychodynamic properties: envisioning, empowering, energizing, designing, rewarding, team building, outside orientation, global mindset, tenacity, emotional intelligence, life balance, resilience to stress

further research that tests for the presence of these attributes among successful global leaders is needed. As Adler noted, 'A fundamental distinction is that global leadership is neither domestic nor multi-domestic; it focuses on cross-cultural interaction rather than on either single culture description or multi-country comparison' (2001: 77). In our review of the literature, we include only studies with a specified focus on *global leadership*.

As shown in Table 11.2, the methodology utilized to study global leadership has been limited to surveys and/or interviews, with the exception of Kets de Vries and Florent-Treacy's (1999) initial case studies. Ernst (2000) went beyond interview or self-reported data to include 360-degree feedback from bosses and subordinates on behaviours, but his findings did not distinguish between domestic and global leadership. Using semi-structured interviews, Kets de Vries and his colleagues (2004) developed an instrument to measure various psychodynamic properties associated with global leadership behaviour. Black *et al.* (1999) and Goldsmith *et al.* (2003) also developed instruments to measure global leadership. Perhaps because of their recent development, as yet none of these instruments has been validated using commonly accepted standards for development of psychological assessment and testing instruments (Anastasi & Urbina, 1997; Nunnally & Bernstein, 1994). Several studies employed exploratory designs, which is appropriate in a nascent field of study. No one, however, has replicated Mintzberg's (1971) landmark observation of managerial behaviour with global leaders or studied leader behaviour directly. Although cognitive complexity is frequently mentioned as a global leadership competency, no research has directly measured the cognitive processes of expert global leaders (Osland & Bird, forthcoming).

The majority of the research findings in Table 11.2 were published in books; only three studies were published in peer-reviewed research journals or well-respected practitioner journals (Yeung & Ready, 1995; Gregerson, Morrison & Black, 1998; and Kets de Vries *et al.*, 2004). Consequently it is more difficult to evaluate this research in terms of rigour.

While all of the global leader research in Table 11.2 makes a contribution to our understanding, and advances the field, the findings are not yet definitive. For example, the published research to date has not contributed much in the way of construct definition. No rigorous or collectively accepted definition of global leadership has emerged. In some studies the definition of the construct was left up to interviewees; in other cases the definition was merely assumed. As a result, there is conceptual confusion accompanied by enduring questions about whether there is a significant difference between global managers and global leaders, or between global and domestic leaders. In both sample selection and writing, the terms 'global leader' and 'global manager' are frequently used interchangeably,

which is puzzling given the significant distinctions between managers and leaders in the leadership literature (Kotter, 1990).

Several studies asked global managers for their opinion about global leader capability without ensuring or clarifying whether they were in fact global leaders. Yeung and Ready (1995) used a global sample of 1200 managers who chose among survey items to elicit their description of global leaders. After identifying 43 political and 38 business women global leaders, Adler (2001) did content analysis using archival research and some interviews to describe their background, ascension and use of power. Black and his colleagues (1999) took a qualitative, exploratory approach. They asked 130 senior line and HR executives, as well as an unspecified number of nominated global leaders, for their opinion on global leadership capabilities and the methods of developing them. Rosen *et al.* (2000) interviewed 75 CEOs and surveyed 1058 CEOs, presidents, managing directors or chairmen about global leadership capabilities. Goldsmith and his colleagues (2003) took a three-pronged approach: (1) they asked the opinion of 18 well-known domestic leadership experts and futurists; (2) they held focus groups with 28 CEOs, an unspecified number of global managers and 2002 high potential leaders of the 'next' generation; and (3) they surveyed 75 forum members from various countries. McCall and Hollenbeck (2002) interviewed 101 executives from varied companies and countries who were nominated as successful global executives in high-level positions. They refer to their sample as global executives rather than leaders, although their sampling methods are similar to other global leader studies and they reviewed the global leadership literature prior to gathering data. Theirs is the only study to select all subjects solely on effectiveness, as perceived by others.

Black and his colleagues' subsample of nominated global leaders also took effectiveness into consideration. Kets de Vries and Florent-Treacy (1999) began their empirical work with case studies, utilizing a clinical orientation, of three global leaders who were acknowledged as highly successful global CEOs. As the basis of their subsequent research, an assessment instrument that measures global leader dimensions, they relied primarily on participants who attended INSEAD's senior executive seminar on Emotional Intelligence and Leadership and MBA programme. This convenience sample, drawn from a prestigious school, may well be composed of global leaders, but their selection criteria, as well as most of the research reviewed here, assume that global managers are indistinguishable from global leaders. In contrast, we contend that all CEOs and global managers are not, by definition, global leaders. Given the limited amount of research in this field, more could be learned from exploratory research on global leaders who are effective. Both of these contentions argue for more careful selection criteria in global leadership research.

Mendenhall and Osland's (2002) review of the empirical and non-empirical literature yielded 56 global leadership competencies, a list too large to be useful. Noting that there were numerous areas of overlap across the various lists, the authors concluded that global leadership is a multidimensional construct with at least six core dimensions of competencies: cross-cultural relationship skills, traits and values, cognitive orientation, global business expertise, global organizing expertise and visioning. This categorization seems applicable for the competencies identified in the empirical studies reviewed here, as shown in Figure 11.1.

One striking characteristic of the global leadership competency research is that it has, for the most part, taken a *content* approach. While such research is useful, it fails to explicate the process that global leaders utilize

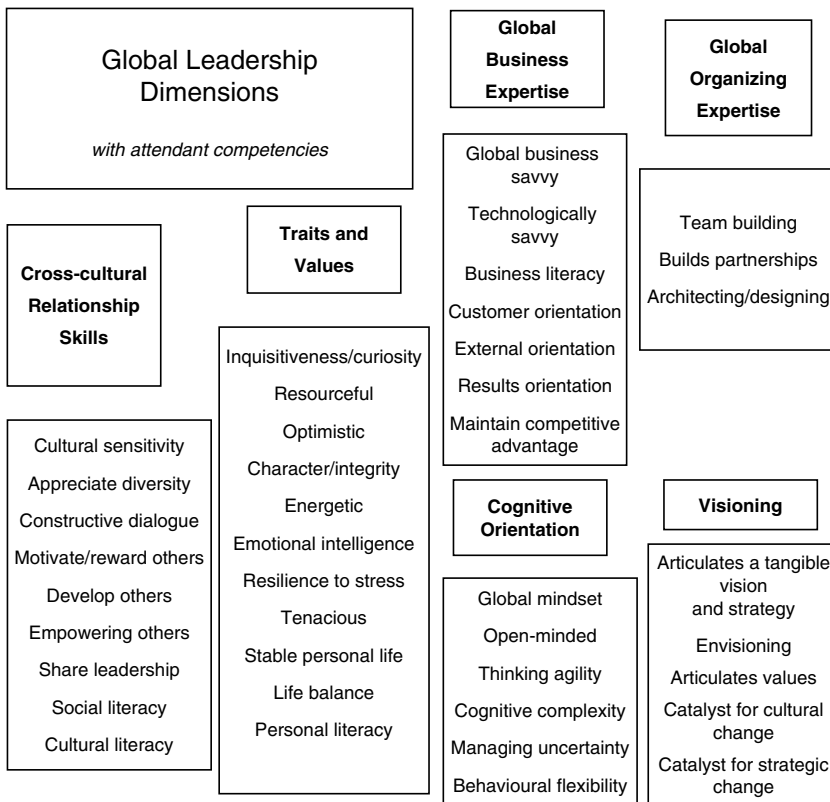


Figure 11.1 Categorization of global leadership competencies in the empirical research

or to identify the contingencies that influence their behaviour in specific contexts. Nor does it distinguish between essential and non-essential competencies. Are these competencies crucial at all times or important only in certain situations? Leadership requirements can vary by level, culture and situation, as well as by functions and operating units, so competency lists might not apply across the board (Conger & Ready, 2004: 45).

The competency approach also fails to answer the conundrum of exemplary global leaders who succeed despite glaring weaknesses. In reality, few leaders live up to the idealized view of leadership that competency lists portray (Conger & Ready, 2004). McCall and Hollenbeck (2002) note that complex, high-level executive jobs are accomplished in various ways by executives with multiple forms of talent. Therefore we would expect that global leaders can be effective without acquiring all competencies, but there is no research to prove or disprove this hypothesis.

Global leadership scholars may be distracted by the mythical lure of heroic leadership. The artist Andy Warhol stated, 'In the future, everyone will be world-famous for 15 minutes.' This may well describe some forms of global leadership. Leaders who accurately assess the shifting sands and rip tides of globalization may effectively harness the powers inherent in the situation and engage in '15 minutes' of global leadership. For that fleeting moment, their actions will be heroic. Do they then become heroes, destined like Spiderman to save us repeatedly from evil, and become true global leaders? Probably not; 15 minutes may be more than most could hope for, as evidenced in the rise and fall of certain well-known global business leaders and in cases of domestic leaders who surprisingly rise to the challenge of a one-time global leadership role. Hence another caveat is that scholars may well be reporting on episodic global leadership rather than finding subjects who act consistently as global leaders, modern examples of the archetypical heroic leader humankind so longs for. Our research needs to distinguish between global leaders and global leadership and between episodic and long-term global leadership behaviour.

In summary, global leadership is an emerging field, reminiscent of the first stage of domestic leadership research, which also began by examining traits and subsequently evolved more complex theories. Furthermore researchers have yet to focus on global leadership capability at the team or firm level, opting instead to study this topic only at the individual level of analysis. Future research is needed in the following global leadership (GL) topics.

- Construct definition for GL.
- Distinguishing between the roles and behaviours of global managers and global leaders.

- Definitively answering the question of whether and how global leaders differ from domestic leaders.
- Determination of competencies that are threshold characteristics that should be used as selection criteria in development programmes or promotion.
- Development and/or validation of GL assessment instruments.
- Identification of GL behaviours.
- Identification of GL thought processes and expert cognition.
- Identification of GL contingencies.
- Description of GL styles.
- Investigation of the relationship between global strategy and specific types of GL skills.
- Identification of GL capability in both teams and organizations.
- Development of GL process models that include interaction with the environment.
- Antecedents of GL effectiveness.
- Determination of how many global leaders firms need.
- Outcomes of GL development training methodologies.

The next literature review focuses on the development processes of global mindset and global leadership.

Developing global mindset and global leadership

One can develop attitudes, abilities and knowledge through international assignments and global projects, but personality characteristics such as openness, flexibility and reduction of ethnocentrism (which are closely related to cosmopolitanism and cognitive complexity) are, by definition, less amenable to change (Caligiuri & Di Santo, 2001). Therefore selecting and promoting those who already have the desired personality characteristics is a critical aspect in developing both global mindset and global leadership.

Global mindset development

There are no extant empirical studies on global mindset development. However, using research from cognitive psychology and knowledge development, Gupta and Govindarajan (2002: 120) assert that individual and organizational development of a global mindset are likely fostered by (a) curiosity about the world and a commitment to becoming better informed about how the world works, (b) an explicit and self-conscious articulation of current mindsets, (c) exposure to diversity and novelty, and (d) a disciplined attempt to develop an integrated perspective that weaves together diverse strands of knowledge about cultures and markets.

The authors hypothesized that global mindset can be developed by (a) hiring diverse employees and managers, (b) providing opportunities such as cross-border teams and projects, short immersion experiences, expatriate assignments, (c) holding meetings and business unit headquarters in foreign locations, (d) fostering social networks across cultures, and (e) taking formal education courses. It has also been hypothesized that global mindset can be developed with a focus on global issues with structural positions (global jobs, champions, teams), meeting topics and speakers, and incentives and accountability for global performance (Bouquet *et al.*, 2003).

Global leadership development

Few frameworks or models exist that describe the global leadership development process. (For a review of the literature on global leader development, see Suutari, 2002.) It is generally argued by scholars that the major challenges firms face in establishing global leadership development programmes are (a) establishing selection criteria, (b) agreeing on the competencies to develop and measure, (c) designing effective training programmes, and (d) retaining their highly sought-after 'graduates'.

Careful selection practices are essential. Certain personality characteristics that are desirable in global leaders (flexibility, ethnocentrism, openness) did not increase as a result of global assignments (Caliguiri & Di Santo, 2001). Caliguiri (2004) found that highly effective global leaders in one firm had significantly higher conscientiousness scores and significantly lower neuroticism than less effective ones. (They also had lived abroad with their families, had long-term international assignments, and were mentored by people from a different culture.) According to Kets de Vries and Florent-Treacy (2002), the basic foundation of global leadership development consists of: (1) family background that includes culturally diverse parents, early international experiences and bilingualism; (2) early education in international schools, summer camps and international travel; (3) later education involving exchange programmes, foreign language and international MBA programmes; and (4) spouses and children who are supportive, adventurous, adaptable and mobile. More research is needed to identify all traits and experiences that predict global leadership effectiveness. In general, selection practices must avoid ethnocentrism and be inclusive, since the traits, skills and management styles that result in a superior track record in the home country may be counterproductive abroad (Mendenhall, 2001; Ruben, 1989; Osland & Taylor, 2001).

International assignments have been viewed as the most powerful development tool in facilitating global leadership competencies (Gregersen *et al.*, 1998; Hall, Zhu & Yan, 2001; Mendenhall *et al.*, 2001), since they constitute

a transformational experience that develops business savvy, continuous learning, cognitive complexity, behavioural flexibility, cross-cultural skills and the ability to manage uncertainty (Osland, 2001). However, a multi-method approach is recommended (Osland & Taylor, 2001) that utilizes international assignments, short-term developmental assignments, international teams, action learning groups/projects/task forces, international training and development programmes, international meetings and forums, international travel (Oddou, Mendenhall & Ritchie, 2000; Roberts, Kossek & Ozeki, 1998), 360-degree evaluations that include input from foreign organizational members, and assessment centres (Stahl, 2001). All methods have to be used mindfully by tying them to company strategy and ensuring that the necessary developmental learning occurs.

Fulkerson (2002) summarizes practical advice for developing global leadership based in part on his research with international executives. McCall & Hollenbeck's (2002) research makes a major contribution to clarifying the development process of global executives from both an individual and an organizational perspective. Their model consists of five components that lead to 'the right stuff' in global managers (what they need to implement business strategy): talent, mechanisms, experience in a global context and catalysts, the latter moderated by business strategy. They acknowledge several difficulties in assessing talent: identifying a common standard across cultures, country differences in assessing, promoting and developing managers, wide variability in global executive jobs, and the organization's openness to promoting executives from other nationalities (*ibid.*: 185–6). The mechanism variable in their model consists of selection, succession, development, discovery and recovery, which are elaborated below.

Selection and succession refer in part to the organization's need to identify people who are ready to assume global positions when unexpected staffing needs arise; in other words, replacement planning for critical jobs. Development occurs by placing people in jobs that will expand their cultural or business skills, which is often done with people from a culturally diverse background who have a clear interest in international work. Discovery mechanisms provide parochial employees with an opportunity early in their careers to ascertain whether they might have an interest in international work. Recovery pertains to the organization's efforts to integrate repatriates when they return home. Developmental catalysts, such as feedback, reward systems and so on, help executives learn. Finally, business strategy refers to a firm's specific development needs, which are based on their particular strategic intent and organizational design. Strategy and structure determine the number of international jobs, the types of global executives and their nationalities, and the skills they will need. Thus McCall and Hollenbeck (2002) view business strategy as a moderator in their global

executive development framework. They confirm the findings of other scholars that global experience is crucial to global leadership development.

Global leadership development: a 'non-linear' perspective

The argument that global leadership is a process of personal transformation is an underlying theme in much of the literature. Assuming this thesis is cogent, it is likely that global leadership development is not a linear progression of adding competencies to an existing portfolio of leadership competencies, but rather a non-linear process whereby deep-seated change in competencies and world view takes place in the process of experiential overlays over time. This 'experiential crucible' includes experiences over which the company may have little or no control. Consequently traditional training cannot in and of itself be the primary tool through which global leadership competencies are inculcated within individuals. This process is akin to phenomena that are studied within the emerging field of non-linear dynamics.

Traditional social scientific philosophy, methodology and understanding are based on a core assumption: that relationships between variables in social phenomena are linear in nature (Capra, 1983, 1996). This cognitive and perceptual bedrock, which has been the centre of socialization for thousands of doctoral students since the 1920s in North American universities, has produced the development of social scientific theories that are reductionistic, deterministic and equilibrium-oriented in nature (Lichtenstein & Mendenhall, 2002). The superordinate goal of such social scientific theories is the prediction of human behaviour (Capra, 1983, 1996; Hayles, 1991; Dooley, 1997; Lichtenstein & Mendenhall, 2002). This unconscious, ubiquitous paradigm is a lens through which managers, as well as academics, perceive reality. Wheatley (1992: 6) summarized the subtle effects of our socialization when she observed:

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.

One reason for the sustained permanence of this core assumption is that linearity does exist in the world. Many systems and laws in the universe are inherently linear in nature. An understanding of linearity has allowed humankind to transport astronauts to the moon and, on a more mundane note, to know what time it is at any given moment of the day.

An overarching characteristic of linear, deterministic systems is their proportionality; that is, an input of x amount of force into a system results in a corresponding output which proportionately reflects the amount of force (x). Lichtenstein and Mendenhall (2002) note that the implicit belief that predictable, closed mechanical systems are the norm for natural and social science modelling (Harding, 1986; Turner, 1997) was the basis for virtually all models of biological and social process (Bateson, 1980; Berman, 1984).

Over the past two decades, however, discoveries of non-linearity in the natural sciences have led an increasing number of social scientists to explore the possibility that social phenomena have non-linear elements within them (Capra, 1996; Eylon & Giacalone, 2000). Some social scientists, such as George Herbert Mead, Joseph Schumpeter and Mary Parker Follett, saw and wrote about the relationship between non-linearity and social phenomena in the 1920s and 1930s, but their voices were drowned out by the tide of logical positivism that emerged at that time, and has continued to the present, to be the foundational philosophy of social science (Lichtenstein & Mendenhall, 2002).

The nature of non-linearity

Lichtenstein and Mendenhall (2002: 8) describe non-linearity as ‘a common state of dynamic systems in which events and their outcomes are non-proportional. In the simplest sense, non-linear system inputs are not proportional to the system’s outputs; for example 140° F is not twice as pleasant as 70° F, and eight aspirin are not eight times as effective as one.’ Another description of non-linearity was provided by Meiss (1995: 1):

Nonlinear is defined as the negation of linear. This means that the result may be out of proportion to the input. 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.

Some scholars have begun to theorize that global leadership development has non-linear aspects and that firms need to understand this process better than they currently do in order to develop global leaders.¹ The multitudes of daily experiences that are encountered in a dynamic, intercultural milieu are not inherently linear. Certain intercultural experiences trigger either functional or dysfunctional global competency development out of proportion to their importance to all other factors in the situation, or to the business context itself. Seemingly innocent or minor intercultural interactions can careen out of control, causing global managers to internalize false or skewed intercultural understanding of ‘why’ the event occurred and ‘what’ the event means. In responding to these events, global managers

continually create a new reality. Mary Parker Follett (1924: 62–3) argued that such social interaction was a non-linear process:

[an individual's] reaction is always reaction to a relating . . . I never react to you but to you-plus-me; or to be more accurate, it is I-plus-you reacting to you-plus-me . . . that is, in the very process of meeting, by the very process of meeting, we both become something different. It begins even before we meet, in the anticipation of meeting . . . It is I plus the-interweaving-between-you-and-me meeting you plus the-interweaving-between-you-and-me, etc., etc. If we were doing it mathematically we should work it out to the nth power.

Each intercultural situation that a global manager experiences – and there are myriad such experiences that occur daily – consists of ‘non-linear relatings’. That is, the creation of global leadership competencies is like a continuing dance or tennis match with multiple partners. One is not independent of one’s partners – the continual decisions and learning from decisions in response to continual behaviours enacted over time transform someone into either a competent or an incompetent global leader – and all points in between. Lichtenstein and Mendenhall (2002) contend that components and behaviours in non-linear dynamical systems cannot be separated, so independent forces do not bring about dependent outcomes. All elements in such systems are ‘mutually constituting’: they arise and evolve as an interconnected network (Capra, 1996). A cause does not have one and only one effect; therefore the customary linear connection among antecedents and outcomes does not hold true. Instead the ‘mutual causality’ that characterizes this interdependence among variables constitutes a core principle of the new sciences (Briggs & Peat, 1989).

On the assumption that global leadership development in an individual is a non-linear, mutually causal, emergent process moderated by a variety of key variables across time, we offer the following process model, depicted in Figure 11.2, as a first attempt to comprehend global leadership development through a non-linear, paradigmatic lens. The model is called, ‘The Chattanooga model of global leadership development’ as it was developed in a think-tank setting by global leadership scholars in Chattanooga, Tennessee in 2001, at the Frierson Leadership Institute.

At the left of the model, in the corner, an individual enters a global/cross-cultural context and is immersed in it (24-7) over a significant period of time. The person enters with basic, core immutable personality traits, which include fairly immutable competencies (ambition, desire to lead, sociability, openness, agreeableness, emotional stability and so on) and cognitive processes (attribution flexibility, category width, tolerance for ambiguity and so on). The individual also enters with existing levels of self-efficacy that are brought to bear on various aspects of living and working globally.

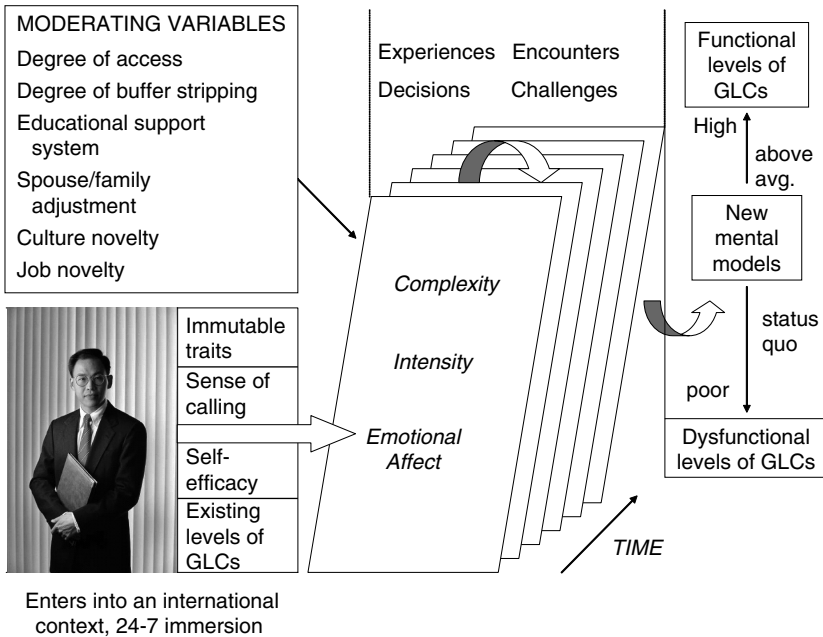


Figure 11.2 The Chattanooga model of global leadership development

The degree to which the individual perceives a ‘call to do this’, or, in other words, the degree to which people view themselves as global citizens and believe that this assignment fits ‘who they really are’ inside is an important factor in their motivation to lead in a global situation. Finally the person enters the global context with existing levels of global managerial/leadership competencies.

Each individual brings a unique configuration of these variables and brings this configuration to bear upon the multitude of daily experiences that are encountered in the new milieu. The ‘folders’ or ‘pages’ in Figure 11.2 represent experiences, interactions and challenges the individual passes through over time. Each of these experiences differs in the degree to which they confront the individual with complexity and the degree to which they are important to the individual, thus heightening the intensity of the experience for the individual. The combination of complexity and intensity contribute to the degree of emotional affect the individual experiences.

The recursive arrow in the model connotes the fact that a current experience can cause, through memory, an updating or reliving of past experiences. Thus the global leadership development process is not based on independent experiences; rather each experience is tied to past, multiple

experiences and constitutes a sense-making process of learning and acquiring global leadership competencies. Bennis and Thomas (2002: 14) refer to the *gestalt* of these processes as constituting 'crucibles', situations 'characterized by the confluence of powerful intellectual, social, economic, or political forces' that severely test one's patience, and one's beliefs, and that produce a transformation in the individual, leaving him/her deeply different in terms of who they were before the crucible experience.

The nature of these various global/cross-cultural crucible experiences is critical to the formation of global leadership. The degree to which these experiences are buffered by organizational policies or the individuals themselves, or the degree to which access to these experiences is curtailed by companies (for example, expensive housing that separates the global manager from interaction with the host society) moderates whether or not these potentially transforming experiences instead become shallow and non-catalytic in terms of global leadership development. Additionally educational support systems, culture novelty, job novelty, and spouse/family adjustment can each enhance or detract from global leadership development.

Thus a key factor in individual global leadership development is 'access to high-level challenges'. Access to these challenges may produce, in some cases, solid global leadership competency development over time. However such access holds the potential to produce failure as well. Individuals may have the right kind of experiences, but be unable to handle them or learn from them because they are overwhelming. New mental leadership models are indeed created within the individual; however those models may be dysfunctional. It is important to note that, although these mental models become apparent at the end of the process depicted in Figure 11.2, in actuality they are being created over and over again in response to each experience the individual has. Consequently the developing framework is malleable, but it may harden into a dysfunctional systemic framework if experiences are not handled effectively over time.

In summary, the Chattanooga model depicts the global leadership development process as emergent in nature, and constantly dynamic. If a person's immutable personality traits, access to powerful challenges and so on are harmonious to working and learning in the global context, a functional global leadership process will ensue, and the individual will develop global leadership competencies. Similarly other levels of global leadership, ranging from 'status quo' to 'dysfunctional' may result as a consequence of an individual's unique processual experiences. At any point in time, one's trajectory can rise, fall or be moderated by the unique constellation of forces that impinge upon any given experience.

Much work remains to be done in the area of global mindset and leadership development. The Chattanooga model and others need to be tested,

and the effectiveness and costs of different types of developmental methods need to be compared. The organizational aspect of development cannot be overlooked; the alignment of HRM and the organizational culture with the firm's efforts to develop global leadership and global mindset also require more investigation. What is required are systemic analyses of the factors that promote or impede global leadership and mindset. The caveat remains, however, that efforts to understand development will be hamstrung by the lack of consensus on the definition and parameters of global leadership and global mindset. Finally, to avoid a Western bias, future research on global mindset, leadership and their development should include globally diverse subjects and settings.

Note

1. A think-tank of global leadership scholars met at the Frierson Leadership Institute, Chattanooga, Tennessee to discuss the non-linear approach to global leadership development in 2001.

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12 Diversity management

Joerg Dietz and Lars-Eric Petersen

Many companies have an increasingly diverse labour force as a result of demographic trends in the population, new legal regulations, changing societal norms and the globalization of business (Bhawuk, Podsiadlowski, Graf & Triandis, 2002). In the USA, for example, the proportion of Latino and Asian employees has grown substantially, and in nearly all industrialized countries women are increasingly represented in the workplace. Diversity management helps to cope with the consequences of a diverse workforce (for instance, an increased risk of conflict). It has been defined as ‘systematic and planned programs or procedures that are designed (a) to improve interaction among diverse people especially of different ethnicities, sexes or cultures and (b) to make this diversity a source of creativity, complementarity, and greater effectiveness’ (Stockdale & Crosby, 2004: 12).

The importance of diversity management is related to the ‘business case’ for diversity. It links demographic diversity to bottom line results by drawing on three main arguments. First, there is an increasing shortage of qualified and talented staff in the knowledge economy; hence, organizations must exhaust all possible segments of the labour market, including minority employees, who traditionally have been underrepresented in most labour segments (with the exception of low-status work). Second, the demographic profile of customers is increasingly diverse (in particular with regard to ethnic diversity). The business principle of matching, which refers to the recruitment of applicants who fit the organization’s and its clients’ demographic profile, is seen as an important determinant of organizational success, although empirical evidence for this argument is sparse and inconsistent (Petersen & Dietz, 2005). Third, diverse teams produce better results because they bring more perspectives to the job than do homogeneous teams.

The problem with the business case for diversity is that the data largely do not support it. Williams and O’Reilly (1998: 120), upon reviewing the diversity literature, concluded that ‘the preponderance of empirical evidence suggests that diversity is most likely to impede’ how organizations function. In order to reap the benefits of workforce diversity, organizations must actively manage it. Today ‘diversity management’ has become one of the buzzwords in the human resource management community.

In this chapter we will discuss two approaches to diversity management. The macro or organizational-level approach speaks to organizational

designs for diversity and suggests organizational change processes toward the multicultural organization. The micro approach draws on psychological models of discrimination and inter-group relations, thereby offering a platform for designing interventions that reduce conflict and maximize cooperation.

Macro models of diversity management

Over the years, scientists (for example, Cox, 1991, 2001; Cox & Blake, 1991; Golombiewski, 1995; R. Thomas, 1991, 1996) have proposed several macro or organizational-level models of diversity management. Here we first briefly review the model by Cox (1991, 2001) as a classic model of diversity management and that by D.A. Thomas and Ely (1996; Ely & D.A. Thomas, 2001) as a model that has been tested, at least partially, in the field. A discussion of empirical evidence follows, before we turn to suggestions for future research.

Cox's model

Cox (1991, 2001) developed his model on the basis of conceptual analyses and case examples. According to Cox (1991), up to the 1970s, *monolithic* organizations were dominant in the USA. These organizations essentially did not manage diversity, and the HR function was underutilized. Instead, through assimilation, minority members were expected to adjust to existing organizational norms, which had been shaped by the predominant demographic group (typically, white men). *Pluralistic* organizations, which first started to emerge in the late 1960s and represent the dominant organizational model today, engage in diversity management. They recruit and hire minority employees, monitor their compensation systems for fairness, and offer diversity training. Finally, the *multicultural* organization is the model for the future. In the multicultural organization, pluralism is the dominant value, and organizational members do not differ in their identification with the organization as a function of their demographics. Furthermore prejudice, discrimination and inter-group conflict are minimal. A key differentiator between the pluralistic and multicultural organization is that minority employees are not only valued as contributing to the organization, but also are formally and informally fully integrated (for example, across levels and tasks).

Cox and Blake (1991), in addition, specified the activities of diversity management. These include bias-free HR systems (such as training and development), policies that allow women to have the same career opportunities as men, education programmes, and the management of organizational cultures for diversity and inclusiveness. Cox (2001) revisited his earlier model, adding a cyclical five-step model toward becoming a multicultural

organization. The five steps are leadership, research and measurement, education, alignment of management systems, and follow-up. Conceptually, this model can be viewed as an application of classic diagnostic models to diversity management (that is, leadership defines the diversity management issue, which is then systematically resolved and, in turn, leadership moves on to the next diversity issue).

Thomas and Ely's model

Thomas and Ely (1996) focused on processes by which diversity management affects the relationship between workforce diversity and organizational outcomes variables (for example, organizational effectiveness). Ely and Thomas (2001) argued that an organization's diversity perspective, which refers to organizational members' normative beliefs and expectations about cultural diversity and its role in their organizations, is a key moderator of the relationship between diversity and work outcomes. An organization's diversity perspective stands for the values that drive its diversity management practices. Ely and Thomas argued for three types of diversity perspectives: discrimination and fairness, access and legitimacy, and integration and learning. The authors tested and refined their arguments in a qualitative study of workgroups from three US firms. They observed that workforce diversity had the most positive effects on workgroup functioning when the workgroup stood for an integration-and-learning perspective. The effects of diversity perspective on group functioning were mediated by the quality of inter-group relations, feelings of being valued and respected, and the positivity of employees' racial identity at work.

On the basis of their theory-generating study, Ely and Thomas (2001) offered a refined description of the three diversity perspectives.

- The discrimination-and-fairness perspective focuses on ensuring equal and fair treatment and avoiding discriminatory practices. Diversity is not explicitly related to an organization's work, and the predominant diversity management strategy is colourblindness (demographics are ignored because they are assumed not to affect performance). Ironically the focus on fairness inevitably leads to concerns about unfairness, resulting in strained relationships among ethnic groups. These relationships are characterized by defensive claims of innocence. White employees become apprehensive about their racial identity, and employees of colour feel powerless. The discrimination-and-fairness perspective reduces the opportunities for learning from each other.
- The access-and-legitimacy perspective is characterized by using diversity as a means of gaining 'access to and legitimacy with a diverse

market' (Ely & Thomas, 2001: 265). The resulting staffing patterns (for example, more minority employees in inner-city markets versus more white employees in suburban areas) produce perceptions of differential status: the higher the percentage of white employees is in a business unit or function, the higher is its status. Minority employees question their value for the organization and feel uncertain about the value of their racial identity at work. The access-and-legitimacy perspective, like the discrimination-and-fairness perspective, prevents ethnically different employees learning from each other.

- The integration-and-learning perspective of diversity management assumes that 'the insights, skills, and experiences employees have developed as members of various cultural identity groups are potentially valuable resources' (2001: 240). These resources can influence organizational thinking on a variety of strategically important dimensions, such as market and product choices. Different cultural experiences are associated with different patterns of problem solution strategies and insights for optimizing organizational efficiency. Organizational members openly discuss the impact of their race-based experiences and value the input of ethnically different employees as an opportunity for learning.

Empirical research

Empirical research on diversity management at the macro or organizational level is sparse. Consistent with Ely and Thomas (2001), this research assumes that diversity management has a moderating effect on the relationship between diversity and organizational outcomes (in particular, organizational performance). The subsections below are organized by the assumptions about the linearity (ordinary linearity or curvilinearity) of the relationship between diversity and its outcomes.

The linear hypothesis Figure 12.1 is a graphic representation of the role of diversity management for linear relationships between diversity and performance. A direct effect of diversity on organizational performance is not hypothesized, as the positive effects of diversity (variety of perspectives and problem-solving approaches; see, for example, McLeod, Lobel & Cox, 1996) are counterbalanced by its negative effects (dissimilarity-based conflicts, such as suggested by social identity theory, for example, Tajfel, 1978, and similarity attraction theory, Byrne, 1971; Berscheid & Walster, 1978). Diversity management is hypothesized to moderate the relationship between diversity and organizational performance so that this relationship is positive (or not negative) in the presence of diversity management, but negative in the absence of diversity management. The conceptual argument

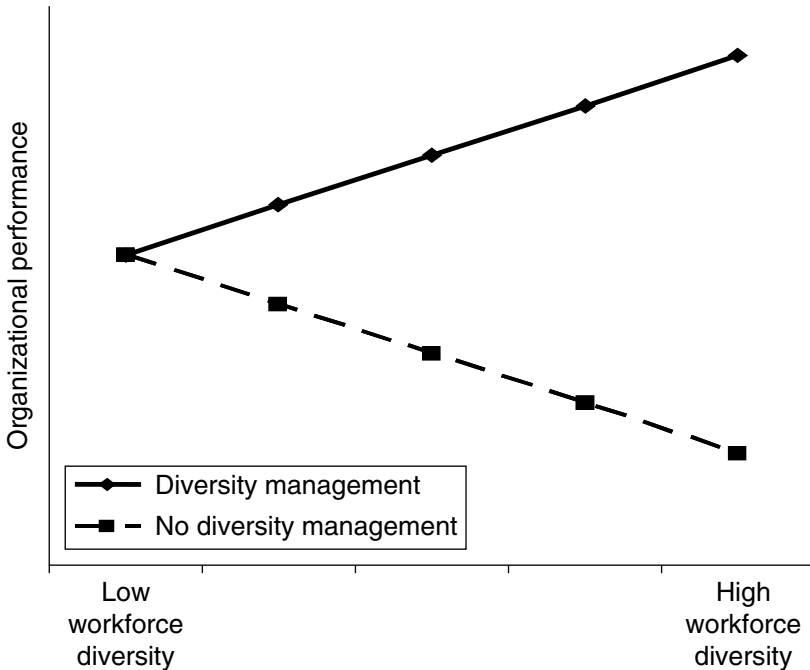


Figure 12.1 The effect of diversity management on the linear relationship between workforce diversity and organizational performance

is that, in order to take advantage of diverse perspectives and diverse access to networks, organizations need to manage carefully the potential conflicts and tensions resulting from diversity. When employees, through diversity management, become aware of the unique value that demographically different colleagues can offer, the likelihood of capturing the benefits of diverse perspectives are enhanced (cf. Ely & Thomas, 2001; Konrad & Linnehan, 1995).

Empirical tests of the linear hypothesis, as indicated above, are sparse. It is noteworthy that in several studies diversity was generally not related to organizational performance. Richard (2000) and Richard, McMillan, Chadwick and Dwyer (2003), in samples of US banks, did not find direct effects of racial diversity on bottom-line measures of organizational performance. Shrader, Blackburn and Iles (1997) reported, in a sample of 200 large US firms, that the percentage of women managers was related to financial profitability measures, such as return on assets, but Dwyer, Richard and Chadwick (2003) could not replicate this finding in a sample of 177 US banks.

In addition to Ely and Thomas's (2001) above-reviewed study, some evidence indicates a moderating effect of diversity management on the relationship between diversity and performance at the business unit of analysis. At the business unit and group levels of analysis, research in various organizations (Kochan *et al.*, 2003) has consistently shown that positive effects of racial diversity on business performance depended upon the extent to which organizations engaged in diversity interventions (for example, diversity training and emphasis on diversity as an organizational value). As the degree of diversity management increased, the effects of diversity on performance became more positive or at least less negative.

At the organizational level, we are not aware of research that indicates a moderating effect of diversity management on the relationship between diversity and organizational performance. A study by Wright, Ferris, Hiller and Knoll (1995), in a sample of 34 USA-based firms, indicated a direct effect. These researchers reported that the avoidance of diversity mismanagement (as indicated by awards for exemplary affirmative action programmes and avoidance of discrimination-related announcements) had a positive effect on stock price valuation. Bierman (2001), however, failed to replicate Wright *et al.*'s results in both the data of firms used by Wright *et al.* and a more extensive dataset. Bierman observed negative stock returns for the winners of exemplary affirmative action programmes.

The curvilinear hypothesis Richard and his colleagues (Richard, Barnett, Dwyer & Chadwick, 2004; Richard & Murthi, 2004) recently argued for curvilinear relationships between organizational-level workforce diversity and organizational performance. These researchers suggested a U-shaped relationship on the basis of Blau's (1977) theory of heterogeneity. Richard *et al.* (2004), made this argument for the effects of diversity of management groups rather than entire workforces. According to Blau, homogeneous groups are characterized by positive social associations and interactions, which would contribute to effective organizational functioning. At increasing levels of diversity, communication would become more difficult as employees organized themselves in demographic subgroups, leading to between-group isolation and reduced effectiveness. At extremely high levels of diversity, however, demographic subgroups would be less likely to form because diversity would be more diffused and pressures to interact with demographically similar colleagues would be reduced. Instead pressures to interact with dissimilar colleagues would be increased, resulting in higher organizational performance.

Figure 12.2 is a graphical illustration of Richard and Murthi's (2004) arguments for the moderating effect of diversity management on the curvilinear relationship between diversity and organizational performance.

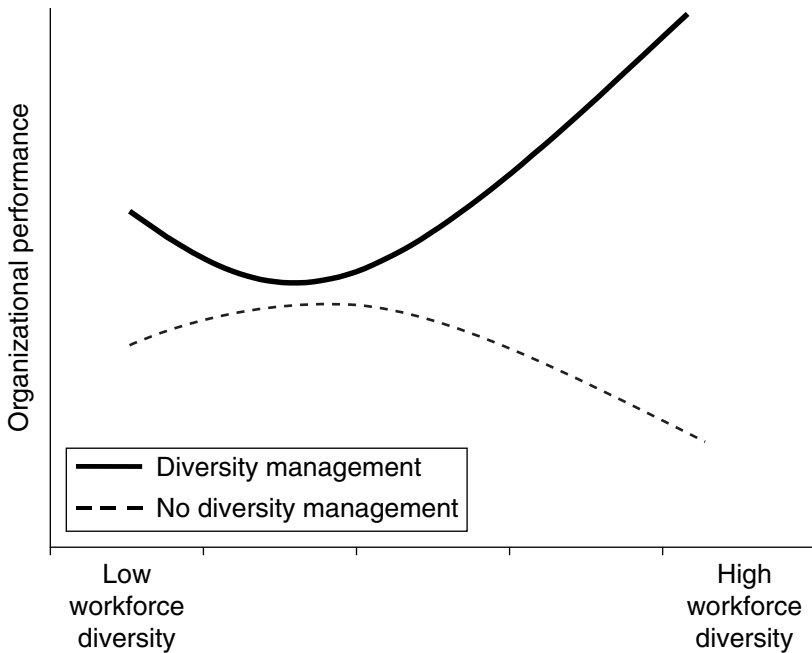


Figure 12.2 The effect of diversity management on the curvilinear relationship between workforce diversity and organizational performance

The authors suggested that, as the comprehensiveness of organizational diversity management systems increased, the U-shaped relationship between diversity and organizational performance would be stronger. For organizations with less comprehensive diversity management systems, however, the relationship between diversity and organizational performance would become increasingly negative.

As for the linear relationships between diversity and organizational performance, empirical evidence for the curvilinear relationship and the moderating role of diversity management is sparse. In a study of the 50 US organizations that were ranked as the most attractive employers for minorities by *Fortune* magazine, Richard and Murthi (2004) found a curvilinear U-shaped effect of racial diversity on productivity (operationalized as return on assets), such that productivity was highest when diversity was particularly low or particularly high. Richard *et al.* (2004), however, could not replicate this finding in a sample of 153 banks (neither for racial nor for gender diversity in the management groups of organizations).

Furthermore, Richard and Murthi (2004) observed that the U-shaped relationship between racial diversity and productivity was strongest in organizations with more comprehensive diversity management programmes. Their findings for highly diverse organizations were particularly remarkable. Whereas highly diverse organizations with high levels of diversity management reported the highest returns on assets across all organizations, those highly diverse organizations that engaged in less diversity management reported the lowest returns on assets across all organizations.

Future research

We noticed two key issues in reviewing macro-level research on diversity management. First, empirical research is rare. Second, and related to the first issue, the quality of the existing empirical research lags behind that of the theoretical work. The empirical research typically relies on rather crude assessments and categorizations of diversity management programmes. It is, however, obvious that testing full-fledged models of diversity management is an empirically arduous, if not impossible, task. The logical remedies are to scale down the conceptual models of diversity management, to test only the core assumptions or components of diversity management models (see, for example, Ely & Thomas, 2001, who focused on diversity perspectives) or to improve the empirical procedures. Regarding the latter point, researchers might choose multiple-study strategies, whereby each study assesses only a manageable number of diversity management elements.

The interpretability of the above-reviewed empirical research is hampered in several ways. First, some studies (for example, Richard, 2000; Richard *et al.*, 2003) relied on one informant per organization (typically an HR employee) (see Gerhart, Wright, McMahan & Snell, 2000, on the problems of single-informant designs and cross-sectional designs). An alternate methodology might include a representative sampling of employees within organizations in longitudinal designs. Second, theoretically critical variables have not been assessed. Examples include the distributions of diversity within organizations across locations, hierarchical levels and professions. Organizations might be diverse because of a range of social groups in their personnel, but the social groups might be clustered (Lefkowitz, 1994), resulting in a low potential for benefits and losses from diversity. Other variables that have not been assessed include the mediators of diversity effects on organizational performance, such as the interactions among organizational members (for an exception, see Ely & Thomas, 2001). Third, the vast majority of the research has been conducted in the USA on racial and gender diversity, and we sense a dire need for replications in other countries and for other forms of diversity.

Summary

At the macro level (business unit, organization) of analysis, diversity management is hypothesized to moderate the relationship between workforce diversity and performance, so that this relationship becomes more positive (or less negative) as the degree of diversity management increases. Empirical research to test this hypothesis is very sparse. It is noteworthy that very little research exists in the domain of international human resource management. For example, little is known about the effects of diversity management on the relationship between culturally diverse workforces (for example, the mix of home country nationals, host country nationals and third country nationals) and the performance of the subsidiaries of globally operating organizations.

Micro approaches to diversity management: stereotypes, prejudices and discrimination

Dietz and Petersen (2005) argued that a critical component of diversity management is understanding and managing stereotypes and prejudices. Figure 12.3 presents a model that may guide research on diversity management interventions on the basis of social psychological theories. Stereotypes and prejudices are seen as proximal or immediate antecedents of discrimination. The model acknowledges that other social psychological processes, such as the development of social identities (for example, Tajfel, 1978) and social categorizations (for example, Turner, 1985), the experience of realistic group conflict (Sherif, 1966; Sherif *et al.*, 1961; Campbell, 1965), contact with demographically different persons (Allport, 1954) and individual differences in social dominance orientation (Sidanius & Pratto, 1999; Sidanius, Pratto & Bobo, 1996) are critical for understanding discriminatory behaviour, but these social psychological processes are more distal antecedents of discrimination than are stereotypes and prejudices. Here, because of the immediate impact of stereotypes and prejudices on discrimination and because organizational researchers rarely attend to them, we focus on prejudices and stereotypes in the workplace and their implications for diversity management.

Stereotypes, prejudices and discrimination in the workplace

Stereotypes are descriptive ‘pictures in our heads’ (Lippman, 1922) about members of other social groups, such as people of a different ethnic or national origin or individuals with a different religious background. Prejudices are evaluative attitudes toward others based on their membership in a social group (for example, Brigham, 1971). For outgroups, both stereotypes and prejudices typically carry a negative connotation. Whereas stereotypes and prejudices are psychological constructs (that is, they are in

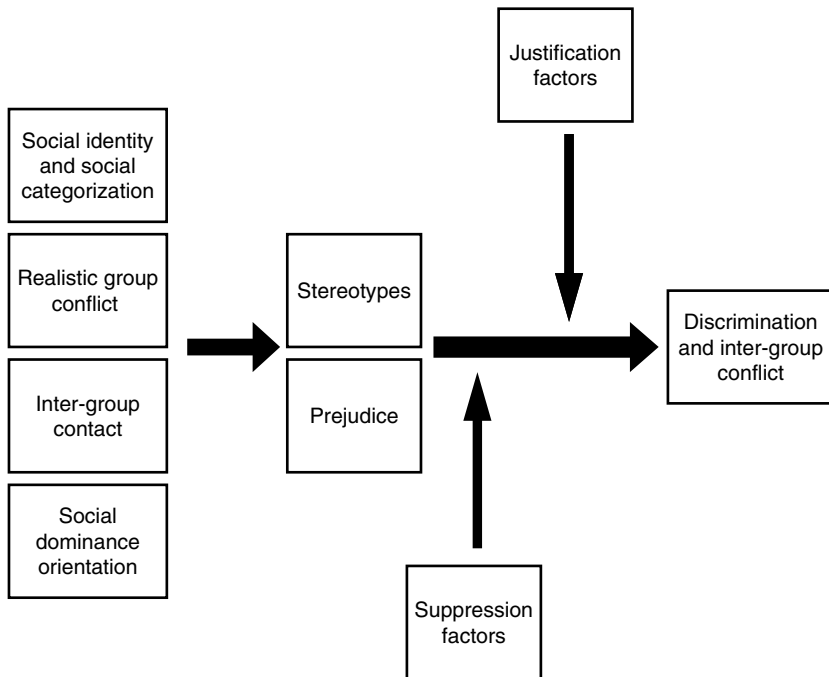


Figure 12.3 Prejudice, stereotypes and discrimination

the minds of people), discrimination refers to the behavioural treatment of the members of other social groups. Racial discrimination, for example, occurs when individuals are treated differently solely on the basis of their ethnicity. Figure 12.3 indicates that stereotypes and prejudices lead to discrimination, but this relationship is moderated by both suppression and justification factors, described below.

Suppression factors

In today's Western societies, the open expression of stereotypes and prejudices in the form of discriminatory behaviour is relatively rarely seen (compared to 30 to 50 years ago, when negative stereotypes and attitudes toward others as well as prejudicially motivated discrimination, such as serving only white or male customers, were widely tolerated) (for example, James, Brief, Dietz & Cohen, 2001; Petersen & Dietz, 2005). In the USA, for example, various polls taken since the passage of the Civil Rights Act of 1964 show that Whites' attitudes toward Blacks have become considerably more tolerant (for example, Schuman, Steeh, Bobo & Kryson, 1997). Only

a minority today endorses racial segregation. As Bobo (2001: 269) concluded: 'The single clearest trend in studies of racial attitudes has involved a steady and sweeping movement toward general endorsement of the principles of racial equality and integration.'

To explain this trend, the notion of suppression factors (cf. Crandall & Eshleman, 2003) is helpful. These factors stifle the expression of negative stereotypes and prejudices. Crandall and Eshleman viewed suppression factors as a set of psychological forces. For example, individuals might perceive that societal norms would not allow them to express their prejudice. They might also recognize that their endorsement of egalitarianism is not consistent with their negative stereotypes or prejudices. Or they simply might have behavioural standards of non-discrimination. Extending the notion of suppression factors, we consider them also at the organizational and societal levels. Some organizations have not only antidiscriminatory values and norms, but also formal rules against discrimination (for example, corporate codes, see Schwartz, 2001). These rules, if violated, lead to sanctions, such as poorer performance evaluations and lower bonuses or, in extreme cases, firings. At the societal level, laws and other legal regulations (such as Title VII in the USA) further suppress the expression of prejudice.

Research on so-called 'modern' or 'subtle' prejudice (see Dovidio & Gaertner, 1998, 2004; Pettigrew & Meertens, 1995, for reviews), which has emerged over the last 30 years, documents the suppression of prejudice at the individual level. Scientists in Europe and North America have studied the new prejudice using a variety of labels: modern prejudice (Pettigrew & Meertens, 1995), symbolic racism (Kinder & Sears, 1981), ambivalent racism (Katz & Hass, 1988) and sexism (Glick & Fiske, 1996), aversive racism (Dovidio & Gaertner, 1998, 2004) and modern racism and sexism (McConahay, 1983, 1986; Swim, Aikin, Hall & Hunter, 1995). One fundamental message of this research is that remnants of negative attitudes toward demographical others continue to exist, but they are often so latent, subtle and covert that those who harbour them are not aware of them. Pettigrew and Meertens (1995: 58) described the new subtle prejudice as 'cool, distant, and indirect', while the old blatant prejudice is 'hot, close, and direct'. Subtly prejudiced individuals do not openly endorse the differential treatment of minority members or negative stereotypes about them. They do, however, deny the existence of discrimination, and resist demands made by minorities and policies designed to support them. Typically subtly prejudiced individuals see themselves as non-prejudiced (Dovidio & Gaertner, 1998), arguing that they reject stereotypes about minority groups and that prejudice and discrimination are bad (McConahay, 1986).

Justification factors

A second fundamental message of subtle prejudice theories is that subtle prejudice only leads to discriminatory behaviours, when these behaviours can be justified in non-prejudicial ways (for example, Dovidio & Gaertner, 1998, 2004; McConahay, 1986). In other words, in order to act on their prejudice, subtly prejudiced individuals have to be able to justify, rationalize or explain away the prejudicial nature of their actions. These justifications can take many forms, in particular in organizations. Examples include: 'We only complied with orders from above'; 'No, we do not treat non-white customers poorly, but our white clientele because of its economic power deserves particularly good treatment'; 'Ethnically different employees would not fit well with the organization'; 'We should not hire women because they would not get along with our mostly male staff and/or clientele'; 'We did not hire this Indian applicant because she was Indian, but because her work experience and training were from India and she does not have Canadian work experience.' Although prejudice theories treat justification factors at the individual level, like suppression factors, they can be conceptualized at the individual, organizational and societal levels.

In summary, the model presented in Figure 12.3 shows that the path from stereotypes and prejudices to discrimination is not a simple one. Instead stereotypes and prejudices have gone underground and they only lead to discrimination when discrimination can be rationalized in non-prejudicial ways. Before speculating about interventions against discrimination, we present empirical evidence on the expression of prejudice in organizational settings.

Empirical research

Despite the importance of stereotypes and prejudice for diversity management, very few organizational scientists have studied and assessed them. Below, we review six laboratory studies and two field studies of prejudice in organizations.

Laboratory research Studies by Brief, Dietz, Cohen, Pugh and Vaslow (2000) and Petersen and Dietz (2000, 2005) applied modern prejudice theory to hiring and selection decisions. Brief *et al.* reported two US studies of employment discrimination against African American applicants: white participants evaluated African Americans negatively or preferred not to invite them to interviews only when they were subtly prejudiced and had a 'business justification' to discriminate. As a justification, an organizational authority had expressed the belief that the demographic profile of new employees should match that of the existing personnel or clientele. In the absence of a business justification, modern prejudice did not predict

discrimination. Petersen and Dietz (2000) observed similar effects of authoritarianism (for example, Altemeyer, 1988), which is related to prejudice, and a supervisor's demographic preference on employment discrimination in a German study. In a German follow-up study, Petersen and Dietz (2005) also demarcated the effects of modern prejudice from those of old-fashioned prejudice. These studies were the first to show that factors in the organizational context could provide prejudiced individuals with justifications behind which they hid their prejudicial attitudes.

In addition to research in the USA and Germany, a related stream of research by Dietz, Esses and their colleagues demonstrated similar effects in Canadian settings. In a study by Dietz, Esses, Bhardwaj and Joshi (2005) participants read one of four résumés of MBA graduates, who applied for a marketing job in a Canadian company. The MBA graduates were either Whites or African Americans, and they had received their degrees either in Canada or in South Africa. The results showed that participants evaluated negatively only the candidate who was African American and had an MBA degree from South Africa. If the candidate was African American and had a Canadian MBA degree, he was evaluated just as positively as the white candidate who received his MBA in Canada or South Africa. Importantly, if the South African MBA degree had been the 'true' or legitimate reason for a negative evaluation, the white applicant with a South African degree should also have been devalued. In a follow-up study, Esses, Dietz and Bhardwaj (forthcoming) found that prejudiced participants used a candidate's location of training (India versus England or Canada) as an excuse to discriminate against her, but only when the candidate also had Indian citizenship. When the candidate had Canadian citizenship, her Indian training was not used against her (not even by prejudiced participants). Participants would not just openly discriminate against an immigrant, but if that immigrant was also trained in a non-Western country, prejudiced participants had a seemingly non-prejudicial excuse (that is, a justification factor) to discriminate against immigrants.

Finally, to indicate further the importance of subtle prejudice theories for diversity management, consider the study reported by Dovidio, Gaertner, Kawakami and Hodson (2002). These researchers examined dyads of black and white students who worked on a problem-solving task. The white participants had been classified as non-prejudiced, subtly prejudiced and prejudiced. Following the completion of the problem-solving task, the Whites' and Blacks' impressions of the Whites' behaviours were assessed. As expected, non-prejudiced and subtly prejudiced Whites described their social interaction behaviours as friendlier than did prejudiced Whites. Blacks, however, perceived only non-prejudiced Whites to be friendlier than prejudiced Whites. Blacks also reported less trust in

prejudiced Whites and, in particular, subtly prejudiced Whites. In addition to its effects on social relationships, Whites' level of prejudice also affected task performance. Dyads including a non-prejudiced White solved the task most quickly, followed by dyads with prejudiced Whites. The slowest dyads included subtly prejudiced Whites, leading Dovidio *et al.* to infer that the conflicting messages that subtly prejudiced individuals might send ('I am not prejudiced, but I do feel uncomfortable interacting with you, a Black person') likely hampered team efficiency.

Field studies James, Brief, Dietz and Cohen (2001) examined how prejudicial attitudes can also result in negative work-related attitudes. These researchers argued that white employees' views of corporate affirmative action policies as benefiting African American employees were associated with negative job attitudes among white employees only when these white employees harboured prejudicial attitudes against Blacks. Their US study of 125 white employees in a highly diverse telecommunications organization was supportive of their arguments. Prejudice moderated the relationship between white employees' perceptions of affirmative action policies as benefiting African Americans and promotion satisfaction, such that only prejudiced employees reacted with reduced promotion satisfaction to perceptions of affirmative action policies as helping their African American colleagues.

Tsui, Egan and O'Reilly (1992) did not assess the prejudicial attitudes of white employees in their study, but they evoked prejudice to explain that Whites might react more negatively to increasing numbers of non-Whites in the workplace compared to non-Whites' reactions to increasing numbers of Whites. Their US study of 1705 employees from three organizations was consistent with these arguments: The organizational attachment of Whites decreased as the percentages of non-Whites in their workgroups increased, but the organizational attachment of non-Whites was not affected by the percentage of Whites in their workgroups.

Summary

Empirical research indicates that prejudice still affects the treatment of demographically different employees in organizations, albeit in more complex ways than 30 to 50 years ago. As the model depicted in Figure 12.3 indicates, justification factors have to be in place for subtle prejudice to lead to discriminatory behaviour and inter-group conflict. This research also indicates that, in organizational settings, such justification factors are often readily available. Diversity managers have to be aware of the complex joint effects of stereotypes, prejudices and the organizational context in order to design effective diversity management interventions.

Future research

The research reviewed above shows how stereotypes and prejudices can lead to discrimination in organizational settings, but it does not provide an evaluation of diversity management interventions against stereotypes and prejudices. The model depicted in Figure 12.3 provides a starting point for developing a programme of research on such interventions. They may aim at eliminating or reducing (a) negative stereotypes or prejudices, (b) justification factors, and (c) discrimination. Alternatively, interventions may lead to the enhancement of suppression factors. We discuss each of these points below. This discussion, in fact, complements the arguments raised in the previous section on organizational level models of diversity management by suggesting how organizational level interventions have to be designed to stamp out discrimination and inter-group conflict.

Eliminating negative stereotypes and prejudices Diversity managers have to be aware that stereotypes and negative attitudes are generally difficult to change (cf. Dietz & Petersen, 2005), as they are ingrained in Western cultures. The model in Figure 12.3 indicates that interventions might include the redefinition of social identities and categorizations, the creation of settings that require inter-group cooperation (for example, shared goals) rather than conflict, the opportunity for contact among members of different social groups, and awareness of social dominance beliefs. Owing to space limitations, we cannot discuss these approaches in detail, but we will briefly elaborate on the contact hypothesis (see Dovidio and Gaertner, 2004, for a discussion of the implications of social identity and social categorization theories for reducing prejudice).

Brief and Barsky (2000) reached a rather pessimistic conclusion about the applicability of the contact hypothesis to organizational settings. These authors argued that, in organizational settings, the conditions for positive effects of inter-group contact, such as equal status, are typically not fulfilled. We concur with Brief and Barsky, but would like to add a slight twist on the basis of the 'extended contact hypothesis' by Wright, Aron, McLaughlin-Volpe and Ropp (1997), who hypothesized and found that, if an ingroup member had a close friendship with an outgroup member, more positive inter-group attitudes resulted. For example, if a white person's closest friend is of Asian Indian descent, this person can be expected to show more empathy in reaction to the news of natural catastrophes in India (even if her friend does not live in India and does not have relatives or friends there). To date, the viability of the extended group hypothesis has not been tested in organizations. A recent study by Bacharach, Bamberger and Vashdi (2005), however, indicates that organizations may be able to affect cross-racial friendships and peer relationships in the workplace.

In a study of 2342 employees from 60 work units in different organizations, these scientists found that cross-racial friendships and peer relationships were more prevalent in units characterized by a strong climate of peer support (these researchers, however, also found that the opportunity for contact alone was inversely related to the development of cross-racial relationships). These findings imply for the management of diversity that it is not sufficient to recruit a diverse workforce, but that, in addition, an organizational focus on peer support is critical for building positive inter-group relations. Future research will, it is hoped, replicate Wright *et al.*'s (1997) findings in organizations.

Finally, with regard to changing stereotypes and prejudices, diversity managers must understand that blatantly prejudiced, subtly prejudiced and non-prejudiced individuals would require different interventions (Brief & Barsky, 2000). It is particularly difficult to change the attitudes of subtly prejudiced individuals. They believe that they are not prejudiced and would readily agree that prejudice is bad and should be eliminated. In other words, changing the attitudes of subtly prejudiced individuals is like preaching to the choir (Dietz & Petersen, 2005; see, however, Dovidio & Gaertner, 2004, on techniques to address unconscious racial attitudes).

Eliminating discriminatory behaviours If stereotypes and attitudes are difficult to change, then diversity managers may turn their attention to eliminating the discriminatory behaviours that result from them. In fact the enhancement of suppression factors and the elimination of justification factors, discussed below, speak to eliminating discriminatory behaviours. To begin with, however, diversity managers need to understand the degree of discrimination and inter-group conflict in their organizations. As theories of subtle prejudice suggest, they may not always do so. Because stereotypes and prejudices operate in subtle ways, the resulting discrimination often goes unnoticed as it is justified as non-prejudicially motivated (that is, as not being discrimination). Lefkowitz (1994) serendipitously found 'ethnic drift' in a job placement study in a US bank. In this bank, new employees tended to be assigned to supervisors of the same ethnic group, and this employee-supervisor congruence increased with reassignments. Bank managers, however, stated that they had not been aware of these homophily effects. Hence effective diversity management starts with a diversity audit that allows an organization to see how it is doing on employment discrimination. A diversity audit is based on numbers, for example, comparisons among the demographic profiles of the labour pools, recruitment pools and the pool of new hires. These numbers tell top management whether their organization is 'walking the talk' of diversity management or not.

Enhancing suppression factors Earlier we argued that suppression factors could be conceptualized at the individual, organizational and societal levels. At the organizational level, an organizational design approach suggests that an organization has to align its different components to build a climate for diversity (or a climate against prejudice and discrimination). For example, an organization's strategy may define learning from others as a key success factor (cf. Ely & Thomas, 2001). Furthermore, as the likelihood is low that changes in employees' stereotypes and prejudices will lead to behavioural changes, firm rules and norms against discrimination need to be in place. Such rules, as Brief and Barsky (2000) suggested, include enforceable consequences (that is, punishments, negative reinforcement) for violators and silent observers. Business unit leaders, for example, may be evaluated and rewarded on the diversity performance of their units (Coca-Cola, for example, has done so; see Bhawuk *et al.*, 2002). In addition to firm rules and norms against discrimination, positive rules and norms for diversity have to be established. Brief, Buttram, Reizenstein, Pugh, Callahan, McCline and Vaslow (1997) spoke of principled disobedience in response to instructions from organizational authorities that may lead to discrimination. Such principled disobedience entails the dispersion of authority, the redefinition of the role of the loyal subordinate, and the encouragement of peer discourse. Collectively the measures described above, in the long run, should contribute not only to a climate of diversity, but to a more stable and more deeply ingrained culture of diversity (Dietz & Petersen, 2005).

Eliminating justification factors We assert that practitioners and students of diversity management often do not acknowledge justification factors that may trigger prejudicially based behaviours. Our earlier review of empirical research on stereotypes and prejudices in organizations revealed the disconcerting variety of these factors, such as person–organization fit, person–customer fit, foreign training and so on. Perhaps the most hypocritical justification factors for discrimination that have been observed in practice (see, for example, Gentile, Kaiser, Johnson, Harvey & Adler, 1991) are that minority employees (a) need to be protected from hostility in the workplace (for example, an African American employee should not be placed in a potentially racist environment) and (b) themselves are prejudiced (for example, Muslim employees may not tolerate women supervisors). The research by Brief *et al.* (2000), Petersen and Dietz (2000, 2005), and Dietz, Esses and their colleagues (2005) speaks to the importance of stating clear hiring and promotion criteria that are linked to job performance, as opposed to relying on ethnic group membership as a proxy for these criteria. In addition to the clarity of the criteria, the weights assigned to them must be clear and consistent across applicants from different

ethnicities. A clear weighting, for example, might counteract the tendency to use foreign training as justification for not hiring immigrants, when the same foreign training is not held against local applicants.

Summary

To date, despite the importance of stereotypes and prejudices for diversity management, organizational research on them is sparse. Research on managing stereotypes and prejudices is even sparser. Nonetheless inferences about diversity management on the basis of prejudice theories provide scientists and practitioners with rationales for designing interventions to stamp out discrimination and inter-group conflict. These interventions may have to be harsh (behavioural change through punishments and negative reinforcement) rather than soft (attitude change).

Conclusion

When workforce diversity and diversity management became topics in organizations, many practitioners and researchers hoped that they could easily make the 'business case' for diversity, showing its positive consequences for employees, their employers and society at large. This chapter sends a different message. Demographic workforce diversity affects organizational outcomes in complex ways, including linear and curvilinear relationships that operate through mediators or are moderated by third variables. As a result, managing diversity is a very difficult task. So is studying diversity management. It is noteworthy that our discussion of macro and micro models of diversity management leads us to conclude that organizations are better off using colour-conscious rather than colourblind diversity management practices (cf. Konrad & Linnehan, 1995). If organizations rely on colourblind practices, the risk of latent prejudice breaking through unnoticed is high, and if organizations do not acknowledge the diversity of their workforce, they can hardly learn from it.

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PART III

RESEARCH ON INTERNATIONAL ASSIGNMENTS

13 Expatriate adjustment and performance: a critical review

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In this chapter we examine an assumption in the literature on international assignments, the belief in a direct positive relationship between the adjustment of expatriates and their performance. We first outline the historical basis for the overwhelming focus on adjustment. We then review the literature on the conceptualization and measurement of both adjustment and performance and on the adjustment–performance relationship. Finally, we reflect on the state of knowledge of this relationship and discuss implications for future research.

Historical basis for the study of adjustment

A vast amount of research on international assignments has as its focus the adjustment of expatriate managers and their families. While the move to a new environment may be the most novel aspect of international assignments, and a focus on adjustment might seem natural, this aspect of the international experience has dominated the expatriation literature, and has to a degree excluded the consideration of other outcomes. The focus on adjustment is so pervasive that in some empirical studies adjustment has been substituted for a wide range of outcome variables, effectively changing the nature of the phenomenon under investigation (Thomas, 1998). Moreover a strong positive relationship between adjustment and performance is often uncritically assumed, thus forming a lawlike generalization in the expatriate paradigm (for example, Andreason, 2003).

Perhaps the single most important event in generating the study of overseas adjustment was the advent of the Peace Corps in the United States in 1961 (see Lundstedt, 1963). The study of human behaviour in cross-cultural interactions had existed for some time, but this research was largely limited to the study of visiting students in the United States (for example, Smith, 1956), reduction of stress in military personnel (for example, Stouffer, 1949) or speculative theoretical expositions (for example, Schuetz, 1944). The Peace Corps was the first non-military endeavour engaged in the large-scale management of human resources in a variety of foreign locations, with 6554 people abroad in 1963 (Byrnes, 1966). Moreover the Peace Corps engaged social scientists, to help its members achieve cross-cultural

effectiveness, who themselves drew on the existing sojourner literature (for example, Lysgaard, 1955; Oberg, 1960; Sewell & Davidsen, 1956), which focused on adjustment. For example, Smith's (1966) evaluation of the performance of Peace Corps teachers in Ghana and Mischel's (1965) study of Peace Corps volunteers in Nigeria both defined success in terms of adjustment. Thus this stream of research, which built on the sojourner adjustment literature (see Church, 1982, for a review), laid a strong foundation for adjustment as equalling success in overseas assignments.

Explicit in the research on expatriation during the 1970s and early 1980s (with some exceptions) was that adjustment was crucial to effectiveness on overseas assignments and that selection and training programmes should be designed to facilitate adjustment (for example, Hays, 1972, 1974; Howard, 1974; Miller & Cheng, 1978; Tung, 1981). The conventional wisdom derived from this literature was that, while firms tended to select expatriates on the basis of technical skills, their performance (or, more accurately, remaining on assignment the agreed upon period of time) depended on their ability to adjust. The tradition of focusing on adjustment as the key outcome of interest in the study of expatriates continued during the explosion of research on the topic that occurred from the late 1980s to the 1990s and to some extent continues today. The stated rationale for much of this research was the high cost of expatriate failure, with expatriate failure defined as premature return from assignment because of the failure of the expatriate (or spouse) to adjust.

A final factor that possibly influenced the dominance of adjustment as a central construct during this period was the interests of researchers. Social science research is inevitably influenced by the particular perspective of those conducting it (Mitroff, 1972) and a significant number of the most prolific researchers on this topic share the fact that as a part of their background they all engaged in an overseas missionary experience. These missionary postings are extraordinarily demanding, requiring significant pre-departure training, including fluency in the foreign language. And, like many expatriate assignments, the outcomes of missionary postings are long-term and difficult to measure accurately. Anyone who has spent a significant amount of time living and working overseas has felt the culture shock and experienced the difficulty adjusting to the foreign environment. Therefore, it is not surprising that researchers with this experience would consider adjustment as central to overseas effectiveness.

This discussion is not meant as a criticism of much excellent work, only as a partial explanation of the long-term and pervasive focus on adjustment as central to expatriate performance. That is, it is possible to discern an historical basis for the overwhelming focus on adjustment that is not necessarily warranted by the nature of the phenomenon itself. While adjustment

is justifiably an important consideration in the expatriate experience, it may have enjoyed attention that is not consistent with its contribution to expatriate performance. A contributing factor is that the construct of adjustment itself has often been ill-defined. It is this issue to which we turn next.

Measurement of adjustment

Early definitions of adjustment conceptualized it in terms of overcoming culture shock (Oberg, 1960), the latter being defined as 'a normal process of adaptation to cultural stress involving such symptoms as anxiety, helplessness, irritability, and longing for more predictable and gratifying environment' (Church, 1982). This is the conceptualization implied in the work by Black and Gregersen (1991: 498) when they define adjustment as the 'degree of a person's psychological comfort with various aspects of a new setting'. Others have conceptualized adjustment as general satisfaction with one's life in the new environment (Hippler, 2000) or the 'degree of fit between the expatriate manager and the environment, both work and socio-cultural' (Aycan, 1997a:433, 1997b), or as psychological well-being and sociocultural competence (Searle & Ward, 1990). Complicating matters, however, is the fact that it is not uncommon for researchers to use adjustment, adaptation and acculturation synonymously (Harrison, Shaffer & Bhaskar-Shrinivas, forthcoming) not to define adjustment explicitly, or to operationalize it through different constructs such as effective performance, satisfaction, degree of social interaction with host nationals, positive attitudes towards the host country, personal or professional growth, profile of mood states, mental health, absence of stress or premature return from assignment (see Church, 1982; and Thomas, 1998, for reviews). Thus, we are faced with the possibility of a conceptual overlap between adjustment and at least some aspects of performance. Finally some authors have distinguished between *anticipatory*, *in-country* and *repatriation* adjustment (for example, Black, Gregersen & Mendenhall, 1992). Our focus here is limited to the relationship between expatriate adjustment on assignment and performance.

Dimensionality and operationalization of adjustment

While some authors conceptualize adjustment as a single dimension, the vast majority of recent research adopts a multidimensional approach, with two multidimensional models of adjustment dominating the literature. By far the most popular conceptualization and measurement of adjustment among management researchers is the framework of Black and colleagues (Black, 1988; Black & Gregersen, 1991; Black *et al.*, 1991; Black & Stephens, 1989). In this model, adjustment is conceptualized as having three separate facets: *general*, *interaction* and *work* adjustment. Some early

studies explicitly tested the dimensionality of this construct (for example, Parker & McEvoy, 1993) but more recent expatriate research simply accepts the model as axiomatic. The last two decades have accumulated sizeable (though sometimes contradictory) evidence for significant relationships between adjustment facets and specific antecedents and outcomes (Bhaskar-Shrinivas, Harrison, Shaffer & Luk, 2004; Thomas, 1998). Our review suggests some severe conceptual and measurement limitations of this construction.

First, a careful examination of the original work by Black and colleagues yields little in the way of theoretical clarity on construct definition and operationalization. In the seminal article, Black (1988) grounds his argument in the literature on work adjustment in domestic transfers when he points out that there exists ‘*some theoretical and empirical support* for the inclusion of adjustment to outside work factors as another facet of adjustment. Thus *it seems* that at a minimum there are *at least two facets* of adjustment: work adjustment and general adjustment’ (Black, 1988: 279, emphases added), and goes on to say ‘*It seems*, expatriate managers adjust to 1) work roles; 2) interacting with host country nationals [. . .], and 3) the general culture and everyday life’ (ibid.: 283, emphasis added).

Our review of the development of Black’s (1988) 11-item scale suggested several other conceptual and measurement limitations, which we summarize in the following.

- The scale contains six items based on Torbiorn’s (1982) work, which itself was not a comprehensive list of living conditions, but selected aspects based on general assumptions about people’s needs (Hippler, 2000).
- Black’s (1988) factor analysis was performed on an unacceptably small sample yielding inconclusive individual item loadings and factors with unsatisfactory reliability coefficients.
- The Black (1988) scale is a self-report instrument in the form of ‘how adjusted are you to . . .’ creating, as discussed below, additional measurement issues.
- Further development of the scale (Black & Stephens, 1989: 532), offered no theoretical argument as to the three specific dimensions, other than a passing reference to ‘past theoretical and empirical work’ (that is, Black’s 1988 inconclusive article).
- Neither of Black’s original publications contains confirmatory factor analysis, normally associated with construct development and validation.
- The theoretical article advancing a comprehensive model of international adjustment (Black *et al.*, 1991) is published *after* the

empirical work described above with reference only to 'research in the 80s' (namely, Black, 1988; and Black & Stephens, 1989). (To the credit of the authors, this article contains a fair warning: it points out that, even though a multifaceted conceptualization is proposed, 'the lack of systematic empirical evidence leaves the question open for future research': 305).

- Concurrently published work (Black & Gregersen, 1991) refers to the three facets as fully established by past research.

From this point forward, the conceptualization and related measurement become ubiquitous in further work on adjustment. Thus, a set of logical and intuitive, but ultimately data-driven, propositions that lack theoretical (and even empirical) substantiation established the standard for over a decade of subsequent research.

Recent years have provided statistical evidence for the operationalization of the dimensions of the construct and their structural equivalence across culturally dissimilar samples (Robie & Ryan, 1996; Shaffer, Harrison & Gilley, 1999). However this refers to the psychometric characteristics of the scales. It does not provide evidence that the domain of adjustment has been adequately represented. Recent research has pointed out that (a) the model may be inadequate to assess adjustment to a similar culture (Suutari & Brewster, 1998), (b) the categories overlap in some aspects yet do not identify other important elements of adjustment (Hippler, 2000), (c) there is significant redundancy in the interaction and the work adjustment items (Stahl & Caligiuri, 2005), and (d) items in the general adjustment scale are disproportionate to the work and the interaction scales (Harrison *et al.*, forthcoming).

Our discussion is not meant as a criticism of the research undertaken by Black and his colleagues. Their original publications clearly describe their propositions and provide sufficient technical details about their findings. Rather we find fault with the adoption of their conceptualization and scales without critical evaluation on behalf of subsequent research as well as with the resulting lack of interest in advancing our understanding of adjustment.

Another conceptualization of adjustment used extensively in cross-cultural adjustment research, but less popular among expatriate researchers, is presented by Searle and Ward (1990). They suggest the need to distinguish between two related but distinct facets of adjustment: *psychological* (referring to psychological and emotional well-being and satisfaction and reflecting the emotional/affective facet of adjustment) and *sociocultural* (referring to the ability to 'fit in', to acquire culturally appropriate skills and to negotiate interactive aspects of the host culture; and reflecting the behavioural facet of adjustment) (see Ward & Kennedy, 1992, 1999). Psychological

adjustment can be best understood in terms of a stress and coping framework, and sociocultural adjustment – within a social skills and culture learning paradigm.

While Ward and associates provide a more solid theoretical basis of their conceptualization of adjustment than Black and his colleagues, they do not propose a comprehensive model of adjustment, and their early investigations of the antecedents of the two facets are, to some extent, piecemeal and empirically driven (for example, Ward & Kennedy, 1992). They measure psychological adjustment with an established depression inventory (Searle & Ward, 1990; Ward & Chang, 1997; Ward & Kennedy, 1992, 1994, 1999), which is not entirely consistent with other measures that have been used to capture psychological adjustment (Oguri & Gudykunst, 2002; Rogers & Ward, 1993; Ward & Kennedy, 1992).

Sociocultural adjustment was measured by items asking respondents to report the level of difficulty they experienced in various areas such as making friends, making themselves understood, or understanding local humour (Ward & Kennedy, 1999). Only minimal research reports the psychometric characteristics of the scale; there is insufficient clarity on exactly what the scale measures, other than generally defined sociocultural competence or social skills; and a recent review on the measure did not report validation and was inconclusive regarding scale dimensionality (Ward & Kennedy, 1999). Comparing results across the many studies using the scale is complicated because the scale is often modified according to the sample.

In summary, each of the conceptualizations of adjustment have specific strengths, both offer valuable insights into the experiences of adjusting to a new setting, but both need to be developed further to address important shortcomings.

Process of adjustment

An overwhelming majority of the work on cross-cultural adjustment in the last decade has been concerned with variables predicting the *degree* of adjustment. Because many of these variables can be traced back to the theoretical framework outlined by Black, Mendenhall and Oddou (1991) and related extensions (for example, Parker & McEvoy, 1993; Shaffer *et al.*, 1999) they have often been implicitly assumed also to predict performance, without regard for the process of this influence. Issues of mechanisms, strategies and time required to achieve adjustment remain underresearched. Several frameworks for exploring the *process* of adjustment, such as social learning principles and operant conditioning (Church, 1982), role transitions and socialization theory (Black & Gregersen, 1991), appraisal of acculturation experiences and coping (Aycan, 1997a) have been suggested. Unfortunately empirical research has largely ignored

(for exceptions see Selmer, 1999; Shay & Baack, 2004; Stahl, 2000; Tung, 1998; Zimmermann, Holman & Sparrow, 2003) processes of adjustment, focusing on antecedents and outcomes, without specifying how people adjust (Zimmermann *et al.*, 2003). As discussed below, understanding the *how* of adjustment is one important avenue for understanding the adjustment–performance relationship.

Measurement of performance

In order to evaluate appropriately the relationship between adjustment overseas and performance on the expatriate assignment, it is important that we are also clear about what we mean by performance. Interestingly, the literature of expatriation has rarely focused on performance as an outcome variable, choosing instead to discuss overseas success. There is a pervasive assumption that success implies successful performance, but the evidence is far from established.

Success in an overseas posting has been defined in a variety of ways including, but not limited to, adjustment, intent to remain on assignment, satisfaction, commitment and task performance (Thomas, 1998). Early studies of sojourner effectiveness overseas (for example, Kealey & Ruben, 1983; Mischel, 1965; Smith, 1966) alluded to the multidimensional nature of overseas effectiveness, and Cushner and Brislin (1996) identified four criteria that summarized overseas success. Multidimensional measures of expatriate effectiveness have followed a similar pattern, with Caligiuri and Tung (1999) suggesting an interrelated measure consisting of adjustment, intention to return early and performance, and Shaffer *et al.* (2003) conceptualizing effectiveness as adjustment (Black's, 1988, three facets), task and contextual performance, and withdrawal cognitions. In the following section we briefly examine three of the most common performance-related constructs before turning our attention to direct measures of performance.

Intent to remain

By far the most pervasive outcome represented in the literature on expatriation is the intention to remain on assignment for the agreed-upon length of time, commonly operationalized as premature return home. A high rate of premature return coupled with the high cost of this phenomenon, has been the rationale for countless surveys of expatriates (see Harzing, 1995, for a discussion). In some cases premature return has been used as a proxy for failure to adjust (for example, Mendenhall & Oddou, 1985), an approach that is indicative of the circular logic and/or construct overlap prevalent in this literature.

Intent to remain is clearly an inadequate measure of successful expatriate performance. It is obvious that expatriates who stay on assignment but

behave inappropriately or perform inadequately are conceivably more of a failure than those who return early. Conversely, staying on assignment the agreed-upon length of time is not a guarantee that tasks have been accomplished, relationships formed or personal development achieved. Finally, even though the term of the assignment has been met, the failure to reintegrate into the sponsoring organization (Black & Gregersen, 1991) or to capitalize on the skills gained overseas (Inkson, Pringle, Arthur & Barry, 1997) can also be regarded as a failure.

Job attitudes

Job attitudes (job satisfaction, commitment and so on) have also been assessed as an indicator of effective performance in overseas assignments. They have been treated as both a proxy for adjustment (for example, Newman, Bhatt & Gutteridge, 1978) and an outcome of adjustment (for example, Aryee & Stone, 1996; Takeuchi, Yun & Tesluk, 2002). However recent work suggests that job satisfaction and adjustment are unique outcomes (see Bhaskar-Shrinivas *et al.*, 2004). Clearly work-related attitudes are important in the evaluation of expatriates' overall relationship with their job and employer. However the tenuous relationship between attitudes and behaviour is well documented (Wicker, 1969). Therefore job-related attitudes are clearly inadequate as a measure of expatriate performance, but may play an important role as part of multidimensional effectiveness assessments or as mediating or moderating constructs.

Interaction with hosts

In addition to acting as a characteristic of adjustment (Black, 1988) the effective interactions with host nationals has a long-standing history as a measure of effective performance overseas. Both the sojourner (for example, Abe & Wiseman, 1983; Hammer, Gudykunst & Wiseman, 1978) and the expatriate (Tung, 1984, 1988) literatures have typically included this factor as a criterion of effectiveness, and also as a career development goal of overseas assignments (Feldman & Thomas, 1992). This ability is often cited as a key criterion of effective cross-cultural training (Cushner & Brislin, 1996).

Undoubtedly the ability to interact effectively with people who are culturally different is a critical element in performance on international assignments. Its importance is of such a magnitude that understanding individual differences in this ability has spawned a new area of research. The emerging study of this capability, which is being called *cultural intelligence* (Earley & Ang, 2003; Thomas & Inkson, 2004), shows promise for understanding individual differences in overseas performance. However this new literature does not entirely resolve the place of this construct within the adjustment–performance relationship.

Performance

An important consideration in the assessment of expatriate performance is the often conflicting performance expectations of host nationals and home office superiors (Mendenhall & Oddou, 1985; Suutari & Tahvanainen, 2002). This is a unique feature of the expatriate role which is difficult but necessary to balance. Not surprisingly, studies often find differences based on who (home or host country national) is evaluating performance (for example, Dalton & Wilson, 2000). Additionally the possibility of cultural differences in performance assessment exists (Abe & Wiseman, 1983).

Another consideration in the assessment of performance is, of course, the nature of the task to be performed. Early studies of sojourners and overseas managers were primarily concerned with such outcomes as teaching effectiveness (Smith, 1966) or technology transfer (Franko, 1973). Now performance typically means managerial performance (Thomas, 1998). Often this managerial performance has been assessed against expectations of the assessor on perceived overall effectiveness, achievement of expectations and/or achieving company goals (for example, Dalton & Wilson, 2000). Recent research identifies different dimensions of performance, with concomitant differences in the effect of antecedents (Caligiuri & Day, 2000). Obviously, any relationship between adjustment and performance depends in part on what aspect of performance is being assessed and who is conducting the assessment.

Where performance has been directly evaluated, it has often been regarded as a unitary construct (Caligiuri, 1997). If performance itself is multidimensional, what elements comprise an adequate measure of effective performance is somewhat circumspect (for examples, see Caligiuri & Day, 2000; Earley, 1987).

Two facets of performance have a long history of being distinguishable. These are task-based and relationship-based aspects of performance (Harrison *et al.*, forthcoming), which are also those elements that appear consistently in multidimensional definitions of expatriate performance (Caligiuri, 1997; Cushner & Brislin, 1996; Feldman & Thomas, 1992; Gregersen, Hite & Black, 1996). The first of these involves the accomplishment of goals, meeting objectives, which of course can be established from a variety of sources. The second involves establishing and maintaining relationships and effectively interacting with coworkers, supervisor and so on.

Adjustment–performance relationship

We now turn our attention to the somewhat limited body of literature that has directly examined the relationship between adjustment and performance. As we examine this literature it is important to keep in mind (a) that, to control for conceptual overlap, we limit our discussion to performance

measures that exclude adjustment, job attitudes or intentions to remain as constituent elements, and (b) these data often involve self-reports of both constructs, a limitation to which we give attention ahead.

Some early studies of sojourners were not convinced of the direct positive relationship between adjustment and performance assumed in much of the subsequent expatriate literature. For example, Kealey (1989) and Ruben and Kealey (1979) suggested that the highest performing individuals, in terms of transferring skills and knowledge to host nationals, were also the most likely to experience severe culture shock. Earley's (1987) study of US managers sent to Korea for a short assignment found a composite measure of supervisor and self-reported performance to be negatively related ($r = -0.65$) to expatriates' perceived intensity of their adjustment (see Spradley & Phillips, 1972).

A number of studies have shown support for the influence of one dimension or another of adjustment (usually measured by Black's 1988 three-facet self-report scale) and some dimension of performance. For example, Nicholson and Imaizumi (1993), in a study of 91 expatriate managers, report that work adjustment, but not general or interaction adjustment, was positively related ($r = 0.49$) to self-reports of performance. Parker and McEvoy (1993) found that, while work adjustment was positively related ($r = 0.29$) to self-rated performance (Earley's 1987 scale), a significant negative relationship ($r = -0.18$) existed between general adjustment and performance, when work and interaction adjustment were controlled. Kraimer and associates (Kraimer, Wayne & Jaworski, 2001) found no significant relationship between general adjustment and either task or contextual performance (supervisor ratings); but work adjustment had a significant but small ($r = 0.17$) relationship with task performance, and interaction adjustment had a significant but also small ($r = 0.23$) relationship with contextual performance. Shaffer *et al.* (2003) found moderate relationships between self-reported adjustment (Black, 1988) and self-reported performance. Interaction adjustment was significantly related ($r = 0.35$) to contextual performance (three items from Caligiuri, 1997) and to overall task performance (fulfilling the requirements of the position; $r = 0.26$). Work adjustment was positively related to both contextual performance ($r = 0.30$) and overall task performance ($r = 0.40$).

In a departure from the three-facet self-report measure of adjustment, Shay and Baack (2004) failed to find a relationship between adjustment (measured by the extent to which the expatriates had made personal changes) and their self-rated performance, but reported a significant but small ($r = 0.19$) correlation between the extent to which expatriates had engaged in role innovation and self-rated performance. In another interesting departure from the dominant view, Clarke and Hammer (1995) found

that performance and adjustment were predicted by different antecedents in a study of Japanese and American managers. That is, self-assertive skills predicted actual company performance appraisal scores ($r = 0.59$), while interpersonal skills predicted trainer-rated adjustment ($r = 0.44$).

A meta-analysis by Bhaskar-Shrinivas and colleagues (2004) claims, albeit with some disclaimers because of the small number of studies and other methods issues, to provide evidence of a reliable relationship between adjustment and expatriate performance. Specifically, however, cultural adjustment was found to be unrelated to self-reports of performance, but showed a significant if small ($p = 0.16$) relationship with multi-source measures of task performance. Cultural adjustment was positively related to both single and multiple source measures of 'relationship' performance ($p = 0.37$ and 0.17 respectively). Interaction and work adjustment (uncorrected for single source data) were found to be positively related to task performance ($p = 0.18$ and 0.33) and relationship performance ($p = 0.37$ and 0.29). The authors note, not surprisingly, that all relationships using same source data were stronger than those using multiple sources. In another recent meta analytic study (Hechanova, Beehr & Christiansen, 2003), evidence is presented that suggests both job satisfaction and organizational commitment as mediators of the adjustment performance relationship. And, consistent with Harrison *et al.* (forthcoming), the strongest relationship to adjustment was with job satisfaction (Hechanova *et al.*, 2003).

Our review indicated that the adjustment–performance relationship typically ranges from non-existent to what can only be considered as moderate. Additionally, the possibility that this relationship is mediated by other constructs has been suggested by a number of authors. Whether or not this evidence demonstrates the centrality of adjustment to expatriate performance may depend on the extent to which the conceptual or measurement limitations we discuss next have an impact on our thinking.

Reflections and observations

A number of conceptual and methodological issues contribute to our view that the adjustment–performance relationship is equivocal. Some of these issues are not unique to this particular relationship.

Cross-sectional studies

We are not the first to point out that expatriation is a longitudinal phenomenon that is not well suited to cross-sectional studies (see Harrison *et al.*, forthcoming; Hechanova *et al.*, 2003; Thomas, 1998). However this fact creates a specific additional issue in the study of the relationship between adjustment and performance. Because cross-sectional studies do not capture the processes involved, they implicitly assume similar rates

and/or patterns of development in both adjustment and performance. That is, if we assume that adjustment follows the well-known U-shaped curve (Lysgaard, 1955), even though overwhelming evidence for this pattern is yet to be presented, then examining the relationship between adjustment and performance at various points in time along the adjustment curve assumes that performance follows a similar pattern. We simply do not know if performance and adjustment move in such a lock step fashion. For example, it seems entirely plausible to us that, as suggested in some of the early sojourner literature, expatriates who initially have difficulty adjusting will, through that experience, gain skills and abilities that make them higher performers in the longer term.

Self-report data

While supervisor ratings of performance (for example, Caligiuri, 2000; Caligiuri & Tung, 1999; Clarke & Hammer, 1995; Stoner, Aram & Rubin, 1972) and in rare cases subordinate ratings (Shay & Baack, 2004) have appeared in the literature, the vast majority of studies of expatriates have relied on self-reports of performance as well as adjustment. The tendency of individuals to be cognitively consistent in such studies trivializes these results to the extent that the magnitude of the relationships found could easily be accounted for by this common method problem. When studies have used a more objective measure of performance they typically continue to use self-reports of psychological adjustment. As Nisbett and Wilson (1977: 231) have cogently demonstrated, 'when people attempt to report on their cognitive processes . . . they do not do so with any true introspection. Instead their reports are based on a priori, implicit causal theories, or judgments about the extent to which a particular stimulus is a plausible cause of a given response'. In this case, it seems entirely probable that individuals who are performing well (even as rated by others) will believe that they have adjusted well. That is, 'I must be well adjusted because I'm performing well.' It is only through the use of more objective indicators of both adjustment and performance that we will solve this problem.

Adjustment as an antecedent

We believe that adjustment may have been miscast as a separable construct that is an antecedent to effective expatriate performance. Historically adjustment was either the label used for overseas effectiveness (for example, Cushner & Brislin, 1996) or was considered a facet of performance (Mischel, 1965; Smith, 1966). The myth of high failure rates (Harzing, 1995) and the centrality of adjustment as its alleged cause gave rise to a veritable industry to explain it. With the advent of the separable measure of adjustment (Black, 1988) a logical next question, based on the domestic

literature on adjustment to new roles (Nicholson, 1984), was the relationship to other outcomes, especially other aspects of the expatriate role that could be called 'performance'. However the position of adjustment in the causal chain from antecedents to performance is unclear. Adjustment, as conventionally measured, seems most highly related to job satisfaction, which in turn has a strong negative relationship to intent to leave the assignment (see Hechanova *et al.*, 2003). Thus adjustment may mediate the relationship to some outcomes, but its relationship to performance is potentially more distal. It is equally plausible that adjustment is an outcome of expatriation that parallels performance as conceptualized in a number of measures of expatriate effectiveness (for example, Caligiuri & Tung, 1999; Shaffer *et al.*, 2003).

Conceptualization of adjustment and performance

Previously we raised concerns about the conceptualization of the Black (1988) three-facet concept of adjustment. The most important of these concerns is, of course, the absence of any theoretical basis for the measure. It may be that adjustment as it is currently conceptualized in the expatriate literature is so ill-conceived and measured that it should be abandoned in favour of stress, strain, depression or other psychological indicators of failure to cope effectively with culture shock. If it is to be retained, a separable measure based on grounded theory and measured objectively needs to be adopted.

The measurement of performance is fraught with almost as many difficulties. While some studies (for example, Caligiuri & Tung, 1999; Clarke & Hammer, 1995; Shay & Baack, 2004) have measured performance with other than self-report ratings, the issue of the appropriate constituent elements remains. While measures tapping both goal accomplishment and relationship development may be defensible, they predominantly account for the firm's view on performance. From an employee perspective the development of a skill set that can transfer to other aspects of their career may be important (Feldman & Thomas, 1992) and the transference of knowledge and skills to the employer is a desirable outcome of expatriation (for example, Downes & Thomas, 2000).

Causal chain issues

The assumption of a positive relationship between adjustment and performance assumes a chain of causality that, for psychological adjustment, centres on absence of stress as a requisite for effective performance (see Beehr & Newman, 1978). However we find it equally plausible that, depending on the measure of performance (short term goal achievement, for example), individuals can perform exceptionally well at high levels of

stress (see Morris, Hancock & Shirkey, 2004). And, in some cases, the challenge of the international assignment may even facilitate superior performance (for example, Boswell, Olson-Buchanan & LePine, 2004).

The causal link between adjustment and performance is often confounded by the overlap that exists between sociocultural adjustment and relationship aspects of performance. Also examining this relationship in isolation denies the complexity of the phenomenon. If, for example, effective intercultural interactions are given a prominent role in the causal chain (for example Thomas, 2004), a host of individual moderators (for example hardiness, cultural intelligence) and situational moderators (for example job characteristics, time on assignment, cultural novelty) can be suggested.

In summary, the precise relationship between the adjustment and the performance of expatriates remains unresolved. Effectively evaluating this relationship awaits the development of a theoretically grounded measure of adjustment and also requires a clear specification of performance. Understanding the relationship would be facilitated by taking a process view of expatriation with the attendant implication for longitudinal studies. In that way, the causal linkages among constructs can be properly evaluated. Finally, given that we expect any relationship between adjustment and performance to be quite small, we should probably be more concerned with the process by which individuals deal with the inevitable culture shock of expatriate assignments and the characteristics of individuals and situations that allow them to perform well.

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14 Issues facing women on international assignments: a review of the research

Hilary Harris

Globalization of business has reinforced the importance of international assignments for career progression, both within an organization and across organizations. Under the 'boundaryless career' concept (Arthur & Rousseau, 1996; Parker & Inkson, 1999), managers increasingly view an international assignment as enhancing their internal rather than external careers (Tung, 1998). In a survey of US companies, while 65 per cent of HR executives thought an international assignment had a positive career impact, 77 per cent of expatriates felt it had a negative effect (Black *et al.*, 1999). Despite this, managers still continue to accept offers of international assignments as they see them enhancing their internal careers through skills acquisition, personal development and career development on the open market (Stahl *et al.*, 2002).

However the numbers of women international assignees remains stubbornly low. Most recent figures for international assignments show that women represent 18 per cent of the United States (US) international assignment sample (GMAC Global Relocation Services, 2003), 9 per cent of the European international assignment sample (Pricewaterhouse-Coopers, 2001) and 6 per cent of the Australian international assignment sample (Smith & Still, 1996). These figures stand in contrast with the numbers of women in middle management positions in the USA, Europe and Australia, where they represent between 30 and 45 per cent of the population on average.

Given the low numbers of women on international assignments, an obvious explanation is that women fail as assignees. Past research, however, does not support this contention. In contrast, it shows that women are successful in their global assignments. Adler (1987) reported a 97 per cent success rate for female expatriates working in Asian countries. These data were self-reported and might therefore reflect an inherent bias. However Adler reported that many women in her sample were promoted subsequently on the basis of their performance internationally.

Caligiuri and Tung (1999) compared male and female expatriates on three criteria of success: cross-cultural adjustment, supervisor-rated performance and desire to terminate the global assignment. Their results

indicated that the percentage of men and women who wanted to terminate their global assignments did not differ. Men and women also did not differ on supervisor-related performance on the global assignment. The women, however, reported that they were less well adjusted cross-culturally than men in countries with low female workforce participation and low percentages of female managers.

It is only fair to say that the evidence is limited in terms of women's success while on international assignments. However, whilst there is no evidence of failure amongst female international assignees, there is substantial (if hotly debated) evidence of failure amongst male expatriates (Harzing, 1995). Reasons behind the paucity of women international managers need to be sought, therefore, in the reasons why so few women are selected. These are reviewed under four main categories: individual motivation, family characteristics, host nationals' attitudes towards women and organizational processes.

Individual motivation

A traditional answer given by organizational managers to the question 'Why are there so few women on international assignments?' is 'Well, they're not interested, they don't apply.' The reality of the situation is more complicated. Whilst motivation to take up international assignments may be similar in young male and female business students, perceptions of self-efficacy which are influenced by both family and socio-cultural factors may account for a lack of women applying for positions.

Motivation

The assumption that women did not want to go on international assignments was one of the first 'myths' investigated by Adler (1984b) in her research studies into women in international management in the early 1980s. Her survey of 1129 graduating MBA students in Canada, the United States and Europe showed that new women graduates expressed as much interest in international careers as their male colleagues. Later studies (Hill & Tillery, 1992; Lowe *et al.*, 1999) show similar results. Caution should be exercised when assessing the generalizability of these findings as these were business students and not international assignees. However these women were all very likely to enter organizations where a key facet of career advancement would be an international assignment, so their expressed desire to take up an assignment is likely to be based on a realistic assessment of career options. Linehan and Walsh's (1999) study of 50 senior female international managers confirmed this view, revealing that most of the women took up international assignments because they believed they constituted necessary experience for senior management positions.

A recent study by Van der Velde, Bossink and Jansen (forthcoming), conducted on 178 males and 122 female employees of a large Anglo-Dutch company found gender differences in willingness to participate in international assignments. In general, females' willingness depended on whether the position would be good in terms of personal growth, career advancement, good location, a satisfying life (both personal and family), positive cross-cultural experience and money. They would also have minimized uncertainty to do with security and political risk factors. In addition, the authors found that the salience of a woman's career affected motivation. The more important the career in terms of life goals, the more likely the participation in an international assignment.

Lowe *et al.* (1999) found that willingness to participate was affected by the level of development in specific countries. The study amongst graduate and undergraduate business students in the United States reported that gender was a significant predictor when specific referent countries were identified. Differences in cultural distance and human development explained substantial variance among males and females in their willingness to accept certain international assignments. In particular, Lowe *et al.* found that women did not want to participate in international assignments that were in countries such as Vietnam, Saudi Arabia and Indonesia. Political risk was not deemed to be a significant factor. These findings raise issues for organizations in terms of the amount of support needed to assist women to undertake assignments successfully in specific countries.

These studies show that young women are similar to young men in terms of desire to have international experience. However, even at business school stage, women are aware that they may face greater barriers than their male counterparts. They see this as mainly due to the impact of family roles and more traditional sociocultural norms in certain expatriate destinations, which in turn affects their perception of self-efficacy.

Family

The impact of family on women international assignees is usually viewed as a negative factor. Most research has focused on dual-career couples and highlights the tensions on women with male trailing partners. More recently researchers have placed a greater focus on the role of children. The reasons for family being seen as more of a problem for women than for men in general stems from continuing social norms of women's greater involvement with the family which suggest that women will experience greater conflict in trying to balance work and family responsibilities while on an international assignment. Perceptions of the difficulty of trying to combine home and work responsibilities in the context of an international assignment may even stop women from applying for assignments.

Work–family conflict

Work–family conflict is seen to be reciprocal in nature, that is, that work can interfere with family (WFC) and family can interfere with work (FWC), resulting in a wide variety of psychological and physical outcomes for individuals (Allen *et al.*, 2000; Adams *et al.*, 1996; Edwards & Rothbard, 2000; Kelloway *et al.*, 1999; Lieter & Durup, 1996). The nature of the reciprocal relationship suggests that, if work interferes with family, this may cause family issues as family obligations go unfulfilled and vice versa. An intervening variable is the extent of involvement of the individual within a domain (that is, high involvement with work) which is expected to have a direct and positive relationship with satisfaction in that domain (Adams *et al.*, 1996; Frone *et al.*, 1997).

An intervening factor in the potential for WFC or FWC is the role of social support, in terms of work or family social support (Burke, 1988; Carlson & Perrewé, 1999; Greenhaus *et al.*, 1987). Social support in the work domain may come from a variety of sources, including peers and supervisor support, as well as more formal social support mechanisms, such as organizational work–life balance programmes. Non-work social support, for example support from the family, has been found to play an important role in reducing work–non-work conflict (Caligiuri & Lazarova, 2002).

In domestic (one country) settings research findings on the influence of gender on the work–family interface are equivocal, with some reporting a link (Duxbury *et al.*, 1994; MacEwen & Barling, 1994) and others showing no evidence (Eagle *et al.*, 1997; Frone *et al.*, 1997). A possible reason for this was put forward by Gutek *et al.* (1991), who argued that most models of work–family conflict operate from a rational view, in which conflict is related linearly to the total amount of time spent in paid and family work. They posited that, according to the gender role perspective, gender role expectations mute the relationship between hours expended and perceived work–family conflict, and gender interacts with number of hours worked and work–family conflict. Their study findings provided partial support for this view, but also highlighted the complexity of the process, with changing expectations about appropriate roles from both men and women.

Work–family conflict in international assignments

In international working scenarios, which may involve the physical relocation of the entire family, however, both the impact of gender and work–family conflict itself are likely to increase. In such cases, the boundaries between work and home become blurred owing to the involvement of the whole family (Harvey, 1985). In dual-career couples, the partner's career may be disrupted and his or her sense of worth and identity may suffer (Harvey, 1997, 1998). For an international assignee with a male trailing

partner, acceptance by the overwhelmingly female expatriate spouse population may be an additional issue. The children's education may also be interrupted (Fukuda & Chu, 1994) and their social networks destroyed, which may affect their feelings of security and well-being (Harvey, 1985). In short, in international assignments, family life becomes more important because the whole family is uprooted.

Dual-career couples From a gender role theory, sociocultural norms which see men as the primary breadwinners mean that males accompanying partners are more likely to be concerned with continuing their careers in the host country. In a survey asking men to rank activities which they felt organizations should undertake to assist accompanying partners (Punnett, 1997), four of the six top scoring activities dealt with issues concerning employment in the host country. However, many male partners are unable to obtain employment (Punnett, 1997; Windham International and National Foreign Trade Council, 1999). In these cases the male partner becomes dependent on the female expatriate and has to take on the non-traditional role of homemaker. These non-traditional roles of dependent and homemaker would be additional stressors for both the male and female partners (Caligiuri & Cascio, 1998; Harvey & Wiese, 1998; Punnett, 1997). Additional sociocultural barriers include the likelihood of the male spouse finding himself the lone man in a group of wives and the unavailability or inappropriateness of traditional volunteer activities which wives undertake in foreign locations, thus limiting the extent of productive activities for males (Punnett *et al.*, 1992). In these situations, the female partner may need to offer more support and empathy, thus increasing the demands placed on her from the family side.

The positive impact of a trailing male partner on the work performance of a female expatriate was, however, demonstrated by Linehan (2002) in her study of 50 senior female international managers. A majority of the married women in the study believed that progressing to the top of their managerial careers had been facilitated by the careers of their spouses being placed secondary to their own careers.

Family implications

The impact of an international relocation on the whole family has been examined by Caligiuri *et al.* (1998) using family systems theory (Minuchin, 1974) and family equilibrium. The authors argued that in the context of global assignments, pressures within the family, such as a child's maladjustment to his/her new school, or outside the family, such as unsatisfactory living conditions or difficulty in getting certain foods, can affect individual family members and thus the equilibrium of the family.

Under a family system approach, the *double ABCX model* (McCubbin & Patterson, 1982, 1983) examines family dynamics as they relate to family adaptation to stressors such as global relocation. The model suggests that three factors interact to produce a family's adaptation or adjustment: (a) the stressor (in this case, the international relocation), (b) the family's resources or characteristics to cope with the stressor, and (c) the family's perceptions of the stressor. The three family characteristics which most affect their ability to function are family support (or cohesion), family adaptability and family communication (Olson *et al.*, 1984). Family support refers to the cohesion or closeness that family members feel toward one another and the amount of emotional support that this engenders. Too little or too much emotional support can have negative consequences for family functioning. Family adaptability refers to the ability of the family to accommodate changes in its rules of functioning while maintaining family system continuity (Minuchin, 1974). The shift in roles for partners in the case of a female expatriate and trailing male partner will require a high degree of adaptability amongst all family members. Family communication refers to the ability to exchange opinions, respect differing opinions, establish decision-making rules, resolve conflicts, and so on. A healthy level of family communication will result in both effective support and adaptability.

The additional issues relating to family which face women in the decision process leading up to an international assignment and then once on assignment may well affect their sense of self-efficacy and indeed their overall motivation to take up such roles. The extent to which organizations offer appropriate support to women in this context is debatable. Linehan (2000) and Harris (1999) found that HR policies were geared more to the needs of the traditional male expatriate, with accompanying wife and children. They both argued that, unless these policies were re-examined and reassessed, women's participation in international assignments would remain low. Culpan and Wright (2002), however, found that international HR policies supported women in gaining their positions.

Host nationals' attitudes

One of the main reasons for the minimal participation of women in international assignments is the assumption that they will not be accepted in the host country. In her original research, Adler (1984a) found that one of the major reasons given by organizations for their reluctance to select female managers for foreign assignments was that foreigners are prejudiced against female managers.

Subsequent research by Adler (1987) amongst US women expatriates working in South-East Asian countries challenges the validity of this

assumption by finding a very high rate of success amongst women international managers, largely due to the fact that women were seen as foreigners who happened to be women, not as women who happened to be foreigners – a subtle, but highly significant, distinction. Female expatriate managers were therefore not subject to the limitations imposed on local females.

More recent research by Napier and Taylor (2002) reiterates Adler's (1987) findings in looking at the experiences of women professionals working on assignments in China, Japan and Turkey. They all reported issues with gaining credibility in the initial stages of working abroad. In this respect, Japan was perceived as more difficult than China. However most of the women reported that they had found ways to overcome the resistance. In addition, they found that they were very 'visible' and had more responsibility than they would have had in an equivalent position in their home countries. The need to have and use interpersonal skills was another common feature of their experiences.

Interestingly the women reported most frustration with the non-work parts of their life. Being a woman in these countries, they felt that certain activities were 'restricted' or limited for women. They also felt that there was very little chance of developing a relationship with foreign men, or for that matter with local women as friends. Loneliness was therefore a factor. Many of the women joined associations or women's networks shortly after arriving in the host location as a way of alleviating this problem.

Several other studies have reiterated Adler's initial findings that managers in the home country organization believe that women will face prejudice from host country managers and employees in culturally different countries. Chusmir and Frontczak (1990) surveyed 222 women and men senior managers and found that the majority of them believed that attitudes towards women in foreign countries were slow to change. Smith and Still (1996) identified regions including the Middle East and parts of Asia (for example, Japan, India or Pakistan) which were seen to be inappropriate for female international assignees. In a somewhat unusual twist of events, Stone (1991) revealed that Asian and expatriate managers preferred males as international managers on the basis that female international assignees were discriminated against by (male) Western expatriates and their wives.

What is interesting when looking at the question of host-country cultural prejudices as a major barrier to women's chances of obtaining international assignments is that this issue appears to have been debated only from the point of view of women going to traditionally male-dominated cultures. Little research has been carried out into women's experiences when transferring to countries with similar or more relaxed cultural values, for instance, British women expatriates working in North America or Europe,

or female expatriates from Pacific Rim countries working in Australia or North America, where the literature would argue there should be fewer problems of acceptance for female managers/professionals.

In fact, whilst there is no evidence that women fail once on assignment, there is a substantial body of research which shows that men experience difficulties adjusting (and hence performing) as a result of cross-cultural problems. There is increasing research into cross-cultural adaptation and its links to expatriate adjustment and performance. Hechanova *et al.* (2003), in their meta-review of employee's adjustment to overseas assignments, state that adjustment can refer to feelings of acceptance and satisfaction, acquisition of culturally acceptable skills and behaviours, lack of mental health problems such as stress or depression and the psychological comfort an individual feels in a new situation (Berry *et al.*, 1988; Brislin, 1981; Bochner *et al.*, 1977; Gregersen & Black, 1990). Why, then, do managers persist in using *assumptions* about possible prejudice as an excuse for not selecting women for international assignments?

Organizational processes

It is clear from the evidence above that, although women face complications in taking up international assignments, there are no blanket barriers to women being successful in such situations. Given that there is little evidence of women failing *once on* assignment, the low numbers of women international assignees may be explained by looking at organizational processes leading up to selection. It should be remembered that appointments to international positions are internal processes, closely linked to promotion and potential decisions. Two main pieces of research are reviewed here, both relating to international manager selection processes.

Supervisor-subordinate relationship

Varma and Stroh (2001) investigated reasons why women might not be made offers on international management assignments. They used the Leader-Member Exchange (LMX) model, which states that, because of time pressures, the leader can develop close relationships with only a few of his/her key subordinates (the 'in-group') while maintaining a formal relationship with the rest of his/her subordinates (the 'out-group'). Individual characteristics such as gender, race and educational background may be related to LMX and may determine the quality of the relationship between a supervisor and his/her subordinate. The authors argued that a poor quality relationship between female subordinates and primarily male superiors was the primary cause of the low number of female international assignees.

The results from the study were not conclusive, mainly owing to problems with the sample make-up (the survey targeted women who were on an

international assignment, together with their current supervisors, and hence was unable to address the issues surrounding the LMX of potential women assignees and their supervisors). The focus on the informal interpersonal relationship between potential women assignees and their supervisors is, however, significant in the light of research into the role of the home country selection process as a key determinant of low female participation rates.

Line/senior managers' attitudes

In her original research into the myths surrounding women in international management, Adler (1984a) found only one to be 'true', this was that HR managers (and organizational managers) were reluctant to send women on international assignments. The attitude of managers in the home country organization is important as they are often responsible for the selection decision. A number of research studies have addressed the topic of managers' perceptions of women as suitable assignees. In general, these revealed a negative picture, with women being seen as unsuitable for a number of different reasons.

By far the most important reasons for negative attitudes on the part of managers towards women's participation in international assignments are family and marital status. Many managers believe that women would not be interested in international assignments because of family commitments (Adler, 1984c; Linehan, 2000, 2002; Smith & Still, 1996; Stroh *et al.*, 2000; Thal & Cateora, 1979). This includes women with accompanying spouses, where there is a general perception that problems with visas for the man will affect a woman's desire to take up an international assignment.

As stated in the previous section, many managers believed that prejudice on the part of host country nationals was a major deterrent to sending women on international assignments. A further set of perceptions shared by managers with regard to barriers to sending women on international assignments included worries about isolation and loneliness (Adler, 1984c), potential harassment (Israeli *et al.*, 1980) and security risks (Thal & Cateora, 1979). Harris (1999), however, found that, with appropriate support and advice, women could work as effectively as men in hostile environments and also in countries with more traditional sociocultural norms.

Finally there is some limited evidence that managers perceive that women are not qualified or experienced enough to be sent on international assignments (Adler, 1984c; Harris, 1999).

Home country selection systems

The impact of managers' perceptions as to the suitability and acceptability of women as international managers is dependent on how international

assignees are selected. If the selection process allows managers to make selection decisions based on these perceptions, there is a greater likelihood that women will not be sent. The nature of the selection process is therefore a key determinant of the participation rate of women in international management. Harris (1999, 2002) examined the nature of selection systems for international managers in British-based multinationals. She discovered that they could be plotted on two axes, the first being 'open' and 'closed', the second being 'formal' and 'informal'.

In an 'open' selection system, all vacancies are advertised and all employees have equal access to applying. In a 'closed' system, on the other hand, positions are not advertised. Candidates are identified through nominations as a result of networking and reputation mainly. The components of a formal system include clearly defined selection criteria, clearly defined measures, training for selectors and panel discussions. In contrast, an 'informal' system have less defined criteria and measures, no training for selectors and no panel discussions.

The implications of the different typologies become apparent when looking at the extensive body of research in both North America and Europe highlighting the pervasive influence of discrimination in selection processes. This work addresses the issue of 'fit' from both a sociological and a social psychological perspective. From a sociological perspective, selection is seen as a *social* process, to be used by those in power within the organization as a means of determining the continuing form of the organization by recruiting and promoting only those individuals who most closely conform to organizational norms. Individuals would therefore be judged more on the basis of their *acceptability* than of their *suitability* (Jewson & Mason, 1986).

In the light of a continuing predominance of men in international management positions, the 'gender-blindness' of the majority of research into expatriate management is a problem. From a feminist perspective, the patriarchal nature of organizations, derived from the fact that organizational populations have traditionally been predominantly male, means that the holders of organizational power, in terms of shaping structures and beliefs, have been almost exclusively male. The need to acknowledge this perspective is seen to be critical as gender-role assumptions have been seen to be important components of decisions about 'fit' (Alimo-Metcalfe, 1993, 1995; Rubin, 1997; Webb, 1991).

The notion of 'fit' is taken further by sociopsychological studies into the use of schema and stereotyping in selection (for example, Futoran & Wyer, 1986; Heilman, 1983). Such studies suggest that individual selectors will develop schemata of ideal 'jobholders' and will use them as a yardstick against which all prospective candidates are measured during the process

Table 14.1 *Typology of international manager selection systems*

	Formal	Informal
Open	Clearly defined criteria	Less defined criteria
	Clearly defined measures	Less defined measures
	Training for selectors	Limited training for selectors
	Open advertising of vacancy (internal/external)	No panel discussions Open advertising of vacancy
	Panel discussions	Recommendations
Closed	Clearly defined criteria	Selectors' individual
	Clearly defined measures	preferences determine
	Training for selectors	criteria and measures
	Panel discussions	No panel discussions
	Nominations only (networking/reputation)	Nominations only (networking/reputation)

of selection. The less distinct the information concerning the vacancy and/or the candidate, the more likely selectors are to use schemata and stereotypes. In occupations where there is a predominance of one gender over the other there is a strong possibility that selectors may use gender-typed 'job-holder' schema as part of the decision-making process (Perry *et al.*, 1994).

Harris (1999, 2002) theorized the outcome of the four different typologies as outlined in Table 14.1.

- *Open/formal* systems would be the most likely to produce equality of opportunity within international management selection thanks to the fact that employees have access to the selection process and that the necessity for selectors to assess candidates against formalized criteria and to determine the best 'fit' through continual comparison of their own assessments against other selectors' assessments would constrain the use of subjective judgments and generate a sharing of constructs. The objectivity of this type of system would be enhanced by the use of psychometric and other tests.
- *Closed/formal* systems imply that selectors are assessing candidates against formal criteria, but the lack of personal contact with the candidate, and hence the lack of any objective testing, may well lead to more subjective assessments. Equally the field of potential applicants is determined by the selector(s), with the attendant risk of omission of suitable candidates.
- *Open/informal* systems imply that, although employees have access to vacancies, decisions as to who should be selected are usually arranged

between relevant managers on the basis of personal recommendation and reputation and, although candidates may be put forward for interview, the selection decision is already made. In this scenario, the tendency for managers to select 'clones' of existing managers may well affect the possibility of women being considered for positions.

- *Closed/informal* systems are seen to be the worst situation for equality of opportunity in this area. Within this scenario, existing personal schematas of effective international managers, which may be more or less unclear, would be allowed to determine who is seen to be acceptable owing to the lack of influence of formal systems, the lack of open debate about criteria and the lack of accountability engendered by the fact that employees are unaware that the process is happening.

Investigating the typologies

In order to investigate the impact of the typology in practice, Harris (1999) chose three case study organizations. The first organization (Amstar) was in the oil industry and represented the *closed/informal* process. The second organization (Brymay) was in the airline industry and represented a more hybrid system. The selection process fell almost equally between the *open* and *closed* quadrant but was positioned more in the *informal* quadrant. The third organization (Cirrus) was in the not-for-profit sector and represented the *open/formal* quadrant.

The degree to which differences in selection processes resulted in the posited outcomes with respect to the use of selectors' individual preferences in selection decision making was explored via Repertory Grid analyses (Kelly, 1955; Reger, 1990). A first set of analyses addressed the extent to which the type of selection process resulted in the posited outcomes with respect to clarity and consistency of thinking in relation to effective international managers and the degree to which the constructs derived from the Repertory Grid interviews with selectors matched formal company criteria. A further analysis addressed the potential for gender bias with respect to the way women international managers were viewed within the Repertory Grid responses and in respect of the degree to which the constructs used were masculine or feminine typed using the 92 item attribute inventory designed by Schein (1973, 1975). In the case where no match could be found, these were noted as neutral. The analysis of the constructs against the items from Schein's descriptive index (SDI) was carried out independently by Harris and a colleague and the results were then compared and a decision on best fit arrived at.

The results from the Repertory Grid interviews with selectors in each of the organizations supported the arguments posited for the outcomes of the various typologies. Under an *open/formal* system there was evidence of

more consistency and clarity in thinking in relation to the characteristics of effective international managers. In addition, in Cirus, the selectors had clear views of the women international managers included on the grids and were therefore less likely to be picking clones of male managers when selecting. None of the grids showed any negative thinking about the managers being female. The position of the managers on the grid was determined exclusively by their indicators of performance. In addition, the SDI analysis of the constructs elicited through the Grid interviews showed a tendency towards a neutral/feminine gender typing, thus suggesting that equal opportunity considerations are used by selectors in the decision-making process.

In contrast, the *closed/informal* selection system in operation in Amstar did not force selectors to question their assumptions, resulting in a marked lack of consistency and clarity in thinking about criteria for effective international managers and little linkage with formal criteria. Also the majority of selectors were not clear in their thinking about the female managers included in the cognitive maps. Although the female managers were positioned on the cognitive maps in relation to their performance ratings, in general they were positioned closer to the centre of the maps, which indicates that they were seen to be less distinctive than the male managers. In addition the SDI analysis for the organization displayed a masculine-typed bias.

The picture at Brymay again provided tentative but limited support for the posited relationship between *closed/formal* and *open/informal* systems and the number of women entering international management positions. In terms of consistency and clarity of thinking in relation to characteristics of successful international managers and link with formal criteria, the organization was positioned between the two extremes of Amstar and Cirus. The number of women selected for inclusion on the grids and their general lack of distinctiveness for the selectors reflected the situation in Amstar, where thinking about women managers was generally less clear than in Cirus. It was argued that this situation would give rise to cloning of existing male international managers. The SDI results for Brymay, however, show a more equal split between masculine and neutral typed constructs, which might again reflect its positioning at the centre of the Typology of International Management Selection Systems.

The impact of the findings was reinforced by the actual numbers of women in international management positions within the three case study organizations (with Amstar having less than 5 per cent representation; Brymay having a representation of 25 per cent and Cirus having a representation of 45 per cent) despite all having fairly equal entry level ratios.

Harris's research focused attention on the pivotal, yet interlinked, role of home country organizational processes in determining the representation

of women in international management. The study needs replication in different countries and with larger samples to create a more comprehensive picture of this key link in the chain. However the fact that relatively few women are sent on an international assignment suggests that both the perceptions of managers and the selection process are key determinants of participation.

Directions for further research

This review of research has highlighted several gaps in the literature and potential areas for further research. These are highlighted below.

- *Geographical scope* Despite nearly 20 years of research interest in this area, the vast majority of studies still focus on women from the United States, the United Kingdom and Australia. Equally most of the expatriating organizations are based in these areas. Little is known of the situation for women in other countries. A multi-country qualitative study of the issues facing women and their organizations would provide a more comprehensive picture of the issues from a global perspective.
- *Assignment profile* Again the majority of research carried out so far has focused on a traditional form of international working, the expatriate assignment. Alternatives to expatriation, including short-term assignments, commuting and self-initiated foreign assignments, are increasing and need to be examined in more depth in the women in international management literature.
- *Family considerations* Issues relating to work–family constraints have taken a predominantly Western perspective. The impact of different sociocultural norms regarding family obligations and marital responsibilities on women from more traditional societies needs to be examined in relation to their ability to participate in international assignments. Anecdotal evidence suggests that work–family issues are less difficult for women from countries where it is accepted that the family has to separate to find work.
- *Methodology*: A majority of the studies in the women in management literature adopt a quantitative, survey methodology, with the notable exception of some qualitative studies such as Linehan's (2000, 2002). The rich and dynamic nature of the experience for both male and female international assignees calls for a more innovative and longitudinal approach to study methodology. Qualitative, longitudinal studies tracking the process of adjustment for male and female assignees from different countries would provide a wealth of insights which could be developed later into survey material, for example.

Conclusion

This chapter has reviewed the current research on women in international management. Our understanding of the factors influencing the numbers of women on international assignments encompasses the interlinkages between individual characteristics, family issues, host country barriers and organizational processes. The complexity of the issue is compounded by the need to adopt a more international approach in our research and to gain a fuller understanding of the nature of international assignments for women from every part of the globe. Our multinational organizations will only ever be able to claim true diversity if they count at the top of their management structures men *and* women from diverse nations. Critical, yet practical, research into the issues affecting participation in international assignments will, it is hoped, provide a sound framework from which both organizations and individuals can establish meaningful action plans.

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15 International business travellers: a challenge for IHRM

Denice E. Welch and Verner Worm

On average, I would go to Asia for two weeks and come back, go to the U.S. for two weeks and come back, go to Europe for two weeks and come back. And the next time I went to Asia [I would] probably go to a different part of it. I guess I was away – if you accumulated it – for 8 to 9 months of the year. (Senior Executive, Australian multinational)

The field of international human resource management (IHRM) has developed from its early status as an infant field of scientific inquiry, as the contents of this *Handbook* indicate. When it comes to the issue of international assignments, however, there remains a dominance of interest in, and research on, the management of traditional expatriates, primarily because they comprise the bulk of international assignees (Skovbro & Worm, 2002). Expatriates have tended to be the preferred choice when faced with strategic staffing decisions pertaining to subsidiary operations (see, for example, Dowling & Welch, 2004). However multinationals are finding that supporting a large contingent of traditional expatriates is becoming more difficult, even though the expatriate failure rate is not as high as is often reported (see, for example, Forster, 1997; Tung, 1998). It has long been recognized that expatriates are expensive. Also the rise of dual career couples has made international relocation more complicated. Therefore cost containment and staff immobility are two of the main driving forces for the observed increase in the use of what has been termed ‘non-standard assignments’ (PricewaterhouseCoopers, 1999, 2000). Non-standard assignments include commuting (special arrangements where the person concerned commutes from the home country on a weekly or bi-weekly basis to the place of work in another country); rotational (employees commute from the home country to a place of work in another country for a short, set period, followed by a break in the home country – used on oil rigs, for example); and contractual (used in situations where employees with specific skills vital to an international project are assigned for a limited duration of six to 12 months). Advances in telecommunications have enabled firms to experiment with a newer form, the virtual assignment, where the employee does not relocate to a host location but manages, from home-base, international responsibilities for a part of the organization in

another country. With the rise in company use of these alternatives, research is beginning to examine the IHRM implications of these alternative forms of staffing international operations.

What has been relatively ignored in the IHRM literature (and indeed in the broader international business literature) has been the role of the international business traveller (IBT). This is somewhat curious, given that international travel remains the heart of international business. The international business traveller is one for whom business travel is an essential component of their work: for example, international sales staff whose jobs comprise a heavy component of international travel. Where this group is referred to, they are popularly termed 'road warriors', 'globetrotters' or 'frequent fliers'. These people are not relocated, so they do not come under the umbrella of 'international assignee' or 'expatriate'.

The aim of this chapter is to provide some redress by examining the nature of international business travel, in terms of its costs and benefits to the individual, and to the company. We then discuss the role of the corporate HR department in providing support for this category of employees: the IBTs or 'non-expatriates'. Suggestions for future research are then offered.

The nature of international business travel

As companies become more geographically dispersed, and foreign units more integrated into global activities, organizational pressures and requirements appear to increase the need for international movement. The volume of staff traffic appears to have remained largely unaffected by advances in electronic communications, such as e-mail and video conferencing. For example, a survey of 1400 business travellers across the world revealed that 91 per cent expected to maintain or increase their current business travel over the next year (American Express, 2002). This was despite the September 11 attack on the World Trade Center in New York the previous year, and the associated fear of further terrorist attacks in other locations and countries. The business reality is that, while certain transactions and information exchanges can be conducted electronically, others need to be handled personally. Face-to-face communication remains a primary, preferred medium.

Group and regional meetings, staff briefing sessions, joint training sessions, product development meetings and cross-border project work, opening or closing factories and solving technical problems are just some of the activities that involve travelling from one country location to another. Apart from these internal company activities, staff frequently travel to conduct business with external stakeholders in various international markets: negotiating deals and sales contracts, selling products and services,

attending trade fairs and visiting host country government officials, alliance partners, subcontracting firms and foreign suppliers (Welch, Welch & Worm, 2003). The frequency and volume of host country visits vary according to circumstances and market dynamics. As multinationals exploit new opportunities in emerging and evolving markets, such as Russia, China and India, the number of staff making visits to support the new ventures tends to increase. In countries that are perhaps less volatile, and where operations are more mature with established standardized procedures and systems, visits by headquarters' staff may be less frequent.

IBTs are a diverse group of employees. Expatriates can also be international travellers, as their duties in a foreign country may involve regional responsibilities, or require frequent visits to headquarters, or other subsidiaries. As well, non-standard assignments, particularly the virtual assignment, will involve supporting visits. As HR activities and responsibilities are devolved to line managers, subsidiary managers and others, those responsible for managing IBTs would not necessarily share, or recognize the need to share, information regarding the nature of international travel and its demands on those who undertake it. Likewise, for HR staff, as the needs of this category of employee is not directly their responsibility, the needs of IBTs do not automatically come into their domain. Given the varied nature, roles and activities performed by international business travellers, it would be difficult for HR staff, particularly in the very large multinationals, to know just how many of their worldwide employees are travelling internationally at any given point in time.

To illustrate the various aspects involved, we draw on results of an exploratory study of five Australian and five Danish IBTs. Given the paucity of research on IBTs, a qualitative approach was considered appropriate, using the individual IBT as the informant, rather than the organization, as the focus was to explore issues pertaining to being an international business traveller. Each interviewee, therefore, was treated as a case. Semi-structured interviews were undertaken in 2003. Questions were asked regarding the perceived positives and negatives of constant international travel, the role of the home organization, the host location and the HR department. Interviewees were encouraged to relate critical incidents. Interviews were taped and transcribed by the authors. The five Australians were interviewed in English, and the five Danes in Danish. Two of the Danish interviewees were living abroad at the time of the study, so the questionnaire was posted to them and followed up with a telephone conversation of about half an hour's duration with each, in order to provide data clarification and extension where appropriate. Content analysis was conducted manually, with cross-case analysis within each country sample and between both country samples (Patton, 1990).

Interviewees were selected using purposeful intensity sampling that would provide information-rich cases. The six male and four female interviewees represented different IBT roles (for example, senior management, international sales and marketing, project management and troubleshooting). They were drawn from different-sized firms – large multinationals, subsidiary operations, small-to-medium enterprises and a family firm. Interviewees worked in various industries (including medical equipment, electrical appliances, resources, pharmaceuticals and consulting). The proportion of time spent on international activities per year ranged from 20 per cent to 100 per cent. The composite group's travel encompassed the globe.

Factors affecting international business travellers

The mention of international business travel conjures up images of comfortable airline seats, dedicated airport lounges, plush hotels and long lunches in exotic locations, all paid for by someone else. It is this common image of a glamorous life that perhaps has led to a perception that international business travellers do not require the same level of organizational support that traditional expatriates tend to receive. It is not uncommon for colleagues to envy the perceived lifestyle and discount any proffered examples of the negative aspects of international travel. As one interviewee described it: 'People always think travel is glamorous and there is a glamour component to it but in the end . . . it is a lot of hard work.' Our exploratory study confirms the limited research and anecdotal evidence that there is a range of physical, social and psychological demands associated with constant international travel that may counteract its positive side. These findings reflect the travel stressors identified in one of the few articles on IBTs. DeFrank, Konopaske and Ivancevich (2000) divide international travel into three stages and discuss the negative effects associated with each stage. The three stages are pre-trip, trip and post-trip. By separating international travel into distinct stages, the authors demonstrate how work arrangements, home and family issues, as well as the stresses encountered during the travel are compounded and may lead to poor performance and even illness.

What also emerged from our exploratory study was the importance of two other factors: the individual IBT's responses to the positive and negative factors encountered, and the level of support provided by the organization. These factors, along with the positive and negative factors, are depicted in Figure 15.1. It is recognized that the interaction between the different elements can be expected to vary, as individual interviewees gave different weighting to some of the positive and negative factors they identified. Furthermore, while the elements have been empirically derived, given the small sample of IBT cases involved, it is stressed that the figure is a conceptual model developed for analytical purposes. We use the various

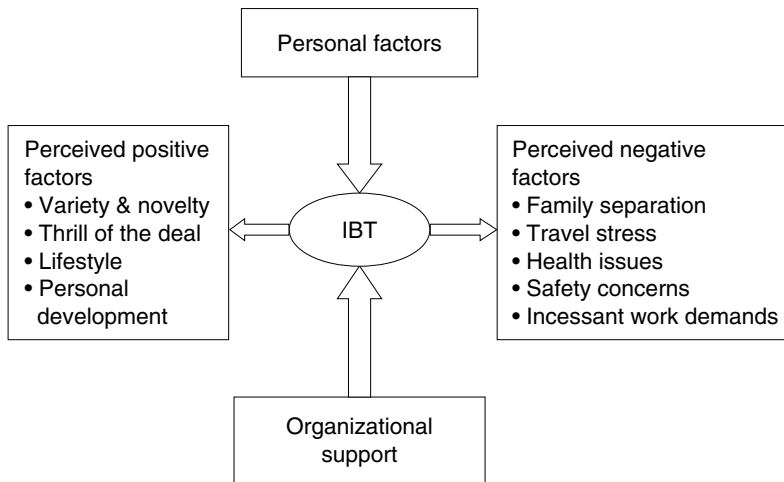


Figure 15.1 Aspects of international business travel

elements identified in Figure 15.1 to guide the discussion of the issues associated with each of the identified aspects.

Perceived negative factors

To a certain extent, some of the negative factors associated with international business travel (particularly family separation and incessant work demands) reflect arguments and issues raised in the broader community debate surrounding the quality of work life and the balance between work and private life (see, for example, Fagan, 2001; Hochschild, 1997). For example, increased connectedness through advances in telecommunications such as the Internet, e-mail and mobile telephone has sparked concerns about the intrusive nature of technology, and the growing expectation that a person is always available, including outside normal working hours. While an examination of the work–life balance debate is beyond the scope of this chapter, it can be argued that, because they operate in special situations, IBTs can be regarded as extreme case examples of the work demands confronting 21st-century employees, as the following discussion of the negative aspects of international travel illustrates.

Family Separation The effect on family relationships of international travel emerged as a key factor. Interview data indicate how frequent absences put strain on home and family life. IBTs miss important anniversaries, children’s birthdays, school events, family gatherings, and the like, as the following comments from two of the interviewees illustrate:

The bigger impact [stress] is that you are away from your family for so long and you miss birthdays, you miss speech nights [school graduation ceremonies] and a lot of the responsibility that you otherwise share falls back on your wife.

When the kids [children] were small it was hard. I sometimes felt like a visitor in my own house. Naturally they develop their own routines while you are out of the house. When you come back you are a guest and you actually disturb those routines. It is better for everyone to keep that in mind.

It is not surprising that the constant comings and goings can be disruptive to family relationships, and different expectations can cause tension, frustration and various coping mechanisms. As DeFrank *et al.* (2000) note, there are domestic chores waiting that may interfere with the IBT's wishes to spend 'quality time' with the children. The family, particularly children, may become so accustomed to the frequent absences that they cease to comment on the departure of the parent, which, in a perverse way, some interviewees found distressing. One interviewee reported that her decision to change to a home-based position within the Australian subsidiary was prompted by relationship concerns:

As soon as I would go away, he would have his own life and then I would come back and we would have to adjust to each other again, and then I would have to go off again . . . it got to the point where we didn't actually bother trying to connect with each other . . . in the end, it was impacting on our relationship so I chose him over the travel.

Over time, trivial events can build into serious issues that have the potential to put strain on marital and familial relationships. For those without a permanent relationship, international travel can make it difficult to maintain friendships and keep social commitments, thus isolating the person. Mobile telephone technology facilitates the IBT's ability to maintain contact with spouse, partner and family members.

Frequency and length of trips have a bearing. Interview data suggest that many short trips that followed one upon the other created more family problems than more infrequent yet longer absences (that is, 30–60 days away) which allowed more continuity, as well as giving the family unit time to plan for the IBT's absence. Adjusting to sudden departures was found to be harder on the family. For example, a Danish interviewee involved in a virtual assignment arrangement recounted how he never knew what each workday would hold. It was not uncommon for work to entail an unexpected flight to a neighbouring country, without knowing how long the absence would be. He reported that international visits would often require social events that would prolong the visit:

Sometimes when I go to Stockholm I have to go out and have a beer with my people in Sweden and then go home next day . . . Life was easier when I was on [a] long-term assignment in Paris.

Respondents often expressed a feeling of being fully accepted neither in their work nor in their social/family life. A typical IBT comment goes like this: 'Sometimes I felt caught in the middle between responsibilities to my job and social responsibilities.'

Travel stress Travelling itself can be stressful. DeFrank *et al.* (2000:59) define travel stress as 'the perpetual, emotional, behavioural, and physical responses made by an individual to the various problems faced during one or more of the phases of travel'. Jetlag is a physical consequence of crossing several time zones and may have performance implications as IBTs endeavour to cope with this phenomenon. Our interviewees had various coping mechanisms, and varied reactions to jetlag. For example:

I am a good sleeper so jetlag was not much of a problem.

You get into a pattern when you do a lot of it. It [jetlag] used to be the second night . . . so I tended to schedule a lighter day on the third day in a place where I was not making any critical decisions.

[Coping with jetlag] is hard during periods with excessive travelling. I sometimes use [a mild sleeping pill].

Tight airline connections, missed or delayed flights, coupled with long periods in flight are commonly cited as potential travel stressors. An Australian interviewee recounted a good example:

My flight to Singapore had not been reconfirmed [by her Australian secretary] so I could not get a seat out of the Philippines. It was Easter. My wallet was missing or stolen, my mobile phone was flat, the computer was down and I want an E-ticket so I can get out of the country. Then I am told that my connection in Singapore is cancelled.

Such hassles can be compounded by mix-ups with hotel accommodation, hectic meeting schedules and lack of sleep. The ability to sleep is important in order to cope with the various business challenges that IBTs confront (DeFrank *et al.*, 2000). Another feature was the expectation that the IBT would not need any time off work in order to recover from travel stress, nor experience jetlag, when back in the domestic situation. Interview data indicated an attitude that one was expected to report to work directly from the airport, even if the job entitlements specified a recovery period. One Australian interviewee explained:

I have 17 days in lieu that I have owing for the travel that I did last year that I have never taken . . . It is just not done . . . It [the travel] is just part of the job that you sign on for . . . You are within your rights to take the leave . . . but it is not done, so I have not taken them.

In large multinationals, where people from the top management team are also travelling constantly, and they do not take time off to recover between these international trips, it is difficult for others to do so.

Age, coupled with the amount of time spent travelling, is also a consideration. It seems that, the older people get, the less they like to travel. Our study results suggest that older people find coping with the effects of jetlag more difficult.

Health issues Outbreaks of infectious diseases affect international business, as evidenced by the recent Severe Acute Respiratory Syndrome (SARS) epidemic. Apart from the risk of contracting such diseases, it would appear that the constant travelling itself has negative consequences. These include poor diet, lack of physical exercise and weight gain, as the following interviewees explain:

One gets some stress due to the heavy travelling in periods. [It is] nearly impossible to find time to relax . . . It becomes a very hectic lifestyle . . . You put on weight.

I picked up colds easily, especially where my diet was concerned. I am a vegetarian so I had to relax that and start eating meat to stay healthy . . . I would get up early and go to the [hotel] gym. Exercise was one thing I did to keep healthy.

Insomnia was incredible. Food became an issue . . . Weight gain or weight loss . . . You either had bad food or they [clients] feed you too much so you would gain weight.

One Danish IBT had collapsed with what seemed to be a minor heart attack. Other interviewees admitted that watching IBT colleagues collapse with health problems, such as a stroke, acted as a warning to focus on their own vulnerability. Corrective actions taken included exercise regimes, eating as healthily as possible, trying to get enough sleep and having regular medical check-ups. Most interviewees were accommodated in quality hotels with gymnasiums and swimming pools attached and, while it was possible to take advantage of these facilities, it often depended on time available. Business meetings could continue well into the evening and, in some cases, recommence early the following morning, or the IBT would be in flight to another destination, precluding time for exercise.

Safety concerns In the current global environment, physical safety has become a general travel concern for tourists and business people alike. Governments issue regular travel warnings regarding potential terrorist activity, and international operators take the risk of kidnapping seriously. For instance, one IBT was ordered out of a country when the political situation became too dangerous.

The female IBTs in our sample were also concerned about their physical safety when travelling unaccompanied in certain countries. Such concerns would limit their ability to explore their surroundings, and could result in their being isolated in a hotel room for several days. As one interviewee, whose sales responsibilities took her to countries such as Saudi Arabia, India, and the Philippines, described:

They [her male counterparts] were able to go down to the hotel bar – that was acceptable . . . Once I realised that I had not spoken to another human being for four days . . . This happened often in India. Over the weekends, you would not speak to anyone . . . You would be thoroughly bored. There is only so much CNN you can watch.

Harassment was a concern. There was a feeling that white women in Asia were ‘available’, which led the female IBTs in our sample to take particular caution to dress appropriately and try to avoid placing themselves in situations where they might be open to harassment. They were careful only to use hotel-vetted taxicabs and cars.

Incessant work demands Modern technology (particularly e-mail and mobile phones) has proved to be both a benefit and an intrusion. The ability to utilize electronic media allows IBTs more easily to obtain information from headquarters or the home office that enables work in the foreign market to be more easily completed. Of course, the negative aspects of instant telecommunication means that home office business matters can intrude while one is away and may interfere with the international activity, or at least erode private time – usually sleeping hours.

Travellers are often confronted with a backlog of work when they return to home base, as one IBT explains:

After being away for a couple of weeks there’d be a lot of paper work and other things to attend to – home office activities . . . And you would have to follow up issues that had arisen while away that needed review or authorisation.

This may encroach on the time available to spend with the family, thus compounding the unsatisfactory home situation. However, IBTs in our sample recounted how, while travelling internationally, they would try to use the

time spent at airports or in flight to attend to work. E-mail access often permitted them to attend to pressing matters so that there was less work waiting when they came back, thus freeing time when they returned home to be with their families.

Perceived positive factors

Little has been written on the positive factors of international travel. For example, DeFrank *et al.* (2000) focus on the stresses and strains involved. While the IBTs in our sample mentioned the negative consequences of their travelling, they also raised positive aspects and most of them were willing to continue as an IBT. For some, the positive factors acted to moderate, if not negate, the negative aspects outlined in Figure 15.1 above. The positives listed by the IBTs were the variety and novelty of their jobs, the thrill of the deal undertaken in challenging environments, the lifestyle and the opportunities for personal development that international travel afforded them. Some IBTs considered that these factors made them somewhat addicted to the international travel, a side that those who were now domestically based missed.

Variety and novelty A common positive was the variety of tasks, people and destinations involved, which meant that there was much that was new and novel, such as meeting people from different areas and countries. IBTs enjoyed the travel despite the negatives, particularly being away from home and family, as the following comments illustrate:

I enjoyed the job because it had a lot of variety to it . . . It took me into areas and countries I had not been to before and therefore [was] exposed to more. There was something of a dichotomy. I enjoyed the travelling but did not enjoy being away from home.

Being able to experience and work in countries that I would never go to as an individual . . . You take all the negatives and still do it! It was a buzz. There was adrenaline.

It was the challenge of the job.

Thrill of the deal Related to the variety and novelty that was seen to be inherent in international travel was what could best be described as the sense of accomplishment of performing well in difficult circumstances: what some IBTs referred to as ‘the buzz’. For example, one IBT involved in selling medical equipment in Asia described it as follows:

The romanticism and the exoticism of it [international travel] is one thing . . . but the other part – the buzz – is the deal, if the deal’s come off. If you asked me to do the same deal domestically day after day there would be no buzz.

Lifestyle During interviews, IBTs concurred that there was an element of glamour attached to being a frequent traveller. They admitted that staying in top quality hotels, flying business class and shopping duty free were part of that. For some, international travel can become a lifestyle in itself that is almost addictive. One Danish interviewee, for example, recounted how taking early retirement from a working life of constant international travel was difficult. He had become accustomed to this way of life, and his wife was still working, so, to cope, he continued to travel, taking a charter tour a few times a year. He packed his suitcase with books and then went to Southern Europe for a week or so. He felt that it was like going on a business trip, and his wife seemed also to be satisfied, or at least not against his arrangements.

Personal development An important positive that was mentioned during the interviews was the developmental opportunities provided by the nature of the jobs involved. These included working with people from other cultures, coping with stressful situations and handling problems that would not be normally encountered. The jobs would be challenging, with more responsibilities, allowing self-development (such as 'broadening my horizons'). Danish interviewees regarded meeting people from different cultures as valuable to their personal development as well as professional development.

Personal factors

As indicated in Figure 15.1, and discussed in the above sections, individual responses to the stresses and strains of international travel may be moderated by personal factors, such as age, experience and family situation. While career objectives and aspirations were not directly addressed in interviews, several IBTs referred to expected career outcomes. For example, when discussing the positives of international travel, one interviewee mentioned how important it was to have international experience in order to advance within the company. The personal development aspect discussed above was indicative of the value placed on being able to function in a foreign context. In other words, taking on a role involving international travel delivered the same outcome in terms of international experience but without the disruption and adjustment that a full international posting would have imposed upon family members (the lesser of two evils). For others, the career path within the company had led to the international travel component or had been part of an international assignment.

In some cases, personal circumstances, particularly family relationships, did influence decisions to change jobs, or curtail the amount of international travel where possible. Job changes could be within the same company

but at a different level or department. For others, it could mean changing companies. Those in our sample who deliberately switched to domestic-based jobs within the same company admitted that there was a lowering of job satisfaction as a result.

Thus how individuals cope with the demands of international travel has an important consequence in terms of job satisfaction and staff turnover. Voluntary separation from an organization has the potential for information and knowledge loss, given that individual IBTs are often the repositories of critical information about foreign operations and activities, and network connections with foreign government officials, key suppliers and clients, and the like (see, for example, Michailova & Worm, 2003; Lord & Ranft, 2000; Hedlund, 1994). IBTs who leave may take important information, knowledge and contacts to a competitor. A similar loss of knowledge and information can occur when IBTs move to a different section of the same company.

Organizational support

The level of support provided to the international business traveller is an influencing factor (positive or negative) and has an impact on the IBT's performance and job satisfaction. The degree to which organization support acted as a moderating factor in our exploratory study was dependent on the size of the organization, the level of position involved and the nature of the IBT's job in the foreign market. Those who worked for large, relatively mature multinationals had greater levels of assistance in the foreign market than did those from smaller firms. For instance, one interviewee was a senior manager in a large multinational. When he visited the company's subsidiaries, he received full support from regional and subsidiary staff, which ranged from assistance with mix-ups over hotel accommodation to provision of transport, the security of access to medical care if needed in a strange location, and local company contacts. Another interviewee who also worked for a large multinational held a more junior position and was expected to make her own travel and accommodation arrangements and to handle contacts at the various destinations. However this IBT had access to sophisticated telecommunications support while travelling, and was able to draw on the support of subsidiary staff, though the level of support and cooperation from local staff varied from country to country.

Conversely those from smaller companies had less support in the foreign market. One IBT travelled in China selecting and monitoring subcontracting firms for a small Australian whitegoods manufacturer. While in China, he relied on a local interpreter as a guide, but generally was expected to organize matters himself. He received very limited support from the Australian office. Another interviewee found the support from the home

organization to be a negative as there were constant demands for weekly reports to be filed regardless of the travel demands and time zone differences, and requests for information and assistance were often ignored. This lack of support was attributed to a prevailing attitude of envy of those who travelled internationally that led to obstructive behaviour and direct comments about the glamorous life of the IBTs. One interviewee, from a small family-owned firm, relied heavily on the firm's foreign distributors and agents for support in meeting clients and potential customers, as well as accommodation and other travel advice.

Finally the nature of the work involved places demands on the individual's ability to operate in unfamiliar environments and handle cultural differences effectively. However the limited empirical evidence suggests that IBTs do not receive cross-cultural training, an area that is now recognized as important for those on expatriate assignments, as the relevant chapter in this *Handbook* identifies. Research on expatriate adjustment and retention has identified areas such as pre-departure training and on-assignment support as critical in terms of organizational commitment and expatriate turnover. Organizational commitment is considered as an influencer of the psychological contract – the relational element of the employment relationship. As with expatriates, IBTs may perceive lack of organizational support, or the non-delivery of promised support, to be a violation of the psychological contract – a breach of trust – and thus lessen their attachment (or affective commitment) to the organization (Welch, 2003). As mentioned above, IBTs can be regarded as knowledge transfer agents and, unless the organization has active mechanisms for the codification of their specific foreign market knowledge and information, critical tacit knowledge may be lost if these individuals leave the organization.

The role of the corporate HR function

The previous section has highlighted the potential for organizational support to act as a moderating variable. What is not clear is the extent to which the HR function is involved in providing such support. There is a paucity of research into the role of the corporate HR function in the burgeoning IHRM literature, apart from its identified responsibility for expatriate management and international relocation of personnel (Welch & Welch, 1997; Scullion & Starkey, 2000; Novicevic & Harvey, 2001). It would appear that HR departments have had limited involvement in the management of IBTs. In their UK-based study on the various forms of international assignments, Brewster, Harris and Petrovic (2001) report that 32 per cent of companies surveyed were not sure how many staff were 'frequent fliers', whereas all respondents had detailed figures for those on long-term assignments. This may be partly due to a perceived delineation

of roles and responsibilities, that HR directors regard IBTs as the responsibility of the function or line department concerned, whereas HR's role is confined to the management of staff transfers that involve relocation of the individual (and often the accompanying partner and family) into a foreign country for periods of over six months' duration.

In other words, IBTs are non-expatriates and therefore fall outside the domain of the HR function, a view that may be reinforced by line managers and the IBTs involved. For example, in a study of six Danish multinationals conducted by the second author in 2002, the HR directors interviewed considered non-expatriate staff as the responsibility of the line managers in the department concerned. From the perspective of the line managers interviewed, HR was a support department, which they contacted when they needed help, such as to 'calculate the compensation package', as one line manager explained. The line managers considered they could adequately handle the issues related to IBTs as there were no relocation aspects to address, thus reflecting a perception that HR's role was the management of expatriates. There was an attitude also that consulting the HR department would only create trouble. Such an attitude excludes the possibility of vital information, such as government travel warnings for certain countries, being passed from the HR department to the relevant departments and current or potential IBTs.

The HR managers in the Danish study were aware that to be effectively isolated from HR activities in other areas of the firms' activities was not satisfactory, given that HR staff had expertise that would be beneficial for both IBTs and their respective companies. As Brewster *et al.* (2001) found, it is difficult to formulate policies for IBTs, or monitor the costs (human and financial), without adequate information. Conversely vital knowledge about specific foreign operations that should be broadly available may remain contained within the department concerned as line managers would not necessarily see the need to share such knowledge. In what could be seen as an attempt to redress this attitude, an HR manager in a big American company was quoted as saying: 'We try to tell managers that when they have people travelling internationally – except for very short business trips – they need to contact HR' (Joinson, 2000: 96).

The separation between line management and the HR function is reinforced through the formal structure, as depicted in Figure 15.2. Here, the Sales/Marketing Department is very active in Country A. There is interaction between staff and the foreign intermediaries (export agents, distributors) and customers. There may be interaction with foreign suppliers, though often this is the responsibility of the Purchasing Department. Staff may also visit the firm's subsidiary in Country A. In other words, there is much staff traffic between the Sales/Marketing Department in the home

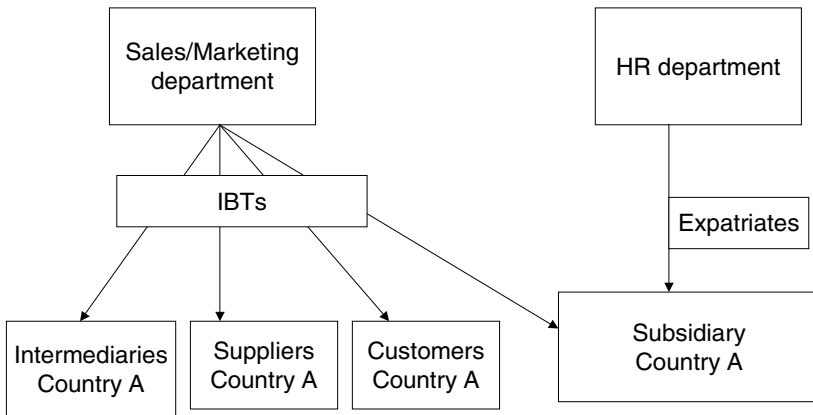


Figure 15.2 *Compartmentalization*

country and the firm's operations in Country A. However, as far as the Corporate HR Department is concerned, the only staff movement is that of the expatriates sent to Country A to formal positions within the subsidiary. In effect, the formal structure is supporting the development of silos in terms of IBTs.

Of course, Figure 15.2 assumes the existence of an HR department or function. In two of the companies involved in our exploratory study, there was no HR person or function owing, in one case, to the small number of employees (30) and, in the other, the company being a family-owned small firm with 22 employees where the four company directors shared employment responsibilities.

Subsidiary HR staff may be aware of visits by IBTs. There may be instances where the subsidiary HR staff are asked to host headquarters top managers making periodic, flag-waving visits to foreign operations, but these would be duties shared with other subsidiary managers. Expatriates assigned to subsidiary operations may travel within the region as part of their duties. Without a formal reporting requirement, information about IBTs, relating to issues such as health, safety and local travel that may reside at the subsidiary level, will not be shared with corporate HR staff.

If corporate HR management is kept at arm's length, then the flow of information and knowledge surrounding the management of IBTs may be negatively affected. For example, unilateral measures introduced in an attempt to contain the cost of utilizing international assignees, such as switching travel class entitlements from business to economy class, may not be appropriate for IBTs. A one-way trip to take up a traditional international

assignment is different from making frequent trips to multiple destinations, often consecutively. Brewster *et al.* (2001) found little HR involvement in the control of costs of non-standard assignments or for IBTs. Rather responsibility to monitor such costs tended to be devolved to unit level line managers, and in some cases outsourced to travel agents. The HR function is therefore marginalized.

It is recognized that there are difficulties in generating consistent and equitable corporate policies for IBTs related to matters such as class of travel, level of accommodation and health aspects, given the variety and diversity of jobs they undertake. Equity of treatment is a contentious issue within the expatriate management literature and can become a performance issue. Development of corporate policies relating to compensation is seen as an essential step in removing disparities (Dowling & Welch, 2004). It is reasonable to assume that IBTs also compare their treatment with that of other IBTs. Communication between departments and the HR function would be an essential step in ensuring equity of treatment where international business travellers were concerned for issues such as taxation, class of travel and quality of accommodation.

A complicating factor may be the attitude towards international travel within multinational companies. Our interview data suggest that this attitude stems from senior management who travel extensively. If top management does not recognize jetlag and other travel-related stressors, it is difficult for these issues to be raised, either at the department level or through the HR function. For instance, an interviewee was one of five members of the international sales team, one of whom was also the managing director of the Australian subsidiary. While the managing director was appreciative of the physical and emotional strains involved, and tried to restrict the length of time per visit for each team member, his own schedule was as heavy and it was expected that others would follow his lead and place business performance before family commitments.

One interviewee who worked in the Australian subsidiary of a Canadian multinational offered her own view on the lack of HR involvement in the management of IBTs. She suggested that HR staff do not travel and therefore have little personal knowledge of stresses and strains of constant international travel, and that the 'corporate culture' is one epitomized as 'you were considered to be adults, therefore should be able to handle whatever the job entails'. The IHRM literature recognizes the importance of an international orientation within the HR function as important in terms of managing international assignments (see, for example, Dowling & Welch, 2004). HR staff who had experience as IBTs could be expected to appreciate the stresses and strains involved, and work to provide the required level of support to enhance work performance. As DeFrank *et al.* (2000)

concluded, there is a need for multinationals to take a more strategic approach that recognizes the importance of international travel to business success. This includes steps to monitor the health and well-being of IBTs.

IHRM research agenda

Given the seeming neglect of an important group of international operators, there is considerable scope for further scientific study of IBTs. Our data suggest interaction between the elements depicted in Figure 15.1: positive factors can affect negative factors; personal factors and organizational support may act as moderators, and this is an obvious starting point for further research. However broadening the sample is necessary to confirm, modify and extend the various elements that arose from our data analysis of ten IBT cases.

A more rigorous approach would be to interview all parties concerned – IBTs, family members and company personnel (line and HR managers) – to provide a more complete picture. More importantly this approach has methodological credibility, providing increased reliability and validity through data triangulation. Multiple methods, combining surveys with case studies for example, also yield the advantages of triangulation. The use of other methodological techniques such as critical textual analyses of the way international travelling is discussed in the media and by top managers of international companies may provide additional insights. It is important that scientific work is undertaken in this area that allows for theory development, given concerns that the field of IHRM has tended to be empirically driven.

The suggested connection between personal factors and staff turnover may provide a fruitful area of further research, not just in potentially confirming a suggested relationship, but in exposing other outcomes of international travel, such as the role of IBTs in knowledge transfer. Possible moderators may be career goals (linked to stage of life cycle), family commitments and quality of work life. A related area is the connection between organizational commitment, intactness of the psychological contract and organizational support. For example, cost containment actions by top management, such as reducing the class of travel, may be a moderating variable effecting a lessening of organizational commitment.

Job satisfaction emerged as a negative outcome for individual IBTs who resolved conflict between their job satisfaction and career objectives and family relationship concerns by accepting a more domestic position. This lessened their job satisfaction, at least in the short term. The relationship between aspects of international business travel, job satisfaction and performance is another line of scientific inquiry that has the potential to contribute to our understanding of the demands of working internationally.

The ability to transfer competencies around global operations is a strategic issue, and the role played by expatriates in such transfers has been acknowledged in the general international management and IHRM literature. IBTs can be expected to play similar roles (Welch, Welch & Worm, 2003). Further studies could examine how IBTs gather and disseminate foreign market information. How prepared are IBTs to share critical tacit knowledge in a work environment where loyalty to the organization and vice versa is considered an outmoded concept, accompanied by a growing expectation that a person should manage their own career? A related line of research is the role IBTs play in transferring competencies both internally (inter-unit transfer) and externally (such as in strategic alliances and international joint ventures).

As previously mentioned, researchers and practitioners have concentrated on expatriate management issues, and only recently has attention been given to non-standard assignments. The latter forms, particularly international commuting and virtual assignments, comprise international travel, so work on non-standard assignments could be expanded to include the international travel component. This line of inquiry would strengthen attention on the positive and negative aspects of international travel. It would also provide scope for comparative investigation; that is, the similarities and differences between IBTs and those on commuting and virtual assignments. Such data would have theoretical and practical outcomes: for example, given that companies continually search for alternatives to traditional expatriate assignments, it is important that the positive and negative consequences of alternative forms of staffing foreign operations, including the international travel component that some of these alternatives involve, be identified so that informed management of these alternatives is possible.

The role of corporate HR in providing support is a further line of inquiry. Further work in this area from the perspective of IBTs may make a valuable contribution to the general field of IHRM. The trend to devolve HR responsibilities to line management, and the rise of the field of strategic HRM, may in fact coalesce effectively to marginalize the HR function where international staffing issues are concerned. Decentralization may prove to be counterproductive in areas related to staff selection, training and development, and compensation. It is suggested that a degree of centralization is essential to provide an accessible repository of common information on managing internationally operating staff, to ensure equity of treatment among the various categories and to enhance the transfer of capabilities and competences. The compartmentalization between HR and functional areas identified in our exploratory study could be a starting point of research into this aspect of IHRM.

To conclude, as business activity continues to expand globally, international business travellers will continue to play an important strategic role in sustaining foreign operations. As one IBT interviewee stated: 'The job is the travel, and the travel is the job, and they are intertwined.' Research into this interrelationship is long overdue.

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16 International assignee selection and cross-cultural training and development

Paula Caligiuri and Ibraiz Tarique

Multinational firms today compete on the effectiveness and competence of their core human talent around the world. Increasingly these core individuals are being required to operate effectively across a variety of national borders and in a greater number of cross-national job assignments. These international assignees, including all employees working outside of their own national borders (for example, parent country nationals, third country nationals, host country nationals), have collectively become vital for the success of multinational firms. These international assignees fill critical staffing needs in subsidiaries, manage key projects, transfer knowledge and corporate culture across geography, work on multinational teams and perform many other critical tasks for their firms.

International assignments can be very challenging personally. While immersed in new cultural environments, international assignees are out of their own comfort zones and are susceptible to a variety of challenges such as the inability to speak the host national language, the inability to cope with the stress of culture shock, the inability to interact effectively with host nationals, and the like. Past research suggests that individuals who are not predisposed or prepared to confront these challenges may perform poorly, be maladjusted and so on.

Given the criticality of their roles and the associated challenges of living and working in another country, maximizing the cross-national effectiveness of international assignees has become an increasingly important function for researchers and human resources (HR) practitioners alike. From a strategic perspective, optimizing the effectiveness of international assignees – core talent for most multinational firms – is a significant HR activity. Within an entire HR system, two specific functions which promote cross-cultural effectiveness among international assignees will be the focus of this chapter: first, selection and second, training and development. Other HR activities, such as compensation, performance management and repatriation, will not be discussed in this chapter yet should be integrated into a comprehensive HR programme for managing international assignees.

Within the selection and training functions, there are three major areas that have emerged in both the research and the practice of managing international assignees. The first includes the individual-level antecedents of international assignee success, such as personality characteristics, language skills and prior experience of living in a different country. The second includes the process issues for effectively selecting global assignees, such as realistic previews, self-selection and assessment. The third includes training and development issues for preparing international assignees to live and work in new cultural environments, such as designing effective cross-cultural training programmes. This chapter will cover these important areas and offer some suggestions for future research.

Individual-level antecedents of international assignee success

Personality characteristics

Researchers have found that successful and well-adjusted international assignees tend to share certain personality traits (for example, Black, 1990; Caligiuri, 2000a, 2000b; Church, 1982; Mendenhall & Oddou, 1985; Stening, 1979). Certain personality characteristics enable international assignees to be open and receptive to learning the norms of new cultures, to initiate contact with host nationals, to gather cultural information and to handle the higher amounts of stress associated with the ambiguity of their new environments (Black, 1990; Church, 1982; Mendenhall & Oddou, 1985) – all important for international assignee success. While many personality characteristics exist, research has found that five factors provide a useful typology or taxonomy for classifying them (Digman, 1990; Goldberg, 1992, 1993; McCrae & Costa, 1987, 1989; McCrae & John, 1992). These five factors have been found repeatedly through factor analyses and confirmatory factor analyses across time, contexts and cultures (Buss, 1991; Digman, 1990; Goldberg, 1992, 1993; McCrae & Costa, 1987; McCrae & John, 1992) and are labelled ‘the Big Five’. The Big Five personality factors are extroversion, agreeableness, conscientiousness, emotional stability, and openness or intellect. Each of the Big Five personality characteristics has some relationship to international assignee success (Ones & Viswesvaran, 1997; Caligiuri, 2000a; Caligiuri, 2000b).

Some personality characteristics predispose international assignees to form stronger social bonds, which can encourage a higher level of cross-cultural adjustment (Caligiuri, 2000a). International assignees who are able to assert themselves enough to establish some interpersonal relationships with both host nationals and other international assignees tend to be more likely to learn effectively the social culture of the host country (Abe & Wiseman, 1983; Black, 1990; Caligiuri, 2000a, 2000b; Dinges, 1983; Mendenhall & Oddou, 1985, 1988; Searle & Ward, 1990); therefore

extroversion which is important to help international assignees learn the work and non-work social culture in the host country relates to international assignee success. *Agreeableness* may also be important given that the ability to form reciprocal social alliances is achieved through this personality characteristic (Buss, 1991). Expatriates who are more agreeable (who deal with conflict collaboratively, strive for mutual understanding and are less competitive) report greater cross-cultural adjustment – and greater adjustment on the assignment (Caligiuri, 2000a, 2000b; Ones & Viswesvaran, 1997; Black, 1990; Tung, 1981).

Other personality characteristics may also predispose an international assignee for success. For example, trusted and *conscientious* employees are more likely to become leaders, gain status, get promoted, earn higher salaries and so on. In the domestic context, this has been supported through studies demonstrating a positive relationship between conscientiousness and work performance among professionals (for example, Barrick & Mount, 1991; Day & Silverman, 1989). This finding has been generalized to international assignee performance (Caligiuri, 2000a; Ones & Viswesvaran, 1997) and has been found to be a predictor of those who will be effective in international assignments.

In addition to the three personality characteristics described above, *emotional stability* may also be important for international assignee success. Emotional stability is the universal adaptive mechanism enabling humans to cope with stress in their environment (Buss, 1991). Given that stress is often associated with living and working in an ambiguous and unfamiliar environment (Richards, 1996), emotional stability is an important personality characteristic for international assignees' adjustment to the host country (Abe & Wiseman, 1983; Black, 1988; Gudykunst, 1988; Gudykunst & Hammer, 1984; Mendenhall & Oddou, 1985) and completion of an international assignee assignment (Ones & Viswesvaran, 1997).

Perhaps the most intuitively useful personality characteristic, as it relates to international assignee success, is the characteristic of *openness* or intellect. For an international assignee, the ability to assess correctly the social environment is more complicated given that the host country may provide ambiguous social cues (Caligiuri & Day, 2000). Successful international assignees will likely need to possess cognitive complexity, openness and intuitive perceptual acuity to perceive and interpret accurately the host culture (Caligiuri, Jacobs & Farr, 2000; Dinges, 1983; Finney & Von Glinow, 1988; Ones & Viswesvaran, 1997). Openness is related to international assignee success because individuals higher in this personality characteristic will have fewer rigid views of right and wrong, appropriate and inappropriate, and so on, and are more likely to be accepting of the new

culture (for example, Abe & Wiseman, 1983; Black, 1990; Cui & Van den Berg, 1991; Hammer, Gudykunst & Wiseman, 1978).

Collectively these personality characteristics could be included in a valid selection system for prospective international assignees. It is important to note, however, that the absolute level of each personality characteristic would be contingent upon the type of international assignment under consideration. For example, the necessary level of openness and extroversion would be much higher for an executive in a networking role than it would be for a technician working predominantly with a system or machine. A better understanding of the level of necessary characteristics for given international contexts would be a useful focus for future research studies.

Language skills

There is a logical consensus with regard to the positive relationship between language skills and international assignee adjustment (for example, Abe & Wiseman, 1983; Church, 1982; Cui & Van den Berg, 1991). There is some disagreement, however, on the relative importance of language compared to other factors, such as personality characteristics (for example, Cui & Van den Berg, 1991; Dinges, 1983). The disagreement in the importance of language skills has its roots in whether interpersonal contact between people from different cultures leads to increased cultural understanding. Those who support contact theory believe that language skills, given that they are necessary for communication, are critical for cross-cultural adjustment. Others (for example, Cui & Van den Berg, 1991) suggest that merely interacting with host nationals is not enough to produce cross-cultural adjustment. They suggest that cross-cultural adjustment only occurs when international assignees have the cultural empathy to be open to different norms and fully accepting their host cultures (ibid.). In other words, one could both speak the host language fluently and know the 'correct' behaviours to display, and yet only be immersed superficially in the host culture (ibid.). Since it would be difficult for the opposite to be true (that is, that one could be immersed in a culture without language skills), basic language skills should, at the very least, be a minimum precondition for success as an international assignee. At a minimum, in most circumstances, an attempt should be made to find a qualified candidate with language skills, while for some positions the language skills may be more critical than with others.

Prior international experience

From a social learning perspective, the more contact international assignees have with host nationals and the host culture, the greater their

cross-cultural adjustment (Brein & David, 1971; Brislin, 1981; Guthrie, 1975). For example, past research has found that having friendships with host nationals greatly improves international assignees' ability to learn culturally appropriate social skills and behaviours (Searle & Ward, 1990). From this perspective, more prior experience with the host culture should produce greater cross-cultural adjustment. On the other hand, the social cognitive theorists contend that prior foreign experience with the host culture is positively related to adjustment *provided* that the experience does not serve to reinforce previously held stereotypical beliefs or foster negative, unrealistic expectations of the foreign culture. Social cognitive proponents agree that there is a direct relationship between foreign experience and cross-cultural adjustment when the experience provides an accurate and realistic representation of the host countries' norms, customs, values and so on, but the empirical evidence is inconclusive: the relationship between previous international experience and cross-cultural adjustment is more complex than is commonly believed. There is some evidence that previous experience abroad does not always facilitate adjustment to a new expatriate environment (for example, Black & Gregersen, 1991; Cui & Awa, 1992; Dunbar, 1992; Selmer, 2002). A recent study by Takeuchi, Tesluk, Yun and Lepak (2005), however, found support for unique moderating effects of past international experiences on the relationship between current assignment tenure and general and work adjustment.

Process issues for selecting international assignees

There are three key process issues in the research literature regarding international assignee selection. The first is the application of realistic previews to international assignments to help create realistic expectations during (or prior to) selection. The second is the concept of a formal self-selection process which enables international assignee candidates to determine whether the assignment is right for his or her personal situation, family situation, career stage and so on. The third is traditional candidate assessment that would include many of the dimensions identified in the previous section (such as personality, language skills and past experience) in a structured organizational selection programme. Each of these three international assignment process issues is discussed in greater detail below.

Realistic previews for international assignments

Preconceived and accurate expectations prior to an international assignment have been shown to influence the international assignment in many important ways (Caligiuri & Phillips, 2003; Searle & Ward, 1990;

Weissman & Furnham, 1987). Studies comparing international assignees' expectations prior to going abroad and their actual experience after relocation suggest that having moderately accurate expectations facilitates cross-cultural adjustment (Searle & Ward, 1990; Weissman & Furnham, 1987). Caligiuri and Phillips (2003) found that providing realistic previews prior to international assignments did not change candidates' interest in possible assignments, but did increase candidates' self-efficacy for an international assignment. This self-efficacy, in turn, could influence the outcome of the international assignment.

Both research and practice suggest that, in the selection phase (or prior to it), it is useful for firms to provide information, even informally, to assist candidates in making realistic decisions on whether an assignment is right for them and to help them form realistic expectations about a possible international assignment (Black, Gregersen & Mendenhall, 1992; Caligiuri & Phillips, 2003; Tung, 1988). Many firms have pre-selection programmes which pair repatriates with international assignee candidates to give international assignees the opportunity to form realistic expectations (Black, Gregersen & Mendenhall, 1992).

Self-Selection

Given that the demographic profiles and personal situations of the international assignee candidates will vary, self-assessment (or self-selection) has been found to be an effective method for encouraging realistic previews in a tailored and self-directed way (Caligiuri & Phillips, 2003). For example, an unmarried person who is a candidate for an international assignment might have a different set of concerns than a married candidate with a family (Caligiuri, Hyland, Joshi & Bross, 1998). Likewise, given the many personality characteristics related to cross-cultural adjustment, people who possess different personality characteristics may be differentially suited for certain types of international assignments (Caligiuri 2000a, 2000b; Dalton & Wilson, 2000; Ones & Viswesvaran, 1997, 1999).

Self-assessment provides a structured method for international assignment candidates to assess actively their fit with the personality and lifestyle requirements of the international assignment (Caligiuri & Phillips, 2003). Effective self-selection tools enable international assignee candidates to evaluate themselves critically on dimensions such as personality and individual characteristics, career issues and family issues (including issues of spouses and children). Self-selection instruments, used in a structured way, help employees make a thoroughly informed decision about whether to accept an international assignment (Caligiuri & Phillips, 2003).

Firms using self-assessment tools have found that this step fosters the creation of a candidate pool of potential international assignees.

This candidate pool can be organized to include information such as the availability of the employee (when and to what countries), languages the employee speaks, countries preferred, technical knowledge, skills and abilities and so on. The information retained, based on self-assessment, should be repeated and continually updated as much of the information (other than personality) can change over time. For example, language skills can diminish if not used, family situations change and so on.

Candidate assessment

Once the requirements of a given international assignment have been determined, many possibilities exist to assess the candidates on job-related dimensions. Given that international assignments are job contexts, rather than job descriptions, they require different levels of relevant attributes (for example, language fluency, openness and technical skills). For example, greater emphasis would be placed on personality characteristics (such as sociability and openness) when assessing a candidate for a developmental or strategic assignment, requiring much more host national contact, compared to a more technical international assignment (Caligiuri 2000a, 2000b, 2004). In a best case, a thorough assessment can be conducted through a variety of valid formal selection methods: paper and pencil tests, assessment centres, interviews, behavioural observations and the like.

While comprehensive, the reality of international assignment selection is not nearly as sophisticated. Most international assignee selection generally happens using the most informal methods: recommendations of peers or supervisors (Brewster & Harris, 1999) on basic dimensions such as work experience and willingness to relocate. That said, future research should attempt to close the gap between research and practice. For instance, two aspects of the international assignee selection process have shown promise for practical application but warrant further investigation. The first is to better understand ways to engage employees early, even before an international assignment is even available. The best candidates could build their efficacy for the assignment when their decision-making processes are engaged before a position becomes available (Caligiuri & Phillips, 2003). The second promising application for practice is to better understand ways to involve the family effectively as early as possible in the selection process. Research suggests that family members can greatly influence the assignment outcome (Caligiuri *et al.*, 1998) so their motivation and interest in the international assignment should not be disregarded in the assessment phase. It is generally accepted that the best selection decision will be mutual among the employees, their organizations and their families. While the best case for international assignee selection is understood, the dynamic

interplay among employees, families and organizations – in terms of international assignment selection decisions – is not yet thoroughly understood and warrants further research.

Training and development for international assignees

In addition to comprehensive self-selection and selection programmes, success in international assignments may be facilitated through the training and development of cross-national competencies (for example, cross-cultural knowledge, skills and abilities). For example, providing an international assignee with knowledge of general dimensions on which most cultures differ and the impact of these differences may provide the individual with some awareness regarding expected norms and behaviours in the new culture (Black & Mendenhall, 1990). This awareness may lower anxiety, reduce culture shock and encourage appropriate behaviours when living and working in a host culture. For the organization, both international training activities and international development activities will help improve cross-national competencies among international assignees (Briscoe & Schuler, 2004; Dowling & Welch, 2004; Evans, Pucik and Barsoux, 2002; Gupta & Govindarajan, 2002).

International training and development activities

Organizations recognize the importance of international training and development activities and increasingly use them to prepare individuals for the challenges and opportunities associated with living and working in new cultural environments, with diverse teams, across national borders and so on (see Windham International & National Foreign Trade Council, 2003, 2002; Csoka & Hackett, 1998; Gregersen, Morrison & Black, 1998). The terms ‘international training activities’ (ITAs) and ‘international development activities’ (IDAs) tend to be combined to signify the set of activities used by firms to develop the competency base of their internationally oriented employees. The objective of both ITAs and IDAs is to foster learning among the organizational members and develop enriched and more capable workers who, in turn, can enhance organizational competitiveness and effectiveness internationally.

While similar in objective, the specific goals of ITAs and IDAs are, in fact, different. In general terms, ITAs focus on the competencies needed to perform more effectively in one’s current job. In other words, ITAs tend to be oriented towards solving short-term performance concerns. In contrast, IDAs refer to the acquisition of competencies needed to perform in some future job. It is, however, important to note that certain activities such as cross-cultural training can be used for both training purposes (for example, Earley, 1987) and for developmental purposes (for example, Lievens,

Harris, Van Keer & Bisqueret, 2003). Some of the various international training and development activities are listed below.

- Cross-cultural training (specific and general): the most researched and most used in practice, when used as an ITA, the goal of cross-cultural training is to increase an international assignee's specific cross-cultural knowledge of a given country. When (albeit, less commonly) used as an IDA, cross-cultural training will be geared for individuals who must work across a variety of cultural contexts, without any one cultural context in mind.
- Pre-departure cross-cultural orientation: as an ITA, the immediate goal of cross-cultural orientation is to help an international assignee learn the basics (for example, currency, public transportation, working hours) to live and work comfortably in the host country.
- Diversity training: depending on the immediacy of the need, diversity training can be either an ITA or an IDA. The goal of diversity training is to increase one's ability to understand and appreciate multiple cultural perspectives.
- Language training: depending on the immediacy of the need for fluency in another language, language training can be either an ITA or an IDA, but in practice is most often offered when an international assignee will be moving to a country where different language skills are needed. Sometimes organizations offer language training in the corporate language for all who are interested. In this case, language training may be viewed more developmentally.
- Traditional education in international management: university or specific training programmes are often offered as a part of a larger developmental plan and therefore are more likely to be an ITA. The goal of the traditional programme is to increase international business acumen and knowledge.
- Cross-national coaching or mentoring: generally viewed as an IDA, cross-national coaches and mentors help international assignees build cultural awareness, work on cultural 'blind-spots' and help develop competencies for becoming effective in an international environment. Occasionally cross-national coaches are assigned for a specific task (for example, delivering an important speech in another country, negotiating an international joint venture) and, in those cases, will then be considered more of an ITA.
- Immersion cultural experiences: generally viewed as an IDA, the goal of immersion is to produce culture shock for the developmental purpose of increasing one's ability to recognize and appreciate multiple cultural perspectives.

- Cross-border global teams (with debriefing): both an ITA and an IDA; here individuals are debriefed after a multicultural team experience (such as a meeting) to receive feedback and, it is hoped, to improve their skills, on how to be a better leader, team member and so on in a multicultural context. The feedback is an ITA for the purpose of the immediate team and an IDA for long-term skill development.
- International assignments: international assignments can be the means by which people develop cross-cultural competence and the outcome that the more immediately focused ITAs hope to influence. In the developmental context, as an IDA, living and working in another country may have a long-term effect on an individual's cross-national competence. Believing in their developmental power, many firms view successful international assignments as the indicator of cross-national competence.

We encourage future research to investigate the various ITAs and IDAs with their specific goals in mind. Research, to date, has overgeneralized the short-term and long-term outcomes of these diverse training and development interventions. An investigation of the various interventions, relative to the short-term and long-term goals, would help organizations better understand the implications of the activities in which they engage. In some cases, long-term benefits may be present as a direct result of a short-term intervention (for example, a language course gives an individual some cultural exposure and appreciation). The concern, however, is that the opposite may also be the case – that a long-term intervention (such as an international rotational assignment) may have only a short-term gain. In the case of an international assignment, this concern suggests that an individual has learned to be competent within one particular culture, but has not developed any international competencies that could generalize to other cross-border contexts. This is an open, and very important, area for scholarly investigation.

Cross-cultural training

As the non-exhaustive list suggests, there are many types of ITAs and IDAs with different goals and objectives. From this list, the most frequently used and researched activity is cross-cultural training. Traditionally multinational firms have used cross-cultural training to increase the knowledge and skills of international assignees to help them operate effectively in the unfamiliar host culture (Mendenhall, Kuhlmann, Stahl & Osland, 2002; Morris & Robie, 2001; Kealey & Protheroe, 1996).

A well-designed cross-cultural training initiative may enhance the learning process of the international assignee and thus facilitate effective

cross-cultural interactions and cross-cultural adjustment (Black & Gregersen, 1991; Caligiuri, Phillips, Lazarova, Tarique & Burgi, 2001). To understand the systematic approach to designing cross-cultural training initiatives, Tarique and Caligiuri (2003) propose a five-phase process as a general strategy to follow in designing effective cross-cultural training initiatives:

1. identify the type of global assignment for which cross-cultural training is needed;
2. determine the specific cross-cultural training needs (from the organization level, assignment level and individual level);
3. establish the goals and measures for determining cross-cultural training effectiveness;
4. develop and deliver the cross-cultural training programme;
5. evaluate whether the cross-cultural training programme was effective.

The first phase includes identifying the type of global assignment for which cross-cultural training is needed. Research has shown that there are different types of global assignments (for example, Caligiuri & Lazarova, 2001; Hays, 1974; Oddou, 1991) and cross-cultural training will differ according to the goals required for the successful completion of each assignment (Tarique & Caligiuri, 2002; Tarique 2002). The second phase determines the specific cross-cultural training needs. This involves conducting a cross-cultural training needs analysis across three levels: the organizational level, the individual (or international assignee) level and the assignment level. The organizational-level analysis determines the organizational context for cross-cultural training. This analysis considers how cross-cultural training can assist both headquarters and subsidiaries in supporting the firm's strategy. The individual (or international assignee) level analysis identifies any special needs that have to be addressed in cross-cultural training for the individuals who are on the receiving end of the cross-cultural training, the international assignees themselves. This analysis includes examining the international assignee's prior international experience, his or her existing levels of cross-cultural competencies, how he or she perceives the issues the cross-cultural training initiative is designed to address, and the needs of the international assignee's entire family. The assignment-level analysis determines the cross-cultural competencies required to complete the given assignment effectively. This includes identifying the important tasks required on the global assignment and the type of cross-cultural competencies needed to perform those tasks effectively.

Phase three involves establishing short-term goals and long-term goals for determining cross-cultural training effectiveness. Cross-cultural

training goals should be stated in detailed and measurable terms (for example, Noe, 2004). Short-term cross-cultural training goals can bring about cognitive, affective and behavioural changes (Gudykunst, Guzley & Hammer, 1996). Cognitive goals focus on helping international assignees understand the role of cultural values in behaviour in the destination country, in both social and business contexts. Affective goals aim at helping international assignees effectively manage their attitude toward the new culture and successfully handle negative emotions. Behavioural goals help international assignees form adaptive behaviours by emphasizing the transnational skills international assignees require in order to interact successfully with individuals from other cultures. While the short-term goals of cross-cultural training will vary from assignment to assignment, the long-term goal of many cross-cultural training initiatives is to improve the rate of cross-cultural adjustment. Improving cross-cultural adjustment is important for all international assignees and should generalize across assignments.

The fourth phase develops and delivers the cross-cultural training initiative. This phase involves determining the specific instructional content needed in order to achieve the stated goal and the methods to deliver the instructional content, and the sequencing of the training sessions. Using the cross-cultural and intercultural communication research (for example, Brislin, Cushner, Cherrie & Yong, 1986; Copeland & Griggs, 1985; Harris & Moran, 1991), Harrison suggests that content structure should follow an integrated approach consisting of both general cultural orientation (to understand factors that may influence one's receptiveness to effective cross-cultural interactions and to understand how cultures differ and the impact of these differences on international assignees) and specific cultural orientation (to help international assignees understand more about the specific culture to which they are being assigned).

Gudykunst, Guzley and Hammer (1996) suggest that the methods to deliver the instructional content can be categorized into four categories: didactic culture general, didactic culture specific, experiential cultural general and experiential cultural specific. Didactic culture general methods provide cultural general information to international assignees and include lectures, seminars, reading material, discussions, videotapes and culture-general assimilators. Didactic culture-specific methods, in contrast, present information on a particular culture. Methods used in this category include area studies, videotapes, orientation briefings, case studies and the like. Experiential cultural methods help international assignees experience the impact of cultural differences on their behaviours. Methods in this category include immersion programmes or intensive workshops. Experiential culture-specific methods, in contrast, help international

assignees experience and learn from interactions with individuals from the host culture. This approach generally includes methods like role-playing, look-and-see trips, in-country cultural coaching and language training (Gudykunst, Guzley & Hammer, 1996).

Lastly, phase five evaluates whether the cross-cultural training initiative was effective. Cross-cultural training evaluation refers to the systematic process of gathering information necessary to determine the effectiveness of cross-cultural training. Cross-cultural training effectiveness is generally defined in terms of the benefits the international assignees receive from cross-cultural training and is determined by the extent to which international assignees have changed as a result of participating in cross-cultural training. The evaluation process involves establishing measures of effectiveness and developing research designs to determine what changes (for example, cognitive, affective and behavioural) have occurred during the training. Results from the cross-cultural training evaluation should help the organization decide whether cross-cultural training should be continued in its current form or modified.

Future research on these proposed phases and the various categories of cross-cultural training content (proposed by Gudykunst *et al.*, 1996) is an important area for investigation. The optimal combination of delivery methods and content for producing the desired outcome has not yet been determined. For example, are some content areas better covered before (or while) an individual is experiencing a culture? Currently many cross-cultural training programmes are delivered prior to the international assignment, with questionable influence on adjustment (Mendenhall *et al.*, 2004). Also a better understanding of the limits and generalizability across organizational, cultural, national and individual contexts for cross-cultural training is an important area to explore in future research.

The intersection between selection and training: future research directions

As mentioned earlier, many international organizations provide ITAs and IDAs for their employees in order to improve their global work performance. However, despite the plethora of research advocating the use of ITAs and IDAs as mechanisms for improving global work performance, the current research has generally assumed that everyone benefits equally from ITAs and IDAs. Given the extraordinary high costs (financial and emotional) of developing global managers, it is important to understand who will benefit the most from ITAs and IDAs. Caligiuri (2000a), for example, notes that academics and practitioners alike should identify those individuals with the requisite individual characteristics (such as personality), and then offer cross-cultural training to those identified. Cross-cultural training may only be effective when trainees are predisposed to success in the

first place (Caligiuri, 2000a). Certain personality traits, in particular openness to experience, extroversion and agreeableness, and early international experiences may provide the conditions under which ITAs and IDAs will lead to greater learning of cross-national competencies.

Personality, training and development

There is some evidence in the domestic training and development literature that personality traits are related to learning outcomes (for example, Salas & Cannon-Bowers, 2001; Colquitt & Simmering, 1998; Barrick & Mount, 1991). Barrick and Mount's (1991) meta-analysis found that the personality traits of conscientiousness, extroversion and openness were related to training proficiency. In another example, Salgado's (1997) meta-analysis of 36 studies found that the personality traits of openness and agreeableness were valid predictors of training proficiency.

The contact hypothesis or association hypothesis (Allport, 1954; Amir, 1969; Zajonc, 1968) can provide theoretical justification for personality traits as predictors of learning through a training or development intervention. The contact hypothesis or association hypothesis was originally developed to examine the race relations in the United States in the 1950s and 1960s, and suggests, in brief, that the more interaction (that is, contact) a person has with people from a given cultural group, the more positive his or her attitudes will be toward the people from that cultural group (Allport, 1954; Amir, 1969; Zajonc, 1968). Church (1982) suggested that the principles of the contact hypothesis could be applied to the interpersonal interactions between international assignees and host nationals. More recently, Caligiuri (2000a) used the contact hypothesis to suggest that international assignees often learn appropriate cultural norms and behaviours through cross-cultural interactions and that international assignees vary on the personality traits necessary for relating to others.

The predisposition to cross-cultural interactions can facilitate the learning of cross-national competencies during international training and development. This is based on the assertion that interaction with people from different cultures will affect the extent to which an individual is able to use the learned skills and behaviours. The more an individual interacts with people from different cultures, the more likely he or she will be to use and apply the learned skills and behaviours. In addition extensive interpersonal interactions will help individuals to experience the consequences of using behaviour or skills and to observe others, and seeing the consequences of their behaviours. Such consequences would help them to determine which behaviours result in positive outcomes and to prevent the development of unwanted or inappropriate behaviours. The dynamic interplay between individual differences and international training and development activities

for improving cross-national competence is an area which warrants additional scholarly research.

Early international experience, training and development

One type of experience that has not been given much attention by researchers is early international travel experiences or experiences gained from living outside the country of one's citizenship as a child (Cottrell & Useem, 1994). This form of international experience has been extensively discussed in the 'third country kids' (TCKs) literature (for example, Lam & Selmer, 2004; Pollock & van Reken, 2001; Eidse & Sichel, 2003) which can provide theoretical evidence that individuals, by developing extensive early international experiences, are more likely to have learning or information-processing advantages that should facilitate the learning of new behaviours and skills. TCKs are individuals who have spent a part of their childhood in countries or cultures other than their own (Pollock & van Reken, 2001):

TCKs are raised in a neither/nor world. It is neither fully the world of their parents' culture (or cultures) nor fully the world of the other culture (or cultures) in which they were raised . . . In the process of first living in one dominant culture and then moving to another and maybe even two or three more and often back and forth between them all, TCKs develop their own life patterns different from those who are basically born and live in one place. (Ibid.: 6)

Early international travel experiences allow TCKs to develop a learning or information-processing advantage, which should facilitate the learning of new behaviours and skills. From a social learning perspective, when children travel to other countries, they learn behaviours, customs and norms of that culture through direct experience or through observations of the host nationals' behaviours (Bandura, 1997). Children with extensive travel experiences in other countries may have developed more comprehensive prior knowledge structures or sets of cognition maps about people, roles or events that govern social behaviour. The literature on the additive effect of prior knowledge (for example, Cohen & Levinthal, 1990) and cognitive learning theories (for example, Bower & Hilgard, 1981) suggest that accumulated prior knowledge increases both the ability to store new knowledge in one's memory and the ability to recall and use it.

The above discussion suggests that individuals high on openness to experience, extroversion and agreeableness, and early international travel experience, will benefit more from training and development than individuals low on these traits. Future research, however, is needed to disentangle the mechanisms that underlie these associations. A major criticism of the existing literature on international training and development effectiveness is that it is based on anecdotal evidence or broad theories and models.

There is a need to develop advanced theoretical approaches to better understand how individual differences influence the relationship between ITAs and IDAs and learning/performance outcomes. In addition future research needs to examine how non-personality individual differences, such as individual learning styles (for example, Kolb, 1984) and age (for example, Zemke, Raines & Filipczak, 2000) influence this relationship.

An issue related to cross-cultural training effectiveness should be noted. In the realm of academic research, studies that have examined the likely success of cross-cultural training have shown that cross-cultural training programmes have failed to meet performance improvement needs (Kealy & Protheroe, 1996; Mendenhall *et al.*, 2004). Kealey and Protheroe (1996), for example, reviewed empirical studies used to assess cross-cultural training effectiveness and concluded that, while cross-cultural training seems to be effective in achieving immediate learning results, its impact on expatriates' performance on the assignment is not clear. Similarly, in a recent review of cross-cultural training evaluation studies, Mendenhall *et al.* (2004: 19) concluded that 'cross-cultural training seems to be effective in enhancing knowledge and trainee satisfaction, but seems to be less effective in changing behaviors and attitudes, or in improving adjustment and performance'.

The failure of cross-cultural training to produce a significant change in cross-cultural adjustment and in performance on the global assignment can be viewed from the classical 'transfer of training problem' which is defined as the failure of the trainee to apply effectively and continually the knowledge and skills gained in training to his or her job (Broad & Newstrom, 1992). It is well known in the domestic training literature that training content often does not transfer to the actual work setting (Baldwin & Ford, 1988; Saks, 2002). For this reason, domestic research examining the ways to facilitate or improve transfer has received much attention in the past (for example, Ford & Weissbein, 1997). Meanwhile cross-cultural training scholars have largely ignored the transfer issue: to date, no research has examined the transfer problem within a cross-cultural training context. Future research needs to expand our understanding of the transfer issue within the context of cross-cultural training effectiveness.

Conclusion

This chapter provides broad discussion for both academics and human resource specialists to better understand the topic of international assignee selection and assignee training and development. The discussion of international assignee selection included the topics of individual-level antecedents of global assignee success, such as personality characteristics, language skills and prior experience of living in a different country, and the process issues for effectively selecting global assignees, such as realistic

previews, self-selection and assessment. The discussion of assignee training and development covered the various interventions used to prepare international assignees to live and work in new cultural environments, with special focus on cross-cultural training programmes, still the most commonly used intervention for improving cross-national competence.

It is important to note, from a practical perspective, that many of the selection, training and development practices described in this chapter are known but not often practised in multinational firms. The most apparent reasons for multinational firms' continued oversight of these practices are that HR (in most firms) manages international assignments *after* a selection has been made (Brewster & Harris, 1999) and then with a limited budget for cross-cultural training and development activities once selected. As a consequence, the HR role in international assignment management has been relegated to administrative and tactical activities, rather than strategic ones. Using a scientist–practitioner frame of reference, it is important that the gap between theory and practice is closed through solid programme evaluation studies providing concrete financial evidence for the strategic use of the practices described in this chapter.

We believe that the key to improving success of individuals on international assignments is to understand the interaction of selection and training and development; that is, to determine who benefits the most from international training and development activities. Future research should examine more accurate methods for identifying those individuals with the requisite individual characteristics (such as personality) to succeed in other countries, the optimal level of cross-cultural training needed for international assignment success, and the long-term development of global competence that could result from the international assignments. Clearly, this is an important area that will keep researchers and practitioners alike engaged for many years to come.

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17 The evolution from repatriation of managers in MNEs to ‘patriation’ in global organizations

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If repatriates continue to leave their organizations at (such a high rate), organizations will fail to retain the international competencies that are the very objective of many international assignments. (Leiba-O’Sullivan, 2002: 597)

Since the first academic articles on repatriation of expatriates from international assignments started appearing in the academic literature (for example, Howard, 1974; Adler, 1981; Kendall, 1981; Harvey, 1983), the competitive landscape of multinational enterprises (MNEs) has changed dramatically, thereby altering the traditional repatriation process and issues. The hallmarks of the new competitive landscape, such as abruptly increasing levels of institutional uncertainty due to deregulation, rapidly evolving technological innovations bringing about disruptive technologies, unevenly accelerating pace of competitive interactions reducing the time-frame for making decisions, and elevated levels of economic integration within regional trading blocks (EU, NAFTA, ASEAN, and the like), have engendered a heretofore unknown concept of global hypercompetition.

The requisite attempts of MNEs to shift strategic focus from economies of scale to economies of scope in the global context have only rendered their competitive advantage temporarily sustainable in this new hypercompetitive global marketplace (Griffin & Khan, 1992; Liebeskind, Oliver, Zucker & Brewer, 1996; D’Aveni, 1994, 1997, 1999; Gimeno & Woo, 1996). To gain and maintain at least a series of ‘momentary’ competitive advantages in these highly volatile environments, the MNEs have resorted to focusing their strategies on the development of intangible assets (which include the specific knowledge of managers utilized in cross-border assignments) and integrating them into distinct competencies (Prahalad & Hamel, 1990; Auperle, 1996; Illinitch, Lewin & D’Aveni, 1998; Makadok, 1998; Lusch, Harvey & Speier, 1998; Harvey & Lusch, 1999). Specifically the competencies of management teams and individual managers are becoming paramount in the development and dissemination of knowledge and in the enhancement of learning throughout the global network organization (Fiol, 1991; Lado & Wilson, 1994; de Vries, 1999; Hollenbeck & McCall, 2001; McCall & Hollenbeck, 2002). This integration of knowledge and emphasis on

learning can in turn enable future strategic flexibility of the organization (Fiol, 1991; Hall, 1993; Miller & Shamsie, 1996). Flexibility is particularly increased when a diverse management team with global experience helps to effectuate the emergence of a unique global mindset (that is, a diverse set of experiences, perceptions and insights into how to compete effectively in the global marketplace) (Kefalas, 1998; Kedia & Mukherji, 1999; Paul, 2000).

A unique global mindset becomes specifically valuable when the structure of an MNE shifts from a multinational hierarchy to a global network organization to support the change from multi-domestic to global and transnational strategies (Baruch & Altman, 2002). Historically MNEs have been structured as home country-centred, hierarchical organizations, which foster long-term expatriation and a planned repatriation process with predictable accompanying issues. Conversely a global network organization comprising loosely affiliated complex subsidiaries is structured more as a heterarchy with a reduced influence of the home country headquarters compensated by more dynamic transfers of host country nationals, third country nationals and inpatriated managers. The dynamism of these assignments induces complexity and ambiguity in the repatriation process and issues (Harvey, Speier & Novicevic, 2001a, 2001b; Harvey & Novicevic, 2003; Caligiuri & Phillips, 2003).

Therefore successful implementation of a corporate global/transnational strategy through a global network organization requires a commensurate change in the firm's international human resource management (IHRM) (Bartlett & Ghoshal, 1992; Schuler, Dowling & De Cieri, 1993). The modifications in the traditional hierarchical IHRM system will need to address changes in key functional concerns of expatriate management as well as the repatriation process of these same managers. A competency theory frame is used in this chapter to gain insight into the modification of the repatriation process for expatriate managers and to examine the design of an appropriate process/programme to address the accompanying repatriation issues.

The goal of this chapter is fourfold: (a) to outline a competency-based view of repatriation; (b) to examine the problems associated with repatriation; (c) to discuss the impact of globalization of organizations on the fundamental precepts of repatriation; and (d) to develop an IHRM process to manage the 'patriation' (that is, the repatriation of global managers who have had numerous global assignments and after being assigned overseas for a decade or more) to the home country organization.

A competency-based view of the repatriation

A competency-based view of the repatriation of managers is grounded in the assumption that top management and corporate HR management are committed to pursuing organizational flexibility and adaptability through

knowledge integration and the development of learning capabilities, which are embedded in valuable expatriate experiences. The unique combination of repatriate knowledge, relationships and experiences may be bundled into distinct competencies that allow for the flexibility of the firm resource base to generate a competitive advantage and facilitate its future global growth (Lado & Wilson, 1994; Leiba-O'Sullivan, 1999, 2002; Bernhut, 2001; Truch, 2001). Thus a competency-based perspective on repatriation addresses the dynamic nature of the global environment by acknowledging that the initial set of competencies (that is, individual and organizational) can be renewed by effectively repatriating managers from foreign assignments, as valued yet unique resources of the organization (Stroh, 1995; Stroh & Caligiuri, 1998). This augmentation of competencies achieved through integration of the expatriation and repatriation processes suggests that a global network organization needs to develop a strategic orientation to repatriation to integrate new international competencies of strategic relevance into the common knowledge base of the firm through the development of effective programmes of repatriation.

These competencies derived from the strategic repatriation management can and should be combined and recombined to provide a set of strategic choice options that can be applied in international markets different from those in which they were developed (Leiba-O'Sullivan, 2002). The strategic recombination of repatriate competencies should be assessed relative to the strategic needs of the organization for the development of a global mindset in the global organization that facilitates focused and ubiquitous actions in the global context (Kogut & Zander, 1993). In other words, a continuous sourcing of repatriation-based competencies allows the organization to develop a global mindset for competing effectively in hypercompetitive market segments (Harvey, Speier & Novicevic, 2000).

To develop dynamic capabilities through repatriation of managers, global organizations need to ensure successful reintegration of repatriated managers into the domestic organization to permit maximum utilization of their knowledge/relationships/experiences acquired during the expatriation assignment. The collective competencies of the repatriated expatriate managers thus provide the foundation for gaining a global mindset in the organization to ensure the execution of appropriate dynamic strategies by the organization. This process is cumulative as the repatriated managers provide inputs of new competencies based on their expatriation experiences that are essential to the customization of strategy executions to compete effectively against the diverse set of global competitors (Pucik & Saba, 1998; Leiba-O'Sullivan, 2002; Oddou, forthcoming).

Successful repatriation of managers is likely to create positive externalities in the domestic organization (Allen & Alvarez, 1998; Leiba-O'Sullivan,

2002). As these repatriate competencies are developed through the specific knowledge acquired on expatriate assignments, their sharing and deployment may reshape the thinking, actions and even the world view of the domestic management of the organization, making it ultimately evolve into a global mindset throughout the organization (Kefalas, 1998; Paul, 2000). Therefore successful repatriation provides the bases for a diverse set of perspectives relative to developing a corporate mindset and the transfer of knowledge to execute effective global strategies (Mahoney & Pandian, 1992; Kidger, 2002).

The importance of global assignments for expatriate managers and their successful reintegration into the domestic management team are tied to the organization's ability to transfer knowledge and cultural understanding across its global networks of relationships (Bender & Fish, 2000). Developing this multi-level competency through knowledge transfer back into the domestic organization will augment not only human capital (knowledge and experiences) but also the social capital of the organization (Wright, McMahan & Williams, 1994; Leiba-O'Sullivan, 2002).

The corporate social capital is increasingly enhanced as repatriate managers commonly possess competencies to address effectively issues in collaborative relationships with specific foreign entities and institutions (government agencies, banks, suppliers, customers, strategic alliance partners) based on their social capital created with key individuals in the host countries during their foreign assignment. This broad set of competencies augments the organization's market-based knowledge of how to compete more effectively in certain foreign markets or regions of foreign markets (Lado, Boyd & Wright, 1992; Leiba-O'Sullivan, 1999). Once successfully integrated into the domestic organization, the competencies of repatriates create a collective experience base and/or learning capability resulting in an organizational culture conducive to learning and knowledge sharing that is difficult for competitors to replicate and can therefore create a relative competitive advantage over other organizations (Taylor, Beechler & Napier, 1996; Roth & O'Donnell, 1996).

The development of social capital through transfer of the unique and valuable competencies of repatriated managers builds more diverse and pluralistic management teams in the global network (Fish & Wood, 1997). First, there may be situations outside the global organization's network of relationships which may require tacit local knowledge to explore business relationship options and exploit opportunities in a specific geographic area or culture. By utilizing successfully social capital of repatriated managers, global organizations are applying a requisite competency of such tacit knowledge that is difficult for global competitors to duplicate. Furthermore the tacit knowledge gained through repatriate networks

becomes embedded into the domestic firm-specific routines as organizational capital (formal and informal structures that enable and facilitate knowledge coordination) that can increase organizational effectiveness in global competitive interactions.

In summary, by managing strategically the repatriation process to ensure a continuous inflow of repatriate unique and valuable competencies, the global network organization can configure a repertoire of strategic choices relative to a specific foreign national competitive environment, while at the same time being mindful of the need to maintain consistency across its subsidiaries. Such consistency is derived from the development of a global mindset, which in turn thrives on the creation of an adequate pool of global managers with complementary competencies (Kedia & Mukherji, 1999; Kefalas, 1998; Paul, 2000). Therefore strategic repatriation management is essential and needs to be effectively developed to help ensure that firm-specific competencies based on repatriation are renewed and maintained in the organization.

Past research on repatriation issues evolving across the expatriation–repatriation cycle: a literature review

Research studies on the repatriation of managers from foreign assignments have been episodic for the past two decades. Few of these research studies have been focused on examining the repatriation process, including the expatriation–repatriation cycle and the components/stages/elements that constitute the repatriation process. Rather most studies have focused on conceptual and empirical examination of the repatriation issues (Harvey, 1989; Black & Gregersen, 1991; Caligiuri & Phillips, 2003; Suutari & Brewster, 2003). These research efforts to date have attempted to identify why the transition back to the home country organization and sociocultural environment has been so difficult for expatriates and their families. The repatriation issues (see Table 17.1) can be divided into three categories (work issues, individual/family issues and sociocultural issues) which evolve during the three distinct stages of the expatriation–repatriation cycle (pre-expatriation, during expatriation and upon repatriation of the manager and his/her family).

The pre-expatriation challenges commonly involve the lack of preparation for the relocation of the manager/family and the lack of knowledge of what to expect once expatriated (Black & Gregersen, 1991; Black, Gregersen & Mendenhall, 1992; Gregersen & Black, 1995). The impact on the career of the expatriate appears to be the area that has not been effectively addressed in terms of planning prior to undertaking an expatriate assignment (Bennett, 1993; Handler & Lane, 1997). The lack of attention to the specific knowledge necessary to be successful in expatriate

Table 17.1 Multifaceted issues evolving during the expatriation/repatriation cycle

	Pre-expatriation (before)	Expatriation (during)	Repatriation (after)
Work issues	Lack of adequate training	Lack of communication/ contact	Increased tension/ conflict
	Lack of knowledge relative to what to expect during expatriation	Out of sight out of mind	Higher repatriate turnover
	Lack of career plan and role of training	Inadequate career development	Holding pattern upon return
	Assignment to career path	Loss of social capital domestically	
	Inability to identify position upon repatriation	Reduced work motivation/ performance	Lack of decision-making autonomy
Individual/ family issues	Resistance to expatriate	Educational problems with children	Potential reduction in standard of living
	Lack of training/ preparation for family members	Lack of career opportunities for trailing spouse	Reverse culture shock
	Lack of support for family	Dysfunctional behaviour of spouse/ children affecting performance	Increased marital disharmony
	Inability to address dual career issues		Job difficulties for trailing spouse
Social/cultural issues	Lack of knowledge of emerging &/or transition economies	Lack of acceptance of local culture	Difficulty of re-engaging
	Lack of insights into external constituents in country of assignment	Isolation and continuing culture shock	Lack of acceptance in home country
	Lack of language/ cultural training	Fear of hazards of the local environment (health, safety and the like)	Lack of identify in home country/ culture

assignments, coupled with the absence of career development insights, reduces both the expatriate and expatriate family's willingness to undertake a foreign assignment (Harvey, 1989, 1997a). The reluctance is compounded by the lack of attention to spouse/family training needs and preparation for repatriation upon completion of the expatriation assignment (Brislin & Van Buren, 1974; Austin, 1983; Sussman, 1986; Leiba-O'Sullivan, 2002) as well as the seeming lack of attention/concern for the expatriated dual-career couples (Harvey, 1996, 1997a, 1997b, 1998; Harvey & Buckley, 1998).

During the expatriation phase of the expatriation–repatriation cycle, as the manager and the family are 'out of sight, out of mind' for the most part, the repatriation process seems to be unattended because the adjustments issues consume most of the attention of expatriates, their families and the corporate IHRM (Black, 1990; Black, Mendenhall & Oddou, 1991; Black, Gregersen & Mendenhall, 1992). The lack of face-to-face communication with the key managers in the domestic organization and loss of domestic social capital of the expatriate manager can have a negative impact on expatriate motivation and, ultimately, performance (Harvey, 1983, 1989; Gregersen & Black, 1995). At the same time, the spouse and other family members are commonly experiencing isolation, loss of career opportunities (for the dual-career expatriate partner or spouse), and episodic dysfunctional behaviour on the part of individual family members (Gregersen & Black, 1995; Hammer, Hart & Rogan, 1998; Caligiuri & Lazarova, 2001). The culture shock and difficulties of integration into the host country culture and social environment take significant expatriate/family energy and time. This continuing attention to the present issues keeps the expatriate and family thoughts away from planning the long-term repatriation adjustment that must be initiated during the last stage of the expatriation assignment. The apprehension/fear of terrorism, health-related concerns, compatibility/change in education programmes and other issues have a tendency to compound the procrastination related to preparing for repatriation (Harvey, 1989; Tung, 1998; Peltonen, 1999).

Once the expatriate and family face the forthcoming repatriation phase tension, a latent conflict will likely arise over a number of issues that, heretofore, have been viewed as positive aspects of the expatriation experiences. The expatriate is frequently caught in a 'catch-22' stage of repatriation in that the availability of an appropriate new position will seldom be secure upon repatriating to the home country organization (Kendall, 1981; Harvey, 1983, 1989; Black, 1992; Hammer, Hart & Rogan, 1998). The holding pattern syndrome and the lack of decision-making autonomy thus become cruel 'rewards' for personal and career sacrifices made for the good of the company by the repatriated manager.

For example, the cost-of-living allowances (COLA) and other perks associated with the expatriate assignment can come as reverse culture shock to the family that became accustomed to these financial contributions that were instrumental in the adjustment to the host country (Harvey, 1989; Black & Stephens, 1989; Black & Gregersen, 1991; Black, 1992). Additionally the disharmony in the family context has a negative impact on the repatriated manager's ability to feel reintegrated into the domestic environment (Harvey, 1989; Black, Gregersen & Mendenhall, 1992). The re-engagement into the career cycle for the spouse is also a constant source of problems for the repatriate manager during the repatriation adjustment stage (Harvey, 1996, 1997a, 1997b, 1998). Furthermore the stress and tension make acceptance of the repatriated manager that much more problematic by their counterparts in the domestic organization (Hazzard, 1981; The Conference Board, 1997). This conflict reduces the transference of valuable information to the other managers: the information that was learned during the foreign assignment and is crucial in the development of global competencies and a global mindset in the organization's management team (Kefalas, 1998; Kedia & Mukherji, 1999; Paul, 2000).

While many problems encountered in repatriation of managers and their families are well documented, the means to address these problems are less well articulated in the literature (Harvey, 1989; Black, 1992; Stroh, 1995; Black, Gregersen, Mendenhall & Stroh, 1999). The severity of the problems that are associated with the repatriation process are influenced to a degree by individual consideration, such as (a) the magnitude of the change from the home to the host culture; (b) the length of time spent in the host country; (c) the frequency of and time spent on return trips to the home country; (d) the total time away from the home country; and (e) the 'quality' of the adjustment made by the expatriate and the family members. All of these issues are accentuated when the expatriated manager is a female, compounding the stress of re-entry (Linehan & Scullion, 2002).

There are a number of organizational variables that should also be taken into consideration related to the expatriation of managers that can also influence the repatriation of managers back to the home country: (a) level and quality of communication with the expatriate once on assignment; (b) level of expatriation and repatriation training before, during and after the foreign assignment; (c) availability of a mentoring/sponsoring programme that addresses both the expatriation and repatriation phases of the assignment and is for both the expatriate manager and their spouse; (d) role clarity of the foreign assignment; and (e) organizational support/training upon repatriation of the expatriate manager as well as for the family (The Conference Board, 1997; Caligiuri & Phillips, 2003; Sutari & Brewster, 2003). While these individual and organizational variables may be helpful

in predicting the level and duration of the repatriation adjustment in multi-domestic MNEs, we still know little about the way the repatriation process and issues are altered once an MNE evolves into a global network organization. The impact of this evolution on repatriation is examined in the following section of the chapter.

The evolution to global human resource management and the patriation of global managers

Most of the recent international business literature views MNEs in transition, to a different extent and through various trajectories, toward a global network form of organization (Holm, Johanson & Thilenius, 1995). The network model, viewing an MNE as an inter-organizational network of loosely coupled and interdependent subsidiaries (Bartlett & Ghoshal, 1991), posits that subsidiaries can be a source of corporate competitive advantage (Rugman & Verbeke, 1992). Originating from the field of industrial marketing (Johanson & Mattson, 1988), the network model has been adopted by the proponents of the resource-based view of the firm (Barney, 1991; Penrose, 1959; Wernerfelt, 1984) who recognize that capability development can occur at any level of the firm.

In the network perspective of an MNE, a subsidiary can be viewed as a node of a complex system of multiple linkages of internal and external relationships (Welch & Welch, 1993). The two primary network systems in which a subsidiary is embedded are identified as: between subsidiary and headquarters and among subsidiaries. The horizontal subsidiary–subsidiary network is characterized by interdependencies and interconnectedness influenced by the separate vertical headquarters–subsidiary networks (*ibid.*). A key component in these relational ties is the development of trust (that is, a psychological state comprising the intention to accept vulnerability based upon positive expectations of the intentions or behaviour of others) among subsidiary units (Rousseau, Sitkin, Burt & Camerer, 1998). As increased levels of trust can be maintained and built, based upon repatriate personal interactions, their informal personal relationships can contribute to the increased learning in the global network organization.

The network model provides a valuable perspective on the relevance of repatriate competencies because it reflects the reality that many subsidiaries have specialized capabilities that are understood by repatriates and on which the rest of the MNE is dependent. The repatriate manager, equipped with the unique and tacit knowledge about a specific subsidiary's dynamic capabilities, its domain of excellence and the set of its relational capabilities, is most competent to assess a subsidiary's potential to cooperate within the global network. In other words, thanks to their tacit knowledge about the stock of the subsidiary's endogenous dynamic capabilities and the

availability of exogenous resources and capabilities possessed by its stakeholders, managers repatriated into the global network organization possess specific knowledge about the dynamic capabilities of the subsidiary to which they were previously assigned (Ghoshal & Bartlett, 1990; Gupta & Govindarajan, 1991; Forsgren & Pahlberg, 1992).

The utility of the repatriate managers to coordinate and cultivate informal relationships among the subsidiary units depends to a degree on the match between their own capabilities and the IHRM system that supports the global network organization. The appropriate IHRM system is critical for the proactive role of repatriate managers and for their potential of achieving a global career in the MNE. An appropriate IHRM system should incorporate the repatriation process to foster perceptions of procedural justice in the global network (Kim & Mauborgne, 1998) that, in turn, would facilitate development of trust and cooperative relations, collective learning, and knowledge sharing among subsidiaries (Caligiuri & Phillips, 2003).

The rationale for this increasing need for a modified IHRM system for assignments is that the competencies gained on assignments by the expatriate managers will be too valuable to allow the organization to repatriate these managers to the home country organization where their use of newly developed competencies is more limited than when they are closer to global customers (Leiba-O'Sullivan, 2002). If competitive advantage is to be gained through the worldwide deployment of the managerial competencies, these competencies must be renewed and used continuously. By continuously renewing repatriate competencies, the headquarters can navigate its decision-making tasks dispersed throughout the global network to compensate for its diminishing influence over subsidiaries. This continuous use of repatriate potential requires a rethinking of the existing IHRM models.

Existing IHRM models (Schuler, Dowling & De Cieri, 1993; Edstrom & Galbraith, 1977; Heenan & Perlmutter, 1979; Adler & Ghadar, 1990; Milliman, Von Glinow & Nathan, 1991), although systematic and comprehensive in their assessment of IHRM policies, processes and issues, inadequately address strategic repatriation management in a network form of global organization. Therefore a new model addressing the increasing dynamism of expatriate assignments should capture the altered repatriation process and issues (Dowling & Schuler, 1990; Welch, 1994; Tayeb, 1995). The primary change that an IHRM model for a global network organization should address is the repatriate commitment to a global career throughout and post sequential assignments to specific foreign markets.

This change implies that repatriation of managers should be supplemented by a process/programme that could be called 'patriation' (that is, the return of expatriate managers after a sequence of multiple relocations/

assignments in a global network organization) of managers. A repatriation process/programme involves organizational support to repatriated managers to help them adjust and adapt to the new work/life role in the home country organization and its sociocultural environment (Feldman, 1991; Feldman & Tompson, 1993; Baruch & Altman, 2002). The patriation process/programme goes beyond repatriation as it refers to organizational support to repatriates to help them reconstruct their new identity in the home country organization and its sociocultural environment after an absence of many years (maybe as many as 15–20 years of foreign assignments). Patriation becomes relevant when expatriate managers undergo a degree of deidentification with the domestic organization and perceive the re-entry to the home country organization to be either too disruptive to their personal/family life (entailing issues of personal identity loss in the cross-cultural re-entry) or more challenging than the original relocation abroad (entailing issues of professional identity loss in the cross-cultural re-entry) (Linehan & Scullion, 1998).

The deidentification process, manifested as an unrealistic expectation gap, can be caused by various factors, but it is most likely to occur because of the lack of a mentoring/sponsoring programme (a common case in Europe) or the lack of a formal repatriation contract (a common case in the United States) (Stroh, Gregersen & Black, 1998; Leiba-O'Sullivan, 2002). It should be noted that expatriate deidentification and identification on the 'eve' of repatriation are only the poles of a continuum, with ambivalent identification and neutral identification as intermediate stages. It is important to assess where a specific expatriate stands on this continuum to design the appropriate variation in the patriation process/programme.

As the 'patriation' process/programme is supplementary to the repatriation process/programme, it addresses specific issues occurring upon the return of expatriate managers and their family members from a sequence of global assignments. The most salient set of problems is centred on the time the expatriate is dislocated from the home country (Suutari & Brewster, 2003). The extended aggregate time in the sequential expatriation mode exacerbates the dislocation of the expatriate from the home organization, as well as from the sociocultural environment of the home country. Given that the longer aggregate time of global assignments is double or triple the time of traditional one-time expatriation in MNEs, the expatriate will have less first-hand knowledge of the culture/climate of the domestic organization. This will mean that the expatriate's knowledge of how to be successfully assimilated back into the domestic organization as well as macrocultures will be drastically diminished. The expatriate manager's frame-of-reference will be outdated and he/she will have little to virtually no social capital in the organization (Adler, 1981; Allen & Alvarez, 1998).

The magnitude of reverse culture shock will be greater, taking even longer for the 'extended' expatriate to reconstruct identity and adjust to the local business environment (Hurn, 1999). The extent of the reverse culture shock is tied not only to the length of time of the extended expatriation assignment but also to the magnitude of organizational change (new management, new ownership, new policies that could have taken place during the expatriate's absence from the organization) (Caligiuri & Phillips, 2003). This adjustment time is compounded by the extensive adjustment of the family given the potential disconnection from the domestic sociocultural environment (Harvey, 1989; Harvey & Novicevic, 2002). The potential time of decompression to the new domestic cultural/social environment accentuates the need for extensive organizational support and attention to the problems that are going to be faced by the expatriate and the family that have undergone multiple assignment experiences.

Sequential expatriation becomes much more challenging than the traditional one-time expatriation because the growth of global organizations will be tied to the emerging and transitional economies in the world marketplace (Garten, 1996, 1997a, 1997b) as opposed to the developed markets that have dominated the strategic direction of multi-domestic MNEs in the past several decades. The impact on the expatriate/family of the dramatically changing cultural distance/novelty in the sequence of expatriations will compound the adjustment back to their home country. Even successful adjustment to the initial foreign assignment to an emerging/transition country will be followed by the subsequent transfers to other potentially novel cultures, thereby making the reverse cultural adjustment back to the original home country that much more difficult. As expatriates that make these sequential transitions/adjustments become 'citizens of the world' and face the possibility of losing their home country orientation (turning formally into cosmopolitans), the 'patriation' process/programme that facilitates return back to the home country identity becomes mandatory to avoid such deidentification (Sussman, 2000). The experience of deidentification was known by British soldiers that were sent off to India or Africa for 15–20 years. Their return to Britain was a difficult and in many cases an unsuccessful adjustment transition for these career soldiers that resulted in a number of them returning to their 'adopted' home countries.

To address the issues of varying repatriate deidentification from the domestic organization, the corporate HR management needs to design a patriation programme of an appropriate scale (low-scale, medium-scale, high-scale or comprehensive patriation programme). The scale of the patriation programme will depend, not only on the degree of repatriate deidentification but also on the degree of strategic value that repatriate could present for the domestic organization (see Figure 17.1). This strategic

		Degree of repatriate identification with domestic organization	
		Low = deidentified	High = identified
Degree of repatriate strategic value for domestic organization	High = specific	Comprehensive patriation programme	High-scale patriation programme
	Low = generic	Medium-scale patriation programme	Low-scale patriation programme

Figure 17.1 Assessing an appropriate scale for patriation programme

orientation toward patriation necessitates a shift in IHRM focus from practices and activities to outcomes (Ulrich, 1997).

In effect, the modifications in the IHRM system components (IHRM practice such as performance appraisal, training and development, compensation and so on) will need to be shifted from the process perspective to the outcome perspective of how each of them can contribute to the IHRM system to capitalize on patriation as the process of adding value to organizational competency. Future research should contribute to a better understanding not only of the factors that mediate between the scale of patriation and the related IHRM practices (that is, IHRM system components) but also of those that contribute to the variation of the generic patriation process presented in the next section of this chapter.

The potential loss of identify with the home country culture presents a unique opportunity for the MNE to develop a strong tie with the expatriate and the organization culture of the MNE, thereby supplanting the national culture with that of the organization as the 'foundation' culture of the 'multiple' expatriate and his/her family. This 'superimposed' culture will have to be built on trust between the expatriate and the MNE. This strong organization culture can be used as a means to identify with the MNE throughout the world and, therefore, to reduce the return culture shock after an extended expatriate set of assignments. The result should be a cosmopolitan global manager with strong organizational ties to MNEs that have created a culture based upon trust in the organization throughout

the world. To accomplish this goal, human resource managers must develop a process of patriating global managers returning to the home country organization. This process is described in the following section.

Development of a 'patriation' process for global managers

The evolution of an MNE from a multi-domestic to a global organization is seldom systematic. As the variations in the evolution process will affect managers' careers being expatriated sequentially to foreign assignments, new IHRM programmes and processes need to be developed to ensure that global managers are effectively supported (McCall & Hollenbeck, 2002; Suutari, 2003). This means that the process of repatriation should be supplemented by the development of a new process of 'patriation', given the length of time and cultural distances experienced by global managers. Therefore a step-by-step 'patriation' process should be instituted by organizations to facilitate the transition (see Figure 17.2). Each of these steps is briefly outlined below.

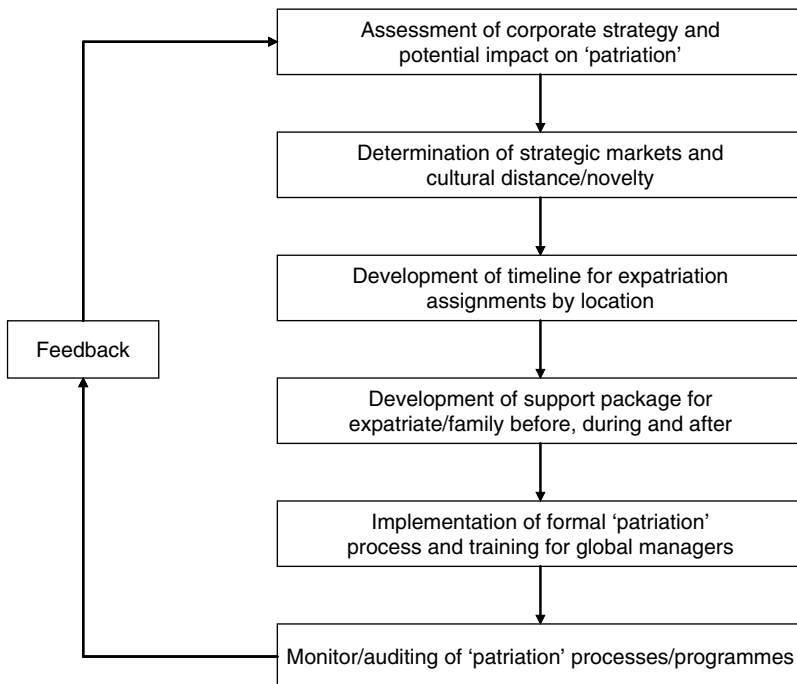


Figure 17.2 Development of a 'patriation' process for return of global managers to home country organization

1. *Assessment of corporate strategy and potential impact on patriation of global managers* The initial step in the 'patriation' process is to determine where the organization stands in the transition from a multi-domestic to a global organization. The assessment of the transition stage will provide the international human resource management team with the time to develop properly a system that is global in perspective and able to handle the differences in expatriation of managers into the global network of organizations. The strategic shift will likely be implemented gradually over a period of years, but the international human resource management team will have to anticipate the evolution of the strategy and enact a patriation process that will coincide with the general corporate shift to a global strategy.
2. *Determination of strategic markets and cultural distance/novelty* In the course of the MNE's transition to a global organization, one of the key considerations in developing a 'patriation' process is to ascertain what markets/countries the expatriates are most likely to be relocated to by the organization. By determining the (dis)similarities within the likely set of host countries that the expatriate will be relocated to, international human resource management can better calculate the cultural distance/novelty the expatriate will be exposed to during his/her global career. In addition some estimates can be made on the sequences of the relocation and the individual duration of specific assignments.
3. *Development of a timeline for expatriation assignments by location* The most likely aggregate duration of sequential expatriation needs to be determined prior to the relocation of the manager/family. This timeline will provide the global manager with an anticipated roadmap of assignments or at the very least the countries to which he/she will be relocated during the overseas assignment. While it is unrealistic to provide the exact country/assignment, every effort should be made to indicate the most likely scenarios and an array of countries to which the global manager will be relocated during the expatriation tenure.
4. *Development of support package/training for expatriate/family before, during and after the series of global assignments* Once the countries are determined for a set of expatriate managers and the various stages of the family life cycle are identified, a set of support packages can be developed by the international human resource management team. These packages will have to vary by country and by stage of the family life cycle as well as customized to the length of the assignment in each host country. The total duration of the set of expatriate assignments also will be incorporated into the appropriate support package for the expatriate. The level or degree of adjustment will vary by type of country and the length of time the expatriate has been on assignment

without returning or with a short repatriation to the home country. In addition training and development of the expatriate will be somewhat contingent on the nature and duration of the sequential expatriate assignments.

5. *Implementation of formal 'patriation' process and training for global managers* The conversion to a strategic global human resource management (SGHRM) system will necessitate the development of an entirely new process for the 'patriation' of expatriate managers from 'deep' assignments in the global organization. This will require a rethinking of the problems and how to 'patriate' global managers effectively back to home countries after a career of global relocations. As the present repatriation philosophies and processes cannot accommodate the career expatriate, an adaptation of the repatriation process will have to be made to be effective.
6. *Monitoring/auditing of 'patriation' processes/programmes* Given the newness of the sequential expatriation practice and the lack of adequate IHRM experience in addressing the problems/issues associated with global managers' 'patriation' back after many years of sequential expatriate assignments, an SGHRM system must be assessed on a regular, continuing basis. External benchmarking of 'patriation' programmes developed by other global organizations will become central to the success of the patriation programme developed by global organizations.

Conclusion

Repatriation of expatriate managers has been a research topic relatively neglected by academic researchers. The two decades of repatriation research have been primarily focused on conceptualization of the phenomenon and the identification of problems that are associated with returning managers/families. In multi-domestic organizations, many of the critical problems centre on addressing reverse culture shock that occurs when the manager/family have been separated from the home country for three to five years. In a global network organization, the dynamics and the aggregate length of assignment(s) will increase, thus accentuating the deidentification problems experienced by the expatriate/family upon return.

The deidentification issues will impede a catalytic role that repatriates can play in networks that foster worldwide learning, problem solving and knowledge sharing. For prevention of repatriate deidentification, the repatriation process needs to be supplemented by a process of 'patriating' returning managers. The design of a 'patriation' process/programme will necessitate a greater attention by the corporate SGHRM, as the need for organizational and social support will be increased. Moreover, as the

responsibilities of the organization to monitor and prepare the expatriate/family will also be increased, the traditional form of repatriation process will have to be altered or redesigned to accommodate the problems/issues associated with deidentification of 'sequential' expatriate managers in global organizations.

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PART IV

RESEARCH ON INTERNATIONAL TEAMS, ALLIANCES, MERGERS AND ACQUISITIONS

18 Decoupling and coupling in global teams: implications for human resource management

Jennifer L. Gibbs

Global teams are often formed in multinational corporations as a strategic human resource solution for bringing together people with specific knowledge, skills and expertise, regardless of their geographical location. Interaction among such diverse individuals is enabled through use of information and communication technologies (ICTs) such as e-mail, audio- and videoconferencing, knowledge management systems and archival databases. Global teams offer the promise of better and more innovative solutions and products through tapping into human resource pools worldwide, more efficient around-the-clock work across time zones, and lower-cost access to local markets and customers without the need for travel (Carmel, 1999; Gluesing & Gibson, 2004). However, in order to achieve these benefits, global teams must contend with a number of challenges due to the high level of complexity they face in working across multiple contexts: geographical, temporal, cultural and technological. This chapter addresses structural dynamics of global teams, reviewing key challenges and effective team-building strategies for managing such dynamics.

Challenges due to decoupling in global teams

Global teams are defined here as work teams that are virtual, culturally diverse, structurally dynamic, and whose members collaborate on a global task using ICTs (Gibbs, 2002; Maznevski & Chudoba, 2000). As virtual teams, they are both geographically distributed across multiple locations and dependent on computer-mediated communication (CMC) (Cohen & Gibson, 2003; Griffith, Sawyer & Neale, 2003; Lipnack & Stamps, 1997), though they may vary on the degree of each of these characteristics (Cohen & Gibson, 2003; Gibson & Gibbs, 2004). In addition global teams are often characterized by a high level of cultural diversity, as well as dynamic structural arrangements (Gibson & Gibbs, 2004), in which there is high member turnover and collaboration is temporary, informal and project-based (Townsend, DeMarie & Hendrickson, 1998).

Global team members face unique human resource management (HRM) challenges that traditional teams have not had to contend with, because

of the need to coordinate tasks and processes across time, space and multiple layers of cultural complexity (Carmel, 1999). The structural characteristics defining global teams – geographic distribution, electronic dependence, cultural diversity and dynamic structure – result in more loosely coupled team interactions (Gibbs, 2002) and act as centrifugal forces that pull such teams apart through breakdown of coordination, loss of communication ‘richness’, cultural misunderstandings and loss of ‘teamness’ (Carmel, 1999). These four key elements of loose coupling (Gibbs, 2002; Weick, 1976) pose HRM-related challenges to global teams. Figure 18.1 summarizes these decoupling characteristics as well as several coupling mechanisms to help coordinate team interaction (Figure 18.1). The challenges will now be discussed in more detail, followed by a discussion of the coupling mechanisms.

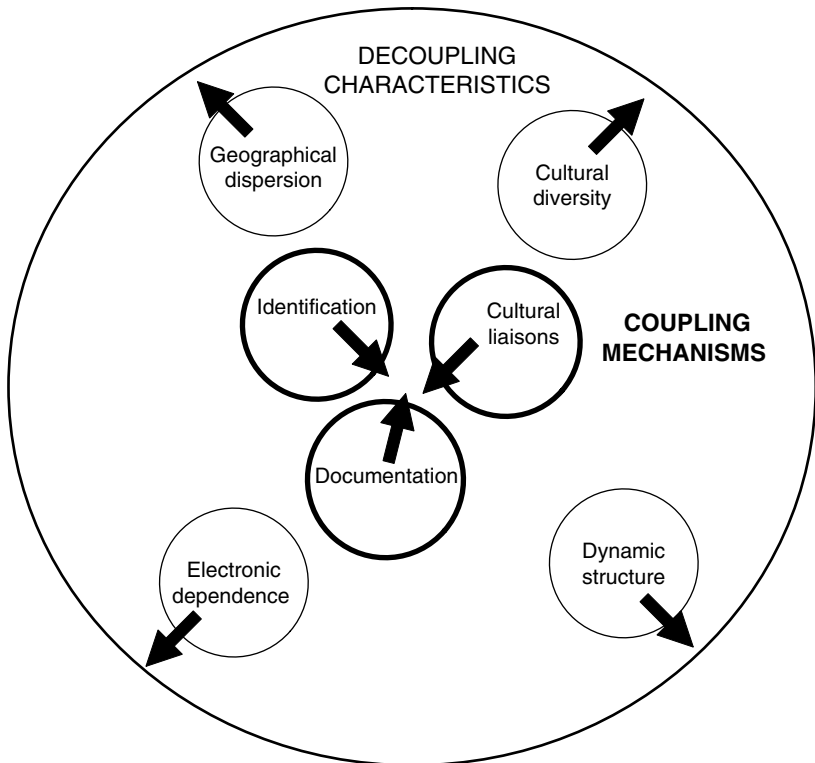


Figure 18.1 Decoupling characteristics of global teams and coupling mechanisms

Cultural diversity

Global teams face new HRM challenges due to their high degree of cultural diversity. Understanding the impacts of culture, defined broadly as a shared set of meanings or mental programming that shapes individuals' behaviour and interpretations of events (Hofstede, 1991), is even more pressing in today's global organizations, as intercultural interaction affects everyone in the organization rather than being confined to a few people (Adler, 1997). Whereas in the past only expatriates needed to develop cultural sensitivity and intercultural competence, in global firms employees do not need to go abroad or leave their own community to encounter cross-cultural contact, as 'cross-cultural dialogue has become the very foundation on which global business is conducted' (Adler, 1997: 124). Global teams are likely to be more culturally diverse than traditional collocated teams, as not only are team members working across countries and nationalities (for example, Brazilian, German and Japanese), but they are often working across organizational and functional cultures as well. For example, a global product development team may involve collaboration between multiple partner firms (such as a corporation, university and a consulting firm). Its team members are also likely to span a number of functional disciplines, such as design engineering, manufacturing or software engineering and marketing. These cultural contexts are accompanied by deep-rooted assumptions and values that provide an intuitive blueprint or set of guidelines for the way cultural members should behave, as well as helping to reduce uncertainty and normalize events (Schein, 1992). Contextual differences among team members thus lead to different norms, expectations and sets of behaviour regarding work that must be bridged in order for the team to function effectively (Maznevski, 1994).

Culturally diverse teams are likely to differ along several key dimensions, which influence their expectations about working together and are likely to create breakdowns in the communication process (Earley & Gibson, 2002). First, team members' orientation toward work may be conditioned by cultural preferences for individualism versus collectivism. Those from individualistic national cultures place more emphasis on individual goals and personal achievement, while those from collectivistic cultures give priority to group interests and maintaining group harmony (Earley, 1994; Hofstede, 1991; Triandis, 1988). Differences on this dimension may cause clashes in expectations for team interaction, level of cohesiveness, group (as opposed to individual) rewards and importance of socialization, which are all likely to be greater among those from more collectivistic cultures (Gibson & Zellmer-Bruhn, 2001; Kirkman & Shapiro, 1997). Such cultural clashes are likely to pose HRM-related challenges. For example, team members from collectivistic cultures (such as China, Singapore or Brazil) may expect more

guidance, training, support and socialization from management and other team members than members from individualistic cultures (such as the USA, UK or Germany), who are more likely to prefer working autonomously and expect others to take initiative in finding their own solutions to problems. This dimension also conditions preferences for technology use, as those from collectivistic cultures are more likely to prefer collaborative technologies such as videoconferencing and face-to-face group meetings. On the other hand, those from individualistic cultures may prefer to communicate one-on-one through e-mail and voicemail, which may be considered cold and impersonal by those with a more collectivistic orientation (Gibbs, 2002).

A second key dimension on which national cultures are likely to differ is power distance, which refers to the extent to which hierarchy is valued and respected (Hofstede, 1991). Collaborators from high power distance cultures such as India, France or Japan revere hierarchy and status distinctions, whereas those from low power distance cultures such as the USA, Sweden or the Netherlands attempt to minimize hierarchy and take a more egalitarian approach. This dimension is likely to affect the level of formality expected, likelihood to share knowledge and level of participation in meetings. HRM challenges arise owing to culture clashes that occur face-to-face as well as over e-mail: for example, Americans tend to be more informal in e-mail use, addressing people by first names only, not using formal job titles and employing casual language. This may be construed as impolite or disrespectful by members of high power distance cultures, for whom formal titles indicating status and formal language are more important. Communication challenges are also likely to arise as high power distance employees of lower status may be reluctant to share important information (especially of a negative nature) with higher status managers, for fear of overstepping their bounds or causing them to lose face. While this may be frustrating for low power distance managers, team members from high power distance cultures may be equally put off by failure of low power distance members to assert authority or to recognize status differences, perceiving this as disrespectful.

HRM managers can help overcome the challenges of cultural diversity within global teams by making managers and other team members aware of cultural differences and encouraging them to adapt their communication styles accordingly. For example, managers from individualistic cultures such as the USA should make sure that employees from collectivistic cultures feel supported and have the resources they need, as they may be reluctant to ask questions or raise issues out of concern for face saving and preserving group harmony. Team managers and HRM professionals should consider such cultural differences when training employees, structuring

team communication and deciding which communication media to use. Performance incentives, rewards and career opportunities should also be free of biases towards any one culture and should not exclude particular cultures (Adler & Bartholomew, 1992).

Geographical dispersion

Global teams also face unique HRM challenges because of their geographic dispersion. A key difficulty is sharing 'situated knowledge' between locations (Sole & Edmondson, 2002), as team members at different sites or locations are likely to take their own contextual knowledge for granted and be unable to articulate or share that knowledge with members from other sites (Gluesing & Gibson, 2004). This is likely to result in misunderstandings, confusion and conflicts among distant team members owing to gaps in communication resulting in different assumptions and different interpretations of messages (Armstrong & Cole, 2002), as well as the formation of divisive organizational sub-identities associated with locations (Sole & Edmondson, 2002). Additionally the fact that team members are geographically distributed across multiple time zones makes it more difficult to achieve synergy and coordinate team actions (Carmel, 1999). Geographically distributed global teams thus face challenges in sharing contextual knowledge, geographic divisiveness, and coordinating information.

The fact that team members are embedded in different geographical and organizational contexts brings about several specific HRM challenges related to team cohesion and identification. The lack of face-to-face contact among team members in different locations is likely to lead to an 'out of sight, out of mind' tendency to forget about members in other locations that hinders knowledge sharing and communication (Armstrong & Cole, 2002). Team cohesion is likely to be fragmented because of development of distinct sub-identities among locations, especially if they coincide with national differences. Allegiances to local sites rather than the team as a whole may result in competition and rivalry among different locations, rather than collaboration and synergy. Achieving identification with the global team is further problematized by tensions in team structure due to the fact that the team is embedded in different organizational contexts that may be characterized by different reporting and pay structures, policies and evaluation procedures.

Team and HRM professionals can help overcome challenges of geographical dispersion by bringing the entire team together for group meetings periodically or travelling to different locations to provide 'face time' to keep team objectives aligned, ensure that knowledge is shared and build stronger identification with the team. Although tensions due to different

organizational structures and policies may not be entirely resolvable, offering incentives and rewards for team collaboration is another way of ensuring team member 'buy-in' and commitment.

Electronic dependence

Global virtual teams often rely heavily on CMC to collaborate and accomplish work, using a range of technologies, such as e-mail, phone, fax, audio- and videoconferencing, collaborative groupware and knowledge management systems (Gibson & Gibbs, 2004). This technology enables them to operate in a flexible manner and coordinate work across time zones and geographical distances (Boudreau, Loch, Robey & Straud, 1998). Technology may help structure work and organize, enhance or even create information available to the team (Griffith *et al.*, 2003). However communicating virtually rather than face-to-face creates challenges as well. Virtual team members must acquire new skills to communicate electronically, including not just becoming proficient with a variety of computer-based technologies but learning new ways to express themselves and understand others in a virtual environment with reduced social presence and cues (Townsend *et al.*, 1998). Communication via e-mail and other forms of CMC is characterized by the absence of traditional non-verbal social context cues such as facial expressions, gesture and vocal inflection or tone, making it more difficult to convey nuances and subtleties in communication (Kiesler & Sproull, 1992). Also the anonymity of CMC has been found to produce different kinds of interpersonal exchanges than face-to-face contact (Hiltz, Johnson & Turoff, 1986): on one hand, it may result in more impersonal communication owing to its reduced social cues, as less personal, tacit or informal information is exchanged; on the other, the lack of social cues may result in exaggerated hyperpersonal perceptions of others (overly positive or negative) because of overattribution of what limited cues are available (Walther, 1996; Walther & Parks, 2002).

Communicating electronically presents HRM managers with new challenges associated with building personal relationships, trust and responsiveness, because of the lack of context and reduced social cues (see the chapter by Maznevski, Canney Davison and Jonsen in the present volume for further discussion of these issues). Since global team members are physically dispersed, they lack the informal 'water cooler' talk that collocated team members take for granted, but that helps team members get to know each others' personality traits, quirks and work styles, as well as being a source of unexpected and serendipitous information exchange. Research has found that social communication and socialization processes are important for building electronic relationships (Hofner Saphiere, 1996; Knoll & Jarvenpaa, 1998). While many companies such as Boeing and

Lotus have found bringing global team members together face-to-face at the start of a project to be effective in establishing relationships and building trust (Benson-Armer & Hsieh, 1997), research has found that socialization is also possible over CMC (for example, Walther, 1992, 1995) and that it facilitates trust in virtual team development (Jarvenpaa & Leidner, 1999). Owing to the reduced cues and context present in CMC, global team members should make more pointed efforts to include personal and informal communication in e-mails and other media, to help build trust and relationships virtually. HRM professionals can play an important role in training team members in effective electronic communication.

Dynamic structure

A final decoupling characteristic that creates HRM challenges for managing global teams is their often dynamic structural arrangements. As many global teams are short-term and project-based, they tend to consist of team members working together only temporarily, with frequent change in members, roles and relationships (Kristof, Brown, Sims & Smith, 1995). Many of these teams comprise inter-firm collaboration through informal outsourcing agreements or consortia, and team members are likely to be reluctant to share knowledge across organizational boundaries because of its proprietary nature. In addition, high member turnover often leads to the loss of tacit knowledge, making it difficult to establish continuity of team processes and practices. The dynamic nature of such collaborations results in increased uncertainty, less cohesive relationships (Gluesing *et al.*, 2003), loss of or difficulty sharing knowledge, and fluid and shifting team membership that evolves according to changing task requirements and responsibilities (Kristof *et al.*, 1995; Townsend *et al.*, 1998).

Global outsourcing teams often involve short-term work arrangements with contracted employees of other nationalities (Carmel, 1999). They are also likely to be embedded within multiple employing organizations with their own distinct organizational structures and policies, making it impossible to standardize policies completely within the team. For example, software development teams at US-based companies such as Intel, Xerox and Microsoft often hire developers from lower-cost talent hubs in India, China or Brazil and bring them to work on short-term project assignments locally. Depending on the length of the assignment (which may end up lasting a year or more), this is likely to create problems for management and assessment of such temporary employees. While on assignment, their performance assessment may suffer, as their permanent managers may be unable to evaluate and assess accurately their work for someone else from thousands of miles away. At the same time, their temporary managers may be reluctant to provide performance feedback because of their low level of

investment in these temporary employees as contractors and their lack of 'buy-in' to the different organizational processes and structures of their employing organizations. Even when feedback is provided, it is likely to be limited or difficult to interpret owing to different scoring procedures. As a result, decisions on salary and promotion for such employees may be adversely affected.

Managers may also be averse to provide training and other benefits needed for employees' career growth because of their low level of investment in such temporary employees, who may in turn harbour feelings of inequity and resentment toward other local permanent team members who do receive such benefits. Local team members, on the other hand, may feel their job security is threatened by outsourced employees. Conversely offering bonuses and incentives to temporary employees may prove problematic as it undermines their local pay scale (as one bonus may be the equivalent of six months' salary in their home country, for example). HRM systems should ensure that global team members receive performance appraisals and feedback so that their work is rewarded and contributes to their career development.

The next section will discuss three key coupling mechanisms that help overcome these challenges due to loose coupling in global teams.

Key coupling mechanisms for managing global team complexity

Although forming a strong, shared team culture may not be either achievable or desirable in global teams owing to their loosely coupled nature (Gibbs, 2002), certain coordination mechanisms are needed to manage cultural complexity, help bridge the loose coupling characteristics and facilitate effective team interaction. Three factors help to couple or coordinate global team interaction: assigning cultural liaisons, increasing team-level identification and documenting or formalizing team communication (Gibbs, 2002).

Cultural liaisons

Because of their dispersion across geographies and time zones, it is neither possible nor efficient for all global team members to know what every other team member knows or does, or to interact directly with every other team member. Moreover effective communication and knowledge sharing are also inhibited by cultural and language barriers. Team members are often called upon to make quick decisions without sufficient information, and formal information sources (such as reports or archival documents) are inherently limited to codified, rather than tacit, knowledge (Tushman & Scanlan, 1981). Given the cost, inefficiency and potential bias of widespread direct communication across boundaries (ibid.), informal social

mechanisms such as boundary spanners are more effective for coordinating global team interaction.

Cultural liaisons are a specific type of boundary spanner in global teams for coordinating communication across cultural boundaries. Cultural liaisons serve the role of linking or facilitating understanding and interaction among different cultural groups. They possess the skill of 'laterality', which describes the ability to work effectively with and relate to people of different cultural or functional backgrounds, work experiences, skill sets and knowledge bases (Mankin, Cohen & Bikson, 1996). Laterality has been identified as an important skill for intercultural communicators (Cohen & Gibson, 2003), who need to be able to bridge and interpret between different national or functional cultures, speak the language of those they work with, and be confident yet open to learning new things. Research has found that members of productive global teams act as cultural interpreters and mediators and suggests that this role can be taken on by more than just a few members of the team (Hofner Saphiere, 1996). Similar to weak ties in social networks, which function to connect people from diverse backgrounds (Granovetter, 1973) and provide access to a wider array of non-redundant information (Ibarra & Andrews, 1993), cultural liaisons play an important role in bridging the various cultural boundaries inherent in global teams. This strategy is particularly effective in teams consisting of two or more strong, defined subcultures, which have been found to elicit the most entrenched cultural conflicts (Earley & Mosakowski, 2000; Gibson & Vermeulen, 2003). Moderate diversity is more likely to lead to polarization along faultlines than extreme diversity, especially when that diversity is salient (Fiol & O'Connor, 2005; Lau & Murnighan, 1998).

Cultural liaisons may be assigned to the role by the team leader or human resource professional, or they may emerge informally, out of necessity or convenience. For example, a manager of a global software team distributed between the USA and Singapore may bring a few Singaporean team members to work temporarily in the USA to train them on the project and facilitate knowledge exchange in person before sending them back to continue the work in Singapore. During this time, assigning to one or more of the Singaporean team members the informal role of coordinating communication between the two sites is an effective strategy, as it helps reduce intercultural misunderstanding over e-mail, phone or videoconferencing, and helps establish a stronger relationship between the two sites by using one consistent interface which has the same cultural background and often has established personal relationships with those at the remote site. This makes mediated communication across distances much more effective than having relative strangers from different cultures interact with one another

by phone, e-mail or videoconferencing. It also facilitates knowledge sharing between locations.

Cultural liaisons can also be effective in providing informal cultural orientation to team members who may be temporarily based overseas, as is common in software outsourcing teams. Although provision of formal intercultural training and orientation to assist such outsourced employees in adjusting to the foreign culture by a human resource professional is optimal, teams may not have the budget for this or have the number of members to make formal programmes cost-effective. In this case, assigning to team members with longer-term experience in the foreign culture the role of cultural mentors may be a preferable solution. Team members with greater international experience and a higher comfort level with living abroad, greater intercultural communication competence and laterality skills should be sought as cultural mentors. These cultural liaisons can help orient new arrivals: meeting them at the airport, helping them get situated and passing on cultural advice to them about their new work environment, as well as acting as intermediaries to voice their concerns to the team leader or management. These liaisons can also help bridge cultural divides within the team by organizing team-building social events, facilitating cross-cultural social interaction among team members from diverse cultures and helping mediate interpersonal conflicts among such team members.

Identification

Identification has been defined as a sense of belonging with a social category (Ashforth & Mael, 1989; Fiol & O'Connor, 2005). Through identification, individuals achieve a sense of social connectedness with others, which facilitates communication, understanding and a common purpose (Gossett, 2002). Social identification processes increase group members' identification with a strategic group (Lant & Phelps, 1999). Identification has been found to increase interpersonal trust and cooperation (Brewer, 1981; Kramer, 1993), group cohesion (Turner, 1987), internalization of organizational norms and practices, worker satisfaction (Russo, 1998) and desire to stay with the organization (Dutton, Dukerich & Harquail, 1994).

Identification has been advocated as particularly critical in virtual contexts because of the reduced physical contact among members (Wiesenfeld, Raghuram & Garud, 2001), as it facilitates coordination and control of employees, which is a key challenge owing to the lack of direct supervision or monitoring in distributed teams (Wiesenfeld, Raghuram & Garud, 1999). Organizational identification is theorized to be a new post-bureaucratic form of unobtrusive or concertive control (Tompkins & Cheney, 1985), in which individual members are influenced by organizational goals, values and information through subtle rhetorical persuasion to make decisions that

reflect organizational goals (Cheney, 1983). Identification in virtual teams is argued to act as a type of social 'glue' that promotes group cohesion in the absence of face-to-face contact (Fiol & O'Connor, 2005). Wiesenfeld *et al.* (1999) examined communication behaviour as a determinant of organizational identification and found that information technologies such as e-mail and phone could help create and maintain identification or a common identity among virtual workers, helping connect them to their organizations.

Identification in global teams is further complicated by the fact that team members possess multiple identities derived from the different contexts in which the team is embedded. Identification is likely to occur at multiple levels: with one's organization, one's team, one's national culture or one's functional or professional culture (Scott, Corman & Cheney, 1998). In addition, individuals are often members of multiple teams (Townsend *et al.*, 1998), and are thus likely to struggle with multiple competing allegiances and affiliations, making it harder to induce identification with a particular team. Inducing team-level identification helps overcome divisive subidentities associated with sites or locations, as well as national or functional subcultures within the team that pose a challenge to team building (Earley & Mosakowski, 2000; Gibson & Vermeulen, 2003). It also helps build trust, which is crucial to social bonding and establishing relationships in virtual teams (see the chapter by Maznevski *et al.* in the present volume for further discussion of trust formation in global teams).

Maintaining an identified workforce requires a high level of organizational investment and effort (Gossett, 2002). Overcoming such divisive sub-cultural identities and inducing team-level identification requires continuing team-building efforts. Team and HRM managers should attempt to break up cultural cliques within the team through the use of physical space and division of work, by attempting to mix cultural groups in office arrangements and work roles to foster intercultural collaboration and linguistic desegregation. Social events and mixers are important means of team building. In addition, physical symbols such as badges and office name plates play a role in inducing identification and belonging to the team. Identification can be fostered electronically as well, through creation of a team Internet or webpage containing information about team members, such as the office layout for each location with names and photos of each team member and a brief description of their role and personal interests or hobbies. Finally, incentives should be provided for accomplishing team tasks to ensure that teamwork is valued.

Documentation

Written documentation of team processes and norms is a final important coupling mechanism in global teams. Given the high level of diversity in

team members' knowledge, skills, functional and cultural backgrounds and the high task complexity, combined with the need to collaborate virtually with dispersed others who may never meet in person, global team environments and relationships among team members are fraught with uncertainty. Regular, predictable communication has been identified as helping reduce some of this uncertainty, build and maintain trust over time (Jarvenpaa & Leidner, 1999) and provide a rhythm for team functioning that imposes structure and stability in an otherwise chaotic environment (Maznevski & Chudoba, 2000). The combination of diversity of cultural norms, establishment of new relationships in electronic environments, and spatial and temporal discontinuity makes the need for explicit and predictable communication even greater in global teams.

One way of making global team communication more predictable is through formalization and documentation of team knowledge and processes. Documentation is a coupling mechanism that helps preserve temporal as well as spatial continuity of the team, despite turnover of team members. Documentation reduces the impact of turnover by preserving knowledge. There is a greater need for explicit definition of process in virtual teams, in which communicating and establishing shared norms is not as intuitive as in face-to-face environments (Leonard, Brands, Edmondson & Fenwick, 1998). Norms and expectations for team interaction also need to be explicitly negotiated and agreed upon in culturally diverse groups in order for such groups to be effective, as these norms are culturally conditioned and not shared by all team members (Maznevski, 1994). While the process of negotiating norms for group interaction and participation is implicit and almost automatic when group members have common repertoires of norms, group members with diverse norms need to negotiate explicitly the ways in which the group will interact and operate in order to be effective (*ibid.*). Agreement on the way communication is coordinated and prioritized will increase predictability and help to overcome the 'out of sight, out of mind' feeling among dispersed team members (Snow, Snell, Davison & Hambrick, 1996). Establishing clear communication protocols with explicit norms for team member interaction, participation, policies and expectations for communication (how often to communicate, expected response time, which media to use, prioritization of issues, decision making and conflict resolution processes, and so on) has been found to improve global team performance (Carmel, 1999; Knoll & Jarvenpaa, 1998; Leonard *et al.*, 1998; Snow *et al.*, 1996). This can be facilitated by the use of databases and groupware (Snow *et al.*, 1996).

Written documentation also helps overcome language and cultural barriers. It is helpful in providing clear instructions, especially cross-culturally and across languages, as it allows for more time to deliberate before

responding and greater understanding of messages. Documentation can thus be helpful in surfacing cross-cultural misunderstandings, especially when working remotely. It can also be used to overcome cultural differences in knowledge sharing: for example, HRM managers can develop formalized training methods consisting of standardized questions for team members who for cultural reasons are more introverted to extract knowledge they may be reluctant to volunteer. A final benefit of documentation is in formalizing team processes to motivate and bring remote workers together as a team. Documentation reduces the need for face-to-face interaction and it enables effective collaboration between geographically dispersed coworkers who have never met face-to-face. Face-to-face training is thus only necessary for transferring expertise or knowledge that was not documented.

Global team leaders require a different skill set than managers of traditional, collocated teams (see the chapter by Maznevski *et al.* in the present volume for further discussion of leadership issues). Global managers need to possess a global mindset (Gupta & Govindarajan, 2001), defined in terms of a cosmopolitan orientation or openness to diverse cultural outlooks and experiences and a sense of cognitive complexity or ability to discern the complexity of issues and reconcile apparently incongruent pieces (Boyacigiller, Beechler, Taylor & Levy, 2004). HRM professionals can play a key role in helping global team leaders develop needed process or 'group' skills in addition to technical expertise (Davison, 1994) since they play a crucial role as process facilitator that differs from the traditional role of the leader as the hierarchical authority or technical expert (Hofner Saphiere, 1996). HRM professionals should also provide team members with training on the need to develop explicit communication protocols documenting team processes and assist them in developing archival databases and knowledge management systems to preserve team knowledge. Finally HRM systems should provide incentives to encourage busy team members to invest the time and effort required to document team knowledge, as they are unlikely to do so without a perceived benefit or mandate.

Conclusion

Global teams are fragmented by decoupling characteristics of cultural diversity, geographical dispersion, electronic dependence and dynamic structural arrangements, which pose distinct international HRM challenges. To overcome such challenges, three coupling mechanisms are proposed to assist HRM professionals in coordinating global team interaction amid these decoupling characteristics: assigning boundary-spanning cultural liaisons helps to bridge cultural diversity within the team and to

facilitate electronic communication among distributed team members, inducing team-level identification helps build trusting virtual relationships and overcome challenges of knowledge sharing and coordination due to geographical dispersion, and documentation of knowledge helps overcome challenges associated with turnover and temporal discontinuity due to dynamic structural arrangements. These coupling mechanisms highlight the need for both formal and informal communication in coordinating global teams.

Human resource professionals can play a key role in appointing cultural liaisons to mediate communication across cultural boundaries and providing training on effective intercultural communication to other team members. Additional training needs include effective technology use, leadership skills and global mindset in global team managers, and the need for formalization of team processes and norms through explicit communication protocols, archival databases and knowledge management systems. HRM managers should also provide incentives for sharing and documenting knowledge, as well as continuing team-building efforts and a clear reporting structure to induce and maintain team-level identification. Incentives, rewards and career opportunities should be commensurate with work performed globally (Adler & Bartholomew, 1992) and thus linked with global teamwork. Finally, ensuring that global team members' responsibilities contribute to their career development will help retain them for future projects and facilitate trust through continuity of working relationships.

Future research in this area should seek to fill gaps left by the current research on global virtual teams. First, it should make further attempts to integrate disparate literature on each of the decoupling characteristics (cultural diversity, geographical dispersion, electronic dependence and dynamic structure) and test the interactions between them. Much of the research on multicultural and virtual teams examines variables such as cultural diversity or extent of face-to-face interaction in isolation, despite the fact that many global teams are both culturally diverse and virtual in nature and thus involve complex interactions between these elements. Other research lumps these elements together under the term 'virtual' without examining their independent effects (Gibson & Gibbs, 2004) and, as a result, imprecise definitions of 'virtuality' have led to contradictory findings (Fiol & O'Connor, 2005). Several researchers have called for the need to distinguish among various features of virtual teaming (Gibson & Cohen, 2003; Griffith *et al.*, 2003), but systematic theory on the interrelationships among such features is just starting to be developed (for example, Fiol & O'Connor, 2005; Gibson & Gibbs, 2004; Martins, Gilson & Maynard, 2004).

Second, future research should examine effects and processes in different types of global teams. Theory is emerging that differentiates between pure

virtual teams and 'hybrid' virtual teams involving some face-to-face contact (Fiol & O'Connor, 2005). Virtual team contexts also vary by the degree of permanence (temporary versus continuous teams), team size and the nature of work being performed (sales versus product development teams, for example). The impacts of such factors should be tested in future research to add nuance to theory on global teams and help identify strategies for overcoming specific HRM challenges related to each of these factors. More research on the way the decoupling characteristics of global teams intersect in different global team settings will assist HRM professionals in developing sophisticated solutions to the complex challenges that arise in global teams.

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19 Global virtual team dynamics and effectiveness

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Virtual teams, although relatively new to the global business landscape, are already recognized as a boon to international organizations and have quickly become ubiquitous. Virtual teams are groups of people working together towards a joint outcome using communications and information technology more than the traditional face-to-face mode. Global virtual teams (GVT) have members distributed throughout the world. Recent advances in technology, especially telecommunications and the Internet, have made possible the communication of vast quantities of relatively rich information over any distance on earth. Without the time, cost and hazards of travel, groups can now share information, chat, innovate and make decisions together.

Virtual teams, therefore, can bring together the best people within any worldwide or countrywide organization or from different organizations, to work on a specific task without regard to where those members are located, and help the organization perform better. This helps respond to the increasing market expectations to transfer expertise no matter where it is located, in order to meet the demand for quick development and delivery of both products and services. In multinational organizations, these teams tend to be created especially to address international issues of strategic importance, such as global account management, strategic product development, global marketing planning and merger or acquisition integration. In the future of globalization, R&D resources will be geographically dispersed and tapped into by using virtual teams. Together the members of a virtual team have a much wider access to networks of information and expertise than if they were colocated. Moreover members of virtual teams can work on several types of tasks with different configurations of people more efficiently because location is not a constraint.

Like many organizational forms, creating effective virtual teams has also proved to be more difficult than expected. Managers cannot simply create high-performing virtual teams by assigning members and 'letting them run'. As many organizations have already discovered, without careful structuring, support and attention to processes, virtual teams do not achieve their potential and may not even get off the ground.

In this chapter we begin with some important definitions. We then identify the challenges raised by virtual teams, with particular focus on global virtual teams. We argue that resolving these challenges depends on an understanding of some important contingency factors and how they affect processes in these teams, and we follow this by identifying the success factors for managing these contingencies and obtaining high performance. We look briefly into the future and speculate on the potential of virtual teams to change the management of global organizations. We close with some recommendations for further research.

Virtual teams are groups of people who (a) work together using communications technology more often than face-to-face; (b) are distributed across space; (c) are responsible for a joint outcome and *usually* (d) work on strategic or technically advanced tasks; and (e) are multifunctional and/or multicultural. Most people focus on the first element of this definition: the use of technology. However, as we will show, each element of this definition is related to the challenges and contingencies faced by teams, and performance can only be explained by their combination.

Virtual teams face many challenges

Any kind of team faces well established challenges such as identifying clear common purpose, roles and responsibilities, creating a sense of team identity and urgency and commitment to deadlines. Specific challenges for virtual teams can range across a broad spectrum, such as access to and comfortableness with technology, technological support and online facilitation, getting team members online and away from more visible office tasks, and less frequent and less informal interaction. Here we focus on four of the most important challenges, those that have been identified as particularly important in creating effective virtual teams: *effective communication, relationship building, managing conflicts* and *leadership*. When working predominantly through communications technology, some of the key challenges of understanding each other are thrown into stark relief. By focusing on these challenges when communications technology is used, we can also deepen our understanding of how to improve our face-to-face communication: by improving virtual team effectiveness, we can improve our understanding of teams in general. Figure 19.1 shows the relationship between the processes described here, the structural dimensions, some of which are described in the next section, and performance in virtual teams.

Communication

The challenges virtual team members face with respect to communication come from two main sources. First, because technology has lower richness and social presence than the face-to-face context, team members lose much

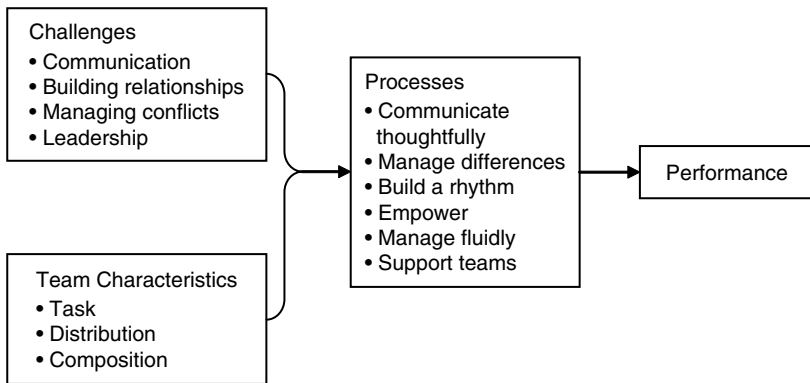


Figure 19.1 Important dimensions of global virtual team performance

of the contextual information they are accustomed to relying on. This can lead to misinterpretations, unfounded stereotypes and misunderstandings. Second, most communications over technology take place in a staggered or stepped way – asynchronously – with a lag time between one message being sent and another received. This reduces the immediacy and efficacy of feedback, yet at the same time gives people time to think through responses.

Many studies have sought to understand these challenges on communication and subsequent outcomes. Early research (for example, Hiltz, Johnson & Turoff, 1986; Siegel, Dubrovsky, Kiesler & McGuire, 1986) found that team members using only communications technology found it harder to reach consensus and paid much less attention to social norms in their communication than those working face-to-face. Verbal communication patterns, such as turn taking and deciding who speaks to whom and when, are highly dependent on social contexts which are much less rich in computer-mediated communication (Lee, 1994). Warkentin, Sayeed and Hightower (1997) found that face-to-face teams have better general communication effectiveness than virtual teams, which leads to higher levels of cohesion, satisfaction with the decision-making process and outcomes. The general conclusion of the research is that communicating effectively over technology is more difficult than in a face-to-face context. As a result, many researchers argue that the richness in face-to-face communication is indispensable, especially in ambiguous or conflictual situations (for example, Handy, 1995; Kezsbom, 2000).

Some have argued that electronic communication is best suited to routine, unambiguous tasks (Daft & Lengel, 1984; Schmidt, 1994). Pointing to the multiple failures of virtual teams reported anecdotally and discussed in research (for example, Neilson, 1997; Star & Ruhleder, 1996), many

management scientists (for example, Van der Smagt, 2000) remain pessimistic about using virtual teams for non-routine activities, mainly because of the difficulty of high-level communication.

However other studies have provided more optimism and guidance. Furst *et al.* (2004) found that most virtual teams start with a sense of 'unbridled optimism' that can lead to high performance. In research conducted by Keisler, Siegel and McGuire (1984), participation was much more even, there were much broader decision shifts and there was more uninhibited verbal behaviour in computer-mediated exchanges compared with face-to-face. People online tend to express their personal opinions more freely, resulting in equalization of member participation compared with face-to-face settings; however the free expression can also lead to faster escalation of conflict and polarization of the decision process (for example, Lea & Spears, 1991). In their longitudinal field study, Maznevski and Chudoba (2000) discovered that effective teams used richer technology for more complex messages. They also discovered that complexity is not inherent in a message but is just as much a function of the extent to which the sender and the receiver share or do not share a common understanding and context. The study also found that some effective teams preferred resolving serious conflicts over the telephone and e-mail rather than face-to-face: team members argued that the loss of emotional information was helpful in preventing conflicts from escalating beyond the task to personal levels. A precondition, though, was that the relationships in the group were characterized by high levels of general *trust* and *commitment*.

A note on linguistic differences and inequalities Long-distance communication technologies currently rely heavily on the written word, and the language most often relied upon in multinational teams is English. In some ways, intercultural communication can be more effective when written than in person. E-mail can assist those who tend to prefer writing as it gives them time to digest and think through a reply. Jin, Mason and Yim (1998) suggest that most Chinese, even if they speak English, are weaker conversationally than they are working with the written word. In many cultures people prefer working through writing and, even within cultures, many people prefer the opportunity to be thoughtful and reflective before contributing. Working asynchronously avoids some of the communication patterns that create problems for those working in a second language, such as high levels of interruptions. Less fluent language readers often read more carefully than more fluent readers, and therefore may see important 'ifs' and 'maybes' that are missed by fluent readers who are skimming. On the other hand, the problem of idioms, abbreviations and different types of English remains (Canney Davison & Ward, 1999) and the business norm of

fast response times for e-mail can cause difficulty for those who prefer to compose messages carefully. While much work is going into online translation software, it is still constrained and not generally in use yet.

To summarize, although communicating is more challenging through technology than it is face-to-face, it is too simplistic to conclude that communication in virtual teams is therefore less effective. Teams can learn to use a portfolio of technologies appropriately for different purposes and messages to communicate with accuracy, and even learn to use the lack of richness to their advantage (Gluesing & Gibson, 2004). Rather than continue to explore the question of the ineffectiveness of communication in virtual teams, future research should focus on the processes by which virtual teams adapt to the situation.

Building relationships: identity, trust and cooperation

High-quality relationships, characterized by trust and respect, cooperation and commitment, are important in all teams. They reduce the level of destructive conflict in the team, improve the team's ability to manage and gain value from task-related conflict, increase people's comfort in bringing diverse perspectives to the task and enhance the likelihood that people will champion and carry out the team's decisions. In some respects, high-quality relationships are even more important for virtual teams than for face-to-face ones: teams with good relationships can more easily work apart without concern for the process or outcome (Canney Davison & Ekelund, 2004).

One important source of good relationships is *identity* (see also the chapter on global teams by Gibbs). If people identify with each other and the team, they are more likely to trust, respect and cooperate with each other, and to be committed to the group. Shared identity is associated with fewer conflicts, especially in geographically distributed teams. Teams develop shared identity by getting to know each other well, and developing a shared context for their work. In a face-to-face setting it is relatively easy to get to know the other people on the team: how they approach problems, what their backgrounds are, and what they think is important and unimportant. However teams who communicate over technology generally say fewer things and have fewer contextual cues, so getting to know the other people is much more difficult. Complicating the communication constraints, people often portray themselves (deliberately, unconsciously or inadvertently) differently online than they do face-to-face (Hiltz & Turoff, 1993). Compared with face-to-face teams, members of virtual teams tend to share context and identity much less, and this less shared identity is associated with higher levels of conflict (Hinds, 1999; Mortensen & Hinds, 2001).

If shared identity is difficult to develop, trust may be even more difficult. Trust is a confident, positive expectation regarding another party's conduct (Lewicki, McAllister & Bies, 1998; Rousseau, Sitkin, Burt & Camerer, 1998). It has been called the glue of the virtual world (O'Hara-Devereaux & Johansen, 1994). Trust facilitates cooperation and enables teams to coordinate social interaction. In virtual teams, trust may be even more important than in face-to-face teams because of the absence of direct supervision (Canney Davison & Ekelund, 2004).

Much has been made of how important it is to meet face-to-face in order to build trust. However, because trust is built over multiple experiences with a person while observing both the causes and effects of the person's behaviour, it cannot even be built in a two-day team launch meeting. Experiences that contribute to trust building are much more rare in virtual teams than they are in face-to-face settings and thus the trust building is based more on performance consistency which compensates for social interaction. Rapid responses to virtual colleagues and establishing norms around communication patterns are the key to success (Kirkman *et al.*, 2002).

Helpful research focuses on the way different kinds of trust are built over technology compared with face-to-face, rather than the basic question of which type of team develops more trust. For example, researchers suggest that there are four types of trust: calculative, competence, relational and integrated (Paul & McDaniel, 2004). Calculative (such as reliability) and competence (such as expertise) trust are much more task-focused and are influenced by factors such as level of intellectual knowledge and experience, function and profession, and level of perceived competence. Relational trust is much more influenced by social, racial, gender and cultural similarities and differences. Integrative trust is multidimensional and combines all three of the other types of trust. All types of trust help build collaborative relationships, with integrated trust building the strongest collaboration. Cues for calculative and competence trust are more transparent over technology than those for relational trust, thus calculative and competence trust are easier to build online. Wilson, Straus and McEvily (1999) examined triads of students in the USA and found that, while relational trust increased after face-to-face meetings and not after electronic ones, the levels of task-based trust were the same in face-to-face and electronic groups (although the trust took longer to build in the electronic groups). A psychological willingness to be vulnerable was quickly manifested in more cooperative behaviour. Moreover the level of task-based trust was associated with important changes in group behaviour and decision making: groups with higher trust tended to structure their tasks with higher levels of interdependence.

In their study on trust in virtual teams who never met face-to-face, Jarvenpaa and her associates (Jarvenpaa, Knoll & Leidner, 1998;

Jarvenpaa & Leidner, 1999) found that trust, which was critical to the team's ability to manage decision processes, could be built quickly. Team members tended to begin their work together with a basic willingness to trust each other to get the work done with an appropriate level of quality and commitment. Early social communications, early expression of enthusiasm, coping well with uncertainties and technical problems, and individual initiative all contributed to the early creation of a basis of trust. This 'swift trust' (Meyerson, Weick & Kramer, 1996) could then be maintained and nurtured if the communication patterns became predictable and feedback and substantive information were extensive and timely. Trust was also maintained if leaders kept a positive tone, if difficulties were discussed only within the team, and if the initial focus on social interaction and team processes evolved into a strong task focus. However this type of trust was very fragile, and was broken completely after seemingly minor infractions. Jarvenpaa *et al.*'s research is consistent with a large qualitative study which found that people in virtual teams tended to take trust for granted, but talked at much more length about how trust was broken or failed (Gibson & Manuel, 2003). A further exploration of the antecedents of trust formation in virtual teams (Aubert & Kelsey, 2003) shows that there is a strong link between integrity and trust, whereas there was no significant relationship found between members' propensity to trust and the actual trust.

Trust is closely related to cooperation, especially in virtual teams. This relationship is echoed in a comprehensive list of tips from a leading online facilitator. The first item in the list is 'assume good intent', since this is crucial to set the tone of cooperation right from the start (White, 2002). Team norms are established early in a team's life (Bettenhausen & Murnighan, 1991), and cooperative norms must be consciously and explicitly developed. In an experimental setting on a short consensus-type exercise, Balthazard and Potter (2000) found that the degree to which a group developed constructive or destructive interactive styles depended in part on media type. Face-to-face groups had more constructive styles and virtual teams had a greater tendency to develop a defensive style. If the virtual teams had worked together longer, they might have developed the constructive styles on their own, but the patterns were clearly set. Face-to-face teams were more successful on performance dimensions, especially those dealing with group processes; however the main predictor of performance was interaction style (constructive versus destructive) rather than media type, demonstrating that virtual teams *can* develop constructive styles.

Virtual teams must pay much more attention to relationship building than do their face-to-face counterparts, since the medium is not very conducive to easy building of identity, trust or cooperation. However, now that research has shown there are ways to overcome this barrier and build the

types of relationships needed for effective teamwork, it is important to develop a richer understanding of how those constructive processes can be built in different types of virtual teams.

Managing conflicts

Conflicts in a virtual team setting are as unavoidable as in a collocated setting. Although the word 'conflict' typically has some negative connotations, some conflicts are widely considered positive for team performance. The ability to resolve conflicts within virtual teams is crucial to their success, and conflict avoidance behaviour is related to failure.

Research has not shown whether there are more or fewer conflicts in virtual teams than in face to-face teams, but most virtual team members report that they experience more conflict because of handicapped communication and diverse composition (Baan, 2004). In addition virtual team conflicts often remain unresolved for a longer period of time because of the dispersed locations and because virtual team members often have several other tasks and functions. Mortensen and Hinds (2001), though, failed to find any positive relationship between geographic distribution and conflict. They argue that the communication of teams using technologies is more likely to stay on task. In their study, the distributed team members reported less within team communication, and less formal and clear procedures. This autonomy allowed team members to maintain greater interpersonal distance and avoid conflict.

Conflicts can be understood and managed more effectively when differentiated into categories: relationship (affective) conflicts and task (cognitive) conflicts. Relationship conflicts are rooted in personal differences and can create annoyance and hostility between team members. Task conflicts are rooted in different views on the strategic or operational elements of the team efforts.

There is little research on solving conflicts in virtual teams, and published recommendations are based more on personal experience and intuition than on empirical data. Some research does exist in this field, for example Montoya-Weiss *et al.* (2001) suggest that management behaviour based on competitive models has a significantly positive effect on virtual team performance (based on a sample of American and Japanese virtual team members). Contrary to this, other researchers found that management behaviour based on collaborative models improved participation, satisfaction and team performance (for example, Paul *et al.*, 2004: based on American and Indian virtual team members). These studies indicate that the best ways of solving conflicts in virtual teams are highly dependent on trust and culture. As we discussed in the previous section, trust is a prerequisite for effective conflict resolution. The cultural element of conflict is

far more ambiguous. Owing to the diverse background of team members, the issues leading to conflicts differ between cultures, what is perceived or interpreted as conflict differs, and finally modes for resolving conflicts differ.

It is clear that developing a better understanding of conflict processes in virtual teams is vital. Research so far has only begun to suggest the complexities of conflict in this situation, and future research focusing on this area would help move the field forward significantly.

Leadership: processes, relationships and visioning

Most of what we know about leadership in virtual teams is based on qualitative research conducted with teams in the field. It is generally published in the form of recommendations to team leaders, based on benchmarking the highest performing teams. From this research, we see that the leader of a virtual team must have the same skills as any other kind of team, but the emphasis and actions differ significantly. Three aspects of team leadership are particularly important: structuring the processes, facilitating strong relationships, and maintaining and implementing the vision.

As anyone with virtual team experience knows well, processes must be explicitly and carefully managed and coordinated. Every team needs an organized workspace, defined roles, a clear task strategy and explicit interaction norms that include coming to meetings well prepared with a clear understanding of the meeting's objectives. In a face-to-face team these processes can be implicitly negotiated by team members as they observe and react to each other's facial expressions and other non-verbal behaviour. In a virtual team there is no such opportunity, and virtual teams that do not manage these processes carefully often simply fail to get off the ground. The leader must ensure that these basic processes are well structured, and that related resources – for example, shared work space on a server – are available and supported. This does not mean that the leader should run all the meetings, assign all roles and responsibilities, or monitor how well prepared everyone is before a meeting. In fact group members will feel much more committed to the team if these activities are shared and leadership for different types of tasks is spread amongst team members (Druskat & Wolff, 2001; Lipnack & Stamps, 2000).

The virtual team leader must stay engaged at each crucial step within the team's life cycle. It is the leader's job to promote timely feedback and reflection and actively to build on the team's strengths as they emerge. It can also help to create some early collaborative successes in order to boost team morale, for instance by setting 30-day goals and celebrating each achievement (Furst *et al.*, 2004). The team leader has responsibility to ensure that sponsors are kept up to date and involved in key exercises as well as engaged as important resources to access different information and contacts.

A second key role of the virtual team leader is facilitating relationships. Inside the team, it is important for team members to engage in dialogue and conversations to build social and intellectual capital. These conversations may take place in the context of formal meetings, but should also be part of the everyday life of the team in dyads and other subgroups. A virtual team leader must strike the balance between being so authoritative that s/he is copied on every e-mail between team members and clients and, at the other extreme, being so laissez-faire that the team loses direction and momentum through lack of clarity, emerging hidden agendas and subtle conflicts. The leader should not expect to take part in all internal conversations, but should facilitate, legitimate and support their occurrence. The team leader also has to be very careful in balancing online and offline relationships. For example, if the leader is in the same physical location as some team members, there is a temptation to develop closer relationships with the team members who are colocated. This is not a constructive dynamic for the team.

Good virtual team leaders spend enormous energy encouraging and facilitating relevant exchanges and keeping the team members focused on the big picture and shared goals. Creating smaller task groups is often a good way to do this. The leader of an effective virtual team also manages relationships between the team and external constituents (Druskat & Wolff, 2001). This function is often easy to ignore in virtual teams because the external constituents may also be distributed.

Finally, developing and communicating a compelling vision of the team's collective goals and potential outcome is well-established as one of the most important aspects of leadership (Bass & Stogdill, 1990; House *et al.*, 1999). When team members understand and are committed to the vision, they trust the leader and are more motivated to work towards the vision. A strong vision also allows for more autonomy and empowerment among team members: if everyone understands comprehensively the team's goals and direction, then team members trust each other to act on their own on behalf of the team. In virtual teams this latter function of visions is critical. Since the leader cannot supervise all the team members, a comprehensive vision with a related set of specific collective goals is an essential coordination mechanism.

On the other hand, the leader must often make decisions on behalf of the team. Interactional and procedural justice – the perceived fairness of the decisions – and the open consideration of perceptual biases and perspectives then become important factors influencing team members' trust in the leader. If team members feel that at least their concerns and issues were seriously and fairly considered, they will be more committed to the decisions even if they were not directly involved.

A final note on the leader's role in virtual teams is that a GVT manager must be able to use the technology the team is dependent upon, such as virtual classroom, net-meeting, e-mail and so on. This may seem fairly evident, nevertheless in the virtual world inability to use technology confidently can lead not only to inefficiency but also to lack of respect and trust from the team members. Although little research exists in this field, it has been shown (Kayworth & Leidner, 2002) that leaders of virtual teams are expected to provide a high level of continuous feedback and engage in prompt and frequent communication regarding ideas, suggestions, acknowledgments, direction and other project-related issues.

The leadership of virtual teams is one area for which practice is ahead of research. Research is now needed to dig beneath some of these best practice stories and develop a comprehensive understanding of how leadership best develops and is shared in teams, and under what conditions the role differs in different types of teams.

In this section we have focused on some of the challenges faced by virtual teams: those that have a particularly strong impact on virtual team performance and those that lead to different dynamics in virtual teams as compared to the more familiar face-to-face teams. These challenges mainly derive from two facts: team members are geographically distributed and therefore cannot coordinate their actions as closely; and team members communicate over technology, which is a less rich medium than face-to-face and requires some adaptation in communication styles. As illustrated by research, though, these challenges can be overcome by paying special attention to the factors of communication, relationships, conflicts and leadership; however research is just beginning to develop solid knowledge in these areas.

Every virtual team is different

All virtual teams face the challenges described in the previous section, but there is no simple prescription for resolving the difficulties. Every team is different on some important characteristics, and some of these differences strongly influence how a particular virtual team should develop its own best way to operate. In this section we identify two characteristics of virtual teams that influence the appropriate communication, relationship building, conflict management and leadership processes. Another important difference among virtual teams, composition, is addressed in the chapter by Gibbs in the present volume.

Task: interdependence, urgency, knowledge requirements

Different team tasks require different kinds of strategies and processes. Research on virtual teams has found that three dimensions of the task

influence virtual team processes the most: the task's inherent requirements for interdependence, urgency and knowledge (Gluesing & Gibson, 2004).

Interdependence and urgency are both associated with frequency of communication (Maznevski & Chudoba, 2000). The more a task is urgent, the more frequently team members should communicate with each other. Also, the more interdependence required, the more frequently they should communicate. Since global virtual teams are often used for tasks that require high interdependence and have a relatively high degree of urgency, most global virtual teams should communicate frequently.

The knowledge requirements of the task influence the type of relationships that must be built (Maznevski & Athanassiou, 2003) and virtual teams have greater difficulty forming collective knowledge than face-to-face teams do (Griffith *et al.*, 2003). Explicit knowledge can be codified and transferred from one person to another. We find it in books and manuals; it is 'know what'. Tacit knowledge is tied to a context and an individual's own experience and cannot be transferred directly from one person to another. The difference between explicit and tacit knowledge is the difference between reading a book about Nairobi and getting to know it by working there for a long period of time. Although tacit knowledge cannot be transferred from one person to another, it can be codeveloped. One person can help another person learn the same core of tacit knowledge by helping them to experience the same context and develop similar experiences.

Some tasks require explicit knowledge transfer: the sales and expense figures for a particular area, reports on consumer recognition surveys, and chemical or engineering formulae, for example. Explicit information can be transferred over technology relatively easily regardless of how well team members know each other. In this case, relationship building is less important to the team's performance. Other tasks require tacit knowledge codevelopment: new strategy development, merger or acquisition integration, and expansion into a new region (Athanassiou & Nigh, 2000), for example. Codeveloping tacit knowledge requires strong relationships and shared experiences, which, as we discussed above, are difficult to build in virtual teams. If the task requires tacit knowledge codevelopment, the team must build strong relationships and use a wide variety of different technologies to exchange information and different types of dialogue and interchange (Canney Davison & Ekelund, 2004; Griffith *et al.*, 2003).

Configuration: where is everyone?

Configuration refers to the physical distribution of members. For example, a team that covers many time zones must work together differently from a team located all in the same time zone or across just a few. The former team will rely more on asynchronous modes and will need to schedule

synchronous communication carefully, while the latter team can use synchronous modes much more easily.

Virtual teams also tend to be clustered in different ways. Research on networks has shown that different configurations with key managers in different positions are better for different tasks. For example, a broadly-configured network, that connects people who are connected with many others in an outward-reaching way, is better for information gathering and identifying opportunities (Burt, 1992). A more tightly configured network, with tight links among fewer people, is better for generating and maintaining mutual commitment in complex situations (Coleman, 1990).

Some virtual teams have two or more members at each of a few sites; the virtual team is, in effect, a connection of smaller face-to-face teams. Haas (2001) confirmed that communication between team members decreases significantly as a function of physical distance, so communication among clusters of closely-located but not colocated members will be greater than communication across these clusters. Members who are colocated must make efforts to connect with their peers at other locations, as the tendency will be to rely more than is appropriate on the people at one's own site. Other virtual teams have no physical clusters, but members may create informal or formal communication clusters, with subgroups who communicate more amongst each other than across subgroups (Maznevski & Athanassiou, 2003). These subgroups can help team performance if they facilitate effective information transfer and decision making within the team as a whole, but detract from performance if they become too inward-focused and block communication throughout the team.

Configuration effects are only just beginning to be studied in virtual teams and we expect this to be an important area of future research, with findings that guide many aspects of dynamics in virtual teams.

Achieving high performance

Research on virtual team performance identifies how teams overcome the four process challenges (communication, building relationships, managing conflicts, leadership), given their team characteristics. As for many other areas of virtual team research, research on performance tends to come from aggregating qualitative reports of field studies. Without the benefit of a systematic field of study, managers and team members have been 'figuring it out' on their own. In this section, we describe six practices that effective virtual teams share.

Communicating thoughtfully

Although there are many ways to use technology to communicate effectively, two general guidelines help teams communicate wisely: match

the technology with the message, and match the frequency with the type and phase of the task. The idea is to communicate in just the right ways and the right amount at the right time. Savvy leaders use natural ebbs in the task timelines to introduce reflection and tools and training for the next task phase. Using a rich medium all the time may be desirable, but prohibited by expense and logistics. Communicating frequently may be seen as important, but communicating too frequently is unproductive and results in members becoming frustrated or dropping out of the process. These two guidelines help teams match the right technology and frequency to their own situation.

The simple rule for matching technology with the message is to use richer technology for more complex messages, remembering that a message is inherently more complex to the extent that the sender and receiver have different views of the topic. A richer technology allows for more social presence and feedback, and thus conveys complex information better.

The second simple guideline for using technology effectively is to communicate more frequently to the extent that the task requires greater interdependence. If the task requires aggregating of figures and information to a single report, then enforcing norms of frequent interaction is unconstructive and the team will find that members do not comply or they become frustrated. If the task requires that pieces be done by individuals or subgroups and then handed to other parts of the team for the next step, as in many budgeting processes, frequent interaction from one subgroup to the next is required, but not among the group as a whole. However, if the task requires that all members contribute and respond continuously, continually revising the task as new information comes in (development of a merger or acquisition proposal, for example), communication should be frequent – and the task will not be achieved unless it is.

Managing differences

In the physical space it can be difficult enough to manage teams of diverse backgrounds and values, although plenty of recent research and training development has led to a better understanding of what it requires to exploit diversity in a positive sense. Managing diversity in a virtual space, however, has different and stronger implications, as the GVTs by nature are far more diverse.

Managing diversity is covered well in the chapter on global teams by Gibbs, but a few points are worth emphasizing here. The first is lack of tacit knowledge sharing in a virtual setting. When people work in the same place, they have a shared social system that includes informal exchanges. Without this system, not only can many virtual team members find it difficult to know ‘how things are done around here’ (here no longer exists) but this lack

can also lead to social isolation, lack of identity and distinction followed by frustrations, something that can possibly be avoided if managers are paying attention to this issue. Another area to pay attention to is the ingroup versus outgroup effect of social self-categorization (Tajfel & Turner, 1985). Based on such distinctions, favouritism likely takes place even in the virtual space. However some favouritism based on social group is likely to be reduced because diverse attributes have a more equal starting point (for example, skin colour will affect dynamics less than in face-to-face teams). Categorization may instead be based on other characteristics that were previously less important, such as technological savvy. These effects of virtual teamwork on social identity and various psychological constructs are yet to be explored when it comes to experience and research.

Building a rhythm

One of the most critical questions for virtual teams is whether they need to do any of their work face-to-face and, if so, what and when. The above guidelines on technology use would suggest that teams should get together for face-to-face meetings to discuss and decide on the most complex issues. But in their longitudinal study on virtual teams, Maznevski & Chudoba (2000) found that the most effective virtual teams did not necessarily use face-to-face time for these major communication issues. Instead these teams structured their interaction over time with a rhythm created by a regular heartbeat of face-to-face meetings, interspersed with virtual interaction. One team, for example, met face-to-face for two days every three months. These meetings were arranged up to a year in advance. Maznevski & Chudoba asserted that this heartbeat was as critical to the virtual team as a heartbeat is to a human (see also Lipnack & Stamps, 2000). It pumped life-giving forces into the work of the team: trust and commitment to the relationships among members, and time to build and develop a deep level of understanding of each other's backgrounds and knowledge. These relationships and knowledge-bases then provided a foundation for interaction between meetings, no matter what the subject.

Some teams are in situations in which members will never meet all together face-to-face. In these cases the teams must find ways to create rhythms with conference calls, net meetings or other media that are as rich as possible. With current technology, and given most people's current level of comfort in building relationships and communicating over technology, it still seems to be true that a team engaging in a complex task will perform better if they are able to meet face-to-face for at least some of the heartbeats. Technology will eliminate some travel costs and time, but not all of them. Building a rhythm of heartbeats uses the expensive face-to-face time most effectively to help the team.

Empowering the team

Teams can experience empowerment in different ways, which include a perception of meaningfulness, autonomy, potential effectiveness and that the team can have an impact and make a significant organizational contribution (Kirkman & Rosen, 1997). Increased empowerment usually has a positive effect on group performance. When it comes to virtual teams, empowerment is not less important. On the contrary, among teams that rarely meet face-to-face, empowerment is critical for learning and performance. Teams that lack empowerment and rarely meet face-to-face become more passive and less performing (Kirkman *et al.*, 2004).

To implement empowerment in a virtual team, the leader must spend considerable time with the individual team members (for example, by telephone), coaching them, helping them see the larger organizational picture and how the team is aligned with the strategy of the organization, reinforcing the vision for the team and also setting the directions and boundaries for the near and long future. These dialogues help each team member to build in-depth knowledge of the task and direction, and confidence in their ability to carry it out.

Managing dynamically and fluidly

To make things even more complex, the team's task, composition, configuration and technology change continuously, requiring the team to change the way it works together. Overall, of course, there should be a strong thread of continuity on each of these structural dimensions. The main task objectives will not change, the core of the team will remain basically stable, most people will stay with the same home location and some technology infrastructure will be constant. At the same time, though, different stages of the task have different requirements even for interdependence. Core members will sometimes change following reassignments and promotions, and peripheral members should come in and out as their expertise is required. In any virtual team, members are travelling and working from airports and hotels in different time zones. And organizations, of course, change technology portfolios, upgrading software and hardware, integrating systems and sometimes shifting whole infrastructures.

In a face-to-face team, these changes are responded to with incremental shifts in team operations. In virtual teams, these changes must be noticed and attended to explicitly. A virtual team that starts off with an effective task structuring and strong relationships may find itself faltering six months later for no apparent reason. Usually this is because the team has not managed dynamically and fluidly by adjusting its task structure and relationships in accordance with new aspects of the task, composition, configuration or technology.

Supporting high performance

Finally, human resources professionals have a critical role to play here. HR managers can help teams through the initial stages with appropriate training and team building. In many organizations virtual teams start with an official face-to-face launch that combines strong relationship building with task structuring meetings and training in the different types of technology available to the team. Although expensive, these launches help virtual teams begin their work together with the greatest possible chances of success. If the task is important, the launch is worth the investment. The four success factors should help HR managers design launches that start the teams off as intended.

HR professionals can also support by playing an advocate role for virtual teams to line management. Many virtual teams work on cross-unit projects, and line managers in the members' home units resent time spent away from 'real' work on projects that seem so intangible. HR professionals can help virtual team members by working with line managers to ensure that the virtual project is given as much priority as an equally important home project would be given. HR managers can also help virtual teams obtain resources. Organizations often assume that virtual teams require no infrastructure or support, and it is common for no budget to be allocated to a virtual team's operations. Virtual teams are less expensive to the organization than expatriate assignments or extensive travel, but there are also costs involved and a virtual team will not perform well without some of these resources.

Like any team, virtual teams can reach maximum effectiveness with appropriate support from the organization. Virtual teams, though, offer potential to achieve things that colocated teams cannot achieve, so supporting them effectively can lead to even greater results.

The future

Virtual teams are currently one of the fastest-changing aspect of managing. Even as this chapter was written, findings were published to support the various arguments we proposed and the organizations we work with developed greater familiarity and confidence with virtual teams. By the time the book is published, some of our speculations may be supported or disconfirmed. We believe that the basic elements we summarize from the research here – the processes, structural conditions and key success factors – will remain a useful framework at least for the near future.

What is the future of virtual teams? Changes will come from two major directions: the technology itself and, more importantly, our familiarity with working in this mode. Technology will certainly increase in bandwidth, and parts of the world that do not have stable infrastructures will

some day be connected either physically or by radio or satellite systems. The costs of connecting, of buying hardware and software, will also come down. Communicating over technology will become more and more rich, and storing and accessing information will become easier. This is all predictable, and very exciting for virtual teams. Will the need for face-to-face meetings disappear? The answer is probably 'for some teams', but that remains to be seen.

The more important idea, though, is that we are just learning to use the technology. Virtual communication seems awkward in comparison to face-to-face interaction in part because we have not used it nearly as long. Teams have been working together for thousands of years; virtual teams with possibilities of synchronous and almost synchronous communication have been with us for just over a century, and widely available and rich electronic communication has been a normal part of teamwork for only a decade.

Despite the difficulties, these are early days. People fall off a bicycle many times as they learn to ride, but they keep learning because bicycling is faster than running, which is easier. Virtual teams are the bicycles we are just learning to ride, beside the face-to-face teams that we have been running in forever. Anyone who spends time with children or teenagers can see that the next generations of virtual team members in organizations will be different. These young people have always had Internet connections, and create relationships over technology just as easily as they do with the children who live next door. Perhaps for them a 'virtual friend' can be just as important as the neighbour friend. They turn to an Internet search engine to research their projects before the word 'library' comes to mind, and find the world's most up-to-date information. They store information and create nonlinear databases naturally. Of course they must learn to use the information appropriately to build knowledge and wisdom, but it is evident that they will have different challenges with virtual teams than we experience in today's organizations.

The next wave of virtual teams research

Virtual teams research to date has focused mainly on the pragmatics of working in such teams. This made sense for the early stages, as team members struggled through the reality of needing to perform. However, in addition to providing richer explanations of processes such as conflict management and leadership, the next wave of research should focus on some of the more fundamental processes of human interaction in organizations and how they will be adapted to the virtual space. How will people identify with their organizations when they are working more with people they never see than with people they see all the time? What kind of interpersonal skills do we need to develop, given that the nature of

interpersonal interaction is inherently unpredictable? Will poor countries catch up with rich countries in technology use, and how will that change the flow of communication and ideas? Only to the extent that we explore questions like these will we be able to provide guidance to organizations to help them prepare for the future.

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20 International joint venture system complexity and human resource management

Randall Schuler and Ibraiz Tarique

An increasing number of organizations are entering new global markets as they seek to develop and sustain a competitive advantage in today's highly competitive global environment (Taylor, 2004; Ernst & Halevy, 2004). To accomplish this international expansion, organizations can and do use many different market entry strategies (Narula & Duysters, 2004; Briscoe & Schuler, 2004; Beamish & Kachra, 2004; Newburry & Zeira, 1997; Child & Faulkner 1998). Prior research has shown that cross-border alliances, particularly international joint ventures (IJVs) are perhaps the most popular means of international expansion (Ernst & Halevy, 2004; Briscoe & Schuler, 2004; Schuler, Jackson & Luo, 2004).

Despite their popularity, however, IJVs are difficult to develop, organize and manage. Research has shown that a majority of IJVs fall short of their stated goals, leading to costly failures (Schuler *et al.*, 2004; Luo, 2000; Evans, Pucik & Barsoux, 2002). While external environmental forces like the legal system, political system and state of the economy, and organizational forces like partner differences and contract terms contribute to failures, a large proportion of IJV failure can be attributed to inefficient management of human resources (Arino & Reuer, 2004; Beamish & Kachra, 2004). Human resource problems stem from, among many things, the fact that IJVs involve managing the goals of two or more partner organizations, while simultaneously maintaining a competitive strength in multiple global markets (Arino & Reuer, 2004; Bouchet, Soellner & Lim, 2004). Despite their difficulties, however, IJVs have the potential to produce great benefits for companies (Bouchet *et al.*, 2004; Schuler *et al.*, 2004; Briscoe & Schuler, 2004; Evans *et al.*, 2002). Accordingly they remain a common choice among firms seeking to enter overseas markets, and an important area for scholarly study (for example, Zeira, Yeheskel & Newburry, 2004; Lajara, Lillo & Sempere, 2003; Loess & Yavas, 2003; Chen & Wilson, 2003; Chiah-Liaw, Petzall & Selvarajah, 2003; Petrovic & Kakabadse, 2003).

IJVs typically represent a long-term collaborative strategy and require active day-to-day management of a wide variety of human resource (HR) issues (Narula & Duysters, 2004; Evans *et al.*, 2002). HR issues are critical

organizational concerns and problems for which human resource management expertise is required to provide effective solutions. This expertise is represented in a variety of human resource management activities. Some of the HR issues that are critical to the success of equity-based IJVs may also arise in other forms of alliances but are likely to be less central to their success (Narula & Hogedoom, 1999; Schuler & Tarique, 2005). In IJVs, however, long-term success is impossible unless HR issues are managed effectively. While there are many lessons that can be transferred from our discussion of IJVs to managing HR issues in other forms of alliances (Schuler & Tarique, 2005), most of our discussion focuses on describing the challenges of managing human resources in IJVs. More specifically, we focus on international joint ventures by presenting a more detailed conceptualization of the IJV system and highlight its growing complexity.

Human resource management

Every IJV, from the smallest to the largest, engages in a variety of human resource management activities. These include formal policies and everyday practices for managing people and addressing HR issues. HR policies are statements that offer a general indication of how people will be managed. HR practices then take the next step and provide a more specific statement of how people will be managed. Seen another way, HR policies are the guidelines and HR practices are things that are actually implemented.

In the remainder of this chapter, we describe some HR issues that arise in several different types of IJVs and discuss their implications for a variety of human resource management activities (Schuler *et al.*, 2004). It is through an understanding of the HR issues and their specific implications that we are able to craft the most effective HRM activities for IJVs and then to identify critical research issues. In this chapter we develop a typology of IJVs as a way of illustrating the variety and complexity of IJVs and the challenge of crafting an effective set of HRM activities. Suggestions for research are made through the development of propositions based upon several theoretical perspectives.

International joint ventures

International joint ventures are legally and economically separate organizational entities created by two or more parent organizations that collectively invest financial as well as other resources to pursue certain objectives. IJVs are typically used when the required integration between the partners is high and the venture business is characterized by uncertainty and decision making urgency (Doz & Hamel, 1998; Luo, 2000; Arino & Reuer, 2004). Although an overwhelming majority of international joint ventures involve only two parent firms (one from a foreign country and the other from the local

country), some ventures may consist of multiple participants (Schuler & Tarique, 2005). Joint ventures that are launched by home country-based (foreign) and host country-based (local) firms are the dominant form of joint venture partnership (Bouchet *et al.*, 2004). Because the creation of an IJV involves establishing an independent organization, the need to establish a separate set of HR policies and practices is particularly evident.

Reasons for international joint ventures

International joint ventures have become a major form of entry into global markets (Ernst & Halevy, 2004; Evans *et al.*, 2002; Barkema *et al.*, 1997). Luo (2000), Schuler *et al.* (2004) and Harrigan (1986) suggest that there are many reasons for companies forming IJVs.

Knowledge and learning Of the many reasons, a particularly important reason, as far as HRM is concerned, is knowledge sharing and transfer (see Sparrow elsewhere in the present volume; Foss & Pedersen, 2002; Reid, Bussier & Greenway, 2001; Child & Faulkner, 1998; Kalmbach & Roussel, 1999; Shenkar & Li, 1999). In many industries, increasing global competition and unabated technological advances have resulted in a wide range of cross-border collaborative partnerships intended to access knowledge, skills and resources that cannot be internally produced by organizations in a timely or cost-effective fashion (Narula & Duysters, 2004).

Organizational learning has long been considered a key building block and major source of competitive advantage. An IJV is not only a means by which partners trade access to each other's skills but also a mechanism for actually acquiring a partner's skills (Luo, 2000; Inkpen & Tsang, 2005). In bringing together firms with different skills, knowledge bases and organizational cultures, IJVs create unique learning opportunities for the partner firms. By definition, IJVs involve a sharing of resources. This access can be a powerful source of new knowledge that, in most cases, would not have been possible without the formal structure of an IJV. Consequently, IJVs are no longer a peripheral activity but a mainstay of competitive strategy (Bouchet *et al.*, 2004; Taylor, 2004). IJVs forge new knowledge transfer pathways, across both technologically and traditionally linked positions (Inkpen & Tsang, 2005). Kalmbach and Roussel (1999) showed that firms that formulated explicit learning objectives in their alliances generated twice the market values compared to those of non-learning-oriented alliances.

Efficiencies and economies In addition to the growing importance of learning from IJVs another significant reason for forming alliances is to gain and retain management and organizational efficiencies and economies. These efficiencies and economies can result from combining operations,

building upon the experiences of existing management and taking advantage of the latest in technologies, for example, when establishing a new facility (Luo, 2000; Newburry & Zeirra, 1997).

While there are several other reasons for establishing and operating IJVs, we propose to use efficiencies and economies as a basis for our initial extension of the relationship between IJVs and HRM to other forms of alliances because these two reasons are closely aligned with the rationale that link and differentiate varying forms and types of IJVs. But in proposing these two reasons we are obliged to incorporate two other considerations into our extension and these considerations are the need for the parent(s) to exercise control over the IJV and yet cooperate with the other partners and even the IJV itself (Luo, 2000; Geringer & Frayne, 1990; Frayne & Geringer, 2000).

Control Without the ability to exercise control, it can be more difficult for a parent to establish conditions to maximize learning for itself and its partners, or perhaps even the IJV system, and also to gain and retain the managerial and organizational economies of scale and efficiencies, and protect shareholders' assets and 'brand image', as in the very unfortunate situation at the Union Carbide Corporation (UCC) operation in Bhopal, India that was an IJV (50 per cent UCC) in which the parent company's shareholder value and its reputation, as well as thousands of lives, were lost (Harry, 2004). As a consequence, parent companies engage in numerous strategies to maintain control (Narula & Duysters, 2004; Luo, 2000; Robson, Leonidou & Katsikeas, 2002).

Cooperation As Narula and Duysters (2004: 199) indicate, 'globalization has affected the need of firms to collaborate, in that firms now seek opportunities to cooperate, rather than identify situations where they can achieve majority control'. Thus, while control is important, cooperation is equally critical in helping to enhance the IJV's chances of success and the learning opportunities of the parents (Inkpen & Tsang, 2005). A further element in pursuing efforts of cooperation and attempts to control is the element of trust. Indeed trust is also central to learning and management efficiencies. While an important need, the treatment of trust is left for further discussion in another chapter. It is, however, found in all stages of the four-stage model of IJVs.

The four-stage model of IJVs

The human resource issues in IJVs are clearly very extensive (Child & Faulkner, 1998; Schuler, 2001). Because these issues also reflect characteristics and qualities of the organization that are themselves closely

associated with human resources, we included them together in our discussion of the four stages of IJVs. While there is an extensive set of organizational and HR issues in IJVs, they can be refined and categorized into several stages, beginning with the development of the IJV itself by the two (or more) parents and going through the advances of the IJV itself (Evans *et al.*, 2002; Schuler, 2001). The four stages of the IJV process are shown in Table 20.1, representing the entire IJV system. Shown in each stage, the organizational and human resource issues are most applicable to the IJV system. These in turn become the basis for identifying the HR implications for each stage. We propose that aspects of these stages are applicable in varying degrees to all forms of IJVs (Isabella, 2002). That is why we highlight them briefly here. Greater detail is provided elsewhere (Schuler, 2001; Schuler & Tarique, 2005). Another reason is to provide an update of the existing literature on HRM in IJVs. Future research can then tailor these HR implications to the organizational and human resource issues that are uniquely associated with varying forms of IJVs.

The four stages include the activities even before the IJV itself is formed and conclude with the relationship among the three entities, two or more partners and one IJV. While the literature generally treats one partner as being in the same country as the IJV, this need not be the case in this model. A three (or more) country IJV, however, makes the entire process more complex, and the human resource management activities more extensive and important. For another discussion of the formation and development stages of the IJV process, see Lei, Slocum and Pitts (1997) and Makhija and Ganesh (1997). For more details of each stage, see Schuler (2001) and Schuler *et al.*, (2004).

Stage 1: formation – the partnership To manage an IJV for success, it is important to understand joint venture formation as including the several aspects shown in Table 20.1. Potential partners in an IJV need to separately determine their reasons for using an IJV as part of their business strategy. Early planning in joint ventures is especially important in order that differences in cultural and management styles between the parents and the venture are considered (Loess & Yavas, 2003; Datta & Rasheed, 1993). Without planning, the likelihood of reaping the gains from the IJV is diminished (Cyr, 1995; Pucik, 1988). Differences in partners on such qualities as culture (country and organizational can be part of an HR plan that includes an audit of these qualities) (Schuler *et al.*, 2004; Pucik, 1988).

The perspective on IJVs reflected in the discussion and propositions in this chapter and the current literature is that IJVs are intended for the longer term (Doz & Hamel, 1998; Child & Faulkner, 1998). While they may involve cooperative or competitive partners, it appears that cooperative partners

Table 20.1 Organizational/HR issues and HR implications in the four stages of the IJV system

Organizational/HR issues	HR implications
Stage 1 Formation Identifying reasons Planning for utilization Selecting dedicated manager Finding potential partners Selecting likely partners Handling issues of control, trust and conflict Negotiating the arrangement	The more important learning is, the greater the role for HRM Knowledge needs to be managed Systematic selection is essential Cast a wide net in partner search Be thorough for compatibility Ensure procedures and communications More skilled negotiators are more effective
Stage 2 Development Locating the IJV Establishing the right structure Getting the right senior managers	Concerns of multiple sets of stakeholders need to be considered for long-term viability and acceptance The structure will affect the learning and knowledge management processes. These are affected by the quality of IJV managers Recruiting, selecting and managing senior staff can make or break the IJV
Stage 3 Implementation Establishing the vision, mission, values, the strategy and structure Developing HR policies and practices Dealing with unfolding issues Staffing and managing the employees	This will provide meaning and direction to the IJV and employees These will affect what is learned through trust, control and conflict management Need to design policies and practices with local–global considerations The people will make the place
Stage 4 Advancement and Beyond Learning from the partner(s) Transferring the new knowledge to the parents Transferring the new knowledge to other locations	Partners need to have the capacity to learn from each other HR systems need to be established to support knowledge flow to the parent and learning by the parent Sharing through the parent is critical

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may help increase the chances of success and the effectiveness of the learning process itself (Narula & Duysters, 2004; Isabella, 2002; Child & Faulkner, 1998; Doz & Hamel, 1998; Cyr, 1995). Consensus has it that the very nature of joint ventures contributes to their failure: they are a difficult and complex form of enterprise (Shenkar & Zeira, 1987) and many companies initiate IJVs without fully recognizing and addressing the major issues they are likely to confront (Morris & Hergert, 1987; Arino & Reuer, 2004). Success requires adept handling of least three key issues: control, trust and conflict. Control, along with trust and learning, is one of the most important and most studied topics in the alliance literature (Luo, 2000; Schuler *et al.*, 2004; Geringer & Hebert, 1989; Yan & Gray, 1994; Inkpen & Currall, 1997). Control is defined as a purposeful and goal-oriented activity that influences the acquisition, interpretation and dissemination of information within an organizational setting (Simons, 1987; Geringer & Hebert, 1989). This definition highlights the information/knowledge qualities of IJVs. Thus, not surprisingly, Hamel (1991) and Doz & Hamel (1998) suggest that learning can be the most important lever in IJV control. Nooteboom *et al.*, (1997) suggest that trust may become a substitute for control and that, as trust increases, the need for formal control mechanisms decreases.

Not surprisingly, the quality of IJV contract negotiations during the IJV formation can have an impact upon three consequences of importance: IJV formation satisfaction, IJV process performance and IJV overall performance (Luo, 1998; Lei, Slocum & Pitts, 1997; Arino & Reuer, 2004). Central to the quality of the contract negotiations are the bargaining processes and strategies used by each of the partners (Aldrich, 1979; Green & Walsh, 1988; Yan & Gray, 1994; Arino & Reuer, 2004). The characteristics of the contract negotiator(s) can also have an impact on the success of the IJV. These characteristics include country cultural similarities, personality and skills, and loyalty. Selecting from these characteristics and ensuring that they are supported and rewarded are important human resource management contributions (Arino & Reuer, 2004).

Stage 2: development – the IJV itself Once the IJV process has been formed, there are several important activities that must be addressed in the development of the IJV itself, as shown in Table 20.1 (Isabella, 2002; Child & Faulkner, 1998). Where to locate is an important decision. It can be decided to locate the IJV itself in a third country or in the country of one of the partners. Locating in a third country may diminish the ‘home field advantage’ for either partner; however, it may increase the complexity and complications and need for more information gathering and broader expertise because several of the local stakeholders, such as trade unions, political officials, members of society and regulators, may be unknown to

foreign partners (Schuler & Tarique, 2005; Narula & Hagedoorn, 1999). Locating in the country of one partner, however, may give a 'local knowledge' and control advantage. If, however, this knowledge is shared with the other partner, the advantage can move to the partnership and the IJV itself rather than one partner.

When both parents are interested in the IJV and want it to succeed, they appear to get involved in all the key decisions made early on, as reflected in the contract negotiation (Arino & Reuer, 2004). Under these conditions, the board of directors is likely to be composed equally of representatives of the parents and the IJV (internal and external to these entities). The chief operating officer, if not the managing director/general manager, may be selected from the source providing the most experience with the operation of the IJV. Of course, the more parents involved, the more complex and complicated all of this becomes.

Stage 3: implementation – the IJV itself The implementation stage of the IJV process involves the four sets of activities shown in Table 20.1. The vision, mission, values, strategy and structure of the IJV need to support, encourage and reward learning and the sharing of knowledge (Slocum & Lei, 1993). They also need to support the other needs of the business, the needs of the parents and the needs of the other multiple stakeholders; in other words, the IJV system. With a high-quality top management team in the IJV, the vision, mission, values, strategy and structure are more likely to be crafted to fit the local needs as well as those of the parents. At this point, it is clearly not in the interest of the IJV to ignore the linkages with the parents. For the parents, willingness to trust the IJV top management team to act in their interests and at the same time the interests of the IJV is critical (Child & Faulkner, 1998; Schuler, Dowling & De Cieri, 1993; Schuler & Van Sluijs, 1992; Van Sluijs & Schuler, 1994; Inkpen & Dinur, 1998).

The entire set of the HR policies and practices needs to be created for the IJV. The factors that these policies and practices need to reflect include the following characteristics of the IJV: (a) vision, mission, values, culture, structure, strategy; (b) labour market; (c) need for global integration with parent(s) such as for knowledge transfer; and (d) differences between the country cultures of the parents and the IJV (Schuler & Tarique, 2005). As shown in Table 20.2, acceptable human resource policies and practices may vary substantially according to the cultural dimension of the countries (Hofstede, 1993; Rosenzweig & Nohria, 1994). Thus the more countries involved in the IJV system, the more variation in HR policies and practices that would be expected. And the greater the differences in country cultures, the more significant the implications for HRM policies and practices are likely to be (Robson *et al.*, 2002).

Who actually develops the HR policies and practices can range from one of the parents to the IJV exclusively. The more the development is left with the IJV, the greater the likelihood that the practices will be effective for local adaptation, but not as effective for the parents, global integration and learning transfer (Child & Faulkner, 1998). High-quality top managers, however, are likely to develop locally responsive HR policies and practices with sensitivity to the parents' considerations. Possibly some policies will be non-negotiable and have to meet parents' standards, such as ethical, safety and environmental standards, whereas other policies, such as working hours, compensation and benefits, can be much more locally adaptable. Again the more parents, the more likely that a variety of standards will exist that have to be addressed.

There are many organization and HR issues that unfold as the IJV gets set up, including the assignment of managers, managers' time-spending patterns, top management evaluation, managing loyalty issues, and career and benefits planning (Briscoe & Schuler, 2004; Zeira & Shenkar, 1990). The substance of these issues needs to be addressed explicitly by any IJV (Luo, 2000; Lorange, 1986). Each partner may place differing priorities on the joint venture; therefore a partner may assign relatively weak management resources to the venture. And the more partners there are, the more likely this may occur. To be successful, not only should the assigned managerial resources have relevant capabilities and be of adequate quality, but the overall blend of these managerial resources should reflect a balance of the interests of both parents and of the IJV. Because these assignments could be perceived as attempts to control the IJV (Pucik, 1988), it could be argued that the IJV's top management should have the final say in the staffing of any positions within the IJV itself. Sources for staffing for the IJV include parents, local country nationals, third country nationals, international itinerants (independent expatriates for hire), competitors, suppliers, customers and universities (Harry & Banai, 2005). The selection criteria certainly include knowledge of country culture and the ability to manage cultural differences (Harvey, Speier & Novicevic, 1999; Child & Faulkner, 1998).

Stage 4: advancement – the IJV and beyond The advancement stage of the IJV process involves learning from the partners, transferring knowledge and learning to the parents, and transferring knowledge and learning to other locations. As the IJV becomes established, the partners' relationships continue to evolve (Child & Faulkner, 1998). In the view of Luo (2000) and of Doz and Hamel (1998), learning and adjustment by the partners are the key to IJV longevity and the avoidance of premature dissolution.

In general, mechanisms for knowledge and information transfer that can be used include top management support, staff rotation, staff training and

Table 20.2 Potential HR policies in countries with various cultural dimensions

HR policies	Power distance		Individualism	
	Low	High	Low	High
Staffing	Select for career progression	Select for specific job and level	Selection for team players	Selection for individual contributions
Appraising	Joint placement and career decisions	Boss places and plans employees' careers	Willingness to contribute to firm	Desire to develop own career
	Joint problem solving	Assign goals	Not focus on task accomplishment as much as group membership and loyalty	Individual task accomplishments
Compensating	Personal initiative in planning execution	One-way communication	Group-based contingent rewards	Set personal goals
	360° feedback	No employee participation	Non-economic rewards that satisfy recognition needs	Individual-based contingent rewards
Training & leadership	Employee participation and involvement in reward techniques	Status distinctions accepted	Skill improvement to contribute to organization	Individual praise & recognition
	Profit-sharing; gain-sharing	Skills for present job	Group skills	Autonomy
Work design	Direction	Job structure, feedback and direction by boss	Consideration	Use of task identity, autonomy, feedback from job
	Provides freedom, discretion and participation	Job structure, feedback and direction by boss	Facilitates work design that includes teamwork, task significance, feedback from others	

HR practices	Uncertainty avoidance		Masculinity	
	Low	High	Low	High
Staffing	No job descriptions General career guidelines	Clear job descriptions Clear career paths Specific rules and policies	Fit into group Fit with organization	Take personal responsibility Ability to do job
Appraising	Set of difficult and specific goals which involve high risk taking	Set easy goals with low risk taking	Use social benefit, quality of work life and equality	Job tasks & goals Work action plans Performance feedback
Compensating	Link pay to performance External equity Flexibility Broad banding	Limited use of performance-based (at risk) pay Predictability: pay consistency	Use of social benefits, quality of work life, non-zero sum, job security	Use performance pay Competitive pay, promotion and recognition
Training & leadership	General application Participative General directions	Task-specific Structure and direction	Develop social skills	Develop task skills Initiating structure
Work design	Challenge Job enrichment; personal intrinsic gain	Simple job design Limited scope of responsibility Enable group interaction	Job context important Colleagues, security and safety	Job content important Challenge, task accomplishment

Note: © Randall S. Schuler, Rutgers University.

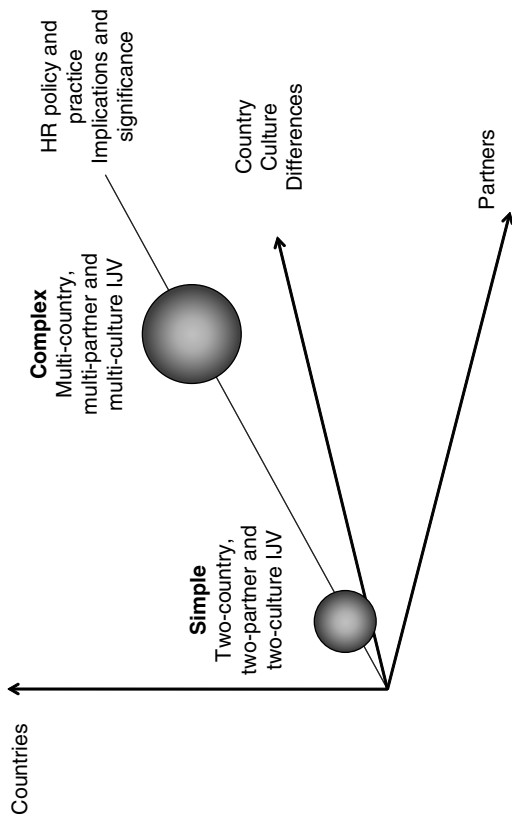
development, site visits, rewards and recognition and repatriation management (Lei, Slocum & Pitts, 1997; Inkpen & Currall, 1997; Inkpen & Crossan, 1995; Cyr, 1995; Collins & Doorley, 1991). Again, the more parents there are, and the more country cultures involved, the more complex this is likely to be.

Thus far, learning and knowledge transfer have occurred from one partner to others and from the IJV itself to the parent. In both cases the parent organizations are gaining new learning and knowledge that can be used for their internal operations or for their next IJV process (Child & Faulkner, 1998; Doz & Hamel, 1998). While consideration for transferring this learning and knowledge to future IJV will enter into the complexities of partner selection described in the first stage, transferring learning and building social capital to other units within the organization may be more straightforward and more under the control of the organization (Inkpen & Tsang, 2005). Nevertheless this may become more challenging with multiple partners and multiple country cultures.

Proposed application of the four-stage model to varying forms of IJV

The organizational and human resource issues in IJVs are clearly very extensive (Child & Faulkner, 1998; Schuler, 2001). Thus far, they have been categorized into several stages that begin with the development of the IJV system itself. While some variations of the two-parent IJV were mentioned, the four stages described have been created around a generic and somewhat limited type of IJV. This appears, however, to understate the realities of the IJV system. For example, IJVs can be differentiated on the basis of many important characteristics, such as the number of partners (parents), the number of countries represented in total by the IJV system and the extent of country culture differences represented by parents in the IJV system (Beamish & Kachra, 2004; Das & Tsang, 2000). Using these characteristics we propose that IJVs may be distinguishable on the basis of the environmental differentiation, complexity and potential for conflict. Furthermore this distinction can be depicted on a continuum beginning with a simple two-party, two-country, two-country-culture IJV system and ending with the most complex multi-party, multi-country and multi-culture IJV system. Regardless of the particular point on the continuum, any IJV system can still be described by adapting the four-stage generic model. Simultaneously the organizational and HR issues can be described and the implications and significance of HR policies and practices can also be seen. The general relationships between the type of IJV system and the implications for and significance of HR policies and practices are shown in Figure 20.1.

We propose that the organizational and HR issues and the resulting HR implications and significance can be more specifically developed by



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Figure 20.1 Relationships between type of IJV system complexity and the HR policy and practice implications and significance

expanding on the four-stage model of the generic IJV system. Some possibilities for this have been suggested in the description of the generic four-stage model above, but these are developed further through the explication of researchable propositions based upon several theoretical perspectives.

Theoretical perspectives for HRM–IJV relationships

We suggest that expanding upon the work of many researchers, including Beamish and Kachra (2004) and Osborn and Hagedoorn (1997) is useful in describing the relationships between HRM and IJV types. We propose to do that by using several theoretical perspectives. In the previous works, the most prevalent theoretical perspectives were: systems theory, transaction costs, agency theory, resource based, organizational learning theory, and cooperation theory (Inkpen & Tsang, 2005; Narula & Duysters, 2004; Robson *et al.*, 2002). For the purposes of this initial explication of possible relationships between HRM and IJVs we focus on transaction costs, organizational learning, and cooperation perspectives (Schuler & Tarique, 2005).

Transaction cost theory

Transaction cost theory assumes that business enterprises choose governance structures that economize transaction costs associated with establishing, monitoring, evaluating and enforcing agreed-upon exchanges. The theory has direct implications for understanding how HR activities are used to achieve a governance structure for managing the myriad implicit and explicit contracts between employers and employees in an IJV system (Schuler & Tarique, 2005; Wright & McMahan, 1992). IJV partners try to establish contractual relationships with each other to reduce their transaction costs, but they find that the preferences for explicit as opposed to implicit contracts is likely to be influenced by country culture.

Organizational learning theory

According to the organizational learning theory perspective (Kogut, 1988), prior learning facilitates the learning and application on new, related knowledge (Cohen & Levinthal, 1990). This idea can be extended to include the case in which the knowledge in question is itself a set of learning skills constituting the absorptive capacity of the IJV parents. This capacity increases as a function of the previous 'IJV formation' experience, its learning processes and the need for information the IJV system considers lacking in order to attain its strategic objectives.

Cooperation theory

Narula and Duysters (2004) suggest that globalization encourages firms to seek cooperative alliances and partnerships. This reflects an important

necessity to work, cooperate with other in orders to survive and compete in the global environment, particularly in capital and knowledge-intensive industries. Because international joint ventures offer one possible way of dealing with the 'imperative of globalization', working cooperatively becomes a significant activity for firms seeking partners for international joint ventures. Cooperation theory suggests that both partners are more likely to have successful venture relationships if they engage in cooperative rather than competitive behaviours (Loess & Yavas, 2003; Narula & Hagedoorn, 1999; Narula & Duysters, 2004; Inkpen & Tsang, 2005). Based on these three theoretical frameworks we propose the following propositions.

Propositions and research directions

As suggested earlier, the four-stage model of the IJV system may have application to many forms of IJVs because the differences among them are more of degree rather than of kind, with exceptions. Further illustrating this is Figure 20.1 which depicts the relationships between HR policy and practice significance and implications and type of IJV. These relationships are proposed because, as the IJV form moves from a simple two-country, two-partner, two-country-culture IJV to a complex multi-country, multi-partner and multi-country-cultural IJV, the amount of differentiation, complexity and conflict increases and the potential for further conflict, uncertainty and instability also increases (Bouchet, Soellner & Lim, 2004; Luo, 2000; Schuler *et al.*, 2004; Osborn & Hagedoorn, 1997). These relationships are proposed to have a one-to-one relationship as we move from the simplest IJV to the most complex IJV (Narula & Duysters, 2004; Narula & Hagedoorn, 1999). Indeed, as shown in the three dimensional Figure 20.1, there is a significant distinction between IJVs that have multiple country cultures and multiple partners and those that have only two country cultures and two partners. Many of the specific steps in the four-stage model for IJVs (Table 20.1), however, are still likely to exist, but their complexity and complications are expected to be significantly less, thus their significance and importance are substantially less (Luo, 2000).

Propositions

Based upon the description of Figure 20.1 and the three theoretical perspectives, we propose five general propositions for future research. Building upon the work of Loess and Yavas (2003), Narula and Hogedoorn (1999) and Narula and Duysters (2004), we suggest that including more partners from more countries and with more cultural distance is likely to increase the amount of differentiation, complexity and potential conflict within the IJV system.

Proposition 1: the greater the number of partners, countries and cultures involved in an IJV, the greater the differentiation, complexity and potential for conflict with the IJV system.

As Osborn and Hagedoorn (1997) suggest, varying forms of IJVs are linked and differentiated by their amount of uncertainty and complexity and, with these, the amount of control that can be exerted over the IJV system. In other words, as the IJV form moves from simple to complex, as depicted in Figure 20.1, we propose that complexity, complications and the potential for conflict uncertainty control and instability increase.

Proposition 2: the challenges to learning, gaining and retaining efficiencies and exercising control increase as the form of IJV moves from simple to complex.

As a consequence of the relationships described in Proposition 1, we further propose that increasing amounts of complexity, complications and potential for conflict, uncertainty and instability will become challenges and potential roadblocks: (a) to managing the learning processes in the alliance system; (b) to gaining and retaining efficiencies and economies of scale; and (c) to exercising control over the IJV system activities. Similarly the need for and benefit from cooperation will increase.

Proposition 3a: the implications for and significance of HRM increase as the form of IJV moves from simple to complex.

Proposition 3b: the implications for and significance of HRM are much greater for complex IJVs than for simple IJVs.

HR policies and practices have the ability of providing clarity, structure and management to organizational and human resource phenomena. Done effectively, they are able to contribute the three needs for managing the learning processes, gaining and retaining efficiencies and economies of scale, and exercising control over the IJV system activities. And as the IJV system moves from simple to complex, these three needs increase, and thus the implications for and significance of HRM will increase. While the separate HR policies and practices will all be individually and uniquely important, it is proposed that the nature of their significance will increase when done systematically across the forms of IJVs.

Proposition 4: HR issues and implications can be developed into four stages similar to forms of IJVs from simple to complex.

Whether an IJV system is a simple or a complex form, its activities can be categorized or staged in similar ways, each with issues and implications for HRM. For example, the formation of any IJV should be based on

identifiable reasons, most of which will have implications for HRM. Partners will also have to be found and selected for the various forms of IJVs; learning and knowledge are important and selecting partners one can learn from is also important. In the development of any IJV activities, questions about where and how the venture will be located and staffed will arise. A manager for IJV management may be necessary to ensure that the IJV is managed in order to benefit the entire IJV system. In the implementation phase, additional staff may need to be added, to staff the joint venture (simple or complex) throughout the world. Many of the specific steps in the four-stage model for IJVs (Figure 20.1), however, are still likely to exist in a simple two-country, two-partner, two-country-culture IJV but their complexity and complications are expected to be significantly less, thus their significance and importance are substantially less (Luo, 2000). Throughout the various stages, HR policies and practices can help manage the differentiation, complexity and potential for conflict and thereby assist the IJV system in attaining its goals and objectives.

Conclusion

IJVs of all forms are growing in importance for organizations, and the concern for understanding and managing them as well as possible is increasing. In this chapter we have tried to highlight the role of human resource management in varying forms of IJVs. Because the existing body of work in this area has largely focused on simple two-parent–two-country–two-culture forms of IJVs, this chapter has sought to extend this focus by describing the potential relationships between HR policies and practices and several forms of IJVs, from the simple to the complex. This was done by utilizing the four-stage model used to describe the issues and implications for human resource management in international joint ventures.

Along with this model the key underlying phenomena in IJVs were identified: complexity and complications, the potential for conflict, uncertainty and instability, and the need for cooperation, all of which are proposed to increase as the form of IJV moves from the simple to the complex IJV, as illustrated in Figure 20.1. The organizational and HR issues that arise in IJVs result because these underlying phenomena become challenges and roadblocks to what are important needs in all forms of IJVs; that is, learning, efficiencies, control and cooperation. In turn, all of them have implications for human resource management, which increase in significance from simple to complex IJVs because more is at stake as the IJV becomes more complex.

Based upon the relationships shown in Figure 20.1, propositions were offered that might form a basis for further research in the area of human resource management in varying forms of IJVs. These propositions reflect

the three theoretical perspectives of transaction costs, organizational learning theory and cooperation theory. Future research might reflect other theoretical perspectives as well as these three. Future research might also be based upon a generic four-stage model of human resource management in IJVs that is similar to, yet distinct from, that shown in Table 20.1.

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21 Managing culture and human resources in mergers and acquisitions

Philip K. Goulet and David M. Schweiger

Mergers and acquisitions (M&As) have become a popular practice for firms seeking advantage in highly competitive global markets. They can quickly shape a firm's future and the dynamics of the industry in which it operates. M&As are arguably one of the most strategic of management decisions given the significant resource commitments and profound performance implications they have on the firms involved. Consequently understanding how to conduct M&As is critical to the general success of any firm undertaking this form of organizational transformation.

Research over the past two decades has significantly advanced our knowledge of M&As. Much of this work has focused on the human aspect of organizational change as a key determinant of M&A success. It is our objective to share some of this exciting work with the reader, and to further extend the discourse on this critical topic.

We have structured this chapter into four sections. The first section involves an in-depth look at the human element of M&As, and how human resource issues, particularly culture, affect M&A outcomes. The second section identifies interventions that are designed to manage some of these issues. In the third section, we propose a process model of human resource integration in cross-border M&As that synthesizes and extends the extant literature reviewed in this chapter. Finally, the fourth section offers direction for future research.

The human element of mergers and acquisitions

We are in the midst of the largest wave of M&A activity in history. It is being fuelled by globalization, technological change and deregulation. Worldwide M&A activity in merger-deal value exceeded \$1.9 trillion in 2004 (*The Wall Street Journal*, 2005), and although North America and Europe account for nearly 86 per cent of M&A activity, other regions such as Asia and Latin America have also established a presence in this area (*The Wall Street Journal*, 2004).

The current wave of M&As has changed since the conglomerate wave of the 1960s. This has brought with it new issues and challenges for acquirers. The current wave of M&As represents an acquirer focus on related targets

as a strategy to strengthen the acquirer's core competencies and extend its existing capabilities. Target firms can no longer be acquired and left as independent operations to accomplish these objectives. Integration of the two firms' unique capabilities is required to capture the additional value, or synergy, the acquirer hopes to achieve from these M&As. Critical to this effort is management's ability to create an environment that supports organizational interaction and change.

Although practitioners support M&As as a means to enhance firm performance, studies overwhelmingly indicate that the majority of M&As fail to achieve the performance objectives sought by the acquirer (for example, Agrawal & Jaffe, 2000). Academicians have responded to this finding by advancing knowledge of M&A phenomena and offering prescriptions for M&A success. A host of empirical studies has found that integration issues are major causal factors in explaining the less than spectacular results (for example, Chatterjee, Lubatkin, Schweiger & Weber, 1992; Datta, 1991; Larsson & Finkelstein, 1999; Pablo, 1994). These studies recognize that human integration is a key objective of the integration process, and that it is managing this process well that underlies actual value creation in M&As (for example, Haspeslagh & Jemison, 1991). In the following subsections, we review three streams of human resource research that have attempted to explain the impact of integration issues on M&A outcomes.

Autonomy removal and preserving parity

Removal of target autonomy is one stream of research dealing with human integration issues in M&As. The general findings in this area indicate that integration is smoother when employees' freedom is increased, whereas problems are created when it is reduced (Cartwright & Cooper, 1992). Centralization of activities, for example, has been found to be one of the post-M&A changes that create the most organizational problems (Bohl, 1989). Other work indicates that the removal of autonomy from target executives results in greater turnover of these executives (Lubatkin, Schweiger & Weber, 1999) and lower financial performance of the acquirer (Cannella & Hambrick, 1993). Autonomy removal is believed to signal a loss to target executives, which can cause conflict between the acquirer and target during integration. These findings, based on a sample of domestic US M&As, have been generalized to an international context by a study of cross-border French and British M&As, which also found that autonomy removal from target executives caused performance in these M&As to deteriorate (Very, Lubatkin, Calori & Veiga, 1997).

Leaving a target independent, however, is not an effective solution. As noted earlier, synergy, or acquirer–target interdependence, is a desired outcome of integration (Larsson & Finkelstein, 1999; Weber, 1996). Shying

away from integration forfeits value associated with the strategic fit of the M&A.

Preserving parity between the acquirer and target is a practice designed to promote integration while avoiding negative outcomes associated with autonomy removal. It includes balancing positions assigned to acquirer and target managers in the new organization, and providing legitimate representation to both firms on the board of directors. The objective is to share power, responsibility and authority on a proportionate basis in the new organization.

However the efficacy of this practice has been challenged. A study of three Dutch and German cross-border mergers, for example, found that, although preserving parity initially eliminated conflict, it failed to lead to a true integration of the merging firms (Olie, 1994). The organizational structure that resulted from this practice did not support a reconciliation of the different styles of management between the Dutch firms (described as being congenial and informal) and German firms (described as being autocratic and formal). Furthermore, it did not break down distrust that existed between certain departments at the time of the mergers (for example, sales departments retained their pre-merger perceptions as competitors). Board members were also found to retain a greater attachment to their respective pre-merger firms than to the new organization. A true integration of the merging organizations did not occur until the parity of power, responsibility and authority between the Dutch and German firms was abandoned and board members and managers in key positions were selected on the basis of managerial capability.

The study of the successful International Computers Ltd acquisition of Nokia-Data in 1991 provides additional support for basing the new organization's structure on managerial capability rather than the practice of preserving parity (Mayo & Hadaway, 1994). In this merger between UK and Finnish firms, managerial positions were granted on the basis of capability, rather than parity, which resulted in the target overseeing a majority of the new organization's operations in Europe. The transition structure required integration teams from both companies to assess the capabilities of all employees to achieve the synergies sought from the combination. Dedicating resources to assess employee capabilities seriously and assign positions based on these assessments was found to ease the integration process.

Pre-integration mindsets

Research indicates that M&As cause dysfunctional employee mindsets that lead to numerous human resource problems during integration. Employee attitudes decline after the announcement of an M&A, and continue to

deteriorate over time (Schweiger & DeNisi, 1991; Schweiger & Goulet, 2005). M&As alter the established order and pattern of activities at both firms (Haspeslagh & Jemison, 1991). These changes (anticipated or real) foster uncertainty, fear of job loss and a tendency toward self-preservation on the part of employees (Haspeslagh & Jemison, 1991; Schweiger & DeNisi, 1991). Target employees, particularly, may begin questioning the validity of their skills and knowledge in the new organization, which can lead to lowered self-esteem and feelings that they will be unable to deal with integration issues (Ivancevich, Schweiger & Power, 1987; Sinetar, 1981).

Complicating the context in which integration is to occur is the propensity of the acquirer and target to display defensive behaviour toward one another (Jemison & Sitkin, 1986). Both the acquirer and target are unfamiliar with the other's business, style and practices. This lack of knowledge can lead to frustration for both parties. Acquirer managers may want to help without knowing how, while at the same time target managers may be afraid to admit what they do not know for fear of reprisal.

The acquirer also has the propensity to display arrogant behaviour toward the target (Jemison & Sitkin, 1986). The acquirer may harbour attitudes that its firm's style, values, beliefs and practices are superior to those of the target, and thus should be imposed on it. The acquirer may also have a tendency to cast aside key cultural symbols of the target that provide continuity and meaning for target employees. The presumption is of target incompetence, rather than simply differences of opinion, style or contextual requirements (Jemison & Sitkin, 1986; Marks & Mirvis, 1985).

Acquirers need to appreciate how M&As negatively affect the pre-integration mindsets and behaviours of employees, and how its own behaviour may further distance the two firms. Understanding these human resource issues is a key first step in dealing effectively with employee resistance to change and acquirer–target conflict during integration.

Cultural orientation

Attitudes and behaviours resulting from cultural orientation differ from those resulting from pre-integration mindsets in that they are deeply rooted in the complex identity of the firms and people involved, and not in the uncertainty or arrogance induced by the M&A transaction. Culture has been generally described as the norms, values, beliefs and attitudes of a group of people. These characteristics of culture are broadly based in societies (national culture) (Hofstede, 1980) and in organizations (organizational culture) (Schein, 1985). Acquirer–target differences in cultural orientation have been associated with human resource issues during integration. Understanding and managing these differences is critical to achieving favourable integration outcomes.

National culture National culture has long been accepted as a key variable affecting integration efforts in cross-border M&As. Indeed Norburn and Schoenberg (1994) found that 65 per cent of European cross-border acquirers that experienced serious problems with integration said that the difficulties were due to national culture differences.

Research on national culture distance between the acquirer and target has provided an array of interesting results. In Western European and US cross-border M&As, for example, targets with a national culture high on uncertainty avoidance (Hofstede, 1980) were found to perform more profitably when subjected to lower levels of integration (Morosini & Singh, 1994). Conversely targets with a national culture low on uncertainty avoidance were found to perform more profitably when subjected to higher levels of integration. These results suggest that in cross-border M&As acquirers will have greater difficulty achieving synergies from integration when targets are from countries that rate high on uncertainty avoidance. They also suggest that acquirers will unnecessarily forfeit synergies from integration when higher levels of autonomy are granted to targets from countries that rate low on uncertainty avoidance.

In highly individualistic societies (Hofstede 1980) lower levels of integration were also associated with higher productivity (Morosini & Singh, 1994). Therefore several dimensions of a target's national culture may need to be considered by the acquirer when determining the nature of integration. However, it is unclear how an acquirer should integrate a target that possesses national culture traits that are not complementary (that is, possessing cultural traits of both low uncertainty avoidance and high individualism).

To address the complexity of national culture research, a composite index of cultural distance (Kogut & Singh, 1988) based on Hofstede's (1980) dimensions has been developed and subsequently used by various studies within an M&A context (for example, Brouthers & Brouthers, 2000; Morosini, Shane & Singh, 1998). However this measure has recently been criticized for oversimplifying the conceptual and methodological properties of cultural distance, which has led to inconsistent and flawed results (Harzing, 2003; Shenkar, 2001). Research has yet to develop and widely embrace an efficient and effective means of measuring and interpreting the effects of national culture on M&A phenomena.

National culture has also been found to affect the integration practices of acquirers. A study of US, British and French acquirers of Western European targets, for example, found that French acquirers exercise higher formal control over targets than both British and US acquirers (Calori, Lubatkin & Very, 1994). This is consistent with the national culture dimension of uncertainty avoidance, on which France scores higher than both the US and UK (Hofstede, 1980).

Other findings associated with national culture indicate that French, more so than British, acquirers rely on centralized headquarters–subsidiary controls over targets, so that power and influence resides at the hierarchical top (Lubatkin, Calori, Very & Veiga, 1998). These integration practices have been attributed to the French not only expressing a greater need for uncertainty avoidance but also having a greater acceptance of power distance (Hofstede, 1980).

Conversely US acquirers have been found to rely more on informal communication and cooperation than the French, and to rely more on formal control by procedures than the British (Calori *et al.*, 1994). US managers have also been found to provide a higher level of personal effort to support merger success. They become more involved with target employees than the British. This ‘hands-off’ attitude of acquirer managers was found to be typically British. More important, the use of these informal integration mechanisms was found to yield higher post-M&A attitudinal and economic measures of performance (*ibid.*).

These findings indicate that acquirers may be culturally predisposed in the way they approach integration, and that targets may be culturally predisposed in the way they respond to integration. They also indicate that some differences in national culture may elicit perceptions of attraction rather than resistance. Therefore similarity of national culture traits in cross-border M&As may not necessarily be a harbinger of more successful integration results. Indeed a study of Italian cross-border M&As found that national culture distance was associated with performance based on sales growth over a two-year period following the M&A (Morosini *et al.*, 1998).

There are some indications, however, that the effects of national culture distance may be giving way to the use of ‘best practices’ in cross-border M&As. Convergence in some human resource practices was found in a study of US, Japanese, German, French and UK acquirers of UK targets (Faulkner, Pitkethly & Child, 2002). Practices such as performance-related pay, formal planning systems, tighter cost control and overall financial management, and greater investment in training were common across nationalities.

Considerable differences, though, still remain. US acquirers were found to have a shorter-term employment and termination philosophy than the other countries surveyed, and to practise the least open communications, preferring a ‘need to know’ formal approach to the more open approach found to be practised by Japanese, German and French acquirers. Differences were also found in the way training was performed, with the US and UK favouring courses and the Japanese, German and French favouring on-the-job training. Although more closely related to US acquirers, UK acquirers were less short-term in employment philosophy and showed less

of a tendency towards a 'need to know' communication style. Furthermore the Japanese were found to be less likely than the Americans to employ a formal and transparent personnel appraisal system, whereas the French were found to be the most formal in planning career development. Conversely the Germans were found to be the most ad hoc in career development, and the least likely to employ job rotation practices.

In sum, although some homogenization of human resource practices has occurred in cross-border M&As, there remains a significant nation-specific bias in the way acquirers apply human resource practices to integration.

Organizational culture Organizational culture has been further defined as the special way an organization and its members think about what they do and why they do it (Bower, 2001) and what they consider to be appropriate business practices (Schein, 1985). Differences between acquirer–target organizational cultures are associated with anxiety, negative evaluations of counterparts and ethnocentrism between acquirer and target employees (for example, Sales & Mirvis, 1984), which can lead to employee perceptions that place M&A partners into 'us' and 'them' categories. Often members of one culture attempt to dominate members of the other, particularly in related M&As where the acquirer has experience in the target's industry (Berry, 1980). Target employees are made to feel like second-class citizens in the new organization (Ulrich, Cody, LaFasto & Rucci, 1989). This can lead to conflict and dysfunctional employee outcomes, including lack of trust in management, lack of commitment to the new organization, lack of cooperation between the acquirer and target firms, and increased turnover among target executives (for example, Lubatkin *et al.*, 1999; Nahavandi & Malekzadeh, 1988; Schweiger & DeNisi, 1991).

Acquirers have responded to the problems that differences in organizational culture can create by favouring similar M&A partners. A study of Dutch managers, for example, found that they prefer acquiring a firm with a similar organizational culture, and that cultural similarity is positively related to degree of integration (van Oudenhoven & de Boer, 1995). Managers were found to show a greater willingness to merge with a similar partner, estimate the chance of success to be higher and expect less resistance to the merger within their own company.

These findings suggest that acquirers should strive for a less intensive form of integration when there is a large cultural gap between merging firms. Implementing integration in this fashion, however, limits synergies that can be realized from M&As. Also acquirers risk developing a false sense of security when focusing on targets that have similar characteristics. Similarities found in related M&As, for example, imply that M&A relatedness should lead to greater performance. However a meta-analysis of M&A

studies between 1921 and 2002 found no post-M&A performance effect due to relatedness (King, Dalton, Daily & Covin, 2004). The benefits of relatedness do not always exceed the greater costs of implementing a higher level of integration and the impediments in this process that can cause the loss of anticipated synergies (Jemison & Sitkin, 1986; Larsson & Finkelstein, 1999).

Similarity based on the cultural relatedness of acquirer–target business practices has even been found to have negative consequences for M&A outcomes. Similarities can lead to redundancies and conflict between the acquirer and target (Krishnan, Miller & Judge, 1997). Combining complementary rather than similar operations is likely to be seen as much less threatening to employees (Walter, 1985). Indeed complementary M&A partners with moderately discrepant capabilities have been found to evoke relatively little resistance when compared to similar partners (van Oudenhoven & de Boer, 1995).

Research indicates that successful M&As are driven more by how well integration is managed than by the pairing of acquirers and targets based on the similar cultural characteristics of business practices. Similarity of organizational cultures seems to be less important than the complementarity of organizational cultures. Each firm needs to be valued for its unique contribution to the new organization, and this requires the acquirer to understand and deal effectively with complex human resource issues during integration.

Interventions to smooth integration

The above section provided a literature review of significant human resource issues that affect integration outcomes. This section provides a review of the literature that offers insights into the efficacy of interventions designed to mitigate negative preintegration mindsets and negative outcomes associated with autonomy removal and culture clash during integration.

Acquirer communication

Communication is the most basic intervention available to acquirers. Employee anxiety, uncertainty, lack of trust and other negative feelings following the announcement of an M&A often result from a lack of reliable information about the future (Marks & Mirvis, 1985; Napier, 1989) and it is often this uncertainty, rather than the changes themselves, that is so stressful.

To deal with dysfunctional employee mindsets, immediate, honest and consistent disclosure of information to employees is advocated (for example, Ford & Ford, 1995). Formal communication has been associated with positive reactions toward the acquirer, stabilization of volatile situations and minimization of management resignations (Bastien, 1987). Communicating

the organization's intentions increases employee perceptions that the company is trustworthy, honest and caring (Schweiger & DeNisi, 1991), and communication that organizes helps employees understand their work and roles in the new company (Sinetar, 1981). Realistic merger previews that communicate specific information about the way the M&A would affect employees have been found to reduce employee uncertainty (Schweiger & DeNisi, 1991). Merger workshops that engage employees in understanding the logic or rationale of the M&A have also been found to reduce negative employee feelings (Leroy & Ramanantsoa, 1997).

M&A integration has been described as a process of identity building, and communication is fundamental to this process (Kleppestø, 1998; Vaara, Tienari & Säntti, 2003). Kleppestø (1998), for example, argues that, in situations of crisis, turmoil and change associated with integration, the need for a (re)negotiation of meaning, identity and relations increases, while the applicability of previous understandings decreases and comes under debate. Communication is critical in the formation of identities and in the development of a world view and relationships in the new organization.

Kleppestø warns acquirers that they must understand the complexity of communication to be successful at integration. It is not possible not to communicate. The absence of speech and physical presence is not equivalent to non-communication; it is merely another set of signals. Moreover communication involves the simultaneous passing of messages at two levels: the report level and the command level. The report level conveys the information proper, whereas the command level negotiates the relationship between the actors involved. Communications can also be highly contextual, and therefore difficult to translate, which can lead to varying interpretations and problems during integration. Effective communication is knowing what is being communicated at both the report and command levels, as well as how this information is being interpreted.

Additional impediments to effective communication occur in cross-border M&As when the firms involved do not have a common mother tongue. Especially below the top management level, the foreign language skills of employees involved in integration are typically limited. As a result, employees frequently find it difficult to express themselves verbally or to understand the nuances in what employees from the other firm are saying. Also written documents drafted in a foreign language tend to become more abstract and limited in scope when compared to those written in one's mother tongue (Vaara, 2003). Unfortunately language skills and communicative competencies are often neglected areas in cross-border M&As (Gertsen & Söderberg, 1998).

Communication also has its limitations. While communication was found to stabilize negative employee reactions subsequent to an M&A

announcement, it was not found to return employee attitudes to pre-announcement levels (Schweiger & DeNisi, 1991). Communication is necessary but not sufficient in eliminating employee uncertainty and suspicion surrounding the motives of management during M&As, and in improving the ultimate outcomes of integration (for example, Buono, Weiss & Bowditch, 1989; Putnam & Pacanowsky, 1983). Other interventions are needed to complement acquirer communication.

Employee involvement and cross-firm interaction

Research clearly indicates that involvement of both acquirer and target employees in the integration process aids integration effectiveness. Employee involvement reduces the psychological trauma individuals experience during post-M&A transitions (Marks, 1994), leads to more successful integration of functional areas (Gerpott, 1995), facilitates partnerships and collaborative working environments (Hakanson, 1995) and is a key predictor of synergy realization in domestic and cross-border M&As (Larsson & Finkelstein, 1999). Fostering open information exchange and developing face-to-face personal relationships between acquirer and target employees is a part of this process, as is providing employees with a sense of control and ability to manage organizational change successfully.

As an intervention to enhance employee involvement and interaction, an acquirer can identify employees that advance the integration process, and then retain and support them. These 'integration entrepreneurs' (Empson, 2000) explore opportunities for cooperation between the merging firms. Their efforts help to forestall the demonization of the merging partner firm by establishing personal relationships with their merger-partner colleagues. Their actions also encourage their more resistant colleagues to participate in the integration process.

Another intervention that aids employee involvement and interaction is the use of in-house integration teams consisting of managers from both firms that work together on proposals regarding organization, process and people in the new organization. Other interventions include training in national intercultural understanding between cross-border firms, utilizing an integration structure involving an integration manager position in headquarters that assists and supports (not directs) the efforts of full-time local integration managers, and granting managerial positions based on capability, rather than parity (Mayo & Hadaway, 1994; Schweiger, 2002). The headquarters' integration manager, especially, should be capable of communicating to many levels of authority and bridging gaps in culture and employee perceptions, because this individual will be responsible for educating employees about their counterpart's organization and forging social connections between the two organizations (Ashkenas & Francis, 2000).

Each intervention described above distributes responsibility and authority to a wider swath of employees across both firms, thereby enhancing acquirer–target interaction and favourable integration outcomes.

Cultural learning

The basis of most conflict in M&As has been attributed to lack of knowledge and understanding of each partner's concerns and organizational culture (Arnold, 1983; Buono & Bowditch, 1989). Cultural conflict poses threats to effective integration and occurs when employees of merging firms have to work together without a shared understanding of their partner's culture (David & Singh, 1993).

To minimize cultural conflict, an understanding of culturally defined behavioural norms and procedural routines of the acquirer and target is necessary (Pablo, Sitkin & Jemison, 1996; Schweiger & Goulet, 2005). Learning as a part of the integration process must occur to bridge cultural differences that can lead to conflict and poor integration outcomes. This entails more than the simple communication of information and feelings to identify differences. Compatibility between M&A partners is achieved through interorganizational learning that results in the construction of an adequately 'shared set' of understandings (David & Singh, 1993).

Learning in this manner supports the acculturation process, or the convergence of the acquirer and target cultures into a new, unified culture. To achieve acculturation, M&A partners must develop a mutuality of interest, but, more important, they must develop a common language and a shared understanding of the business reality (Sales & Mirvis, 1984).

To develop an accurate picture of the business reality, a deep form of learning is necessary, one that entails introspective learning in which both M&A partners learn not only about their partner but also about themselves by understanding what each firm truly values and how each firm explicitly and implicitly functions. Stepping outside of one's own organizational culture is necessary before one can discover the limitations of one's own present culture and the possibilities inherent in other cultures (Schein, 1993). This deep form of cultural learning ensures that key elements of the acquirer and target will be valued and preserved in the new organization.

Identifying cultural differences and learning from them are the building blocks behind shared understandings, a common focus for the new organization and a shared identity. What is good from the acquirer and target cultures should win acceptance in the new organization's culture on its own account, rather than be forced (Mayo & Hadaway, 1994). Employees from both firms will be more accepting of change as a result of integration, because the proposed change will be framed more as an addition to or an extension of existing cultural elements of their pre-M&A firms. This new

synthesis that retains the old with the new establishes a form of partial stability to allow change to occur (Schein, 1985) and acculturation to begin.

Convergence on a shared culture offers the greatest opportunity for synergy realization (David & Singh, 1993), because it involves the highest form of integration. Interventions that promote cultural learning are critical to the effective management of the integration process, and to the realization of better solutions for the new organization. Collaborative problem solving and inter-group mirroring workshops between the merging management teams have been found to facilitate integration by reducing misperceptions and inter-group conflict (Blake & Mouton, 1984; Blumberg & Weiner, 1971). Merger workshops that engage employees to participate jointly in determining best practices for the new organization have also been found to result in enhanced teamwork, cooperation and commitment to cultural change and integration (Leroy & Ramanantsoa, 1997).

However these interventions should be complemented and preceded by deep cultural learning interventions that help employees truly understand culture. These interventions have been found to help employees learn about each other and their organizations, break down stereotypes and minimize conflicts (Schweiger & Goulet, 2005). They include an inter-group cultural mirroring exercise and weekly follow-up meetings. The inter-group cultural mirroring exercise is designed to help employees from both firms constructively explore cultural similarities and differences among themselves, and to discuss how they could be managed. Through mirroring and discussion, tangible cultural similarities and dissimilarities can be identified and inaccurate stereotypes can be clarified and eliminated. Those aspects of culture from each firm that would best serve the new organization and those actions necessary to converge the two cultures are jointly determined. These deep cultural learning interventions have been found to be an effective means to resolve cultural differences between merging firms and to overcome several dysfunctional outcomes associated with cultural misalignments.

Another intervention to achieve deep learning during the cultural identity-building process involves the use of metaphors. In a study of a Finnish–Swedish merger, for example, Vaara *et al.* (2003) found that a special metaphor exercise aided the culturally diverse organizations to understand images of ‘us’ and ‘them’ and to construct images of a common future. Metaphors are important linguistic vehicles that allow for effective communication of meaning that is difficult or impossible to express otherwise. They are a figurative comparison: for example, an organization as a home or a spider’s web. The images are produced in a process of interpretations that involves not only employees’ first-hand experiences, but also the reconstruction of historical stereotypes, myths and legends from different social domains. As a result, they reveal cognitive, emotional and

political aspects of the cultural identity-building process that characterize the merger context. More traditional approaches to identity building tend to focus on the cognitive aspects of these processes, whereas the metaphor perspective also allows one to see the emotional and political elements (Vaara *et al.*, 2003).

As a part of the metaphor exercise, participants from the merging companies were asked to write down metaphors that best described their view of the acquirer, the target and the merged organization in the future. A summary of the individually produced metaphors was given to the participants in the exercise along with other materials, including readings on Finnish–Swedish cultural differences, which were used to reflect on cultural issues inherent in the merger. The metaphors offered insights into the cultural identity development challenges and suggested new ways of building mutual value base, trust and commitment.

A process model of human resource integration

Human resource management policies are frequently neglected as a functional strategy to help companies integrate M&As. More salient have been policies associated with business strategy, structure, market selection and product development (Faulkner *et al.*, 2002). In this section, we propose a process model that focuses on human resource integration in cross-border M&As, based on a synthesis of the above literature reviews (see Figure 21.1). The model is designed to advance discourse on the nature and sequence of integration interventions in promoting favourable M&A outcomes.

The literature clearly indicates that learning is critical to bridging acquirer–target differences that can impede the integration process. However it is less clear how this learning process should unfold. Below we make the argument that learning in cross-border M&As occurs as a five-stage process: performing culture and human resource due diligence, communicating the logic of the M&A, bridging national culture distance, reconciling organizational culture differences and determining best practices to be implemented.

Stage 1: performing culture and human resource due diligence

Even though it is often emphasized in the literature that cultural aspects should be taken into account early in the decision process, the same literature has little to say about how to carry out such a cultural analysis quickly and effectively (Gertsen, Söderberg & Torp, 1998). As soon as it is known that there is an interest in acquiring a company, a closed course of negotiation is usually begun; most of the flow of information between the two partners ends, apart from what the negotiators discuss among themselves and the publicly available information (*ibid.*). In addition often only a few

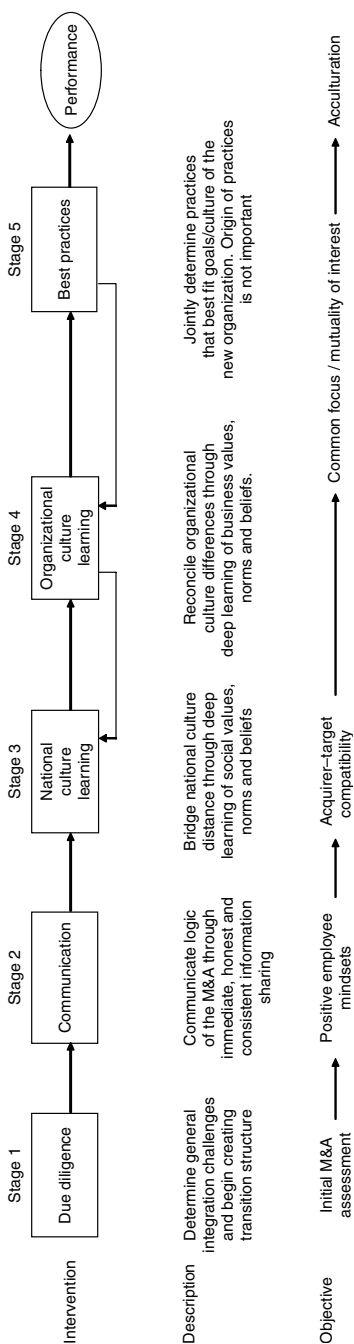


Figure 21.1 Human resource integration in cross-border mergers and acquisitions

specialist employees are involved in the negotiations, making it difficult to conduct a broader, pre-M&A study of culture in the companies involved (Forstmann, 1994). Therefore, although the effects of cultural differences can be present as early as the negotiation stage of an M&A (Chu, 1996), they will be perceived more clearly and will be more accurately assessed during the period of post-M&A management.

Even so, there are a few actions that the acquirer can take prior to the deal announcement to get the integration process off on a good footing. Literature on national differences is readily available to practitioners. A general national culture analysis can be performed by acquirers to determine, for example, how each firm may be culturally predisposed in their approach to problem solving. Understanding the implications of these types of cultural differences will help determine the effectiveness of alternative integration strategies (Forstmann, 1994).

Although organizational culture is unique to each firm and less transparent than national culture, organizational culture differences can also be generally assessed through a variety of secondary and primary sources (Schweiger, 2002). Secondary sources include information gleaned from the Internet, publications, speeches by target management, and interviews with acquirer employees and other trusted business brokers who are knowledgeable about the target firm. Primary sources include observation of target management behaviours during M&A meetings and negotiations, examination of target documents (for example, organizational charts, human resource management policies, meeting minutes) and interviews with and surveys of target managers and employees. However, at this stage, access to primary sources and depth of cultural assessment may be very limited, requiring the acquirer to settle for a more generalized view of the target's culture (*ibid.*) in assessing cultural differences and determining the effectiveness of alternative integration strategies.

Additionally acquirer middle managers should be involved at this early stage of the M&A process to generate buy-in of integration problems and process (Haspeslagh & Jemison, 1991). It also helps acquirer top managers to assess further the nature of integration and potential synergies, and to further refine the strategic vision for the M&A. An integration manager, preferably an acquirer executive, who has a deep understanding of the acquirer and is well-connected to key resource holders, should also be selected at this stage. This individual should have strong communication and networking skills, which will be used to forge social connections between the merging firms and to establish integration teams of acquirer and target employees once the deal is announced. The integration teams will be responsible for integration at the functional level within the new organization (Ashkenas & Francis, 2000).

Stage 2: communicating the logic of the M&A

Immediately following the deal announcement, the acquirer should communicate the logic of the M&A to employees of both firms to mitigate negative pre-integration mindsets. Employees need to understand the rationale, or vision, behind this strategic transaction, given that it will affect their work environment, and possibly how they perform their jobs. Acquirer communication that is honest and consistent will help to allay some of the initial uncertainty and anxiety that M&As create, and begin to elicit employee trust and confidence in acquirer management that is needed to influence favourably employee mindsets. Merger previews and workshops should be used as interventions to ensure complete and accurate communication, and to encourage employees to explore opportunities in the M&A. Identifying, retaining and supporting integration entrepreneurs should begin in this stage, as should training for both firms in national intercultural understanding.

Stages 3 & 4: bridging national culture distance and reconciling organizational culture differences

No two firms have the same organizational culture, because each firm's culture is uniquely shaped by its members' shared history and experiences (Schein, 1985). Cultural differences and the need to reconcile those differences will therefore exist in all M&As. Cross-border M&As create an additional dimension of complexity in that national culture distance between the acquirer and target will also need to be managed.

Research indicates that national and organizational culture should not be treated in isolation, which further complicates the integration process. The results of a study of European and US cross-border M&As involving Italian firms, for example, suggested that performance was an outcome of access to diverse routines and practices (organizational culture characteristics) that are embedded in national culture (Morosini *et al.*, 1998). Moreover, in domestic M&As, differences in organizational culture have been found to affect adversely attitudinal and behavioural variables that are believed to cause conflict and poor post-M&A performance, whereas, in cross-border M&As, differences in organizational culture have been found to have a positive effect on variables believed to aid synergy realization (Weber, Shenkar & Raveh, 1996).

Other studies have also indicated that some cultural problems associated with M&As are amplified in domestic, rather than cross-border, settings (Very, Lubatkin & Calori, 1996; Very *et al.*, 1997). Cross-border M&As have even been found to reduce marginally employee resistance (Larsson & Finkelstein, 1999). Two explanations have been advanced for these findings. First, combination potential may be more complementary and, thus, less

threatening in cross-border M&As than in domestic M&As with overlapping operations. Second, cultural differences that can negatively affect integration in domestic M&As may be more carefully attended to in cross-border M&As (Larsson & Finkelstein, 1999).

These findings suggest that, early on during integration, differences in national culture are perceived to be more acceptable to M&A partners than differences in organizational culture: whereas in the former these differences may be perceived as complementary or perhaps tolerable, in the latter they may be perceived as a form of risk that needs to be controlled. Differences in national culture are also more evident to the acquirer at the time of the deal. Therefore they may be factored into the M&A decision and given greater attention early on during integration.

We argue that implementing interventions to bridge national culture distance should precede the implementation of interventions to reconcile differences in organizational culture. The above findings suggest that M&A partners are more accepting of and more attentive to national culture distance, and therefore are predisposed to working toward developing shared understandings involving these cultural differences. An initial focus on national culture distance will be a good starting point for engaging employee involvement in the new organization, promoting employee understanding of the new organization's business reality, encouraging employee cooperation between firms and developing employee trust in the new organization's management. More important, given that some organizational values are rooted in values of national culture, it is necessary to gain an understanding of differences in national culture before differences in organizational culture can be understood and reconciled.

Understanding why values of national culture are important to each M&A partner will help the two merging firms perceive national culture differences to be more complementary in nature, and therefore more capable of providing a foundation upon which the new organization's culture can be constructed. National culture learning interventions involving cultural learning mirroring exercises at all levels of anticipated human integration should be implemented early after the M&A to communicate to employees in both firms that bridging national culture distance is a serious matter and fully supported by top management.

Organizational culture learning interventions should be implemented once shared understandings of national culture differences are achieved. Cultural learning mirroring exercises as well as metaphor exercises to support the cultural identity-building process should be implemented at all levels and across each department of anticipated human integration. The depth at which these interventions are implemented supports subsequent learning required at the departmental level to determine best practices in

the new organization. Shared understandings of differences between organizational cultures, and how national culture affects these differences, will help the acquirer and target develop a common focus for, and mutual interest in, the new organization. Both firms will be working effectively toward a shared identity and acculturation. Difficulties reconciling organizational culture issues may indicate the need for additional work identifying and reconciling issues of national culture.

It is not the objective of cultural learning interventions to dilute national culture values, but to merge effectively values of organizational culture that drive employee perceptions of acceptable business practices. National culture is less malleable than organizational culture, because it is based on social values individuals learn from birth, and these values continue to play a key role in establishing context for employees of both firms after the M&A. As a result, acculturation in cross-border M&As represents organizational culture integration supported by national culture compatibility.

Stage 5: determining best practices

Although managers have been found to focus on task-related criteria when making integration decisions (Pablo, 1994), studies indicate that reconciling cultural issues prior to technical issues smoothes the integration process. Studies of US domestic and European cross-border M&As have found that, when the acquirer and target management teams first reconcile interpersonal issues (for example, values, philosophy, perceptions of one another), they are better able to manage technical issues (Birkinshaw, 1999; Marks & Mirvis, 1985) and that, when they focus only on the task issues associated with integration early in the integration process, ethnocentric attitudes and defensiveness develop (Buono & Bowditch, 1989). These negative outcomes contribute to the failure of integration teams. Teams that address interpersonal issues early on perform well.

Once cultural learning has occurred, and a common focus and mutual interest in the new organization have been achieved, the process of reconciling technical issues associated with the tasks of identifying and implementing best practices will be more manageable. Whereas the prior two stages of integration involve deep learning to develop shared understandings of cultural differences, this stage of integration involves shared understandings in action. Departmental meetings involving employees from both firms should be used to identify best practices at the work-unit level. The practices adopted should complement those aspects of culture that have been chosen to achieve the new organization's goals; however no constraints should be placed on the origin of those practices. Furthermore positions granted to employees to manage the implementation and operation of these practices should be based on capability, not parity. This should minimize

the negative effects of autonomy removal during integration by making changes that may affect personal freedoms appear as just. Difficulties determining best practices may indicate the need for additional work identifying and reconciling cultural issues at the organizational and national levels.

Future research

The literature has only begun to address the multitude of cultural and human resource issues that can plague M&As. This section offers suggestions for future research that can advance knowledge in this important area of integration. We proposed that national culture distance should be reconciled prior to organizational culture differences. Empirical work is needed to confirm the efficacy of this cultural learning sequence. Work is also needed to determine whether there are multiple stages to national and organizational culture understanding and, if so, how they may affect the cultural learning process and M&A outcomes. Moreover very little is known about organizational culture in terms of its relation to national culture (Very, Lubatkin & Calori, 1996). Theoretical and empirical work is needed to develop an understanding of this complex relationship and interaction effects on the integration process.

There are also a number of specific weaknesses in M&A research that tend to challenge some of our existing, and to some extent fundamental, knowledge of M&A phenomena. We have already mentioned that the validity of the composite cultural distance index derived from Hofstede's (1980) cultural dimensions has been questioned (Harzing, 2003; Shenkar, 2001), thus casting doubt on results of studies that have used this measure. However the concept of national culture and its methodological implementation in research have also come under debate. Harzing (2003), for example, argues that researchers should both let go of a mechanistic view of cultural distance and consider institutional factors in cross-border research. An argument can be advanced that it is management's perception (based on international experience, for example) of the level of cultural distance between specific countries that influences integration decisions and outcomes. Therefore studies that incorporate a primary measure of cultural distance may be more informative in identifying the effects of national culture on the integration process. M&A studies also need to consider institutional factors, such as government restrictions, legal frameworks, the market for corporate control and ownership structures, which may provide alternative explanations for the influence of national culture on integration decisions.

Indeed the general concept of culture has even been called into question. The classic anthropological literature views culture as an empirical category, a system of assumptions, values and norms which can be objectively described, and something that members of a group, an organization or a

nation have or bear collectively (Gertsen *et al.*, 1998). The management literature tends to reduce the concept of culture to its behavioural elements, which implies that culture is a fairly stable property or attribute of an organization and hence amenable to quantitative measurement (Cartwright, 1998). However some argue that culture is learned through socialization, and that it is too complex to be simply regarded as just another management variable (for example, Cartwright & Cooper, 1992).

Many anthropologists now argue that culture is based on shared or partly shared patterns of interpretation, which are produced, reproduced and continually changed by the people identifying with them (Gertsen *et al.*, 1998). Culture is seen as being made up of relations and 'the constantly ongoing attempt of the collective to define itself and its situation' (Kleppstö, 1993: 23), which implies that a culture comes into existence in relation to and in contrast with another culture and that it is an interpretive process rather than a relatively constant structure of values and norms. In effect, culture is a social construction that may be ambiguous, unclear and changeable, and may contain contradictions.

From this perspective, M&A research should interpret 'culture conflict' as a confrontation between two groups' attempts to create, mediate and defend their respective social identities and self-images rather than as a threat to the norms and values of a particular organizational culture. As a result, initial similarity or dissimilarity between merging-company cultures does not play the role that present research asserts (*ibid.*: 194). This was evident in a study of a Finnish-Swedish cross-border acquisition, which found that nationalistic interpretations and national confrontation appeared to escalate when it gradually became clear to both groups that the people on the other side had contradictory views concerning the integration efforts and the scope and content of specific changes (Vaara, 2003).

Clearly the national and organizational culture constructs require additional development based on strong theory and empirical verification to achieve agreement in this critical area of M&A integration research. Several questions must be (re)addressed as a part of this effort. First, is culture a stable state and can it be objectively described and analysed in quantitative, empirical research, or is culture an ambiguous and evolving phenomenon that may only be captured through longitudinal, qualitative (case) studies? Second, what truly causes conflict between merging companies? Is it a threat to the norms and values of a cultural system, or is it competition between two groups to establish and maintain their social identities and self-images, or perhaps their political interests? Third, can both be active participants in what the literature has referred to generally as culture conflict? Fourth, how do subcultures or social identities linked to departments, professions and other communities of interest within the

organization affect the integration process? Research in these areas could have a profound effect on advancing theory of the integration process and have far-reaching implications for practice.

There are several other issues that have also plagued M&A research that warrant mention here. Little is still known about the way performance is achieved in M&As. First, there is little agreement on what measures should determine M&A performance. Secondary financial and market-returns data, and primary behavioural and financial perceptions data, are used, with secondary data measures predominating in the literature due to convenience rather than empirical rigour. Second, there is little overlap in the variables used by researchers to explain performance. This lack of replication of known effects is slowing knowledge accumulation in the M&A area (King *et al.*, 2004). In this sense, future research needs to be more focused, and less 'broad brush' in its approach to M&A (Cartwright, 1998). Third, further studies are needed to determine the specific mechanisms of national and organizational culture, including human resource management practices, that lead to post-M&A performance across varying levels of integration sought. Fourth, a better understanding is needed of the conditions under which M&As, as opposed to internal innovation, for example, make sense as a path to superior performance (King *et al.*, 2004). Fifth, research needs to focus on different types of M&As (relative size and strategic objective) to determine the true dynamics and challenges of the integration process. Focusing research in these areas and on performance outcomes will help to identify best practices and interventions for effective integration.

Since specific functions, rather than entire organizations, are often integrated (Schweiger, 2002), it would be useful to incorporate functional area cultures into a process model of cultural learning. With few exceptions (for example, Gerpott, 1995; Schweiger & Goulet, 2005), however, M&A studies have focused on the top management level rather than the functional or operational level of the organization, thus leaving this area of M&A research relatively weak. Additional work focusing on functional-level integration issues and how these issues are affected by national culture distance and organizational culture differences would add depth to our understanding of the cultural learning process in cross-border M&As.

Sample imbalances and underspecified models also plague M&A research. There is a need for more research outside a North American and European context. Many samples are also biased in terms of the home and host countries included. Additionally, research variables of demonstrated importance are regularly excluded from M&A studies. Therefore underspecification of research models may represent the norm in M&A studies (King *et al.*, 2004).

These are just some of the many research opportunities that remain to be addressed in our quest for knowledge of the M&A integration process (see also Schweiger & Goulet, 2000, for a critical review of the extant research in M&As). Even though much work has been performed over the past three decades to increase our understanding of M&A phenomena, clearly much more work is needed. Our knowledge of the integration process, including antecedent, process and outcome variables, remains relatively weak. More collaborative efforts on the part of teams of researchers across countries may be needed to hone theory and apply empirical rigour that future studies will require.

Conclusion

Given the failure rate of M&As, it is clear that much needs to be learned about the successful merging of two organizations. Identifying the strategic fit behind an M&A is a rather simple task in comparison to grasping the complexity of human resource issues that accompany integration. Unlocking synergies in M&As requires introspective learning on the part of both the acquirer and the target as a prelude to bridging national culture distance and reconciling organizational culture differences. Involvement of employees from both firms will be necessary to achieve the depth of cultural learning necessary to navigate the many obstacles that plague the integration process. Building shared understandings in this fashion will influence favourably employee aspirations for change and enhance the effectiveness and efficiency with which this change can occur.

Not all acquirers are created equal. Each acquirer may be predisposed to behaviours that are counterproductive to realizing synergies in M&As. Acquirers that understand integration as a learning process and perceive targets as possessing complementary rather than redundant values and capabilities will fare better at securing the organizational fit needed to realize post-M&A performance. They will understand that successful integration is a function of how well the human element of M&As is managed.

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PART V

THEORETICAL PERSPECTIVES ON INTERNATIONAL HUMAN RESOURCE MANAGEMENT

22 A resource-based view of international human resources: toward a framework of integrative and creative capabilities

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Few will argue against the importance of international human resource management (IHRM) in today's multinational corporation (MNC). A wide range of issues, which varies from global sourcing and off-shoring to regional trade agreements and labour standards to strategic alliances and innovation, all point to the vital nature of IHRM in today's global economy. In fact some observers have suggested that how firms manage their workforces is among the strongest predictors of successful as opposed to unsuccessful MNCs (cf. Bartlett & Ghoshal, 1989; Doz & Prahalad, 1986; Hedlund, 1986).

Researchers have adopted a number of different theoretical approaches for studying IHRM. Not surprisingly, the resource-based view (RBV) of the firm has emerged as perhaps the predominant perspective (Wright, Dunford & Snell, 2001). RBV is particularly attractive to IHRM researchers in that it focuses directly on the potential value of a firm's internal asset stocks for conceiving and executing various strategies. This perspective departs from traditional Input/Output (I/O) economic models of competitive advantage that focus on the structure of markets as the primary determinant of firm performance (Barney, 1991; Wernerfelt, 1984). Also in contrast with I/O economic models, the RBV is based on the assumption that resources are (a) distributed heterogeneously across firms, and (b) remain imperfectly mobile over time. Because these asset stocks are unequal, there is the potential for comparative advantage. And when the resources are immobile, that advantage may be difficult to appropriate or imitate, thereby conferring a sustainable advantage.

In the context of MNCs, the premises of resource heterogeneity and immobility have particular relevance. While the RBV typically focuses on resource heterogeneity across firms, MNCs are unique in that they possess heterogeneity *within* their asset stocks as well. Because they operate in multiple environments, MNCs are likely to possess variations in both their people and the practices that reflect local requirements, laws and cultures.

This variation is a potential source of advantage at a local level, and can provide a global advantage to the MNC as a whole if the knowledge, skills and capabilities can be leveraged appropriately.

However, while heterogeneous resources are potentially immobile across firms, they may also be immobile within firms (MNCs). Given that scholars have consistently noted the difficulties of integrating people and practices within MNCs (for example, Szulanski, 1996; McWilliams, Van Fleet & Wright, 2001) the challenge of integration remains one of the more perplexing organizational and strategic issues. It is therefore somewhat surprising that IHRM researchers have not addressed this issue more directly.

The purpose of this chapter is to summarize the literature on RBV and IHRM by addressing the ways in which resource heterogeneity and immobility provide potential advantages to MNCs. However, we also hope to extend the RBV in this context by addressing some of the primary challenges and necessary capabilities to create resources and integrate them across business units within the MNC. In this sense, we draw upon the knowledge-based view of the firm (KBV) and organizational learning perspectives to look at the way practices are created and integrated on a global scale (Grant, 1996; Teece, Pisano & Shuen, 1997). To organize this discussion, we break the chapter down into three sections. First, we review how the RBV has been applied to IHRM issues to date and discuss the underlying assumptions of this research. Second, we extend the RBV logic to deal more appropriately with issues of practice integration and creation within a globally dynamic environment by turning our focus to aspects of learning capabilities. Finally, we discuss the implications for future research and where this extended view of RBV might improve research on a firm's human resources.

IHRM, people, practices and competitive advantage

Discussions of IHRM within the RBV framework focus on both the workforce (that is, the people) and the HR function (that is, the structures, policies and practices) (for example, Evans, Pucik & Barsoux, 2002; Fey & Björkman, 2001; MacDuffie, 1995; Schuler, Dowling & De Cieri, 1993). To have a sustainable competitive advantage a firm must first possess people with different and better skills and knowledge than its competitors or it must possess HR practices that allow for differentiation from competitors. Second, these practices or skills and abilities should not be easy for competitors to duplicate or imitate (Wright, Dunford & Snell, 2001).

Managing global workforces

Building on the assumptions of heterogeneity and immobility, scholars systematically stress the strategic contributions of people's knowledge and skills to the performance of firms and sustained competitive advantage

(Boxall, 1996). In fact Barney (1991) developed a model to show how specific assets can be strategically identified to lead to sustainable competitive advantage. Building on this model, McWilliams, Van Fleet and Wright (2001) argue that human resources, defined as the entire pool of employees, present a unique source of advantage in comparison to domestic labour pools in terms of value, rarity, inimitability and nonsubstitutability (VRIN).

Given the VRIN framework, McWilliams *et al.* (2001) argued that firms can benefit from a global workforce in two ways: capitalizing on the global labour pools, and exploiting the cultural synergies of a diverse workforce. First, global (heterogeneous) labour pools potentially provide superior human capital. This is because firms can draw from different labour pools to match the different needs of the firm (Bartlett & Ghoshal, 1989). For example, some labour pools may have workers who, on average, have higher cognitive ability or have had greater access to education and training. An MNC could potentially draw from the highest quality labour pools for those functions that require high cognitive ability and education and training (McWilliams *et al.*, 2001).

Second, the use of heterogeneous labour pools potentially increases the quality of global business decision making. When an MNC draws from its multiple labour pools it has the potential to build a diverse and flexible cadre of managers that are better able to bring different perspectives to a decision than a management group based solely on the parent country (Ricks, 1993). That diversity also enables management to be flexible in applying their skills throughout the different parts of the firm. Wright and Snell (1998) discussed these advantages in terms of resource flexibility and coordination flexibility.

While McWilliams *et al.* (2001) highlighted the benefits of human resource heterogeneity and immobility; they also pointed out the difficulty in transferring and integrating these resources within the MNC. Drawing on Szulanski's (1996) concept of stickiness, they noted that the exchanges are made more difficult by 'the lack of absorptive capacity of the recipient, causal ambiguity, and an arduous relationship between the source and the recipient' (Szulanski, 1996: 36). Yet little research exists discussing how internal stickiness can be overcome in order to maximize the benefits of a global workforce while overcoming the challenges of integration and coordination.

Managing global HR functions

Placing people as the source of sustainable competitive advantage moves us to the dilemma of how best to manage their knowledge, skills and abilities. Within the RBV literature, issues of resource heterogeneity and

immobility underlie the inevitable tension between local responsiveness and global integration in MNCs (cf. Bae & Lawler, 2000; Brewster, 1999; Fey & Björkman, 2001; Sparrow, Schuler & Jackson, 1994). Local responsiveness and the value derived from customization imply variation (heterogeneity) within the MNC. Global efficiency, on the other hand, requires integration across business units. However, given the assumption of resource immobility, this integration is not always easy to achieve.

Schuler *et al.* (1993) captured the essence of these tradeoffs by highlighting the relationships between *internal operations* and *inter-unit linkages*. From the standpoint of internal operations, each overseas affiliate must operate as effectively as possible relative to the competitive strategy of the MNC. This means that these affiliates can offer advantages to the MNC by recognizing and developing HR practices that are appropriate for their local markets, employment laws, cultural traditions and the like.

While internal operations at the local level are important, the MNC must also establish inter-unit linkages to gain efficiencies of scale and scope across several different countries. This suggests that, while overseas affiliates can generate advantages locally, there are also substantial advantages that can be gained globally through integrated HR practices. Each is important, but each carries with it a different set of organizational requirements. These requirements point directly to issues relevant for HRM.

Extending these ideas, Taylor, Beechler and Napier (1996) describe how MNCs might develop a more *integrative* approach to HRM. The objective of this strategy is to share best practices from all parts of the firm (not just corporate) to create a worldwide system. While there are allowances for local differentiation, the focus is on substantial global integration. Differentiation provides both the potential for local response and customization and the variety of ideas and practices needed for innovation at the global level.

However integration through coordination, communication and learning is not always easily achieved in this context. Ironically the very characteristics that provide resource-based advantage at the local level actually complicate integration at the global level. The ability of firms to gain efficiencies of scope and scale at the global level is made more difficult by resource heterogeneity, and this challenge is exacerbated by resource immobility.

The challenge then for the transnational firm is to identify how firms can preserve variety (and local customization) while simultaneously establishing a foundation for integration and efficiency. As mentioned by McWilliams *et al.* (2001), very few scholars have addressed the 'stickiness' issue involved in balancing the global and local tension. Taylor *et al.* (1996) allude to such integration difficulties when they note:

The reason firms move toward an exportive rather than an integrative SIHRM orientation . . . is that the mechanisms to identify and transfer the best HRM practices in their overseas affiliates are not in place. Such mechanisms as having regional or global meetings of affiliate HR directors, transferring HRM materials (e.g., performance appraisal forms to affiliates) or posting of the HR director of the affiliates to the HQs of the firm were not developed. (ibid.: 972)

These same capability issues are raised by McWilliams *et al.* (2001) when they discuss the major causes of internal stickiness being lack of absorptive capacity, causal ambiguity and arduous relationships between the source and recipient. In both examples, barriers to global practice integration are raised and discussed, but not resolved. This issue is addressed more fully below.

IHRM and capabilities

Given the importance (and difficulty) of integrating human resources at a global level, while preserving the uniqueness and heterogeneity at the local level, it seems reasonable to discuss these issues in the context of *competitive capabilities*. Using the knowledge-based view (KBV) of firms, that emphasizes the need to acquire and integrate knowledge, we suggest two such capabilities (see Table 22.1). First, knowledge integration capability refers to a firm's ability to transfer and coordinate human resources across affiliates in a way that utilizes economies of scale and scope while allowing and promoting responsiveness to the local environment. Second, knowledge creation capability refers to a firm's ability to create new and potentially innovative practices at the local level.

Knowledge integration capability

Ironically, while learning capability is one of the key dimensions of the Bartlett and Ghoshal (1989) framework of transnational organizations, most IHRM researchers have made only passing mention of the way firms share and integrate best practice within the MNC. Snell, Youndt and Wright (1996) argued that, particularly in dynamic environments, organizational learning may be the only way to ensure that resources sustain their value and uniqueness over time. In essence, the capability to integrate HR practices better than competitors may be a key source of sustainable competitive advantage (cf., Kogut & Zander, 1992). In the subsections below, we frame the key factors underlying knowledge integration capability in terms of organizational capital, social capital and human capital.

Organizational capital Youndt, Subramaniam and Snell (2004) define organizational capital as the institutionalized knowledge and codified

Table 22.1 *IHRM: people, practices and capabilities*

Focus	Theories	Strategic question	Sources
People	<i>RBV</i> : Focus on individual resources of knowledge, skills and abilities	<i>Workforce</i> : What are the knowledge, skills and abilities that are heterogeneous and immobile?	McWilliams, Van Fleet & Wright, 2001
Practices	<i>RBV and competencies</i> : Focus on combined resources of HR practices	<i>HR practices and systems</i> : What are the HR practices and systems that are heterogeneous and immobile?	Taylor, Beechler & Napier, 1996
Capabilities	<i>KBV and organizational capabilities</i> : Focus on learning processes and capabilities	<i>Learning capabilities</i> : How can HR practices and systems be created and integrated to preserve heterogeneity and immobility?	Chadwick & Cappelli, 1999

experiences residing within an organization. Artifacts of organizational capital include an organization's reliance on manuals and databases to preserve knowledge, along with the establishment of structures, processes and routines that encourage repeated use of this knowledge (Hansen, Nitin & Tierney, 1999). As an integration mechanism, organizational capital allows the firm to preserve knowledge as incoming employees replace those leaving. An example of such an artifact might be a 'lessons learned' database to ensure that lessons learned by one group can be made accessible for all groups.

Using MNC research, in order to improve the integration of knowledge within an MNC relative to the speed of its diffusion or imitation by competitors, firms invest in ways to make knowledge explicit by encoding its use and replicating it in rules and documentation (Kogut & Zander, 1993). Other forms of organizational capital are likely to represent detailed, company-wide routines on the way new HR practices should be integrated by all affiliates. These routines may detail how practices should be shared to reduce the variance and time it takes to implement each new approach and, thereby, improve the overall efficiency of knowledge integration

(March, 1991). Similarly, organizations typically implement information systems to provide affiliates with a common platform for HR processes and practices (Snell, Stueber & Lepak, 2002). These systems, processes and routines ensure that (a) practices are implemented routinely through established data collection procedures, and (b) practices are rapidly disseminated throughout the entire MNC with minimal costs (Daft & Weick, 1984). In terms of integration capability, then, organizational capital provides a basis for sharing and institutionalizing knowledge across affiliates. However it may work against efforts to preserve heterogeneity at the subunit level.

Social capital Social capital, defined as the knowledge embedded within social networks, also plays a potentially valuable role in the integration capability of MNCs (Nahapiet & Ghoshal, 1998). For example, Szulanski (1995) found that one of the biggest obstacles to transfer of knowledge in MNCs is the poor relationship between sources and recipients of information. Along this line, Ghoshal and Bartlett (1988) empirically showed that knowledge sharing and integration could not occur without the existence of strong social connections.

The importance of social capital for integration capability is found in research by Kostova and Roth (2002), who concluded that successful practice adoption is largely dependent upon relationships based on trust and shared identity. Trust provides the motive to interact with others, while shared identity provides an overlapping understanding of what it is important to share. Both of these elements of social capital would seem vital for integration capability. And, importantly, neither of them would de facto require the loss of local autonomy.

Human capital While organizational and social capital are both potentially important resources underlying a firm's integration capability, Teece (1977) argued that one of the principal obstacles to transfer and integration is lack of prior experience and knowledge (that is, human capital). Research by Szulanski (1996) and Tsai (2002), for example, has shown that knowledge sharing and integration is facilitated when respective parties have the absorptive capacity or prior experience to understand related ideas (Szulanski, 1996; Tsai, 2002). In the context of MNCs, Haas (2004) showed that groups with great international experience are more likely to integrate knowledge from other parts of the organization than those that have not. Similarly, Gregersen and Black (1992) found that, not only is international experience important for integration, but when it is coupled with experience in corporate headquarters affiliates are more likely to maintain allegiance to the overall goals of the firm.

These international and corporate skills and knowledge are often gained through transfers and rotational assignments that enable the HR function to develop a more complex and global orientation. This provides them with the ability to manage the integration process more systematically (Kedia & Bhagat, 1988). Such forms of human capital can also correct any tendency of HR subunits to assume that the situation in the host country is unique, thus avoiding the 'not-invented-here' syndrome.

The upshot of this discussion is that a firm's integration capability likely depends on a combination of human, social and organizational capital. Social and organizational capitals are alternative – and potentially complementary – resources for knowledge and practice sharing. Human capital, in turn, is important for absorbing or acquiring that knowledge. As firms develop the capability to integrate existing practices they can achieve economies of scale and scope through HRM. And when these integrative mechanisms preserve resource heterogeneity at a local level, it may lead to a more rapid response to a global environment and greater potential for competitive advantage.

Knowledge creation capability

In the context of organizational learning and the KBV, it is important to distinguish knowledge integration capability from knowledge creation capability. Just because a firm is able to integrate practices across affiliates, this does not mean that it will be able to create new practices as well (see Table 22.2). Creation capabilities allow the MNC to develop new practices that lead to resource heterogeneity in the first place. While few HRM researchers have mentioned the importance of integration mechanisms, fewer still have discussed the importance of creation mechanisms that renew a firm's stock of HR practices. This is despite the fact that, as firms continually integrate practices, it is imperative that new practices are created and developed that allow for innovation and continuous improvement in a changing environment. Therefore, in global environments characterized by rapid change and increasing competition, static concepts of heterogeneity may no longer be sufficient to explain (and sustain) a competitive advantage.

A continuing source of debate in strategy is whether any static view of resources can really explain a competitive advantage that is sustainable over time (Lippman & Rumelt, 1982). For example, Grant (1996) argues that idiosyncratic advantages naturally erode over time. This debate is especially relevant in the global environment where what might create a competitive advantage at one point or in one location, may not at another point or location. Hence it is vital that MNCs develop the capability to create and renew HR practices in order to maintain a competitive advantage.

Table 22.2 Capabilities: creative and integrative

Focus	Market assumption	Value proposition	Sources
Integrative capabilities	<i>Stable market:</i> Resources must be combined and integrated to maintain an advantage	Combining resources in ways that others cannot copy creates benefits arising from scarcity	Taylor, Beechler & Napier, 1996; McWilliams, Van Fleet & Wright, 2001
Creative capabilities	<i>Dynamic market:</i> Resources must be reconfigured and created to maintain an advantage	Developing new resources that competitors do not yet have creates benefits arising from innovation	Chadwick & Cappelli, 1999; Snell, Youndt and Wright, 1996

Ghoshal & Bartlett (1988) stated that MNCs 'create' new products, practices or systems locally, using specific mechanisms to respond to local circumstances. Creating local HR practices lies at the heart of an MNC's capability to be responsive to the unique and changing opportunities of different environments. Below we discuss how human capital, social capital and organizational capital might influence the knowledge creation capability of new HR practices. (See Figure 22. 1 for an overview of mechanisms that influence knowledge integration and creation capabilities.)

Human capital The knowledge and experience, that is, human capital, of the people within the HR function is a key factor in new HR practice creation, whether of new practice ideas or of improvements in the practices (Lepak & Snell, 1999). For example, HR functions possessing large amounts of local knowledge and experience should be able to create practices effectively on their own in response to the various, changing environments. This localized experience helps them to understand the needs of local clients and suppliers, which allows them to develop practices that are unique to each region or country and, hence, heterogeneous across the firm.

International experiences are also important for creating new HR practices. For example, because international experience is often highly valued in MNCs (for example, Mendenhall & Stahl, 2000), people with international skills and knowledge are more likely to be seen by others as being confident and willing to share divergent opinions and advocate for their own position (Stasser, Stewart & Wittenbaum, 1995). Moreover Gregersen and Black (1992) showed that people with strong experience in many international settings and limited experience in corporate headquarters are more likely to

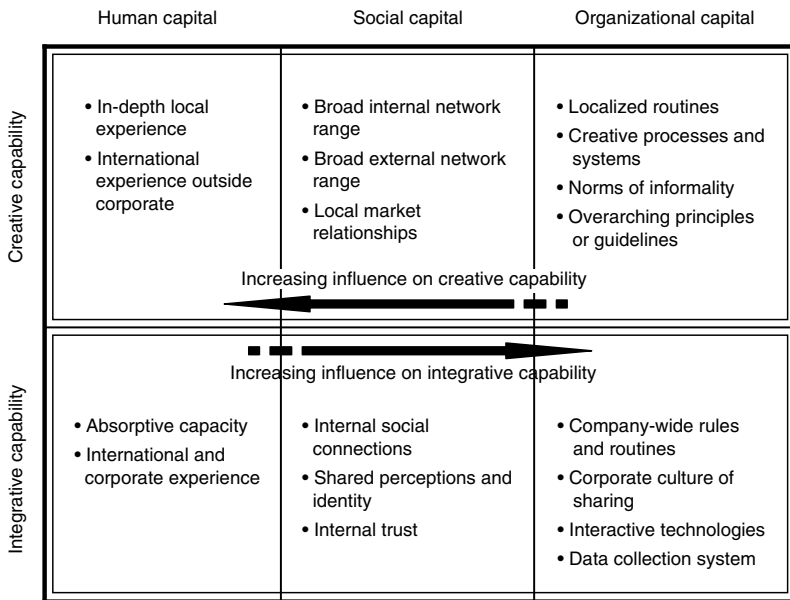


Figure 22.1 *Capabilities: Human, social and organizational capital*

make changes based on local demands rather than on pressures from central parts of the firm. This is most likely due to the people’s array of international experiences that have detached them from an allegiance with the company as a whole.

Social capital Specific aspects of social capital have been argued to play a role in knowledge creation. For example, while Hansen (2002) argued that social networks provide an important conduit for the sharing of knowledge, he also argued that such networks play a role in knowledge creation because they inform network members about the existence, location and significance of new knowledge. Burt (1982) found that networks comprising a broader range of contacts will have a more heterogeneous base of information and knowledge to draw from. While such wide networks may not always facilitate a deep flow of knowledge, they offer different reference points for HR members to make comparisons and explore new ideas.

A firm’s ability to find new opportunities is likely to be a function of multiple local contacts. HR affiliates often have critical links with local vendors and, perhaps, competing HR groups that allow them to pursue local

opportunities (Bartlett & Ghoshal, 1989; Hedlund, 1986). Birkinshaw (1997) refers to these as relationships within the 'local market'. Within the local market an affiliate is likely to be embedded in different types of relationships (Ghoshal & Bartlett, 1990; Ghoshal & Nohria, 1989). McEvily and Zaheer (1999) argue that, because each part of the MNC maintains different local patterns of network linkages, they are exposed to new knowledge, ideas and opportunities.

Organizational capital In many cases, organizational capital may actually hinder knowledge creation capability. The formalized processes, systems, structures and so on have a tendency to reinforce existing routines and work against variation and change that engender creativity. However, in some instances, organizational capital may facilitate flexibility in the course of actions that allow a firm to attend to environmental cues. This is especially true when employees are encouraged to take action that supersedes company-wide, standardized routines in favour of localized response that allows knowledge assimilation from the local environment (Daft & Weick, 1984). Grant (1996) argued that such creative routines and processes offer an efficient framework for people to create new, situation-specific practices by utilizing local perspectives in developing practices for the firm.

Though potentially problematic for the integrative capability, localized routines and creative processes help affiliates relate better to local vendors, clients and competitors by providing a set of expectations and processes that encourage HR groups to turn to the surrounding environment. For example, an HR affiliate may have developed a simple manual or informal norm of what to do when developing a new practice. Such a routine is likely to leave many gaps in exact steps to follow, but provide an overview or value to help the HR group be innovative. This simple routine allows the local HR group to assimilate knowledge more quickly from its employees and develop practices to meet their needs.

In summary, these aspects of human capital, social capital and organizational capital help us identify how the knowledge integration and creation capabilities might occur within an MNC. Some of these forms of capital are more useful, depending upon the capability it is supporting, and, ironically, some of these mechanisms that influence integration might actually hinder knowledge creation and vice versa. For example, firms heavy in local knowledge and experiences and weak in international experiences might have a negative effect on a firm's ability to integrate practices across the various parts of the firm. Such strong human capital is likely to promote the 'not-invented-here' syndrome through the affiliate's strong belief and experience base dealing exclusively with the local environment. Similarly, rigid forms of organizational capital, in terms of standardized

routines and shared electronic databases, might deter the various parts of HR to develop and create practices on their own. This could largely stem from the fact that so much structure and support for integration is in place that HR groups fail to find time to bring about new practices or adapt existing practices to the local environment.

Implications for research and theory

The unique complexities and challenges faced by today's global firms present different implications for the RBV and its application to strategic IHRM. For example, because a large amount of the international management literature focuses on variances in cultural, geographical and institutional pressures, the implications for applying the RBV become more complex. As MNCs struggle to create and integrate their practices across borders, they are faced with unique challenges that push either for global efficiency or for local responsiveness. These challenges open the discussion for ways to actually manage both the creation and the integration of knowledge on a global scale.

This means that the questions typically asked by strategic IHRM scholars (for example, about HR practices and performance) should be augmented with questions on how HR practices are created and integrated in ways that lead toward resource heterogeneity and immobility. To create a sustainable competitive advantage, firms must not only be able to respond to their local environments or standardize their practices across the firm. They must be able to balance a tension of practice heterogeneity through local practice creation and immobility of those practices through their integration across the firm.

One theoretical implication of this discussion calls for a greater understanding of the rents found through the creation and integration of HR practices. As Chadwick and Dabu (2004) explain, a marriage of rent concepts with theories of the firm (that is, RBV) is essential in describing the firm's competitive advantages and particularly in understanding how actors within firms can take conscious steps toward a sustainable competitive advantage. The current strategic IHRM literature alludes strongly to the importance of integration and being able to organize heterogeneous resources in a way that is difficult for competitors to imitate. The assumption here is that heterogeneity and immobility of resources create greater performance or rents arising from scarcity: Ricardian rents (cf. Carpenter, Sanders & Gregersen, 2001). In essence, Ricardian rents can be rooted in the cross-border integration of various HR practices. The integration of such practices ensures not only that some of them will be unique to the firm, but that they will be difficult for others to imitate, making them scarce in the market.

The advantages that come from constant creation of HR practices operates under a different principle than traditional resources leading to Ricardian rents. Rather than rents arising from scarcity, the creation capability perspective emphasizes rents arising from market discontinuities: Schumpeterian rents (cf., Carpenter *et al.*, 2001). Schumpeterian rents derive from a firm's ability to exploit or leverage resources to address changing environments (Teece *et al.*, 1997; Amit & Schoemaker, 1993). Based on Schumpeterian rents, a focus on the continuous creation of resources can enable a firm to achieve competitive advantage on a sustainable basis by developing new practices that lead to practising heterogeneity across a complex and ambiguous global network. Hence, as mentioned by Lado and Wilson (1994), and Teece *et al.* (1997), turning to these dynamic capabilities as an extended approach to the RBV offers a closer understanding of the actual *sources* of competitive advantage in a changing global environment.

While we discuss the main mechanisms driving knowledge creation and integration (Grant, 1996), aspects of integration tend to focus on a broad array of learning processes, including knowledge sharing, transfer, codification, adoption and/or institutionalization. Further research should look at the way different aspects of the integration process might be influenced by specific human, social and organizational capital mechanisms. For example, Hansen and Haas (2001) showed that many firms have little difficulty in sharing knowledge across various units of the firm, but that the actual application or institutionalization of this knowledge is a completely different matter. While other scholars such as Kogut and Zander (1992) and Schulz (2001) have theoretically separated integration to include transfer and integration (or combination), very little practical research has been done on what factors might influence the transfer and what factors might influence the integration of knowledge. Clearly there must be differences since research such as Hansen and Haas (2001) notice the disparity between knowledge that is shared and knowledge that is actually applied.

Also, while the ideas presented in this chapter are rooted in theory, empirical research is needed to determine the impact of human, social and organizational capital on knowledge creation and integration capabilities. While theory suggests that aspects of all three of these factors will influence both capabilities, it is most probable that aspects of human capital will more strongly influence the creative capability. This is largely due to the fact that people and their knowledge and skills are what allows the different HR affiliates the ability to develop local practices on their own, without interference or supervision from regional or corporate headquarters. Similarly social and organizational capital should have their strongest influences on the integrative capability. This is due, in part, to the conduits and repositories created from aspects of social capital and organizational

capital, respectively. In fact, as we mentioned earlier, some aspects of organizational capital might have a negative effect on the firm's ability to create new practices (knowledge), while some aspects of human capital may have a negative effect on the firm's ability to integrate those practices across affiliates.

Conclusion

The purpose of this chapter has been to summarize the literature on RBV and IHRM in multinational firms by addressing the ways in which resource heterogeneity and immobility provide potential advantages to MNCs. However we have also attempted to extend the RBV in this context by addressing some of the primary challenges to be met and capabilities needed to integrate resources across business units within the MNC.

The solution frequently used by firms has been to standardize HR practices and policies at a global level, but this solves the integration problem while destroying the advantages of local variety. The challenge as we see it is identifying how firms can preserve variety (and local customization) while simultaneously establishing a foundation for integration and efficiency.

The ability of HR managers to balance this tension lies in the development of capabilities to create and integrate practices across the global HR function. We extended traditional views of RBV to include aspects of practice integration and creation. Such capabilities allow firms constantly to renew their HR practices in a way that allows them to respond to multiple external pressures while being coordinated and integrated to ensure that these practices drive the firm's sustainable competitive advantage.

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23 International human resource management and economic theories of the firm

Marion Festing

International human resource management (IHRM) is a discipline characterized by a variety of perspectives. Three main research areas will be described in the first section of the chapter: human resource management (HRM) in multinational enterprises (MNEs), cross-cultural HRM and comparative international HRM (Dowling & Welch, 2004).

The three perspectives are characterized by different paradigms: the universalist and the contextual paradigm. The universalist paradigm suggests that rules derived from theoretical approaches can be applied independently of contextual considerations in order to improve HRM. In contrast, the contextual paradigm suggests that there are different views on HRM and implies that it is more important to explain differences than to focus on firm performance (Brewster, 1999).

Economic theory largely reflects the basic assumptions of the universalist paradigm. It is characterized by cost/benefit arguments and may include a variety of theoretical perspectives. Consistent with other chapters in this volume, the focus of this chapter is on new institutional economics, that is, transaction cost theory, agency theory and property rights. Proponents implicitly assume that the reasoning of the new institutional economic perspectives is valid in all contexts and that local uniqueness (for example, a particular legal or cultural environment) either can be included in the respective frameworks or is inconsequential. Economic approaches may include contextual factors but, nevertheless, the universalist perspective dominates. The basic reasoning of the new institutional economic approaches is outlined in the second section of the chapter.

Insights from the three perspectives on IHRM and from economic theories provide the basis for the third section. Applications of economic theory to IHRM are outlined, and the limitations and potential of these perspectives for IHRM are discussed. Since economic explanations do not represent a core focus within IHRM research, only a limited number of papers can be found dealing with economic explanations of IHRM issues. The main theoretical focus of existing papers appears to be on transaction cost theory and agency theory. The chapter concludes with a summary of the

economic arguments in IHRM studies and discussion on potential future research directions for IHRM.

Perspectives on international HRM

Human resource management in the multinational firm focuses to a large extent on the management of expatriates, their recruitment and selection, training and development, and compensation. This emphasis is complemented by strategic approaches to HRM in MNEs (for example, the relationship between HRM activities in headquarters and subsidiaries) (Dowling & Welch, 2004). A common feature of these approaches is that they look at issues that may not exist in a domestic context, but have emerged from a firm's operations in different cultural or national contexts, and/or with people from different countries (Morgan, 1986).

The cross-cultural perspective of IHRM analyses the effect of culture on HRM practices. The concept of culture is often operationalized by using the cultural dimensions identified by Hofstede (1980), sometimes also by other prominent intercultural researchers such as Hall and Hall (1990) or Trompenaars and Hampden-Turner (1997). Important fields of research include intercultural aspects in recruitment and selection (Kühlmann, 2004), in training (Black & Mendenhall, 1989) and compensation issues (Schuler & Rogovsky, 1998).

The comparative approach to IHRM describes and compares HRM practices in different countries. It adds to our understanding of local HRM practices and more and more often interprets the results using country-specific explanations such as neoinstitutionalist approaches. Examples of this approach include Gooderham and Nordhaug (1997) or Wächter *et al.* (2003).

An economic theory of the firm

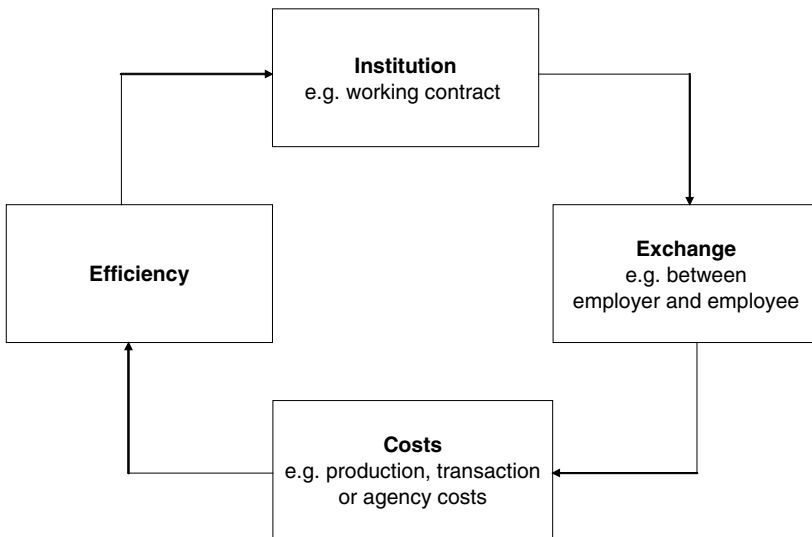
The basis for the development of the neoclassical perspective of microeconomic analysis has been the behavioural assumption of 'bounded rationality' (Simon, 1957). In a world characterized by perfect information the rules developed in the context of the neoclassical economic analysis of institutions would be unnecessary (Hegmann, 2004). However, limited information combined with limited information processing capacity have led to the emergence of new institutional economics (Williamson, 1985). These theoretical approaches explain and analyse institutions, which in turn make exchanges more efficient. The main objective of new institutional economics is to explain the structure, behavioural consequences, efficiency and changes in economic institutions. Key questions include the following:

- What are the most cost-effective and efficient institutions when considering a certain kind of coordination problem?

- What effect do coordination problems, cost and efficiency considerations have on institutional change (Ebers & Gotsch, 1995)?

The basic ideas of economic analysis of institutions have been summarized in Figure 23.1. In HRM, the working contract is in the centre of consideration (Jones & Wright, 1992). This contract is the legal basis of any exchanges between employers and employees, and its primacy suggests costs and efficiency of employment relations are dependent on such contracts. The different approaches within new institutional economics (such as transaction cost theory, agency theory or property rights theory) place other concepts at the centre of consideration (for a more detailed overview, see Furubotn & Richter, 2000).

Transaction costs include costs occurring within the processes of specifying, negotiating and enforcing contracts. According to Williamson (1985) it is possible to analyse any contractual problem of economic organization with transaction cost theory. The approach seeks to identify the environmental factors that, together with a set of related human factors, explain how companies can organize transactions to reduce the costs associated with these transactions. The most important human factors are bounded rationality and opportunism: 'Bounded rationality suggests that due to limited information and constraints on information processing, decision



Source: Based on Ebers & Gotsch (1995: 186).

Figure 23.1 Basic concept of the economic analysis of institutions

makers are not always capable of making decisions that maximize utility. Individuals are not always forthcoming with information, and absent effective monitoring mechanisms, may opportunistically take advantage of parties to exchange' (Grossman & Schoenfeldt, 2001: 60–61). The most important environmental factors are asset specificity and uncertainty. High asset specificity reflects the fact that some transactions are characterized by a high focus on company needs which can only be fulfilled through unique, company-specific assets. Uncertainty may include either outcome or behavioural uncertainty (Williamson, 1985). Transaction cost theory acknowledges that all exchanges involve costs and suggests that various organizational solutions vary in their transaction costs, some being more expensive than others.

The application of transaction cost theory to HRM issues starts with the assumption that employees exchange performance for remuneration (Jones & Wright, 1992). These exchange relationships differ according to firm and industry-specific environmental factors: the nature of work which results from these environmental factors can be more or less company-specific and more or less observable. The efficiency of the exchange between employer and employee will differ when using different governance structures. Often different types of internal labour markets are discussed (Williamson, 1984). Respective HRM strategies are an important part of governance structures in labour market transactions: 'The role of HRM practices is to allow for the measurement of unique contributions and to provide adequate rewards for individual employee performance' (Wright & McMahan, 1992: 309). For a multinational enterprise aiming at an efficient work organization this means that IHRM policies and practices should match the requirements of the work (for a more detailed description of the theory, see Williamson, 1984; Grossman & Schoenfeldt, 2001).

Agency theory places the relationship between principals and agents in the centre of the contractual analysis (Pratt & Zeckhauser, 1985). The main agency problems may occur (a) because goals of principals and agents may not be congruent and (b) because of the problem of appropriately monitoring or verifying the behaviour of the agent. If both principals and agents are utility maximizers, agents may pursue goals that do not necessarily correspond to the goals of the principals. The literature essentially suggests three mechanisms for solving the 'agency problem'. Monitoring systems represent one alternative to align the principal's and agent's goals. They are associated with relatively low agency costs when behaviour is directly observable. However, in situations characterized by information asymmetry (that is, when agents have more specialized knowledge than principals) monitoring costs may increase. A second mechanism is the design of an incentive system which encourages the agent to share the principal's goal.

A third approach for reducing goal differences relates to intensive socialization processes, aimed at creating a clan organization (for more detailed description, see Eisenhardt, 1989; Roth & O'Donnel, 1996; Bender, 2004).

Property rights theory has only rarely been applied to IHRM and will not be discussed in detail in this chapter. For an outline of the theory, see Alchian (1961); for an exemplary application to different types of codetermination, readers are referred to Furubotn (1988).

Economic theory and international HRM

While economic explanations of international HRM are limited, this is not true for HRM activities on a national level. An impressive body of knowledge has been created representing an important field in HRM research (Lazear, 1999). Although the economic perspectives that follow do not reflect the emphasis on new institutional economics found elsewhere in this chapter, these examples provide an important overview. Recruiting situations are interpreted as situations characterized by information asymmetries where signalling plays an important role. When training issues are discussed the economic school mainly looks at investments in human capital. Career issues are discussed in the context of tournament theory. Understanding the conditions where incentives are the most intense and have the comparably highest effects is the focus of much compensation research. Studies on teamwork address the potential for free riding. Outsourcing of HR activities is seen as a make-or-buy decision (for an overview, see Backes-Gellner, Lazear & Wolf, 2001). A discussion of IHRM research based on transaction cost and agency theory will now follow.

Economic theory and HRM in MNEs

Using transaction cost theory, Festing (1997) has developed a model explaining strategic IHRM in multinational firms in the context of corporate strategy. This model follows arguments outlined by Wright and McMahan, when they assert: 'It seems intuitive that a firm's strategy can have an effect on the nature of work. To the extent that the nature of work changes . . . the types of HRM systems necessary to monitor inputs, behaviors and outputs also change' (Wright & McMahan, 1992: 310). Consequently Festing suggests that the extent to which work is either specific or non-specific, and the degree to which outcomes can be either easy or difficult to measure, are dependent on the corporate strategy. High human capital specificity leads to mutual dependence of both the employee and the company (Williamson, 1985).

Whereas general qualifications increase the employability of the individual by other employers, this usually is not the case for firm-specific human

capital. Firms which lose their firm-specific human capital cannot replace those employees with candidates from the external labour market; rather these firms are forced to carry out reinvestment in order to develop the unique equipment, process, informal team and/or communication capabilities required by strategy (Williamson, Wachter & Harris, 1975). The higher the degree of a transaction's specificity, the greater the loss in value arising when the necessary human and tangible assets are not employed pursuing company goals. Hence a firm's specifically qualified employee will, other things being equal, be interested in permanent employment. The same is true of the company (Williamson, 1984). Festing (1997) has identified several strategic situations related to human asset specificity in the context of MNEs, and outlined their implications and requirements for different IHRM strategies as reflected in organizational issues of labour market transactions. Other work in the area of IHRM based on transaction cost theory includes international staffing (Erdener & Torbiörn, 1999) or expatriate management in international joint ventures (Kabst, 2004).

In addition to transaction cost approaches, agency theory has been applied to conceptualize IHRM practices in MNEs. The main focus here is on compensation issues. Roth and O'Donnel (1996) show in their study on compensation strategies in foreign subsidiaries of MNCs that agency problems (particularly information asymmetries due to the cultural distance between the country of origin and the host country and the extent of commitment of the subsidiary's management to the parent company) influence the choice of pay practices (Roth & O'Donnel, 1996). Björkman and Furu (2000) add to this line of theorizing by including the subsidiary role as well as the institutional environment in their study of top management compensation strategies in MNEs. They have found empirical evidence that the strategic role of a subsidiary contributes to pay practices. For example, they showed that managers of sales subsidiaries had a higher percentage of variable pay. This was attributed to the fact that, for these subsidiaries, the task was highly programmable and that outcomes were easy to measure. However the effect of the cultural distance between the country of origin of the MNE and the host country could not be confirmed. Instead the influence of the institutional environment seemed to be quite important within the sample.

An example of the agency perspective on international assignments is found in the work of Yan, Zhu and Hall (2002). In the present chapter, issues of possible opportunism, on the side either of the agent or of the principal, and the alignment of organizational and individual goals concerning international assignments are presented in the context of international careers. Agency theoretical arguments are here combined with the idea of the psychological contract.

Table 23.1 Candidate pool preferences based on agency theory predictions regarding parent–subsidiary relationship

	Goal congruency	
	Low	High
Asymmetry of knowledge (low)	Third-country nationals	Local nationals
Asymmetry of knowledge (high)	Expatriates	Inpatriates

Source: Harvey, Speier & Novicevic (2001: 903).

Harvey, Speier and Novicevic (2001) combine agency theory with expectancy when explaining staffing policies in MNEs. They identify asymmetries in the knowledge about effort–outcome relationships and goal congruence about effort–outcome standards as the two sources of agency problems. Information asymmetry results from differing information levels between the headquarters and the subsidiary, due either to increased autonomy or to a significant cultural distance, e.g. regarding performance goals. Goal congruence relates to the extent to which the subsidiary’s top management is committed to the top management goals of the MNE (Harvey, Speier & Novicevic, 2001). Using these two dimensions the authors predict preferences for candidate pools and associated selection choices (Table 23.1).

This section has outlined the benefits of analysing HRM problems in MNEs based on an economic perspective. Transaction cost and agency theory represent comprehensive explanatory concepts providing a differentiated argumentation background for a variety of IHRM decisions. These economic frameworks provide insights and give importance to variables that might have been neglected in another context. Yet it must be admitted that the quantification of transactions and agency costs, and attendant measures of administrative efficiency, still remain problematic.

Economic theory and intercultural HRM

The effect of cultural differences on HRM has yet to become the centre of economic analysis (Wolff & Pooria, 2004; Casson, 1993). How cultural differences affect management practices is not yet understood in terms of economic theories.

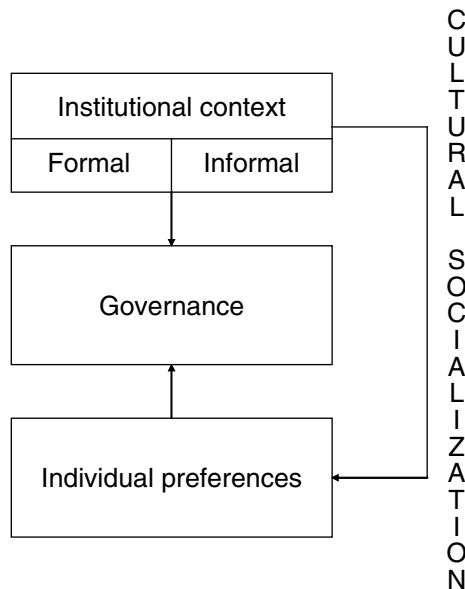
There is no general definition of the term ‘culture’. Hofstede (1980: 25) defines it as the ‘collective programming of the mind . . .’. However, when using economic theory, culture is discussed from a utility perspective and it is suggested to define the term ‘in a way that is compatible with the view that individuals optimize, and that their behaviour sustains an economic

equilibrium . . . In economic terms, culture may be defined as collective subjectivity' (Casson, 1993: 419–20). Subjectivity of values means that individual preferences are not directly measurable, but rather are expressed through observable behaviour. 'The second use of subjectivity is in the context of probabilities. In the absence of information about relative frequencies, an individual may attach a purely personal probability to an event. This probability cannot be directly measured, but when an individual maximizes expected utility, changes in his behaviour may be attributed to the modification of his attributed probability' (ibid.: 420).

Economic theories focus on cultural norms and regulations, including legal norms, common right, codes of conduct, culture-specific attitudes, signals and cultural and social capital. The main focus is on the way the different aspects influence social relationships and economic performance of a society (Hegmann, 2004; Casson, 1993). An example of this approach can be found in the study by Knack and Keefer (1997). The analysis of the cultural phenomenon in the context of economic theories requires the development of a thorough understanding of culture including the corresponding system of rules, as far as this is possible with limited information-processing capacities. These rules can then be explained by microeconomic perspectives.

A popular approach is to interpret culture as an informal aspect of institutional regulations (for example, North, 1990). Following this idea, Wolff and Pooria (2004) differentiate three levels of regulations. It is proposed that the formal as well as the informal institutional context have influences on the governance structures. These governance structures are established to coordinate individual action within firms, such as the working contract. Furthermore the institutional context is supposed to influence the individual preferences of actors in the contract, including their respective utility functions. Wolff and Pooria (2004) summarize the influence of the implicit context on behaviour as cultural socialization (Figure 23.2).

Wolff and Pooria suggest that intercultural problems in international management arise from differing socialization of the various actors. At the centre of economic reasoning is the problem of efficient resource allocation. If the relevant actors are socialized by cultures in different ways, the meaning of appropriate (that is, efficient) resource allocation may differ between individuals. Hence assumptions about acceptable and effective coordination and motivation measures may differ as well. An employee's lack of understanding of the coordination and motivation measures established by a manager from a different culture may result in an inefficient resource allocation. Allocation errors result from the so-called 'cultural gap' between differently socialized actors in a common contract. This cultural gap is interpreted as an information asymmetry, potentially leading to



Source: Based on Wolff & Pooria (2004: 452).

Figure 23.2 Levels of regulation

problems with (a) misunderstanding, potentially involving inefficient resource allocation, and (b) the increasing risk of opportunistic behaviour which may result from a difference in culture-specific information.

Grossman and Schoenfeldt (2001) suggest that cultural differences may involve ethical breaches, which increase the perception of opportunism. Opportunism results in an increase in organizational transaction costs, and is associated with lower performance. The suggestion is that differing degrees of 'ethical distance', 'defined as differences in the way the cultures assess the ethical ramifications of a decision' (ibid.: 63) should be managed by different IHRM strategies.

In summary, economic theory offers a classification of intercultural problems but it does not specify the content of culture. The focus is not on value systems but rather on property rights. Jones argues that the design of property rights 'constitutes the culture and that the norms and values that govern organizational action emerge from the way in which property rights are distributed, enforced, and guaranteed' (Jones, 1983: 455). In explanations based on transaction costs theory the variable 'transaction atmosphere' would also include cultural, religious and social norms and values. Different types of 'transaction atmospheres' may influence the level of

transactions costs associated with certain coordination and motivation measures (Picot, Dietl & Franck, 2002). Thus a cultural gap would lead to an increase in transaction costs.

As culture is not an objective concept, but socially constructed reality acquired by individuals through socialization processes, there are limits to the economic analysis of culture. Thus even decontextualization becomes difficult (Hegmann, 2004). Furthermore culture not only consists of explicit knowledge but also comprises implicit knowledge, which by definition is difficult to analyse (Polanyi, 1967). Consequently it is difficult for members of a culture always to consider the implicit aspects of their culture in economic action. Here a risk of misinterpretation is emerging (Hegmann, 2004). There seems to be consensus about the fact that 'a comprehensive economic theory of culture has not been worked out, but existing analysis makes it possible to identify with some accuracy the key characteristics of a culture that determines the economic performance of a group' (Casson, 1993: 423).

Economic theory and comparative IHRM

Explanations of country-specific differences in IHRM are dominated by neoinstitutionalism perspectives such as Whitley (1992, 1999) or Powell and DiMaggio (1991) or the country-of-origin effect (Ferner, 1997). These approaches follow a context-oriented paradigm which interprets differences in HR practices in the context of the institutional environment perceived as typical of a certain country or region.

Economic theories often focus on the firm as the unit of analysis, and do not assume a deterministic relationship between firm environment and HR activities. Instead they suggest that firms decide about their HRM practices with respect to major strategic decisions for reasons of efficiency. An empirical study about qualification and competitive strategies in Germany and Great Britain by Backes-Gellner (1996) shows that no systematic country-specific variations can be found in the qualification level of the technical staff in both countries. Controlling for production/service strategies as well as marketing strategies in different industries, the author finds these two strategies the most important determinants of the level of qualification for firms. This finding challenges the cultural as well as the neoinstitutionalism perspectives. However Backes-Gellner shows that there are differences in the ways qualifications are acquired. The dual system in Germany is contrasted with the more training-oriented approaches in the UK and France. In summary, her conclusion is that 'institutions do matter' when the goal is to explain how qualification requirements are developed in different countries. However, when it comes to the explanation for firm-specific behaviour with respect to the qualification strategy and the resulting level of qualification

in a firm, the competitive strategy and especially the production and marketing decisions are more important predictors. In this context 'institutions don't matter' (ibid.: 303).

The work by Backes-Gellner points out the weaknesses of the dominating cultural and institutional explanations in international comparative HRM as central assumptions and complements these approaches with a firm-level explanation applying new institutional economics. In summary, she states that firm-specific aspects (related to strategic choices) matter much more in explaining firm behaviour than the larger institutional environment. This result is consistent with the arguments posited by Lawler *et al.* (1995) that economic analysis mainly focuses on market-related factors when explaining HRM practices. However, in their comparative study on HRM in India and Thailand, Lawler *et al.* (1995) have found evidence that long-term differences in this area are mainly related to non-market factors. This may be seen as an indicator that it is difficult to capture all relevant variables in IHRM with an economic approach. In other papers we have seen that institutionalist perspectives have the potential to increase our understanding of IHRM decision processes (see, for example, the arguments outlined in Roth & O'Donnel, 1996; Björkman & Furu, 2000). This potential is yet to be fully realized.

Conclusion

Economic theory adds to our understanding in all three research areas of IHRM. It explicitly links the perspectives of the two main actors, employee and organization, by taking a contractual perspective, assuming an exchange relationship and giving hints for efficient governance structures. The main focus is on cost and efficiency aspects, which are often neglected when the international dimension of HRM is discussed. Furthermore, based on this theoretical perspective, investments in firm-specific human capital and their amortizations have proved to be of major importance when taking IHRM decisions and designing appropriate strategies.

In economic explanations cross-border issues such as the cultural or institutional context of IHRM are thought to be included in the regulatory environment influencing the contracts between employer and employee. It is argued that there is no need for a complementary theoretical perspective (Backes-Gellner, 1996). The economic perspective on IHRM may have limits. As pointed out in the context of cross-cultural IHRM, it is only possible to integrate cultural assumptions in the economic framework as long as these assumptions are explicit, or at least as long as their influence on behaviour can be identified. Furthermore, when discussing international comparative HRM, it has become very clear that economic explanations depend on the research focus.

In summary, IHRM explanations may very well be rooted in economic theory, especially when the firm level is concerned. However the state of the art in economic IHRM research indicates that it may not be useful to pursue a purely universalist paradigm. With respect to global compensation, Bloom, Milkovich and Mitra (2003) have outlined that successful firms have considered company-specific as well as external variables. The research considered within this chapter indicates that economic theory cannot claim – no theory can claim – to provide a complete explanation of IHRM phenomena (Bender, 2004). In contrast, the integration of multiple theoretical perspectives has proved to explain pay practices better (Tremblay, Coté & Balkin, 2003). Which IHRM issues can be explained by economic theories and which theories can best complement arguments of economic theory? Further research needs to be focused on this central question. In the research considered within this chapter, the choice of the combined theories reflected the weaknesses of economic theory. The request for further elaboration of the behavioural assumptions and political processes or an explicit consideration of the institutional and cultural environment, especially when international HRM issues are to be explained, highlights this weakness. As this chapter has shown, we already find research where economic arguments are combined with motivation theories, resource dependence perspectives or cultural and institutional concepts (see, for example, Bender, 2004; Tremblay, Coté & Balkin, 2003; Grossman & Schoenfeldt, 2001; Roth & O'Donnell, 1996; Björkman & Furu, 2000).

To balance the potential for combining economic theory with other theories, we must reiterate that, as economic explanations of IHRM do not represent a major research field, there are many research issues that may gain new insights when analysed solely from an economic perspective. For example, the centralization/decentralization problem of IHRM activities could be analysed from an agency perspective. Furthermore cultural aspects within the principal-agent relationship would be an interesting topic. This list could be extended. In addition, the section about economic theory and IHRM referred to approaches which are not part of new institutional economics. These approaches (such as signalling perspectives or tournament theory) may also be applied in an IHRM context. Consequently the economic analysis of IHRM provides a wide and promising field for future research and may further expand our knowledge in the future.

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24 International human resource management research and institutional theory

Ingmar Björkman

Until the early 1990s, international HRM researchers made few references to institutional theory. However, in their influential paper on organizational theory and strategic HRM, Wright and McMahan (1992) discuss institutional theory and argue: ‘the idea of institutionalization may help in understanding the determinants of HRM practices’ (p 313). Since this was written, institutional theory has been used in international HRM research mostly to examine the HRM practices found in foreign-owned subsidiaries of multinational corporations (MNCs) (for example, Rosenzweig & Nohria, 1994; Hannon, Huang & Jaw, 1995; Björkman & Lu, 2001; Fenton-O’Creedy, Gooderham & Nordhaug, 2004). Institutional arguments have also been used in comparative studies of HRM practices across countries (for example, Gooderham, Nordhaug & Ringdal, 1999). Nonetheless, this chapter argues that institutional theory is still underexploited in IHRM research, and that the application of this theory could significantly augment our understanding of a range of important research questions. Below, I provide an overview of key aspects of institutional theory and review work carried out within an institutional theory framework. The main objective is to propose ways in which this theory can be used in future research on MNCs, while questions related to comparative international HRM research are examined elsewhere in this *Handbook* (Brewster, 2005; for recent reviews, see also Budhwar & Sparrow, 2002; Schuler, Budhwar & Florkowski, 2002).

Institutional theory

Although theorists differ in their views of institutional theory (DiMaggio & Powell, 1991; Scott, 1987, 2001; Tolbert & Zucker, 1996), most scholars today share ‘an interest in understanding the bases of stability of social forms and the meanings associated with them’ (Scott, 2003: 119) and point to the influence that socially constructed beliefs, rules and norms exert over organizations. A common point of departure for most ‘new institutionalists’ (DiMaggio & Powell, 1991) is thus that organizations (and suborganizations) are under pressure to adapt and be consistent with their institutional environment. They are assumed to search for legitimacy and recognition,

which they do by adopting structures and practices defined as and/or taken for granted as appropriate in their environment (Meyer & Rowan, 1977). Institutional theory shares this emphasis on the exchange relationship with the environment with resource dependency theory (Pfeffer & Salancik, 1978) and efforts have been made to integrate the two (Oliver, 1991). A central assumption in institutional theory is that organizations sharing the same environment – who thus are members of the same organizational field (DiMaggio & Powell, 1983; Westney, 1993) – are characterized by shared systems of meanings and tend to become ‘isomorphic’ with each other.

DiMaggio and Powell (1983) suggest that there are three major ways in which isomorphism is produced: coercive isomorphism, where a powerful constituency (for example, the government) imposes certain patterns on the organization; mimetic isomorphism, where organizations in situations of uncertainty adopt the pattern exhibited by organizations in their environment that are viewed as successful; and normative isomorphism, where professional organizations such as universities, consultancy firms and professional interest organizations act as disseminators of appropriate organizational patterns which are then adopted by organizations under the influence of the professional organizations. More recently, Scott (1995, 2001) has suggested that there exist three ‘pillars’ of institutional processes: regulatory (corresponding to DiMaggio and Powell’s coercive mechanisms), cultural–cognitive (cf. mimetic) and normative processes.

‘Institutionalization’ is the process through which activities are repeated and given common meaning (Scott, 2001), but institutionalization is also a property variable (Zucker, 1977). Tolbert and Zucker (1996) propose that institutionalization processes can be divided into three stages: preinstitutionalization, semi-institutionalization and full institutionalization (see Greenwood, Suddaby & Hinings, 2002 for a related model of the stages of institutional change). At the preinstitutionalization phase the adoption of organizational practices and structures is likely to be driven by instrumental considerations (and possibly coercive and mimetic factors) and adoption can be predicted by organizational characteristics that make the change economically and technically viable. At the full institutionalization phase, when there is general social consensus about the value of the focal activity or structure, the impetus for adoption is predominately normative and the adopters more heterogeneous (Tolbert & Zucker, 1996). Further a distinction can be made between ‘ceremonial adoption’ (Meyer & Rowan, 1977), where organizational actors do not believe in the value of the practice/structure that therefore may be only loosely coupled with everyday activities and behaviour, and ‘internalized adoption’ (Kostova & Roth, 2002) where the practice/structure is seen as valuable and organizational actors are committed to it.

Most organization scholars working within an institutional perspective have focused on the relationship between organizations and their environments, conducting comparative and historical studies of how the institutional environment shapes organizational forms and practices. Institutional theorists have generally shared scepticism toward rational choice and efficiency-based perspectives, and instead stressed that organizational practices are to be understood against the background of socially constructed views of appropriate organizational forms. They have historically played down the importance of organizational agency, and in particular in the early work focused more on institutional stability and similarity across organizations and their subunits than on institutional changes.

However, as exemplified in the special issue on institutional theory published in *Academy of Management Journal* (2002), recently more emphasis has been placed on institutional changes, including processes of birth, change and deinstitutionalization. More attention has also been paid to the roles played by interests and agency and to institutional analyses of organizational phenomena at different levels of analysis, including organizations and their subunits, social fields and industries, and national as well as international levels (Scott, 2001; Dacin, Goodstein & Scott, 2002). The interaction of top-down processes (from societal institutions) and bottom-up processes (focusing on actors and how they invent and negotiate institutions) in institutional creation and diffusion is also increasingly examined in the literature (for recent reviews, see Tolbert & Zucker, 1996; Scott, 2001; Dacin *et al.*, 2002).

Institutional theory and MNC HRM practices

Institutional theory has been used to shed light on a wide variety of organizational phenomena (Scott, 2001). Over the last decade, a number of scholars have responded to calls (cf. Rosenzweig & Singh, 1991; Westney, 1993; Kostova & Zaheer, 1999) also to use institutional theory to address issues in the international management field. Several studies have been conducted on the HRM practices found in foreign subsidiaries. Foreign-owned subsidiaries can be seen as being influenced both by institutional factors in the local environment and by international isomorphic processes, including pressures from the MNC parent company (Westney, 1993). In the local context, the labour laws and regulations restrict the range of possible HRM practices, local managers have taken-for-granted views about good management practices that influence the policies and practices that they suggest for the subsidiary, strong local professional norms may exist, and processes of institutionalization might also take place among MNCs in the focal country. Hence cultural–cognitive and normative institutional processes enfold in the local context may play important roles in explaining the HRM practices

found in situations of uncertainty (DiMaggio & Powell, 1983; Levitt & March, 1988). At the same time, there may be coercive pressures from the MNC parent organization and taken-for-granted practices may be diffused through organizational actors to foreign subsidiaries (Westney, 1993).

Researchers have typically examined subsidiary HRM practices in terms of their degree of global 'integration' or MNC 'standardization' versus local 'responsiveness' or 'local adaptation' (Pralhad & Doz, 1987; see also Rosenzweig, 2005), although it has also been argued that an MNC sometimes may blend global standardization with local responsiveness (Hannon *et al.*, 1995; Taylor, Beechler & Napier, 1996). In empirical studies, subsidiary managers have usually been asked to estimate the extent to which the HRM practices resemble those of local firms and the MNC parent organization, respectively. Studies of foreign-owned subsidiaries in the United States (Rosenzweig & Nohria, 1994) and Taiwan (Hannon *et al.*, 1995) showed that the HRM practices of MNCs overall were more localized than globally standardized, indicating stronger local than international institutional pressures. On the other hand, a study of Chinese–Western joint ventures revealed that the HRM practices were more similar to those of the MNC parent company than to those of local firms (Björkman & Lu, 2001), perhaps in part because the study focused on professionals and managers rather than rank-and-file employees. These studies have examined the relationship between possible explanatory factors consistent with the institutional perspective and subsidiary HRM practices. The results indicate that, among other things, the subsidiary establishment form (greenfield investment rather than acquisition) and the number of expatriates in the subsidiary – both indicating cultural–cognitive and/or normative institutional factors – are positively associated with a high degree of MNC standardization (Rosenzweig & Nohria, 1994; Björkman & Lu, 2001).

The relationship between MNC home country and subsidiary HRM practices has been examined in a number of studies, and there exists much evidence that MNCs from different countries differ systematically in their overseas operations (for example, Yuen & Hui, 1993; Rosenzweig & Nohria, 1994; Guest & Hoque, 1996; Bae, Chen & Lawler, 1998; Muller, 1998; Björkman & Lu, 2001; Faulkner, Pitkethly & Child, 2002). Several of these studies were conducted within an institutional framework, and authors have presented several explanations for the home country effects.¹ Firstly, expatriate managers tend to have taken-for-granted views of the kind of practices that are efficient. As a consequence, they may attempt to introduce patterns from their home organization when functioning in overseas settings (Bartlett & Ghoshal, 1989). The taken-for-granted views may, in turn, have their roots in, for example, the MNC's home country

culture (Westney, 1993) or national business system (Ferner & Quintanilla, 1998). It is therefore possible that the tendency to attempt to introduce MNC practices varies according to the home country of the MNC. Secondly, MNC units may mimic the organizational patterns exhibited by foreign companies in their local environment. Many foreign managers interact socially and professionally with other expatriates, and such interaction can provide the vehicle for a diffusion of 'rationalized myths' (Meyer & Rowan, 1977) concerning appropriate practices. For instance, in China, expatriate networks are at least to some extent to be structured according to nationality (Björkman & Lu, 2001).

In spite of the contributions made by the studies reviewed above, they can be criticized on several different grounds and much work remains to be done. First, much extant work on HRM practices in MNC subsidiaries abroad has used a single measure of the degree of MNC standardization and/or localization of HRM practices. However different HRM practices differ in their level of MNC standardization and localization (Rosenzweig & Nohria, 1994). Therefore there is arguably a need to describe and analyse each practice separately rather than (as has often been done in international HRM research so far) only using an aggregate measure of the subsidiary's HRM system.

Second, HRM practices have typically been operationalized in a relatively simplistic manner using perceptual data, often collected from one respondent per unit only. Indicators of actual practices in the foreign subsidiary as well as in the parent organization would give better measures of the degree of resemblance of HRM practices.

Third, to date scholars have failed to disentangle the relative influence of MNC internal and external regulative, normative and cultural-cognitive processes. In which situations do these processes work together and in which situations may, for example, efforts by MNC headquarters to pressure foreign subsidiaries to adopt HRM policies in fact backfire (cf. Martin & Beaumont, 1998)? The methodology used in Kostova and Roth's (2002) research on the adoption of organizational practices by MNC subsidiaries could be used as a model of the way to measure the strength of different institutional processes.

Fourth, more work should also be carried out on the tension between MNC internal institutional pressures and the HRM practices that would be most efficient within a rational choice perspective. There exist a number of potential drawbacks to standardizing HRM practices across foreign subsidiaries (and, conversely, of extreme local responsiveness). First, global standardization by definition precludes the possibility of being responsive to the local institutional environment. As pointed out by Oliver (1997), firms that are better than their competitors in handling institutional

pressures may attain a competitive advantage. Second, labour market considerations may favour different HRM solutions in different countries. Third, a blind standardization of practices across MNC units may lead to a lack of fit between the characteristics of the focal subsidiary's operations and its HRM system. Hence it may be more difficult to achieve a high degree of strategic HRM fit in the subsidiary. Fourth, there may be a backlash against 'headquarters imperialism' if subsidiaries are forced to fully adopt standardized MNC practices rather than contribute to the development of the unit's own policies and practices (Martin & Beaumont, 1998). Finally, if there are strong pressures to standardize HRM throughout the MNC this may stifle local experimentation and development of the HRM system, thereby reducing the capacity of the MNC as a whole to develop new innovative HRM practices.

Fifth, researchers need to be careful in terms of the level of analysis. A distinction can be made between HRM system architecture (level one), HRM policies (level two) and HRM practices (level three) (Becker & Gerhart, 1996). Using employee compensation as an example of a specific HRM function, at the HRM architecture level of analysis the focus can be on the extent to which employee performance is valued in the firm; at the policy level data may be collected on the extent to which incentive pay is used throughout the firm; and typical questions at the practices level of analysis could be whether 360 degree performance appraisals are used to determine bonuses on the part of the total financial incentive achievable by an employee that is based on the performance of the team that she/he is part of (*ibid.*). Research on the transfer of HRM within the MNC has predominately been conducted at levels two and three (although with some researchers using the term 'practices' also at level two). All three levels of analysis are relevant, but the results are likely to differ both in terms of the degree of HRM standardization and concerning the determinants of subsidiary HRM practices and policies. To date there is a dearth of research on the relationship between the different levels of analysis.

Finally, most research on subsidiary HRM policies and practices has centred on how much the foreign affiliate's HRM system resembles that of the home country organization of the MNC. However, as pointed out by Taylor *et al.* (1996), the 'exportation' of HRM from the parent organization to the foreign unit is not the only possible MNC internal transfer of HRM policies and practices; MNCs may also have an 'integrative' approach to IHRM by attempting to identify 'the best' practices and policies within the MNC as a whole, and then transfer these to the other MNC units. In this conceptualization of IHRM, transfer of HRM policies and practices can occur between foreign affiliates as well as between headquarters and foreign subsidiaries (*ibid.*).

Other areas to be pursued in future research

Few efforts have been made in IHRM research to examine processes of institutionalization and diffusion of practices and structures. Such processes could be studied at different levels of analysis and for a range of issues in HRM. For instance, scholars could study macro- and meso-level processes of institutionalization and diffusion of 'high performance' work/HRM practices (Becker & Gerhart, 1996), the HR scorecard (Becker, Huselid & Ulrich, 2001), outsourcing of HRM tasks (Greer, Youngblood & Gray, 1999) and the structure and roles of the HR department in the MNC (Stiles, 2005). Institutional theorists remind us that organizations imitate each other in situations of uncertainty. Organizations are particularly likely to mimic others perceived as successful, but imitation is also likely to be influenced by the mental and social closeness of the firms to each other. For instance, companies belonging to the same industry, being from the same home country, using the same consultants and employing HR executives with the same education and professional background could be particularly likely to imitate each other.

It would also be of interest to carry out explanatory analyses of the extent to which organizations and organizational units such as foreign subsidiaries of MNCs engage in ceremonial adoption (Meyer & Rowan, 1977) or internalized adoption (Kostova & Roth, 2002). Such work would require scholars to look beyond the general adoption of general HRM policies and instead investigate the internalization of policies by the people who implement the policies in their daily work. Longitudinal work would be particularly interesting as it would enable analyses of the way patterns of adaptation change as the practice/structure becomes increasingly institutionalized.

To date, IHRM scholars have paid little attention to agency in their analyses. More emphasis on the role played by organizational actors will add to the explanatory power of institutional arguments in IHRM research. For instance, studies of HRM in MNC subsidiaries would be advised to investigate the role of organizational actors who are in a position to influence organizational structures and practices. The extent to which MNC subsidiaries adopt certain organizational practices/structures is likely not only to be a result of the extent to which organizational actors have internalized a belief in these practices but also to be a function of the influence that these actors have on firm decision making (cf. Dacin *et al.*, 2002). One could, for instance, hypothesize that the more highly regarded the subsidiary's HR department is and the more deeply the department is involved in strategic planning, the more this is likely to influence the affiliate's HRM practices.

Another path could be to integrate an institutional perspective with work already under way on symbolic and reputational considerations in HRM

(see, for example, Ferris *et al.*, 1999). Galang and Ferris (1997) show how HR departments in US firms may actively engage in symbolic activities with the aim of acquiring additional influence in the organization. Recently the roles played by the HR function in MNCs have also received increased research attention (for example, Ferner & Varul, 2000; Scullion & Starkey, 2000; Kelly, 2001; Novicevic & Harvey, 2001), but few efforts have been made to approach the phenomenon from a well developed theoretical perspective. Institutional theory might offer important insights into ways the HR department in different contexts can increase its influence in the organization. For instance, HR managers may try to ascertain whether top management perceives the HRM practices implemented in the firm as both progressive and appropriate, thus enhancing the reputation of the department. These perceptions are not only likely to be affected by institutionalization processes at meso and macro levels, but may also be actively influenced by the HR department through 'management of meaning' (Pfeffer, 1981) in the organization.

Stinchcombe (1965) was probably the first scholar to draw our attention to the impact of the founding conditions on the firm's subsequent operations. According to Stinchcombe, organizations are significantly moulded by the specific context prevailing at the time of their birth. He proposed further that organizations are subsequently likely to retain many of the features acquired when they were established. The term 'organizational imprinting' refers to this tendency on the part of organizations (Scott, 1987). Several factors may contribute to organizational imprinting. Gray and Yan (1997) refer to the initial resource mix that an organization acquires at its founding, and to the institutional forces that prevail at that moment. As argued by Scott (1987), initial structures and processes may become institutionalized as 'the way things are done', thus being an important reason for the persistence of organizational features over time. Students of IHRM could for instance investigate whether imprinting effects can be found in analyses of foreign subsidiary HRM practices.

There is a long-standing debate about the impact of MNCs on the host country (Moran, 1993). Most of this discussion has been on the direct economic implications of MNCs and there has been much less work on the impact of foreign firms' operations on non-economic aspects of the local society. Although numerous studies have shown that considerable differences in HRM remain across countries owing to cultural and institutional factors, there are also indications of some convergence across countries (Brewster *et al.*, 2004). MNCs may through their activities significantly contribute to the diffusion of foreign HRM practices (Westney, 1993), but there is a paucity of research on the effects that foreign-owned firms have on the host country's people management practices, in particular in

developing countries (Schuler *et al.*, 2002). For instance, several scholars (for example, Warner 1996; Benson & Zhu, 1999; Goodall & Warner, 1998) have described and analysed some of the changes taking place in HRM practices and policies in domestic Chinese firms during recent years, but little empirical research has specifically aimed at investigating the process of diffusion of Western-style HRM practices and policies among local Chinese organizations (Benson & Zhu, 1999; though see Zhu & Warner, 2000). Björkman (2003) has developed a series of testable propositions that can be used as a foundation for future empirical research in the Chinese context and a similar set of propositions could also be tested in other locations.

Finally, there is a need to combine institutional theory with other theoretical perspectives. During the last decade, several efforts have been made to go beyond individual theoretical perspectives to build integrative models of the determinants of HRM in MNCs (for example, Schuler, Dowling & De Cieri, 1993; Taylor, Beechler & Napier, 1996). These models have built on a variety of theoretical perspectives. For instance, the model proposed by Taylor *et al.* (1996) draws on resource-based theory of the firm (Barney, 1991) and resource dependency theory (Pfeffer & Salancik, 1978). Both the Schuler *et al.* (1993) and the Taylor *et al.* (1996) models specify a number of mediating and moderating factors that may influence the HRM policies and practices in MNCs, and their work has been instrumental in furthering empirical work on international HRM. The development of a similar conceptual model based squarely on institutional theory would offer a suitable challenge for theorists interested in augmenting our understanding of the determinants of HRM in MNCs.

Conclusions

The main message of this chapter is that, although institutional theory has already been instrumental in helping us to understand better the forces influencing HRM in MNCs, the theory has great potential to make additional contributions within the field of IHRM. Although the discussion in this chapter has been limited to HRM within the context of MNCs, an examination of institutional mechanisms can inform comparative studies of HRM as well as research on HRM in domestic settings (see also Paauwe & Boselie, 2003). My prediction is that students of IHRM will increasingly use institutional theory as their theoretical framework in the years ahead.

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Note

1. Scholars (for example, Ferner & Quintanilla, 1998) have also examined MNC home country effects within a business system approach (Whitley, 1999). For a comparison of neoinstitutional and business system approaches to studying HRM in MNCs, see Tempel and Walgenbach (2004).

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25 International human resource management and social network/social capital theory

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Work gets done through relationships embedded in larger networks. The intricate network of relationships both within and outside an organization forms the circulation system that carries information and ideas to those who need it, when they need it (Lengnick-Hall & Lengnick-Hall, 2002). Connections among people both within and across organizations have received increasing attention in the recent past thanks to some groundbreaking research in sociology and management (for example, Burt, 1992; Coleman, 1988; Granovetter, 1974; Krackhardt 1990). As Brass (1995) noted, a social capital/social network perspective is not offered as a substitute or competing view to the traditional HR focus on individual attributes. Rather combining this perspective with the traditional one may broaden our understanding of the complexities of behaviour in organizations and offer new avenues for research in IHRM.

The purpose of this chapter is to guide IHRM scholars interested in incorporating social network/social capital theory in their future research. We begin by defining key concepts. Next, we describe the relationship between social capital and competitive advantage in international firms. Finally, we propose an agenda for IHRM research focused on the role of IHRM in using social capital and social networks to achieve strategic capabilities in multinational corporations. Figure 25.1 illustrates the essential relationships.

Relationships: the foundation for social capital

A relationship represents a lasting association between two or more individuals, groups or organizations (Lengnick-Hall & Lengnick-Hall, 2003). Relationships have four distinctive characteristics. One, they occur over time and are built on a history of interaction. Past events shape expectations and provide a context for evaluating the present. Expectations about the future also are shaped by the level of commitment and closeness between the partners in the relationship. Two, relationships often involve mutual influence. One party in a relationship may influence the other on

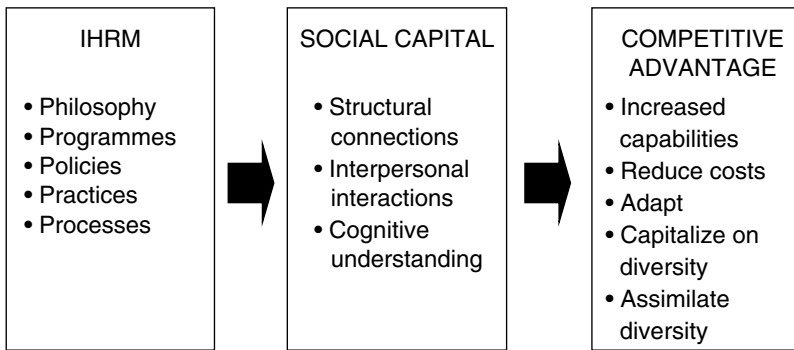


Figure 25.1 Relationships among IHRM, social capital and competitive advantage

some issues, while the roles are reversed on other issues. Three, relationships can range from one-dimensional to multifaceted. For example, a worker may have only a task-oriented relationship with one coworker, but may have several relationships with a different coworker (for example, colleague, friend and neighbour). Four, relationships are usually embedded in wider social networks. Having a relationship with one person provides potential access to others whom you do not even know.

Relationships are receiving increasing attention in the IHRM literature. Researchers have examined the relationships between supervisors and employees (for example, Graen & Uhl-Bien, 1995), the relationships among employees on teams (for example, Chen & Klimoski, 2003) and the relationship between an individual and an organization (for example, Rousseau, 1995). However, until recently, this research did not address how relationships embedded in networks affect knowledge sharing, job and organizational performance and sustained competitive advantage.

Social capital

The concept of social capital has the potential to explain how human resources may be leveraged to create competitive advantage. Portes (1998) provides a clear distinction among different forms of capital: 'Whereas economic capital is in people's bank accounts and human capital is inside their heads, social capital inheres in the structure of their relationships. To possess social capital, a person must be related to others, and it is those others, not himself, who are the actual source of his or her advantage.' Nahapiet and Ghoshal (1998) define social capital as the sum of the actual and potential resources embedded within, available through, and derived from the network of relationships possessed by an individual or a social

unit. Adler and Kwon (2002) define social capital as the goodwill available to individuals or groups; its source lies in the structure and content of the actor's relations; its effects flow from the information, influence and solidarity it makes available to the actor.

We integrate these ideas and define social capital in the international context as *the intangible resource of structural connections, interpersonal interactions and cognitive understanding that enables a firm to (a) capitalize on diversity and (b) reconcile differences*. These two capabilities provide a foundation for an international organization to develop dynamic capabilities, to manage the inherent tension between pressures toward cost reduction on a global scale and pressures toward local adaptation, and to navigate the challenges that arise from diverse national values, economic systems and workplace conditions that are inherent in a multinational setting.

Social capital can either facilitate or constrain organizational effectiveness. It may facilitate organizational effectiveness by (a) providing a form of social control – people will do things for others without close monitoring, (b) providing a source of support – people have others to turn to in times of need, and (c) providing access to information and other assets (advice, political opportunities, and so on). On the other hand, social capital may constrain organizational effectiveness (Portes, 1998). One, strong ties that benefit group members also can be used to exclude outsiders. For an international firm, ingroup versus outgroup behaviours can be devastating. Two, it is difficult to find the correct balance between investing in creating social capital and using it to achieve organizational objectives. Too much emphasis on building relationships can place excessive demands on group members, making it difficult for them to accomplish other important objectives. A recent study demonstrated that there is a threshold beyond which more relationships and stronger relationships both exhibited diminishing returns in terms of knowledge creation (McFadyen & Cannella, 2004). Three, participating in a community can create demands for conformity. International firms must remain open to diverse ideas that contradict prevailing expectations. Relationships can form a buffer that prevents novel ideas from being heard. And, four, there can be pressures exerted causing downward levelling norms. In an attempt to find common ground across diverse cultures and peoples, there may be a tendency toward lowering expectations rather than raising them to a supranational standard.

Kostova and Roth (2003) differentiate social capital as both a private and a public good. As a private good, social capital is only available to the individual who has developed a network of relationships. This network is only accessible by others in the organization at the discretion of the individual and any organizational benefits are secondary or by-products of individual

benefits. On the other hand, as a public good, social capital is available not only to those who created it, but also to others in the organization or community. Being a member of an organization or community entitles each individual to enjoy the benefits of relationships created by all other organization or community members.

Individual-level social capital may explain why some people have better access to employment than others, why some have more mobility through occupational ladders than do others, and why some entrepreneurs succeed where others fail (Portes, 1998). Granovetter (1974) proposed that multiple 'weak ties' (relationships that are more superficial: that is, acquaintances) could expand an individual's information base. Acquaintances are likely to have access to social networks different from those of friends, thus extending the potential range of information available to an individual. Weak ties may serve as bridges to other social networks enabling employees to solve problems and leverage their own job performance (Hansen, 1999; Inkpen & Tsang, 2005).

Burt (1992) identified 'structural holes' as positions between two social networks, each with dense connections within, but weak ties between them. An individual in a 'structural hole' can control information and benefits (that is, decide what information to provide either party or negotiate from a position of privileged information). Burt *et al.* (2000) found similar benefits to individuals in structural holes in both American and French manager samples. More recently, Burt (2004) proposed that individuals in 'structural holes' can act like brokers between groups and are more likely to express their ideas, less likely to have their ideas dismissed and more likely to have their ideas evaluated as valuable. In an international context, organizations that are dependent upon individuals in structural holes may find themselves operating from a weakened competitive position. Research is needed to determine whether this hypothesis is supported.

Dutton and Heaphy (2003) argue that 'high-quality connections' are important in many organizational situations. High-quality connections have *higher emotional carrying capacity* (that is, the expression of more emotion and of both positive and negative emotions), *tensility* (the capacity to withstand strain and to function in a variety of circumstances) and a high degree of *connectivity* (an atmosphere of buoyancy, creating expansive emotional spaces that open possibilities for action and creativity). Gittell (2003) showed that high-quality connections facilitate coordination of highly interdependent work units. The creation of high-quality connections poses challenging problems for international organizations since relationships are weakened by less frequent interactions and lack of physical proximity. Research is needed to assess whether the use of expatriates and job rotation schemes may help overcome some of these barriers.

Social capital in international organizations

Kostova and Roth (2003) propose a contingency perspective specifying the level of social capital needed in different types of interdependencies between headquarters and foreign subunits found in multinational corporations. They distinguish between simple and complex interdependence. Simple interdependence requires fewer and more easily specified points of interaction as well as readily codifiable exchanges. In contrast, complex interdependence requires many points of interaction and the exchanges are not easily codifiable. As the degree and complexity of interdependence between headquarters and a foreign subunit increase, higher levels of social capital will be required. They predict that the level of social capital required will be highest for transnationals, followed by international MNCs, then global MNCs, and that MNCs would require the lowest levels of social capital.

Relationships at different levels in the organization have the potential for affecting organizational performance in different ways. For example, social capital at top management levels facilitates successful partnerships, alliances, mergers and acquisitions. A history of repeated exchanges leads to strong ties which, in turn, promote trust, reciprocity and a longer-term perspective, making strategic alliances more effective. Moreover, as Inkpen and Tsang (2005) propose, social ties among individuals are the foundation for inter-member ties across firms within an industrial district. More research is needed to explain how top management social capital facilitates and constrains strategic choice and execution.

Social capital at organizational levels below top management can affect organizational performance through its impact on efficiency and innovation. Social ties augment more formal links, facilitate effective decentralization and offer a hedge against undesirable employee turnover (Dess & Shaw, 2001). Relationships also create commonalities that lead to shared vision, collective goals, preservation of organizational memory and a more stable platform for knowledge work (Inkpen & Tsang, 2005). While these propositions are logical, empirical research is needed to determine whether they are supported.

Although increased social capital at all organizational levels may be necessary for international organizations to succeed, there may be limits on how much can be created. For example, international organizations that operate in fewer countries may be able to create sufficient social capital for effective operations, while those operating in many countries may find it difficult to create sufficient social capital. We propose that an organization's stock of social capital creates upper limits on how expansive an organization can be in its international efforts.

Social capital and competitive advantage

The intersection of social capital/social network theory and competitive advantage offers a rich opportunity for IHRM research. Social capital contributes to competitive advantage in a number of ways that are particularly crucial for international operations.

First, to compete in a global economy, firms require dynamic capabilities (Eisenhardt & Martin, 2000). This means they must move beyond the frictionless dissemination of information and develop an ability to transfer, share and use knowledge throughout the enterprise. Social capital provides the links among people and competencies that contribute to an organization's combinative capacity. As Kogut and Zander (1992) explain, the essence of combinative capability is the capacity to synthesize and apply knowledge currently within the firm as well as a talent for integrating and using newly acquired knowledge. We propose that (a) links formed by the structural dimension of social capital reinforce workflow interdependencies and can draw knowledge to relevant sites; (b) the relationship dimension provides a basis for developing trust and interpersonal bonds that underlie rich flows of tacit knowledge, the process through which one network member is affected by the experience of another (Argote & Ingram, 2000); and (c) the cognitive dimension creates a basis for interpreting and translating ideas and know-how across cultures and diverse settings.

One potentially productive avenue for research is understanding how specific IHRM policies and practices shape the structural, relationship and cognitive elements of social capital and consequently influence a firm's ability to learn and exploit what it knows despite cultural differences and geographic distance. For example, Hofstede (1985) demonstrates substantial differences across cultures in their desire to accommodate complexity and ambiguity. Can IHRM make a more powerful contribution to a firm's ability to develop dynamic capabilities by developing programmes to augment the cognitive complexity of all employees regardless of their prevailing national culture or rather by designing work structures that translate cognitively complex ideas into more structured organizational routines?

Social capital is a source of incentives and motivation for employees to engage in extra-role, voluntary behaviours such as knowledge sharing and other types of organizational citizenship behaviours that also lead to dynamic capabilities. Kelloway and Barling (2000) argue that, since knowledge work is discretionary behaviour in organizations, firms will thrive to the extent they are able to increase employees' ability, motivation and opportunities to undertake these voluntary or optional activities. Bolino, Turney and Bloodgood (2002) present a comprehensive model showing

how organizational citizenship behaviours can contribute to all three dimensions of social capital (as identified by Nahapiet & Ghoshal, 1998). They argue that organizational citizenship behaviours (a) bring people together in ways that increase the number and usefulness of ties they have with others in the firm, (b) they 'infuse the connections among employees with an affective component', thereby augmenting the relational dimension of social capital, and (c) make it easier for individuals to understand each other and develop a common language. The reciprocal relationship between social capital and organizational citizenship behaviours can be a powerful source of competitive advantage and an important point for IHRM intervention in international organizations. However, currently, there is no research that demonstrates this relationship. Consequently one area for future research is to test the proposition that there is a reciprocal relationship between social capital and organizational citizenship behaviour and that this leads to improved organizational performance and competitive advantage.

Second, international operations typically face two competing forces: pressure to reduce costs through globalization and pressure to be locally responsive and adaptive. Social capital can enable effective responses to both of these forces. Social capital contributes to efficiency by smoothing coordination problems and reducing transaction costs between individuals, across units and among organizations (Lazenga & Pattison, 2001; Putnam, 1993). When people are willing to cooperate and collaborate and determine how to make things work through mutual adjustment, organizations and markets run more efficiently. However research needs to establish whether there are limits to the impact of social capital on organizational efficiency in an international organization. Can you have too much social capital, such that inefficiencies are created by too much attention being paid to the maintenance of relationships at the expense of accomplishing organizational objectives?

Social capital also helps firms enhance their responsiveness to local conditions. Social capital contributes to adaptation by capitalizing on the cognitive diversity offered by an international workforce. Social capital enables role versatility in individuals and units, allowing them to be both senders and recipients of knowledge and reducing barriers to effective knowledge flow such as 'not-invented-here' syndrome and information hoarding. Without the familiarity and trust that comes from strong relationships, individuals are often reluctant to ask for information, believing it exposes their ignorance. Without the understanding that comes from social ties, people may have difficulty putting themselves in the shoes of the recipient of information with sufficient insight to make an effective translation of ideas from one context to another. Social capital is a key mechanism for

eroding barriers to communication based on hierarchy, functional orientation, geographic distance or cultural distinctions. The specific mechanisms by means of which IHRM can help a firm transform social capital into specific cost reduction activities or effective responses to local conditions need further exploration.

Moreover social capital is a key factor shaping intracorporate networks, strategic alliances and industrial districts (Inkpen & Tsang, 2005). Social capital transforms other factors such as proximity, exchange history, norms and patterns of accommodation, into routines for knowledge exchange and collaboration. Research has demonstrated that organizations and units with deep social capital can create channels for resource exchanges more quickly and easily than those without such social ties (Tsai, 2000). Social capital helps reconcile differences in local cultures and diverse goals. Furthermore, as market transactions are infused with social ties, such exchanges encourage the trust and reciprocity that lead to effective alliances and joint ventures.

Third, firms that operate in multiple locations inevitably increase the level of diversity and complexity they face. This situation can be dealt with by efforts to reduce complexity and assimilate diversity (a melting pot approach) or it can be managed by efforts to increase the firm's ability to absorb complexity and adopt a multicultural attitude that accentuates and capitalizes on diversity. Social capital is an important element in each of these approaches. A fruitful area for IHRM research is to determine the contingencies that are favourable to an assimilation rather than absorption approach to managing diversity.

Social capital offers a basis for developing commonalities across diverse groups by providing incentives for fostering a global mindset (Sparrow *et al.*, 2004). Common goals, recognition of key reciprocal relationships and understanding the enterprise-wide consequences of local actions provide a basis for capitalizing on interdependencies. Social capital creates interpersonal interactions that promote knowledge and understanding of diverse cultures and markets and it provides a mechanism for reconciling diverse perspectives and experiences (Gupta & Govindarajan, 2004). When individuals see each other as part of the same team, regardless of cultural, national or experiential differences, there is an incentive for bridging differences to capitalize on the variety of ideas and options available. Relationships are the foundation for developing this orientation. However it is unlikely that the creation of social capital alone will lead to the creation of a global mindset. IHRM researchers may discover what role social capital plays in the creation of a global mindset.

Social capital also helps a firm capitalize on diversity and complexity through its contribution to absorptive capacity among individuals and

units. Absorptive capacity reflects the realization that what an individual or organization already knows influences what it is able to learn readily (Cohen & Levinthal, 1990). The accumulation of prior knowledge enhances the ability of individuals and organizations to acquire and use new knowledge. Since diversity in prior knowledge facilitates novel associations, international organizations have a tremendous potential for high levels of absorptive capacity. Moreover diversity coupled with structural, relationship and cognitive commonalities helps individuals and organizations deal with uncertainty by enabling people to recognize the value of new ideas and to understand how new information is related to current expertise and routines. The breadth and depth of an international organization's social capital may determine its absorptive capacity. For example, we propose that narrow and deep social capital (that is, less diverse total knowledge stock) may be useful for some organizational environments, while broad and shallow social capital (that is, more diverse knowledge stock) may be more useful in other environments.

The frequency, openness and strength of the interactions among an organization's people determine to a great extent the firm's ability to integrate diverse talents to develop new competitive capabilities, combine diverse ideas to arrive at new insights and take advantage of investments in technology. Social capital, like many other intangible resources, is both difficult to imitate and non-substitutable. Therefore the way in which a firm manages its human resources and the manner in which people interact to form an organizational community have a significant influence on competitive outcomes.

HR's role in creating and sustaining social capital

Integrating these various ways in which social capital contributes to strategic advantage yields an interesting research agenda for IHRM scholars. Traditionally HR has focused its efforts on the attraction, selection, development and utilization of individuals to accomplish tasks within the structure of jobs. More recently this focus has expanded to include the creation and use of groups or teams to accomplish organizational goals. Relationships, and the creation of social capital, have not received as much attention.

An important first step in a research agenda is to identify and evaluate IHRM policies, programmes, practices, and processes to bridge individual, functional and national boundaries effectively and create effective structural connections, interpersonal interactions and cognitive associations.

A range of traditional and non-traditional HR practices has been proposed to facilitate relationship building and the formation of social capital (Cross & Parker, 2004; Lengnick-Hall & Lengnick-Hall, 2003). However

many of the traditional HR activities need to be revised from the perspective of social capital and international concerns. For example, HR can use organization design to foster relationship building and social capital formation. Gittell (2003), advocates (a) using boundary spanners to build relationships among participants in a given work process, (b) altering the role of supervisor to relationship builder, and (c) the use of routines, in the form of process maps, that can increase the level of shared knowledge among employees by illustrating where each task fits in the overall work process, and how each employee's work relates to the work of others. Others have suggested using expatriates to transfer knowledge and to extend the reach of social networks. While there are many ideas regarding ways IHRM can contribute to creating social capital in multinational firms, research is needed to determine the conditions under which specific practices are effective.

Second, reorienting IHRM's role toward relationship building and the formation of social capital enables HR to contribute directly to the creation of competitive advantage (Lengnick-Hall & Lengnick-Hall, 2003). Relationships, which integrate human capital and other intangible aspects of a firm leverage the human talent that falls within traditional HR responsibilities to create more powerful competencies. What one person knows (or can do) is multiplied when others can tap into that knowledge or capability in their own jobs. Relationships, and the resulting organizational capabilities they create, can be an important source of sustained competitive advantage because they are heterogeneous, reflect individual differences and are relatively immobile since they are embedded in a firm's culture and climate. However this new perspective creates challenges for IHRM researchers. For example, how do you measure relationships and the social capital they generate? Currently available social network analysis tools are limited in the number of individuals that can be studied. And, while they can describe social networks, they do not measure social capital.

A third set of research issues surround the role of social capital in managing costs versus the role of social capital in fostering responsiveness to local conditions and issues. It would be useful to know more precisely how specific activities that create social capital might also encourage or restrict the ways in which it is applied. Do some IHRM practices, such as facilitating communities of practice, have a positive effect on responsiveness but little influence on cost containment? Do other practices, such as cross-cultural career paths, encourage global best practices that facilitate cost control, but inhibit diversity and responsiveness at the local level? Research into which practices have a robust impact and which are more specialized is important for designing effective IHRM strategies to fit specific competitive strategies.

Fourth, research is needed to articulate and assess IHRM's role in the tension between diversity assimilation and diversity exploitation. One route is to better understand the mechanisms by which IHRM practices can enable an organization to use social capital to increase the firm's ability to absorb and capitalize on the complexity of the rich and diverse repertoire of behaviours, values, actions and ideas that become available from operating in an international arena. An important research question is under what conditions a firm should emphasize its ability to absorb and capitalize on differences and under what conditions it should emphasize its ability to reduce and overcome differences. For example, Hofstede (1985) demonstrated that power distance, the degree to which inequality in power is accepted, varies considerably across nations. What are the tradeoffs in developing IHRM practices that enable managers to use social capital as a mechanism for adapting their behavior to accommodate a local preference for direction and hierarchical distinction as opposed to developing IHRM practices to use social capital as a mechanism for developing a common corporate value regarding power distance that overcomes local variations?

A fifth useful task is to identify the specific IHRM practices that transform the potential for social capital inherent in a firm's social networks into a realized organizational capability that leverages knowledge, connections and other tangible and intangible resources. This is the essence of transforming social capital from a private good to a public good. For example, enterprise resource planning systems create a network of structural, relationship and cognitive links across the organization. However this potential is only transformed into realized social capital if actions are taken to build upon the impersonal connections to create integrative bonds and emotional ties. Little is known about the specific actions IHRM can take to ensure that social networks become social capital.

Sixth, we need a clearer understanding of what types of social capital are desirable for different organizational situations. Research reviewed earlier suggests a trend toward developing a contingency perspective on social capital. Strong ties (or high-quality connections) are necessary in workgroup situations of high interdependency, as well as within multinational corporations that require high interdependency among units. Weak ties, on the other hand, may be useful for capitalizing on an organization's knowledge base by facilitating the flow and transfer of knowledge among individuals and units. These relationships need further clarification and empirical testing.

Conclusion

So what is the current state of knowledge about social capital and its importance to IHRM? At present, social capital and social network theory

and research offer interesting potential for adding to the explanation of the 'black box' of strategic human resource management. A focus on social capital and social networks may add to our understanding of how people make a difference and why the intangible assets of a firm are so crucial to success, particularly in global, knowledge-intensive enterprises and industries.

The underlying theme of strategic human resource management is that people matter; that the way a firm manages and capitalizes on its human talent can make the difference between success and failure. Human resource professionals have accomplished a great deal with regard to developing and nurturing a firm's human capital, but, just as resources are more powerful once they are combined to form strategic capabilities, human capital is more powerful once it is leveraged through relationships to form communities and networks of engaged individuals applying their talents collaboratively.

International operations guarantee diversity; however diversity alone is no guarantee of organizational success. Diversity applied toward a common objective is the key to synergy. Diversity directed toward different purposes is a source of flexibility. Social capital provides a bridge to connect the various capabilities, perspectives, purposes and settings that drive a global enterprise. Effective international human resource management must be as concerned with creating and directing a firm's social capital as it is with creating and guiding its human capital. This is a largely unexplored area of research providing many opportunities for discovery.

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26 International human resource management, fairness and trust: an organizational support theory framework

Ellen Whitener

P&G [Proctor and Gamble] has implemented a global candidate management system [selection system] which uses a common set of assessment factors and common assessment tools, such as a scorable application with an embedded biodata instrument, a problem solving test, an English proficiency test, and a structured interview . . . Variations across regions can occur due to local practices, local labor pools, or lack of trust in validated assessment tools. Generalizing across cultures, P&G tends to find that applicants generally prefer biodata instruments to cognitive tests . . . [and] P&G finds that local candidates . . . have trust issues based on their lack of experience with new selection tools or practices. (Wiechmann, Ryan & Hemingway, 2003: 79)

International Human Resource Management (IHRM) is ‘the set of distinct activities, functions, and processes that are directed at attracting, developing, and maintaining . . . [a multinational corporation’s (MNC)] . . . human resources. It is thus the aggregate of the various HRM systems used to manage people in the MNC, both at home and overseas’ (Taylor, Beechler & Napier, 1996: 960). As P&G has experienced, IHRM embodies fundamental tensions between global and local practices and corporate and local cultures (Schuler, Dowling & De Cieri, 1993), tensions that result in ‘trust issues’ that can derail the effectiveness of the IHRM system.

Executives work hard to create a corporate human resource system that selects, develops and manages applicants, candidates and employees efficiently and effectively throughout the organization and builds trust in the organization (Whitener, 1997). To direct and support their efforts, HR researchers have taken a pragmatic approach, trying to identify the best practices and the best features of those practices by estimating relative effectiveness. The HR literature therefore is full of studies that estimate and compare the validities of selection practices, improvements in training outcomes of different training methods and learning practices, performance outcomes of different compensation schemes, and reactions and biases associated with different performance feedback/management processes. Researchers then recommend specific practices based on their relative

effectiveness on the appropriate measure. Strategic HR researchers also take a pragmatic approach but at a higher level, demonstrating the impact of systems of HR practices on organizational and financial measures and identifying the appropriate HR architecture to meet strategic goals. Their research also provides corporate executives with information on how to design and implement an efficient and effective HR system. Finally international HR researchers conduct comparative research, searching for the 'best international HRM practices' given specific cultural contexts: asking how HR practices fare given cultural differences (Geringer, Frayne & Milliman, 2002).

Human resource management, however, is more than a mechanical system designed to optimize the efficiency and effectiveness of the human input into the enterprise. It is also a meaning-making system that sends messages to employees, messages that optimally achieve three levels of consistency (Baron & Kreps, 1999): (a) single-employee consistency which emphasizes that the different parts of the overall HR system should be consistent with each other; (b) among-employee consistency which emphasizes that the treatment of different workers should be consistent; and (c) temporal consistency which emphasizes consistency over time.

Achieving consistency across all three levels is difficult enough for the domestic organization, but the added layer of local cultural interpretation faced by MNCs makes achieving consistency in these ways across all aspects of global operations a Herculean task.

This chapter explores whether one way to address this task is to focus less on the specific HR activities and more on the content of a message that can stay consistent across cultures, employees and time even if the HR system on its face looks inconsistent: that the organization values employees and is supportive of and committed to them. Organizational support theory (OST) recognizes this aspect of human resources, proposing that employees interpret organizational policies, practices and treatment (including human resource practices) as indicators of the organization's support of and commitment to them (Eisenberger, Fasolo & Davis-LaMastro, 1990; Eisenberger, Huntington, Hutchison & Sowa, 1986). Relying on the tendency of employees to personify the organization, assigning it human-like characteristics, OST applies the notions of social exchange and reciprocity to the relationship between employees and the organization (Eisenberger *et al.*, 1990; Eisenberger *et al.*, 1986) and predicts that employees reciprocate, matching their attitudes toward the organization with their perceptions of their treatment (Rhoades & Eisenberger, 2002). In particular employees' perceptions of organizational support (Whitener, 2001) and fairness and equity of outcomes and procedures (Dirks & Ferrin, 2002; Konovsky & Pugh, 1994) affect their trust in the organization.

Trust involves positive expectations about a target and a willingness to make oneself vulnerable to that target (Rousseau, Sitkin, Burt & Camerer, 1998). It evolves over time from interpretive assessments of the trustworthiness of the target (Mayer, Davis & Schoorman, 1995). When the target is an individual, people interpret the individual's behaviour to determine whether he or she is trustworthy (Whitener, Brodt, Korsgaard & Werner, 1998).

Cultural differences affect their interpretive frameworks: their propensity to trust and their expectations of trustworthy behaviour (for example, Doney, Cannon & Mullen, 1998; Johnson & Cullen, 2001; Whitener *et al.*, 1998). Individuals from different cultures have different propensities to trust (for example, Downes, Hemmasi, Graf, Kelley & Huff, 2002; Huff & Kelley, 2003; Inglehart, 1997; Inglehart, Basanez & Moreno, 1998). More specifically, propensity to trust is higher in countries with high power distance, high uncertainty avoidance and low individualism (Johnson & Cullen, 2001; Hofstede, 1980). Individuals from different cultures also have different expectations of what constitutes trustworthy behaviour. Although some elements of leader trustworthiness, such as integrity, competence and benevolence, may be universal (Den Hartog, House, Hanges, Ruiz-Quintanilla, Dorfman *et al.*, 1999; House, Hanges, Ruiz-Quintanilla, Dorfman, Javidan & Dickson *et al.*, 1999), others, such as delegation of control, may be culture-specific (Whitener, Maznevski, Hua, Saebo & Ekelund, 1999).

When the target is an organization, people interpret the organization's actions and practices, including its human resource policies and procedures, to decide whether it is sufficiently trustworthy to warrant their trust (Blunsdon & Reed, 2003; Gould-Williams, 2003; Eisenberger *et al.*, 1990; Rhoades & Eisenberger, 2002; Whitener, 2001). Therefore the MNC faces a complicated meaning-making system because employees from different cultures present multiple, and diverse, interpretive frameworks, rooted in their cultural norms and values, that affect their interpretations of their experiences (their perceptions of organizational support and fairness) and have an impact on their trust (Doney *et al.*, 1998). This diversity creates a tension for the MNC between its desire for consistency in its human resource practices across its international operations and its need to adapt its human resource practices for local interpretations of those practices.

This tension will be difficult to resolve if IHRM research continues to focus on comparisons of the effectiveness of HR practices across different cultures without looking into the features of the meaning systems that affect employees' interpretations of those practices. OST's foundation in interpretation, social exchange and reciprocity, and the research on fairness

and trust, provide direction beyond that associated with describing cultural differences for identifying the features of meaning systems and for designing IHRM practices to respond effectively.

Organizational support theory

Organizational support theory (Eisenberger *et al.*, 1986; Rhoades & Eisenberger, 2002) takes a 'relational' perspective that relies on social exchange theory (Blau, 1964; Homans, 1961) and the norm of reciprocity (Gouldner, 1960) and describes HR practices as messages interpreted by employees of the organization's support of and commitment to its employees. Social exchange theory originally focused on the way that two individuals build their relationship by trading 'favours' and reducing tension: a person receiving a favour from another feels tension from the relationship being out of balance, which obliges him or her to reciprocate by returning the favour. Organizational support theory applies the notions of exchange and reciprocity to the relationship between employees and the personified organization predicting that the extent to which employees perceive that they have received beneficial and favourable treatment from the organization (their perceptions of organizational support) affects their attitudes toward the organization. For example, if they feel that the employer is committed to them, then they reciprocate with their commitment to the employer.

Empirical work has supported the theory: supportive human resource practices, procedural justice, trust in the employer and perceptions of organizational support interact in increasing employee commitment (Allen, Shore & Griffeth, 2003; Rhoades, Eisenberger & Armeli, 2001; Whitener, 2001) which mediates the impact of these variables on intentions and actual behaviour, such as turnover (for example, Allen *et al.*, 2003; Rhoades *et al.*, 2001). The evidence then suggests that organizational support theory ties together the interactions among human resource practices, organizational fairness and trust into a framework (Albrecht & Travaglione, 2003; Allen *et al.*, 2003; Ambrose & Schminke, 2003; Erdogan, 2002; Rhoades *et al.*, 2001; Wayne, Shore, Bommer & Tetrick, 2002; Whitener, 2001): employees' trust in the organization and its leadership is rooted in the fairness and support they perceive in the organization's human resource policies and practices.

This framework provides the backbone for exploring the features of meaning making in interpreting human resource management practices in the international, multi-national context. It includes four links, between (a) international human resource practices and perceptions of organizational support, (b) international human resource practices and perceptions of organizational fairness, (c) perceptions of organizational support

and trust, and (d) perceptions of organizational fairness and trust. Consideration of each of these links provides direction for future research on understanding how to design human resource practices across cultures, balancing the tension between global and local interpretations and practices and conveying a consistent message of organizational commitment and support.

International human resource practices and perceptions of organizational support

Eisenberger *et al.* (1986) devised the construct, perceptions of organizational support (POS), to measure employees' perception that the organization values and cares about them. The construct validity of POS and its relationships with predicted antecedents and consequences are well-established (Rhoades & Eisenberger, 2002). Coefficient alpha reliabilities with US samples (the country of construct origin) often hit the 0.90s (for example, Wayne *et al.*, 2002). Meta-analyses have yielded significant correlations with human resource practices (Rhoades & Eisenberger, 2002) as well as organizational fairness and trust (Dirks & Ferrin, 2002; Rhoades & Eisenberger, 2002).

A little work has explored POS in cross-cultural contexts: with American expatriates (Kraimer & Wayne, 2004), Turkish school teachers (Erdogan, Kraimer & Liden, 2004) and Belgian workers (Eisenberger, Stinglhamber, Vandenberghe, Sucharaski & Rhoades, 2002; Stinglhamber & Vandenberghe, 2003). However this work has been, like much before it, primarily descriptive and comparative and does not provide direction in understanding the meaning-making process by which individuals from different cultures interpret the supportiveness of the organization's human resource practices.

Features of OST provide direction for exploring some of the fundamental ways that cultural differences affect the interpretation of human resource practices. For example, OST assumes that employees personify and reify the organization, seeing it as a person or actor and a concrete, holistic entity. When employees personify the organization, they generalize from organizational practices and treatment they receive from individuals who represent the organization to the organization itself. However individuals from different cultures may vary in the extent to which they personify or anthropomorphize organizations. Consider that individuals from familistic societies have strong bonds among members of ingroups but weak bonds between members of different groups (that is, 'low trust' societies: Fukayama, 1995). People in these cultures do not build strong relationships with individuals attached only by their organizational affiliation. Because they do not identify closely with the individuals, they seem unlikely

to build an attachment to the organization or personify it. And if they are not personifying the organizations, they also seem unlikely to be interpreting their experiences as unified messages of personal support. In contrast individuals from societies that freely and regularly develop bonds across a variety of associations and communities (that is, 'high trust' societies: *ibid.*) would be more likely to have strong relationships and identification with individuals, generalize from those individuals to the organization as actor, and interpret the organization's actions as a coherent message of the organization's support (or lack thereof). These individuals, from personifying cultures, would then evoke their local cultural values to interpret the message they see, whereas individuals from non-personifying cultures would not even see a message from the organization that they need to interpret. The local–global tension would therefore be much more relevant to employees in personifying cultures than non-personifying cultures, such that we may present the following proposition.

Proposition 1: organizations would need to adapt HR practices to local customs in cultures that have a tendency to personify and attach to organizations but could focus on global HR practices in cultures that rarely personify and attach to organizations.

In addition, OST predicts that employees interpret HR practices. Value congruence affects interpretation, suggesting that the fit between employees' and the organization's values will affect their interpretation of the supportiveness of HR practices. Jackson (2002) described a 'locus of human value' as the value that cultures place on human beings within their work organizations. He proposed two opposing loci of human value: *instrumentalism*, which considers employees valuable for their ability to achieve the objectives of the organization, and *humanism*, which considers employees valuable for who they are. In their extremes they lead to different human resource practices. Organizations with a strong instrumental locus of human value (such as in Hong Kong: Jackson, 2002) are likely to craft job descriptions carefully, pay by results and use objective or results-oriented performance appraisals. In contrast, organizations with a strong humanistic locus of human value (such as in Japan: *Ibid.*) are likely to provide extensive job rotation, seniority-based pay and holistically developmental performance appraisals.

Jackson suggests that employees are likely to interpret their treatment as unsupportive if human resource practices do not fit their locus of human value: 'Inappropriate HR policies and practices . . . may lead to alienation, poor motivation, and labor strife where staff see themselves as stepping out of their own culture into an alien one when they go to work in the morning'

(ibid., 471). However appropriateness may not be strictly based on match/mismatch. Individuals from instrumentalist cultures that value employees for their contribution to organizational objectives may be willing to interpret HR practices favourably, regardless of whether they are 'instrumental' or 'humanistic' practices, as long as the practices are consistent with organizational objectives. Individuals from humanist cultures that value employees for who they are as people may only interpret HR practices favourably if they are humanistic practices. Therefore the tension between local and global practices would be more relevant in humanistic than in instrumental cultures:

Proposition 2: organizations would need to adapt HR practices to local customs in humanistic cultures but could focus on global HR practices in cultures that have an instrumental locus of human value, being sure to clarify how the practices meet organizational objectives.

International human resource practices and fairness or justice

OST predicts that concerns about fairness or justice in the workplace are fundamental in interpreting the extent to which the organization (as represented by its treatment, including HR practices) is supportive of its employees (Folger & Cropanzano, 1998; Rhoades & Eisenberger, 2002). People are concerned about distributive justice, whether their outcomes are fair (Adams, 1965) and procedural justice, whether the process by which outcomes are distributed is fair (Thibaut & Walker, 1975). To determine the fairness of their outcomes, people engage in a social exchange and comparison process, comparing the ratio of what they give (their inputs) and what they receive (their outcomes) in an exchange relationship to a 'comparison other's' input–outcome ratio. They apply decision rules to judge the fairness of input–outcome ratios (for example, equity, equality or need) and of the process by which outcomes are achieved (for example, consistency, bias suppression, accuracy, correctability, representativeness and ethicality (Adams, 1965; Levanthal, 1976). They then use their fairness judgments to guide their interpretation of the organization's support and commitment (Rhoades & Eisenberger, 2002). Indeed two different meta-analyses (Cohen-Charash & Spector, 2001; Rhoades & Eisenberger, 2002) found significant and large relationships between fairness perceptions and perceived organizational support (average weighted correlations of 0.54 and 0.62, respectively).

Although concern about fairness of treatment in the workplace may be universal and its impact on employees' attitudes significant, the importance, definition, prevailing norms and rules and social/political context of justice vary by culture (Greenberg, 2001; Steiner, 2001). Researchers have explored these variations by comparing differences in fairness dimensions and

perceptions between members from different countries or among people of different cultural orientations (Kluckhohn & Strodtbeck, 1961) or cultural values (Hofstede, 1980; Schwartz, 1994). But cultural differences may more subtly underlie differences in specific aspects of perceived fairness. For example, although earlier work suggested that people in most cultures valued participation in decisions ('voice': Greenberg, 2001), a set of recent studies indicates that the importance of voice in determining perceptions of fairness varies, depending on cultural norms associated with power distance. Individuals who were not comfortable with large power distances (Hofstede, 1980) were more sensitive to the extent to which participation in decisions was allowed (Brockner, Ackerman, Greenberg, Gelfand, Francesco, Chen, Leung, Bierbrauer, Gomez, Kirkman & Shapiro, 2001).

This research suggests that cultural differences (for example, collectivism, individualism and power distance: Hofstede, 1980) affect the application of rules and weighting of fairness dimensions:

Proposition 3: cultural values and orientation influence the fairness rules used across local operations, which in turn affect fairness perceptions of HR practices. For example, individuals from cultures with small power distances may be more likely to base their fairness perceptions of procedural justice on representativeness and voice than individuals from cultures with large power distances. They may also be more likely to base their fairness perceptions of distributive justice on equality than individuals from cultures with large power distances.

In addition, cultural differences may also affect perceptions of fairness through their impact on preferred styles of information processing. For example, Steiner and Gilliland (1996) found that American subjects trusted scientific process and empirical data significantly more than French subjects, who relied more heavily on argumentation and reasoning in judging the fairness of selection instruments. Similarly cultural differences may affect judgment biases, cognitive shortcuts used to manage information processing, which have long been assumed to be biologically based and universal. In four separate studies, American subjects (representing a high individualism culture) were significantly more likely to display a self-serving bias than Japanese subjects (representing a high collectivism culture: Gelfand, Higgins, Nishii, Raver, Dominguez, Murakami, Yamaguchi & Toyama, 2002).

Therefore recent work implies that culture affects complex processes, such as employees' information processing and judgment rules, which may have an impact on the extent to which employees interpret IHR practices as fair, and ultimately supportive.

Proposition 4: cultural values and orientation influence information processing preferences and judgment biases used across local operations, which in turn affect fairness perceptions of HR practices. For example, individuals from individualistic cultures may be more likely to use a self-serving bias and focus on distributive justice than individuals from cultures with large power distances.

Perceptions of organizational support and trust

Numerous research studies have explored the relationship between POS and trust. Indeed the original articulation of OST predicted that trust would play a key role in influencing employees' responses to their perceptions of their treatment. A recent meta-analysis (Dirks & Ferrin, 2002) found a weighted average correlation of 0.69 between POS and trust in organizational leadership.

In the cross-cultural, international context, the relationship between perceived organizational support and trust may be affected by the relationship between culture and exchange ideology (and its related components such as the norm of reciprocity). Although biologists have hailed social exchange and reciprocity, the backbones of OST, as central to every area of life across all cultures, sociologists have explored their nuances and found some differences (Buchan, Croson & Dawes, 2002; Redding, 1990). For example, although a norm of reciprocity may govern social interactions across cultures, the timing, level and extent of reciprocation may vary by cultures. Indeed, in an experiment manipulating conditions of ingroup and outgroup and direct and indirect exchange using an investment task, Buchan *et al.* found that participants from China and Korea were more likely to reciprocate than participants from Japan and the USA.

The small number of cultures makes it difficult to speculate, but it seems plausible that perhaps the same mechanism associated with Fukayama's high and low trust societies may be associated with this result. Individuals in low trust societies may reciprocate easily within their groups but not outside their groups; individuals in high trust societies may reciprocate easily, even with strangers. We therefore might see a similar difference in the tendency to reciprocate the organization's treatment.

Proposition 5: individuals from high trust cultures may be more likely to reciprocate positive treatment from the organization than those from low trust cultures. In particular, the relationship between perceptions of organizational support and trust in the organization will be stronger in high trust cultures than in low trust cultures. Organizations would need to adapt HR practices to local customs in high trust cultures but could focus on global HR practices in low trust cultures.

Perceptions of organizational fairness and trust

Finally, other factors being equal, experiences associated with fairness are likely to influence trust (Brockner, Siegel, Daly, Tyler & Martin, 1997; Konovsky & Pugh, 1994). Indeed, three recent meta-analyses found significant and moderate (0.43–0.61) weighted mean correlations between procedural and distributive justice and trust (Cohen-Charash & Spector, 2001; Colquitt, Conlon, Wesson, Porter & Ng, 2001; Dirks & Ferrin, 2002).

Several studies have explicitly explored the universality of this relationship (Aryee, Budhwar & Chen, 2002; Lind, Tyler & Huo, 1997; Pillai, Williams & Tan, 2001). In surveys and experiments involving German, American, Hong Kong Chinese, Japanese and Indian subjects, these researchers found that trust and procedural justice were significantly related to each other. They also found that the factor structures of the measures and the strength of the relationships were sufficiently similar to conclude 'the universal importance of trust as it relates to organizational justice' (Pillai *et al.*, 2001: 325). Indeed Lind *et al.* sounded rather surprised at the result: 'Given the sometimes substantial cross-cultural differences that social psychologists have reported . . . and given hypotheses in the literature about how the very meaning of justice might change radically across cultures . . . we had little reason to think a priori that the processes that drive procedural justice judgments were so robust across cultures. But in all four cultures [that we tested], procedural fairness appeared to be defined largely in terms of the relational variables', including trust (Lind *et al.*, 1997: 777).

OST-related constructs, however, go beyond cultural comparisons like this. In particular, the theory predicts that differences in perceptions of fairness may be rooted in culturally related social identity. Several studies of fairness of HR practices (for example, selection outcomes and procedures and negotiation outcomes and procedures) suggested that perceptions of fairness were affected by whether social exchange was important to self-identification. Individuals with cultural norms where social exchange significantly affects identity were more sensitive to justice process and outcomes (Brockner, Chen, Mannix, Leung & Skarlicki, 2000) than individuals with cultural norms where social exchange has a weak relationship with identity.

Proposition 6: individuals from cultures where identity is strongly rooted in social exchange will be more responsive to fairness perceptions than those from cultures where identity is not strongly rooted in social exchange. In particular, the relationship between perceptions of organizational fairness and trust in the organization will be stronger in cultures with high exchange-based social identity than in cultures with low exchange-based social identity.

Organizations would need to adapt HR practices to local customs in cultures with high exchange-based social identity but could focus on global HR practices in cultures with low exchange-based social identity.

Conclusion

Organizational support theory, connecting international human resource practices, and trust through the interpretation of the fairness and support of those practices, suggests some different avenues for future research than a 'mere' comparison of cultural differences. Organizational support theory relies on several important mechanisms: interpretation, social exchange and reciprocity. Each of these mechanisms can capture some of the nuances associated with assessing the effectiveness of human resource practices in international and cross-cultural contexts. First, cultural values (for example, locus of human values, power distance, individualism, collectivism and societal trust/propensity to trust) affect the interpretation of human resource practices. If human resource practices fit their cultural values, then employees will be more likely to interpret those practices as fair and supportive. Second, interpretation is subject to information and judgment processes. Recent research has just cracked open the door to exploring how cultures vary in their information and judgment processes. Third, the whole notion of organizational support theory relies on social exchange and reciprocity. Yet social exchange may not be important to individuals in some cultures and reciprocity rules may vary widely across cultures. Researchers who broaden our awareness of the role of the social exchange ideology across cultures will facilitate our understanding of how to craft and modify human resource practices that effectively bridge the global and local divide by sending a unified and strong message of organizational support and commitment.

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27 Gender and international human resource management

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Niall Fitzgerald, co-chairman [*sic.*] of Unilever . . . brought together for a week-long leadership exercise . . . the multinational's top 100 managers . . . In an interview in the Financial Times (17/06/03), he recalls his dismayed reaction when he discovered not one woman was to be found in the group:

'My God, how can we have put so much work into gender diversity and I see no reflection of it in the top leadership?' (Cited in EFQM, 2003)

International Human Resource Management (IHRM) is not usually examined from a gender perspective. In contrast, this chapter addresses the relation of gender to IHRM, primarily in the context of multinational corporations (MNCs). Although IHRM as a field encompasses cross-cultural management and comparative research on HR systems and industrial relations in different countries, much of the field, both practically and academically, focuses on human resource activities and implications in multinationals (see, for example, Dowling & Welch, 2004). As Schuler, Budhwar and Florkowski (2004: 356) write, 'The purpose of IHRM is to enable the firm, the multinational enterprise, to be successful globally.' This does not mean that gender and IHRM would be unimportant for small- and medium-sized companies, yet these issues have received even less scholarly attention in small and medium enterprises (SMEs) and in companies in early stages of internationalization.

This chapter examines the following issues. First, what is gender? Second, what is meant by gendered organizations and gendered management? Third, what has gender to do with IHRM? Next, the relations of gender, diversity and IHRM are discussed, followed by placing IHRM into the context of globalization. Finally, some possible future directions for gendering IHRM are presented, before brief concluding remarks.

What is 'gender'?

Gender and gendered power relations are major defining features of most organizations and managements, including IHRM. Organizations, managements and IHRM are not just structured by gender but pervaded and constituted by and through gender; at the same time, organizational and

managerial realities construct and sometimes subvert dominant gender relations. When gender is referred to, it is usual to think of 'men and women' and 'relations between them'; these are certainly part of gender, but only a part. Gender is just as relevant in relations between women and between men, for example, in gendered hierarchies within genders. Gender has also taken on other more complex meanings. These wider understandings of gender are both contested and central to analysing organizations.

Sex and sex differences are often naturalized as fixed in biology. The distinction between sex and gender was recognized in the 1960s in feminist and other critical accounts of women's and men's positions in society. It highlighted how what was often thought of as natural and biological was also social, cultural, historical and political. 'Sex' as biological sex differences was distinguished from 'gender' as sociocultural constructions of sex differences (Oakley, 1972).¹ This has led on to much research on sex/gender differences and indeed their relative absence (Jacklin & Maccoby, 1975; Durkin, 1978), psychological scales measuring 'masculinity-femininity', sex/gender roles and gender socialization. There are, however, many problems with these approaches (Eichler, 1980; Carrigan *et al.*, 1985), including their cultural specificity and relative lack of attention to power, change and social structures. Paradoxically the sex/gender approach can easily take us back to biology.

Even with such difficulties, the sex/gender model has prompted path-breaking work on gender relations, some attending to attitudes, self-concepts and identity, some focusing on social categories and structural relations. In this, gender has often been understood as a way of recognizing sociocultural relations, as relatively autonomous from biology. Such approaches articulate structural concepts of gender relations, as in sex/gender classes, patriarchy, gender systems and gender orders. However, about the same time as sex role approaches were being criticized, there were also, in the late 1970s and early 1980s, critiques of the concept of patriarchy and of relatively fixed 'categorical' approaches to gender (Rowbotham, 1979; Connell, 1985).

The outcome of these simultaneous, if somewhat separate, critiques of, first, social psychological concepts of sex role and, second, overly structuralist or societal concepts of gender as determined within patriarchy, has been a movement to more differentiated, more pluralized approaches to gender. In these, power issues remain central, as encapsulated in the notion of gendered power relations. This reformulation of gender fits closely with revisions of patriarchy/ies as historical, multiple structures (Walby, 1986, 1990; Hearn, 1987, 1992) and with moves to post-structuralism and some versions of postmodernism. In recent years there has been increasing

attention to gendered practices, processes and discourses; multiple/composite masculinities and femininities; interrelations of gendered unities and differences; life stories and subjectivities; and the social construction of sexualities. Construction of difference, such as by age, class, ethnicity and occupation assists in reproducing gendered asymmetrical power between men and women, between men and between women, as such differences often carry gendered meanings and reinforce gender inequalities.

Many complications remain in conceptualizing gender, particularly within positivist paradigms. A pervasive constraint is the persistence of dualisms and dichotomies, such as female/male, woman/man, feminine/masculine, femininity/masculinity and girls/boys. While these are clearly important differentiations, they only speak to part of the possibilities of what gender is or might be in different situations and societies (Edwards, 1989). Perhaps the greatest challenges to a simple, dualist view of gender come from sexuality studies and queer theory. Gender and sexuality are intimately connected with each other: 'without a concept of gender there could be, quite simply, no concept of homo- or hetero-sexuality' (Sedgwick, 1991: 31).

The very distinction between sex and gender also brings difficulties. The distinction may closely parallel nature–culture and body–mind dichotomies, even reinforcing them and repositioning male/masculinity as the norm, and may imply that biology is pre-social or free of the social, though biology is constituted in the social (Bondi, 1998). The sex–gender distinction can be seen as a sociocultural construction: gender is not the cultural arrangement of *given* sex difference; rather sex/gender difference is a cultural arrangement, dominantly constructed by way of the heterosexual matrix (Butler, 1990). Gender is not one 'thing'; it is contested, complex, differentiated. Moreover, while our focus is on gender, this should not be isolated from other social divisions and oppressions, such as class or age, in relation to which gender is formed.

Gendered organizations, gendered managements

Debates about the meaning of gender have continued at the very time that the field of gender, organizations and management has expanded greatly and become more established. In identifying organizations, management and IHRM as gendered, a number of assumptions and emphases are made. First and obviously, there is some kind of focus on gender. Social relations between and amongst genders, interpersonal and structural, material and discursive, are understood as significant. Gendering occurs in both distributions of gendered people and gendered practices, and applies even when organizations and managements totally comprise men or indeed women.

While organizations and management can be gendered in many ways, typical patterns include the following:

- *The valuing of organizations and management themselves over work in the private domains.* This is frequently gendered in valuing men's work over women's.
- *Gendered divisions of labour,* both formal and informal. Women and men may, through inclusion and exclusion, specialize in particular types of labour, creating vertical and horizontal divisions within organizations and management.
- *Gendered divisions of authority,* both formal and informal. Women and men may be valued differentially in terms of both formal authority, by virtue of their post and position, and informal authority, from their status and standing in the organization (Kanter, 1977/1993).
- *Gendered processes between the centre and margins.* These may be literally or metaphorically spatial in the distribution of power and activity between the centre and margins of organizations and management. 'Front-line' activities are often staffed by women, 'central' activities more often performed by men. The 'main aim' of organizations tends to be dominantly defined by men (Cockburn, 1991).
- *The gendered relations of organizational participants to domestic and related responsibilities.* Women typically continue to carry the double burden of childcare and unpaid domestic work, and even a triple burden of care for the dependants, including parents, older people and people with disabilities (Harlow *et al.*, 1995).
- *Gendered processes in sexuality,* including the dominance of various forms of sexuality over others. Most organizations and managements reproduce dominant heterosexual norms, ideology and practices. Indeed (hetero)sexual arrangements in private domains generally provide the base infrastructure for organizations and managements, principally through women's associated unpaid reproductive labour.
- *Gendered processes in violence,* including harassment, bullying and physical violence (Hearn & Parkin, 1987, 1995, 2001).
- *Gendered processes in interactions between individuals, and individuals' internal mental work.*
- *Gendered symbols, images and forms of consciousness,* for example, in media, advertising and corporate logos (Acker, 1992).

In specific organizations and managements these elements interact, often reinforcing, sometimes contradicting, each other. Many organizations and

managements are characterized by definite gendered patterns, defined by and reproducing social relations of age, class, disability, ethnicity and so on. Gendered processes and their interrelations are not monolithic, but often paradoxical and open to multiple interpretations. Although men's dominance is profound, it is not unresisted (Cockburn, 1991; Thomas *et al.*, 2004); it has to be continually re-established and can be challenged, subverted and destabilized. There is also recognition of the gendering of men in management (Collinson & Hearn, 1994); gendered practices and 'doing gender' (Rantalaiho & Heiskanen, 1997); and the ambiguous, contradictory and paradoxical nature of gendered selves in organizations (Kondo, 1990).

Gender, HRM and IHRM

Locating HRM

Management, HRM and IHRM are gendered in many ways. Most obviously, there is the continuing dominance of men in management, especially at the very top and highest pay levels. Yet despite, or perhaps because of, this, in many organizations, management has been and continues to be represented as gender-neutral, whether as part of supposedly non-gendered bureaucracy or as taken-for-granted managerial imperative.

Management often involves homosocial practices, with men's preference for men and men's company, and the use of masculine models, stereotypes and symbols in management, often from sport, the military and evolution, such as the 'law of the jungle'. Male homosociality that combines emotional detachment, competitiveness and viewing women as sexual objects, and perpetuates hegemonic masculinity, also suppresses subordinate masculinities and reproduces a pecking order among men. Management and especially what is often understood as effective business management have often been assumed to be consistent with characteristics traditionally valued in men (Alimo-Metcalf, 1993). There have been significant historical transformations of management, from male near-monopoly, to dominant traditional managerial masculinities, and to more modern forms of gendering (Kerfoot & Knights, 1993; Roper, 1994; Collinson & Hearn, 1996).

There is evidence of some increase in women's representation in middle management, small business ownership, and management in total (Davidson & Burke, 2000; Vinnicombe, 2000). There are signs of some change in SMEs. While in 1996, 50 per cent of SMEs in the European Business Survey (1996) countries had only men in management, the 2002 figure was 44 per cent; and the proportion of SMEs with one or two women in management had also increased (*European Business Survey*, 2002). However, according to Eurostat (2002), only in Italy, the Netherlands

and Austria was the proportion of men employed as 'Directors and chief executives' less than three times that for women. In Sweden it was 15 times higher. There are clear national policy pressures, especially in Norway, to address and change this situation, particularly in relation to the membership of boards of directors.

At CEO and highest executive levels the very low numbers of women appear to be changing very little (Institute of Management, 1995; Veikkola *et al.*, 1997; Institute of Management/Remuneration Economics, 1998). In 2003, only one woman was CEO and one woman chaired the board of a FTSE 100 company (Singh & Vinnicombe, 2003). Men managers are more likely than women managers to be better paid, to be in more secure employment, to be on higher grades, to be less stressed, to be older at each responsibility level and to have not experienced prejudice and sexual discrimination (Davidson & Cooper, 1984; Institute of Management, 1995; Institute of Management/Remuneration Economics, 1998).

Within management strong gender specializations persist, often underwritten by gender divisions in education and training: for example, men's domination of most engineering and technology. Though men have been very prominent in the institutional development of personnel management (Trudinger, 2004), in many countries HRM is an area of management in which women are relatively more represented (Legge, 1987). HRM is subject, and contributes, to workplace gender power relations within and across hierarchies. Those parts of HRM practice that involve corporate management-labour relations can be rethought in terms of gender relations, often meaning cooperations and conflicts between groups dominated by men. Many studies on gender in HRM have focused on recruitment, appointments, promotion, team building, communication, power, authority, equal opportunities policies (EOPs) and sexual harassment (Adler & Izraeli, 1988b, 1994; Powell, 1993; Davidson & Burke, 1994, 2000; F. Wilson, 1995, 2003; E. Wilson, 2000; Ely *et al.*, 2003; Powell & Graves, 2003). These are also very relevant for IHRM.

The question of remuneration and other personnel rights and benefits, fair or unfair, is another central aspect of IHRM. A key gender issue for HR policy and outcomes is the gender pay gap. In the OECD, women are still paid 16 per cent less per hour than men, on 'raw' unadjusted figures.² There are some signs of slow narrowing of the gender gap in some Western European countries, but the most recent figures suggest a widening in Austria, Portugal and Sweden. IHRM may also include the development of gender-sensitive policies and practices, gender equality plans, EOPs, family-friendly policies, gender training, and harassment, bullying and violence policies. For both management and employees, IHRM contributes to processes of gendered identity formation.

Mainstream texts on IHRM

Though studies of gender, organizations and management have predominantly focused on the nationally based, single organization in the last ten years or so, there have been some moves towards more consideration of international, transnational and multinational organizations. Even so, most mainstream approaches to IHRM have remained silent on the question of gender.³ Gender analysis is absent, at least in an explicit way, from most mainstream IHRM texts and, when it is introduced, it is often in a very limited way, for example in terms of women as expatriates. To illustrate the way in which gender is treated in mainstream textbooks and contributions on IHRM, we have selected a few recent, but well-established, publications in the field: a textbook by Dowling and Welch (2004) and an edited volume by Harzing and Van Ruysseveldt (2004), both entitled *International Human Resource Management*, and an edited volume by Punnett and Shenkar (2004) entitled *Handbook for International Management Research*, in which there is a chapter dedicated to IHRM.

First, it should be emphasized, indeed it cannot be emphasized too much, that the dominant tradition is certainly one of supposed 'gender-neutrality' or 'gender-absence' (Hanmer & Hearn, 1999) in description, analysis and explanation. Interestingly, apparent or supposed or assumed gender-neutrality is itself often a form of gendering, in the sense of obvious gender divisions not being talked about.

When, rather unusually, questions associated with gender are explicitly addressed, they are interpreted as, first, related to women, and second, related to expatriates rather than the mass of gender issues that continue within and between corporations. Gender is made 'other' in two senses: as woman and as expatriate. Thus gender is mainly discussed in two different, albeit related, contexts: women themselves as candidates for expatriate assignments; and women as spouses, partners or family members of male expatriates. These are now examined in more detail, prior to some remarks on silences and assumptions.

Women as candidates for expatriate assignments

Despite increasing demand for expatriates, the number of women in such positions remains low. This might be surprising given the characteristics identified for effective international managers, such as interpersonal, intuitive and cooperative styles of management which are often associated with women (Harris, 2004; also in this volume). Research has identified a number of factors that explain the underrepresentation of women in international assignments. Fischlmayr (2002) divides the barriers faced by potential female expatriates into self-established and external ones. The former barriers refer to the unwillingness of women to relocate, the

challenges associated with dual career couples and women's self-reinforcing behaviour that tends to follow traditional, gender-based rules. The external barriers in turn encompass factors such as HR or line managers' reluctance to select female candidates and the nature of the target location as culturally too demanding, effectively precluding female expatriates. It is assumed that, while on assignment in such a location, female expatriates will experience problems. Scullion and Paauwe (2004) state that the assumption that women will experience such problems is worrying because, in the light of recent research, female expatriates are generally successful in their global assignments.

Women as spouses, partners or family members of male expatriates

Transnational organizations and managements function partly by the globalization of staff movements in relocations, expatriations and repatriations of managers and workers (Welch, 2003). Given the barriers that women are perceived to face when striving for international career opportunities, the typical expatriate today tends to be male. Not surprisingly, the importance attached to the support of the spouse and the family in various phases of the expatriate assignment still rests on the assumption that the spouse is female and will not work abroad in a career-related position (Punnett *et al.*, 1992). For example, in expatriate selection, discussions with spouse and family are emphasized (Schuler *et al.*, 2004). It is also acknowledged that international mobility is becoming increasingly a problem in many companies and countries particularly owing to factors associated with spouse and family. More specifically, the growing unwillingness to disrupt the education of children, and the problems associated with dual-income and dual-career couples are seen as major barriers to transferring staff across borders. Moreover many families are less willing to disrupt their personal and social lives (Scullion & Paauwe, 2004). Overall, the family is recognized as a very significant factor in expatriate performance and success (Schuler *et al.*, 2004).

The absent presence of men

Gender is generally related, first, to women, and, second, to expatriates rather than other gender issues between subunits within and between MNCs in business-to-business transactions. When reviewing many aspects of IHRM in these texts, such as international compensation and performance management, gender was not discussed. The many and various gender issues within and between corporations (gendered management, hierarchies, authority, informal relations, processes and so on) rather than those concerning some expatriates are generally left unanalysed. Gender is externalized, in a relatively individualized expatriate cultural space elsewhere.

It appears that in these texts the assumption was often made that top managers are or almost all are of a similar gender: male. Men, masculinities and their social construction and social power were generally left unspoken; they are, in that sense, invisible, an 'absent presence' (Hearn, 1998), despite (and perhaps because of) their dominance, especially at the highest levels, and within expatriate policy, practice and discourse. The 'transnational capitalist class' (Sklair, 2001) is in practice very much a male transnational capitalist class. Questions of difference and diversity among men, such as by age, class, ethnicity, locality, nationality and religion, are usually left in silence, as are matters of the complex interconnections between power, unities and differences amongst and between men. Differences within and amongst management, men and masculinities may be intertwined with other social differences. These are important issues in both the practice of IHRM and its academic study.

Peltonen (this volume) points out that in IHRM 'key employees' – experts and professionals, often in administrative or developmental tasks in the corporate hierarchy – are more likely to be men than women. Yet this is rarely interrogated. Key employees tend to be ethnically closer to the 'ideal' appreciated in corporate cultures based on middle-class values of white North American or European professionals. Harris (2004: 358) makes an important observation: 'The most significant feature of the research into expatriate failure rates and reasons for failure is that it is based on a *male* population.' In their study of a European oil company operating in China and Colombia, Goodall and Roberts (2003) identified the strength of expatriate networks, often meaning male expatriate networks. The close bonds between them delivered trust and cooperation across geographical locations as well as swift and efficient responses. They also led to selective recruitment in hiring other similar expatriates. Schuler *et al.* (2004) call for combating management ethnocentrism in expatriate selection and opening up the recruitment process. Davison and Punnett (1995) argue that international managers and researchers need to avoid an 'ostrich-like' attitude of 'gender and race blindness' when dealing with international assignments.

Moving beyond these various silences, neglects and very partial approaches to IHRM involves analysing gender and diversity more fully. This leads us to a further level of complexity that is rather rapidly developing in IHRM. Changing current expatriate selection and recruitment processes is a slow process.

Gender, diversity and IHRM

A key part of contemporary IHRM is diversity management, highlighting diverse social divisions, such as ethnicity, gender, language (Piekkari, this volume), nationality and 'race', but also sometimes age, class, disability or

religion. However prominent discussion of diversity management is generally absent from mainstream textbooks on IHRM. While 'domestic' writings on leadership and HRM are replete with references to advantages stemming from diversity management, IHRM textbooks largely equate diversity with an appropriate mix of nationalities and organizational perspectives. A major challenge in composing an international staff is to find a suitable balance between the number of parent country nationals, third country nationals and host country nationals (Harzing & Van Ruysseveldt, 2004; Dowling & Welch, 2004; Schuler *et al.*, 2004). Originating from various parts of the MNC, these groups of employees may also represent different organizational interests. Thus 'diversity' can be a way of obscuring gender (Hearn & Collinson, 2005).

Diversity management can be understood as the result of both global corporate initiatives, on the one hand, and social movement pressures, on the other. It can also be seen as part of gendered management, and contradictions therein. As with debates on multiculturalism, there are many ways of promoting and conceptualizing diversity management that are less or more challenging to existing power structures, including gender power (Goldberg, 1994; McLaren, 1994; Prasad & Mills, 1997; Prasad *et al.*, 1997). Diversity management can, at one level, be conceptualized as a men's/managerial project. It can be used to play down gender power, and as a means of diversion from gender, women and men, by focusing on 'diversity' that can mean everything, anything or nothing. Just as Okin (1997) asked, 'Is multiculturalism bad for women?', so we might add, 'Is multiculturalism – or diversity – good for men?', that is, in obscuring and promoting men's power and dominant interests.

Diversity management and programmes might also be a contradictory gender project, both incorporating gender and other social divisions into mainstream agendas and having potential to deconstruct and threaten dominant gender powers. Diversity debates can often be strangely genderless or free of the taint of gender. We have found this is in interviewing HR and other managers in global companies on gender and diversity corporate policies (Hearn & Piekkari, 2004, 2005). Analyses of diversity discourses in international corporate settings have tended to show generally a relatively non-challenging and 'content-less' character, without social divisions, rather than championing social movement expectations and aspirations.⁴

On the other hand, variations in the theory and practice of diversity management (Thomas & Ely 1996; Kirton & Greene, 2000) resonate with different frameworks for gender intervention, including 'fixing the women', 'celebrate differences', 'create equal opportunities' and 'revise work culture' (Ely & Foldy, 2003; Fletcher & Ely, 2003; Kolb *et al.*, 2003). These present more or less fundamental engagements with gender arrangements. The main

perspectives on gender adopted in research on diversity implicitly reflect either women's differences from men as international managers ('celebrate differences') or barriers to women's recruitment and international career advancement in corporations ('create equal opportunities').⁵

An aspect of diversity and IHRM that is certainly gendered, yet still often hidden, is sexuality and the predominance of heterosexual organizational culture. Many studies have reported on the marginalization and subordination of lesbians and gay men in business and workplaces more generally. On the other hand, the UK Gay and Lesbian Census (ID Research, 2001) found that, while 15 per cent of lesbians and gay men in the workplace who responded believe their sexuality has hindered their job prospects, a surprisingly large number – 43 per cent – had managerial roles.⁶ Bringing issues of sexuality and sexual diversity into IHRM is a complex task, not least because of cultural and religious variation in sexual mores and attitudes internationally.

In diversity frameworks, both practical and analytical, there are crucial questions: Who constructs 'diversity'? Who defines it? Who decides? And which forms of diversity are legitimate (Cockburn, 1991)? These can be seen as part of the interrogation of dominant gendered organizational cultures within the long agenda of equal opportunities.⁷ We can ask which men and women, and which masculinities and femininities are favoured or not in diversity programmes, in their management, implementation, consumption and effects. Diversity management and programmes provide space for the development of further paradoxes around gender and power, including relations of gender and other powers, such as enactment of white men's racism against other men. Such contradictions can be reproduced in detailed structures and practices of diversity management and programmes, such as the discriminatory practice of instructing training programme participants who belong to a subordinated category, such as 'black people', to speak on behalf of that category, but not doing likewise with members of dominant social categories, such as 'white people'.

Gender, IHRM and globalization

In gendering IHRM it is important to consider the form, development and location of specific corporate systems within a broader, often global, context. Though studies of gender, organizations and management have predominantly focused on the nationally based, single organization, there have been growing moves towards more consideration of international, transnational and multinational organizations. The state of IHRM in a particular corporation is but one of a range of social processes, internal and external to the organization, which have an impact on women's prospects and those of men in relatively subordinated social categories.

IHRM operates at the intersections of international/global, national, regional and local traditions and strategic international management, and is thus subject to contradictory gendered pressures.

Key global issues are the gendering of organizations and management within globalization, MNC expansion, global diffusion of ICTs, environmentalism, postcolonialism and 'Third World' development. Such global issues both change the business environment of MNCs and reconstruct internal structures and processes of MNCs. Concentrations of capital are increasing (Korten, 1998), with gendered forms and effects (Banerjee & Linstead, 2001; Hearn & Parkin, 2001). There are few signs that the world is becoming more equal, in gender or other terms. At the same time, MNCs are themselves vulnerable to huge risks, ranging from terrorism to financial scandals and computer hacking and viruses. These are part of the global context of IHRM.

Gendered production networks are evolving as a result of globalization processes and major changes in international political economy. While IHRM commentators have reviewed global management policies in terms of training, development, recruitment and selection, there is little critique of gendered implications of new and indeed transitional or composite forms of political economies (Hearn, 2004). Within the broader academic community, for example political scientists, development economists and sociologists, there is a growing concern about management policies of MNCs and the gender, organizational and societal inequalities they perpetuate. Researchers and policy actors have focused on women's increasing capabilities in education, entrepreneurship, technology, management and so on, and discussed the risks and rights of women in a globalizing economy (Walby, 2002).

While the corporate rhetoric promotes adherence to a global management system and global philosophy this is not necessarily universally applied nor supported by local legal frameworks. Standing (1999) suggests that new forms of employment in developing regions such as Eastern Europe, Asia and Latin America are less regulated whereas, in the EU for example, there has been growing regulation on equal treatment and diversity. Labour market variations and changes operate in a wide variety of ways, and some contrasting examples follow.

One example is the way MNCs have used changes in trade and financial agreements to move their production and services around the globe. Much production, such as electronics, toys, shoes and sports goods, and business services, such as call centres and ticket reservation, have become part of the 'global assembly line'. Much of this relies on low-paid low-skilled female labour (Pyle & Ward, 2003), from data entry in Trinidad and Tobago (Freeman, 2000) to telesales work in Asia (Kelkar, 2002). There are also hidden production relationships which MNCs manage in less developed

countries through subcontracting networks employing low-paid female workers (Pyle & Ward, 2003).

Another aspect of change concerns how governments in developing and transitional economies generally have tended to ignore gender and employment issues permitting MNCs to reproduce gendered divisions of labour (ibid.). For example, restructuring by the Russian Federation administration since the Gorbachov era has restricted women in chemical manufacturing, affiliated industries and some technical occupations on health and fertility grounds. Putin continued this and there have been concerted efforts to reduce the number of women in the Duma and state secretariat, and replace them with male intelligentsia and military officials. In place of the former strict quotas for female representation in economic and political systems, the new gender regime involves recruitment and promotion processes that openly restrict women's participation. Rather than challenge these and similar practices, foreign investors in these regions often support them (Kay, 2002; Metcalfe & Rees, 2002).

A third scenario centres on the intersection of local cultural and religious patterns with global restructuring. Singapore has encouraged major foreign investment and seen increasing numbers of (Chinese) women entering the labour market at the professional and managerial level, yet culturally issues of gender and 'race' rarely figure in HR systems. Confucian ideology combines equality and ethical values in society, along with given societal, including gender, hierarchies; thus programmes and interventions that tackle race or gender are not deemed relevant or necessary (see Lee & Pow, 1999; Lyons, 2000; Metcalfe & Linstead, 2001). This HR practice is adhered to by local Singaporean organizations and also MNCs. Even with their international profile, PriceWaterhouseCoopers in Singapore, for example, do not have an HR/diversity policy (see Metcalfe & Linstead, 2001) and there is limited evidence to suggest that the practice is similar in Hong Kong as well (Chiu & Ng, 1999). Indeed one of the lessons of taking a broad global context into account is the need to be aware of the great variations in HR practice and policy in different localities, even within MNCs and their subsidiary and associated companies.

Some future research directions

Having said all this, there is gradually growing interest in the intersection of gender analysis and IHRM, and a number of future directions for research and practice.

The gendering of IHRM

Given the multifaceted nature of HRM embedded within global organization and societal contexts, it is difficult to determine the extent to which

IHRM models are themselves gendered (Dickens, 1998). An organization's approach to IHRM is but one of a range of social processes, both internal and external to the organization, which have an impact on women's prospects. They are likely to affect, in a different way, the prospects of men from relatively subordinated social categories, such as ethnic minority men. The conceptual ambiguity and fluidity of HRM also make it difficult to apply universally to diverse global settings. As Woodall states: 'Far from being merely androgynous, HRM is gender blind. Its underlying features are insensitive to the gender aspects of employment . . . At the centre is the unitarist managerialism that cannot admit the diversity or plurality of workforce interests' (Woodall, 1996: 349). IHRM policies and practices can also be reread in terms of their implicit or explicit assumptions about the gender of management, models of gendered management in use and the relations of gender policy and diversity policy. In this context, the implications and impact of women's relatively strong participation in HRM and IHRM need to be further researched.

Gendered impacts of IHRM

There is still a major lack of studies on the gendered impacts of gender and EOP policies, home-work reconciliation initiatives and other policies. More generally, while there has been debate about the well-respected 'soft' and 'hard' models of HRM (Legge, 1995), as representing developmental humanism and utilitarian instrumentalism approaches, respectively, to managing employees, there is very little consideration of the way HRM can shape gendered employment experiences, practices and opportunities, at national or international level. This remains a research priority. There are, however, notable exceptions. For example, Truss (1999) has researched HRM practices in Lloyds Bank and raised doubts about the ability of so-called 'soft' HRM to deliver sustained advantages to women in the area of training and development for example, since HRM practices focused almost exclusively on a generic view of employees. The way in which gender and diversity agendas are culturally deployed or sidetracked in IHRM policy development is evidence of the way in which MNCs reinforce varying forms of social inequalities.

Corporate structures, IHRM and gender policy

Another promising arena for research is the implications of different forms of corporate internal structures for IHRM, gender policy and diversity management. Different kinds of corporate internal structures have an impact on gender policy and IHRM more generally, through more or less centralized control systems. IHRM operates at the intersections of international, national, regional and local HRM traditions and strategic

international management, and consequently is subject to contradictory gendered pressures. Internal corporate structures create differences in gender relations in management and policy implementation. Relations between different units within MNCs have further impacts, depending on whether they are highly integrated globally, local networks or strongly centralized. Corporations with strong headquarters may contrast with polycentric corporations, where head office issues looser guidelines to local subsidiaries on, say, corporate EOPs. Centralized global corporations may develop some sort of EOP, even if these have insignificant impacts in some local areas and at high levels. Decentralized corporations may be more likely to respond to local conditions, with more autonomous, variable structures within local or functional units (Hearn & Parkin, 2001; Hearn & Piekkari, 2004).

Gendering global–local relations

Closely linked to the previous area is the relevance of gender in relations between global and local practices and processes. Recruitment and appointment processes can sometimes be seen as contradictory processes of gendered organizational and individual resistance, with local units sometimes resisting expatriate recruitment or standardization in methods, whatever corporate policies may say. The earlier discussion of the way globalization and international business have supported gender segregation in labour markets and subsequent inequalities raises research questions on how MNCs interpret and implement gender policies in diverse regions and localities. Such research can be assisted by attention to transnational cultural change and various forms of deterritorialization and hybridity (Ong, 1999; Hearn, 2004). Space and culture, and gendered social space and culture, are not strictly experienced or understood in terms of the geographical space of the nationally located place that the people concerned occupy. There is much scope to build on these insights in developing more accurate analyses of gender issues in IHRM practices, and transnational corporate cultures more generally.

Mergers and acquisitions

Another area of increasing interest is the gender dimensions of international mergers and acquisitions. Such (re)organizing takes place across both national/cultural and institutional/organizational boundaries (Morgan *et al.*, 2001). There are a growing number of detailed and in some ways theoretically sophisticated research texts on the cultural, linguistic and ethnic complexities of M&As (Säntti, 2001; Read, 2004), yet even such texts often seem not to notice that the cultures are intensely gendered (Harlow & Hearn, 1995). It is commonplace to talk of ‘strategic fit’ in such international

M&As, and increasingly some notion of ‘cultural fit’ is also recognized (Nahavandi & Malekzadeh, 1988; Cartwright & Cooper, 1993; Elsass & Veiga, 1994; Vaara, 2000). However a key aspect of culture is gender relations, so it would seem appropriate also to consider what we might call ‘gender fit’ in such processes. The meeting of very different gender structures, cultures and practices in M&As is likely to be significant in subsequent corporate development, and this is attracting growing attention (Søderberg & Vaara, 2003; Tienari *et al.*, 2003). Moreover there is immense scope for far greater attention to IHRM in relation to the gendering of international business-to-business activity, alliances, partnerships, supply chains, financial dependencies and other intercorporate relations – formal or informal and often involving men at the high levels.

Gender and diversity

The intersection of gender and diversity is an important area for both further research and policy development in IHRM. Research on diversity and intersectionality needs to be linked with a focus on structured asymmetrical power relations between men and women. A challenge is to maintain this double focus on difference without neglecting gender and other structural powers (Foldy & Creed, 1999; Holvino, 2001).

Concluding comments

IHRM is located within more general globalizing changes in work, organizations and management. The very notion of organization and management is becoming more complex with transnationalization, globalization and new information and communication technologies. Organizational workplaces increasingly involve transnational organizations, interorganizational relations, networks, network organizations, net organizations and virtual organizations. Such historical globalizing conditions create many more possible positions and forms of gender power, predominantly, though not exclusively, for men.

We should also acknowledge the very real attempts to produce more gender-equal IHRM policy and practice being developed by some corporations, for example through various business networks and government–business alliances committed to gender equality, and through engagement with the links between gender equality, diversity and sustainability (Triple Value Strategy Consulting, 2003).

Perhaps the key question that remains is how it is that IHRM and research on IHRM usually manage *not* to attend explicitly to gender issues and the very obvious gender structuring of international business. Is this mere carelessness or something more significant? This is indeed itself a form of gendering of knowledge, in both practice and theory.

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Notes

1. It should be noted that the meanings and connotations of words, such as 'sex' and 'gender', differ in different languages. For example, in Finnish there is a single word for both 'sex' and 'gender': 'sukupuoli'; and the same word for 'he' and 'she': 'hän'.
2. This is the figure unadjusted for the effects of the remuneration rates by observed characteristics of jobs and the whole national wage structure. If these factors are taken into account, the gender wage gap as measured is altered, for example, to a lower figure by 2–4 per cent for the UK, and by a higher figure of up to 6 per cent in the Netherlands (*OECD Employment Outlook*, 2002: 94–106).
3. Even critical texts on HRM (for example, Watson, 2004) may fail to discuss gender issues.
4. Zanoni and Janssens (2003) show how diversity discourses can be understood as products of management practices (in devaluing diversity through seeing difference as lack of valued attributes; or constructing difference as providing additional value) or as producers of management practices (in reaffirming them as those practices as they exist now, or challenging inter-group practices).
5. These parallel Adler and Izraeli's (1988a:4) twin characterization of assumptions made about women in management as based on 'complementarity' (to men) and 'equity' (with men) respectively.
6. These figures are not representative.
7. Distinctions have been made between the long and short agendas of equal opportunities (Jewson & Mason, 1986; Cockburn, 1990).

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28 Critical theoretical perspectives on international human resource management

Tuomo Peltonen

International human resource management (IHRM) is a branch of management studies that investigates the design and effects of organizational human resource practices in cross-cultural contexts. The field has evolved from its fragmented beginnings when, for example, Laurent (1986) was able to define international human resource management as being a discipline in its infancy. International personnel questions have since then become a new professional sub-specialism for the human resource people and the discovery of the international people management problems has helped the occupation to regain some authority in the political struggle over management expertise.

However, despite the recent advances, international human resource management is rarely approached from a critical theoretical perspective, unlike many other sub-specialisms of management studies. There is a growing interest in critical approaches to management and organizations. Critical theories aim in general to uncover and change societal structures, ideologies and power relations that constitute and shape the organizational phenomena and workplace relations (for example, Alvesson & Willmot, 1996; Alvesson & Deetz, 2000) and their understanding of 'management' emphasizes control and governing dimensions of administrative activities (Willmot, 1997; Grey, 1999). 'Human resource management', in turn, is seen in critical theories as a way of ensuring employees' commitment to the economic goals of the business enterprises instead of being treated as a mere functional response to individual, organizational and environmental needs (Townley, 1994; Legge, 1995). Additionally international management has also recently seen critical deconstructions of its uses of the concept of 'culture' in organizational discourses (for example, Prasad, 1997; Westwood, 2001).

The purpose of this chapter is to introduce critical theories to the field of international HRM. The chapter is structured as follows. The first section presents an introduction to critical theoretical perspectives, their adaptations in management studies and some of the more specific themes and questions relevant to a critical engagement with the role of HRM and

international HRM in the structuring of organizations. The second section first reviews briefly the current state of critical approaches in the current discourses on IHRM research. The section develops tentative directions for critical theoretical research in the context of two important debates within IHRM, namely research into HRM in MNC subsidiaries and the study of expatriate assignments. A short section concludes.

The case for critical study of international human resource management

The field of management and organization studies was long dominated by functionalist paradigms (Burrell & Morgan, 1979). The last 15 years have seen a steady increase in critical contributions to management theorizing and organizational analysis (Alvesson & Willmott, 1996; Grey & Fournier, 2000), together with the birth of several scholarly communities specializing in non-orthodox theories and studies, including for example the International Critical Management Studies Conference and the Critical Management Studies division within the American Academy of Management. Critical management research draws from a number of theoretical inspirations. We will briefly introduce three of them here.

The so-called 'labour process theory' is a research programme that emerged after the publication of Harry Braverman's influential *Labor and Monopoly Capital* (1974). Labour process theory explores the deskilling hypothesis according to which rational management techniques, including also HRM practices, are used to mechanize and simplify work and thus to make control of work more efficient. Critical theory, in turn, is a social theory movement rooted in the Frankfurt School of social philosophy. Critical theory aims to uncover the suppressed conflict in modern society by analysing how the established understandings of social life are contaminated by ideological discourses and technocratic consciousness, a theme which has been developed particularly in the writings of Jürgen Habermas (1984). Poststructuralism, on the other hand, stems from French philosophy and is influenced by the ideas of semiotics and structuralism but also by other continental theories such as the philosophical works of Nietzsche (Schrift, 1999). Poststructuralism is in a very generalized sense interested in engaging with hierarchies and dualisms, that is, with strategies of power, inscribed in our institutionalized notions of truth and subjectivity, and the approach has become known to English audiences mainly through the writings of Michel Foucault (1977, 1978) and Jacques Derrida (1981).

Despite their profound differences, one can argue that the various critical theories share the broadly common aim of looking at the tensions and contradictions between the dominant and dominated groups and the ways in which rationality, science and discourse are used to affirm the power of

the ruling group in society. Recently more emphasis has been laid on the construction of differences along the lines of gender, race, ethnicity, sexuality and nationalism, as well as on the power relations and subjectivities emerging from the discursive constructions of sameness and otherness. This orientation has gone hand in hand with the increasing interest in post-structuralist approaches to the critical study of society and culture, and also in the development of gender and feminist studies as a viable stream of social research (for example, Calhoun, 1995; see also the chapter by Hearn, Metcalfe & Piekkari in the present volume). Following the shift toward postmodern ideas in social sciences, the field of management and organization studies has also witnessed an increasing interest in the issues related to knowledge, discourse, power and identity (for example, du Gay, 1996; Chia, 1996; Jacques, 1996). Calás and Smirchich (1999) have argued that the introduction of postmodern and poststructuralist approaches has already influenced the way in which sociological management research is conducted, most of all in the form of situated reflexivity towards the commonsense categories and knowledge claims prevalent in the authorial articulations on the nature of organizations and organizational management. Poststructuralist critique of regimes and discourses of truth has also affected earlier, broadly neo-Marxist, streams of critical theorizing by making them more aware of the complexities of social power and the heterogeneity of the human subject (for example, Clegg 1989; Knights & Willmot, 1989).

It is also important to note that critical theories have been used not only to deconstruct the established understandings of management and organizations in general, but also to reframe critically the various sub-specialisms of management (Alvesson & Willmot, 1996). An interesting observation in the context of this chapter is that the field of human resource management, a thematic area closest to the emerging discipline of IHRM, has been approached recently from critical theoretical perspectives. For example, Legge (1995) has argued that, although the rhetoric of personnel management has seemingly shifted from the earlier emphasis on pluralism and industrial relations conflict to the prevalence of unitarist paradigms, the old contradictions and tensions associated with the management of paid work in the late modern societies still influence the realities of human resource management in organizations. On the other hand, Townley (1994) has provided another influential critique in which she has used the work of Foucault to look at the ways in which HRM practices assist in making employees manageable through a number of different techniques that situate employees as objectified 'cases' or 'problems' in the organizational grids of intelligibility. Both Legge (1995) and Townley (1994) demonstrate, from their own slightly different critical theoretical perspectives, how

seemingly neutral organizational arrangements and techniques associated with the state-of-the-art HRM may be understood as part of the workings of power and ideology.

Similarly techniques and expertise of IHRM can be scrutinized in a critical examination that reveals the hidden intentions and interests behind the seemingly neutral façade of HRM, international management and IHRM. The field of IHRM studies and constitutes organizational practices that are similar to those found in domestic HRM, including the techniques of personnel selection, training, rewarding and career development as well as the issues related to strategic HRM. However, in contrast to domestic HRM, in IHRM, many personnel techniques are legitimized with reference to cultural differences and cross-cultural adjustment instead of a more general concern with organizational effectiveness or employee well-being (for example, Adler, 2002). A critical take on IHRM would pay attention to the ways in which culture tends to be represented as an uncontaminated fact on which IHRM systems can be built, although a closer reading might reveal how 'culture' is often made to serve particular interests. Culture can, for example, be used to describe the social context of the less developed, non-Western countries, whereas the Western world may be assumed to be 'civilized'. Alternatively, 'culture' can be used politically as a motive with which management can introduce HR practices that serve a control function. Human resource function or organizational leadership can, for example, install international performance-monitoring systems in order to be able to better watch over the doings of an individual manager or expert while he or she is abroad.

The central role of cultural difference in the discourse of IHRM could be seen as broadening the scope of critical dialogues beyond the power-oriented analysis of HR practices. In the context of multiple national cultures and cultural identities, a potential further use of critical theories would be to give voice to the marginalized groups and ignored constituencies, and thus to challenge what is currently taken for granted in academic theorizing on and practical orientations to organizational management (for example, Calás & Smirchich, 1991; Nkomo, 1992). This type of critical inquiry could scrutinize the groups typically made visible in the IHRM research to reflect critically what are the significant groups and voices missing in contemporary representations of the 'human resources' of the internationally operating companies. One could, for example, observe that the employee categories present in the IHRM discourse include top executives, human resource managers and the valued experts and professionals, often in administrative or developmental tasks in the corporate hierarchy. 'Key employees' are more often men than women and they also tend to be ethnically closer to the ideal persons cherished in the corporate cultures based on

the middle-class values of white North American and North European professionals. The discourse of international human resource management rarely pays attention to the ways in which the supposedly neutral categories sustain and reproduce existing societal asymmetries based on race, ethnicity, class, nationality or gender, despite their relevance to understanding international diversity (Prasad, Mills, Elmes & Prasad, 1997).

Another specific feature of *international HRM* that could be reframed from a critical theoretical perspective is the failure problematics within international mobility and job assignments. It is not common in IHRM research to try to understand international personnel failures as manifestations of deeper social, cultural and political forces in societies and organizations. In most cases, failures among expatriates and repatriates are individualized as personal adjustment problems that can be solved with 'better' selection, training and mentoring of the internationally mobile staff. The contribution of critical theories in this context would be to direct attention to more fundamental structures and processes behind failures and human resource problems, including an analysis of social structures, corporate ideologies and workplace power relations and the way in which they produce 'dysfunctional' outcomes such as career catastrophes, discrimination based on gender or ethnicity, or oppression of the non-Western countries by the centres of global capitalism (cf. Alvesson & Willmot, 1996). While such critical explanations of the HR failures may not be translatable into rational management techniques and HRM models (in fact, they often challenge the taken-for-granted), they do offer advice to practitioners by arousing critical reflection on deeper tensions and contradictions that produce unwanted outcomes related to the management of human resources. Although it seems that there is considerable potential for critical theoretical studies on the various aspects of IHRM, it might be useful first to review briefly the extent to which critical discourses inform current research debates on international dimensions of human resource management.

Toward a critical research programme within IHRM: current debates and future avenues

A quick look at some of the most recent books reveals that there is very little written explicitly on issues of power, domination and ideology in international human resource management. For example, Evans, Pucik and Barsoux (2002) note in the final pages of their book that 'inequality between the rich and poor, both within nations and between nations . . . has worsened during the last quarter century, and notably during the 1990s', but they also pinpoint that 'After all, the HR function cannot do anything about such complex issues.' The interpretations put forward here by Evans

et al. may seem self-evident to the students of an MBA class. However many students critical of organization start with the assumption that management techniques and models are ideologically biased and that they are indeed part of the public moulding of social relations in the name of managerial rationality (Deetz, 1992; Alvesson & Willmot, 1996). As noted earlier, HRM cannot be regarded as neutral or instrumental in its relation to the objects of managing. Instead it is deeply implicated in the steering of organizational members' thoughts and behaviours – a point demonstrated, for example, by Townley (1994) in her rereading of the role of HR techniques in the management of organizations. Following the credo of such critical thinking, it can be argued that, although the macro-level inequalities of the world portrayed in the textbooks as demonstrations of global ethical issues may be too grand for the organizational behaviour concerns of the IHRM scholars, there are plenty of opportunities to engage critically with the organizational distortions and injustices that are evident at the workplace level of international business enterprises.

If we then explore the emerging debates from other scholarly sources, especially journals, the range of available critical interrogations of IHRM seems to be even narrower than in the context of textbooks. I searched for critically pitched articles from the *International Journal of Human Resource Management* (IJHRM), the current house journal for the IHRM discipline, by entering the keywords 'power', 'ideology' and 'critique' to the electronic database search covering all volumes of IJHRM (date: 10.8.04). My assumption was that the existence of some of these three keywords in the titles of the papers might indicate that the contents of the full paper would contain some sort of engagement with the critical debates on IHRM phenomena. However the search did not produce any hits from the archives of the past issues of IJHRM. It is of course possible that I could have missed the articles that engage with the non-orthodox perspectives despite their conventionalist titles, but, on the other hand, it is more probable that the result from the journal database search reveals a wider paucity of critical studies of international human resource management phenomena in the journals devoted to the advancing of the discipline.

HRM practices in MNC subsidiaries

At the same time, however, some of the recent research contributions within the field do engage with critically loaded concepts such as organizational power. One such IHRM debate where power has appeared recently concerns the structuring of HRM practices in the MNCs (Rosenzweig & Nohria, 1994; Hannon *et al.*, 1995; Ferner & Quintanilla, 1998). The standard research contributions in this stream of IHRM research are based on relatively straightforward empiricist analyses of the structural forms of

MNCs in relation to the organization of HRM. Often, the adopted approach to the structuring of HRM in MNCs is interrogated by surveying to what extent a particular HR practice (for example, performance appraisal) is adjusted to the cultural and institutional demands of the host country context. As Ferner and Quantanilla (1998) have proposed, HRM practices that are transferred from the headquarters to the subsidiaries can remain rooted in the corporate or home country norms and values or can be adapted to the local context, depending on the organizational-contextual contingencies.

Empirical studies tend to suggest that, in general, MNCs prefer centralization to differentiation (Bonache, 2000), although results vary across contexts. Anyway, given that there is at least tentative bias towards standardization in MNC behaviour, there is a need to explain why corporations resort to global uniformity when the literature on transnational HR management suggests that contextual variety of the different organizational units needs to be taken into account in the implementation of management policies at the local level (for example, Sparrow & Hiltrop, 1997). Organizational power comes into the picture here as a way of theoretically and empirically accounting for the resources that the MNC headquarters and their managers use to impose their preferred HR norms and standards on the local unit. One of the most articulate contributions to a power explanation comes from Björkman and Lu (2001), who, in their study of the Chinese-Western joint ventures, introduce a framework from organization theory that employs ideas from institutional theory (Scott, 2001) and a resource dependency approach to organizational power (Pfeffer & Salancik, 1978). They argue that standardization of HRM follows to a large extent from the process during which the Western parties acquire power resources with which to impose their parochial preferences on the Chinese organizations and actors, along with the adaptation of institutionalized managerial beliefs, which put global unity on a pedestal.

Critical accounts of MNC power in host country subsidiaries would differ from the existing notions in that social power would be seen as being deeper and more constitutive than in the views approaching power as an empirically observable resource (cf. Frost & Egri, 1991). Instead of analysing power as external to the emergence of a particular HR design, the focus in critical theories, especially in approaches influenced by Foucault's (1982) conception of 'positive power', tends to be more on how power is constructed in the course of organizing the relations and identities of main actors (Clegg, 1989; Hardy & Clegg, 1996). Thus, rather than understanding 'power' as a mechanism or structure that explains whether a locally tailored or globally integrated human resources strategy gets implemented in a given institutional context, the emergence of the more fundamental,

prior asymmetry between the actors is seen as something that needs to be described and accounted for. This implies a view where 'power' of the multinational corporations and their central management apparatus is seen as not being possible before other actors have joined the evolving collectivity and accepted the proposed roles and responsibilities as the basis of their participation in the 'transfer' of management techniques (Latour, 1986).

For example, post-colonial theory (Said, 1978; Prasad, 2003) starts with the assumption that power relations between colonizers and colonized cannot be fully understood by focusing on resources and structural forces leading to coercion of the behaviour of the dominated. Instead power emerges in this approach as an effect of constructing and moulding the identity of both of the participants in a relation, implying that the colonized are also playing a part in crafting, internalizing and living the conditions that make power and asymmetry possible in an evolving organizational connection.

Equipped with a positive or relational view on social power, critical analysis of global homogenization could start by asking more specific questions about the construction of core/periphery relations and the structuring of power in decision making on IHRM. The research questions could include the following, who defines the reality of organization? How are the identities of headquarters and various subsidiaries negotiated and how do subsidiary managers take on the role of local executives representing something smaller and more peripheral than the units in the symbolic and political core of the contemporary world economy? How are different national, cultural and ethnic groups of employees defined and talked about and are there visible differences between the identities of the Western/developed and the non-Western/developing managers and experts? How is the need for Western/rational/standardized HR practices in the remote subsidiaries legitimated and naturalized? Whose rationality prevails and how are consents to corporate imperialism manufactured in the non-Western subsidiaries? What kind of resistance emerges in the subsidiaries and how is it tempered into revolt behaviour?

These are just some questions that might advance the study of power and HRM in MNCs from a critical theoretical perspective. Whereas the dynamics of the relations between the centre and the periphery of transnational corporations lead relatively easily to considering power analytics and critical investigations of international business management as research frameworks, the study of expatriates, repatriates and cultural adjustment has usually been seen as a province of psychologistic and individualistic research debates. However processes related to expatriate life could also provide some interesting insights into the workings of power, discourse and identity in the international settings.

Expatriate research

Expatriates and their adjustment, performance and repatriation constituted a central topic for IHRM research in its formative years (for example, Mendenhall, Dunbar & Oddou, 1987) and the debate still goes on in the field. Studies in this area typically look at the individual-level processes and problems related to international job mobility of corporate professionals, often within big multinational companies (Thomas, 1998). However the focus of the debate has shifted slightly from the psychological issues around cross-cultural and practical problems to an emphasis on expatriates as part of the human capital of the firm. The extraordinary quality of international assignments is beginning to vanish in connection with this change of perspective as contemporary expatriate studies tend to look at the globally mobile employees as 'strategic resources' and future global managers, rather than as 'complex humans' encountering adjustment problems and career discontinuities (for example, Inkson, Arthur, Pringle & Barry, 1997).

The transition towards a more strategic or HRM perspective on international assignments means, to some extent, that the research discourse on expatriates has moved away from the theoretical traditions of cross-cultural and social psychology that informed the early stages of expatriate research. While the conventional organizational and work psychology that conceptualizes individuals as atomistic units might have little to offer to critical social theories of management and business, the recent currents in psychology of organizations, as well as in psychology proper, put more emphasis on social and contextual underpinnings of human behaviour (Nord & Fox, 1996). At a relatively general level, the recent development in expatriate research could then be criticized on the basis that its leaning on the theories of strategic human resource management makes it more difficult to think about and theorize expatriates as individuals-in-context, especially to understand how internationally mobile employees' work and career processes are affected and affect the wider circuits of power and control in international business.

One example of the way critical ideas about identities could inform the empirical investigation of expatriates comes from my own work. In a theoretical synthesis of my work on expatriates, repatriates and their career processes (Peltonen, 1998), I try to conceptualize the negotiation of the organizational and personal identities as a struggle over the stability and change of power positions in a Finnish subsidiary of a multinational corporation used as the case company. With the help of extensive qualitative material, I look at the discursive attempts of expatriates and repatriates to challenge, resist and change the established hierarchies among professional engineers and managers in an engineering corporation. My study relates beliefs,

meanings and identity work of the expatriate employees to the current construction of power relations. The empirical focus is on the self-categorizations and accounts that expatriates and other employees gave about their standing in the social web of organization as well as on their views about their professional and managerial motivations and orientations. However the interpretation given to qualitative data seeks to reveal patterns in the identities constructed and to find links between observed subject positions and organization and industry-level social structures and power relations.

In a relatively different context, albeit in a fashion similar to my analyses, David Boje presents an interesting interpretation of a story of expatriate failure as one of five scholars invited to give a response to the issues raised by a short case description of a troublesome expatriate assignment (Keough, 1998; Sypher, Shwom, Boje, Rosile & Miller, 1998). While the other academics provide advice based on the seeming shortcomings in communication, planning of the assignment and intercultural training, Boje focuses instead on the construction of the expatriate's story of international relocation, especially from the viewpoint of latent tensions and contradictions inscribed in the narrative. Boje thus takes a broadly discursive methodological path to uncover deeper structures and hierarchies that are implicit in the female expatriate's story but that do not come across in the normalized interpretations available in the form of conventional IHRM models and theories of expatriation/repatriation. In this vein, Boje finds a number of silenced voices and marginalized truths such as the tendency of a corporation to use home country expatriates to control the foreign subsidiaries, the lack of ideas about the use of repatriating expatriates and the overall colonial attitude of the North American headquarters towards the foreign subsidiaries. Boje's interpretation of a normalized 'case description' of an expatriate story opens up other possible stories to be told about the reality of IHRM and multinational corporations, which, in turn, help us to see deeper structures and power relations of the global workplace. Furthermore these alternative perspectives and representations of expatriate lives could be used to explain some of the puzzling outcomes in a way that is more enlightening and engaging than the interpretations of the conventional human resource models and theories of international working.

The influences flowing from social structures to expatriate life notwithstanding, the practical circumstances surrounding expatriates and other internationally mobile 'key persons' have a constitutive role in the changing material arrangements of globalization. At the same time as international networking and global careers are becoming 'business as usual' for the professional and managerial employees of the corporate sector, the rest of workforce, especially in low-income jobs, is still very much tied to its local community. Most of the expatriate employees studied

within IHRM are white-collar experts and corporate executives for whom moving from one location to another is not a particular problem since they are considered 'okay' in the eyes of the global political and safety institutions. Unlike the experience of masses of immigrant workers who are forced to seek better opportunities in the industrial countries, the authorities of the host countries normally welcome the corporate and business expatriates. As sociologist Zygmunt Bauman (1998, 2000) has noted in this context, the business traveller or expatriate and the immigrant worker could be seen as the two sides of the same coin of globalization, in that, without the existence of the global army of low-paid 'susceptible persons', there would not be the phenomenon of corporate expatriation and international business travelling. However, I am not aware of any published paper in the IHRM field that would have contrasted corporate expatriates with immigrant workers, although the issue is topical in the more general dialogues on transnational organizations and globalization (Sassen, 1998; Banerjee & Linstead, 2001; Hearn, 2004). Overall, lifestyles and social arrangements surrounding expatriates and other internationally mobile professionals could be a fruitful topic for future critical analyses on globalization of work and employment management (cf. Peltonen, 2005).

Conclusions

This chapter has provided some preliminary openings to the study of IHRM from the perspective of critical theories. In conclusion, it is perhaps useful to note that the overall scholarly spirit which I hope passes from the engagement with critical theories to the IHRM research is openness and creativity. The chapter has suggested two specific lines of critical inquiry within IHRM (construction of power relations in connection with the organization of HRM in MNC subsidiaries, and the changing role of expatriates in the transnational organizations and labour markets) but, by doing so, it has in no way intended to ignore other potentially interesting lines of critical analyses and interrogations of IHRM. Instead various critical theoretical approaches illuminate different aspects of the workings of power and ideology within international human resource management, and, rather than establishing an exclusive programme, it is more fruitful for the advancement of theoretical dialogues in the field to let critique enter into international HRM research in its many forms and styles.

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29 Language effects in multinational corporations: a review from an international human resource management perspective

Rebecca Piekkari

Many multinational corporations (MNCs) today adopt a common corporate language to facilitate the process of internal communication between headquarters and foreign subsidiaries as well as directly between foreign units. From a top management perspective, such 'language standardization' (Marschan-Piekkari *et al.*, 1999a: 379) has many advantages: for example, it may support formal reporting between units in various foreign locations, improve access to company documents and create a stronger sense of belonging to a global corporate 'family'. Indeed the issue is not only one of efficiency but one of corporate control (SanAntonio, 1987: 199). A common corporate language is thus seen to operate as an integrative mechanism among the geographically scattered, multilingual workforce. In this context, English is frequently chosen as the 'lingua franca' owing to the importance of Anglophone markets, the economic power of the USA and the Internet. 'Lingua franca' is defined as an idiom that non-native speakers use with other non-native speakers, rendering it a foreign language for all parties concerned (Vandermeeren, 1999: 276), or among native and non-native speakers. For example, pan-Nordic corporations increasingly choose English as their corporate language (Louhiala-Salminen *et al.*, 2005).

A standardized English-language approach adopted by many multinational corporations, including General Electric, Nokia and Electrolux, however, does not resolve language diversity associated with daily operations. The level of proficiency in the common corporate language is likely to vary and lower-level employees are likely to speak only their local language. As Vandermeeren (1999) argues, international business interaction is rarely a monolingual event. In reality, communication across linguistic boundaries is frequently carried out in a mixture of languages. Accordingly, Barner-Rasmussen and Björkman (2003) conceptualize the multinational corporation as a multilingual organization.

Thus there seem to be two counter forces operating for and against the language strategy chosen by top management of multinational corporations:

those that lead to the standardized use of one language, and others that suggest the use of multiple languages in an adaptive way. Nevertheless, as Vandermeeren (1999: 276) points out, 'standardization' and 'adaptation' are not 'all or nothing' phenomena because most companies mix their strategies of language choice.

Until recently, language as a separate variable has gained very limited attention in the field of international business in general, and in IHRM in particular. This is because language, if considered at all, is often subsumed into the broader concept of culture. It seems that the term 'culture' is frequently used as a general explanation for the various problems experienced by internationalizing companies. This is in sharp contrast to the early research by Johanson and Wiedersheim-Paul (1975: 307–8) who coined the term 'psychic distance' in order to explain why internationalizing companies first enter similar foreign markets in terms of language, culture, political and educational systems and levels of industrial development and so on. By analytically separating language from other factors, the respective causes of disturbances in information flows between markets may be made easier to identify. In line with this, the present chapter considers language a more specific and precise variable than culture more generally.

The purpose of this chapter is, then, to review the implications of language policy and language use for international human resource management (IHRM) at different levels of analysis: for example, individual managers and employees, cross-cultural teams, foreign subsidiaries and the firm as a whole. Inevitably, given that language skills reside in individuals, the focus is on managing people (Marschan-Piekkari *et al.*, 1999a). Since much of the relevant literature seeks to analyse aspects of IHRM in multinational corporations (see, for example, Dowling & Welch, 2004), I shall focus on this particular organizational context. This chapter argues that recent research on language in international business and IHRM has adopted multiple perspectives, problematizing language effects beyond its role as a mere medium of communication. I shall proceed by first defining language and reviewing the various perspectives adopted on language in the field. Thereafter I shall examine language effects at multiple levels of analysis in order to demonstrate explicitly how language effects extend beyond the individual, and provide an agenda for future research.

Language and languages in multinational corporations

If we take a closer look at language diversity in multinational corporations, it is not only the multiplicity of idioms which is evident, but also the various forms of language found in the workplace. Welch, Welch and Piekkari (2005) divide them into three forms or layers, the first being everyday written and spoken language, such as English or German, which is the

main focus of the present chapter. For example, in their study of Japanese-owned subsidiaries in Scotland Wright, Kumagai and Bonney (2001) identify a specific form of everyday spoken language, 'broken English' or 'pidgin English', used in the communication between local staff and Japanese expatriate management. Second, many firms use so-called 'company speak' which is replete with acronyms and special terms typical of the organization in question (Welch *et al.*, 2005). For example, General Electric uses abbreviations such as N-1 and N-2 to indicate the person's status in the organizational hierarchy. The third layer of language is technical, professional or industry jargon used by, for example, IT engineers. These layers of language are intertwined. For example, in-depth knowledge of the professional language or 'company speak' may actually compensate for the person's limited skills in the foreign language itself.

Drawing on translation studies, Janssens, Lambert and Steyaert (2004) describe the evolution of perspectives on language in international management. They summarize this historical evolution from three perspectives: the instrumental (or mechanical), the cultural and the political.

According to the instrumental perspective, the presence of multiple languages complicates internal communication processes within the multinational corporation. As mentioned previously, multinational corporations respond to this challenge by selecting one common language that every employee is assumed to be able to speak. This 'lingua franca' is considered to be a neutral tool to communicate more 'easily'. In this approach, language is typically regarded as a means of transferring information and presented as a pragmatic problem related to top management's concerns about organizational effectiveness. It is assumed that imposing one language, that is standardizing language choice, will resolve the difficulties experienced in international communication (Janssens *et al.*, 2004). Much of the work in international business and IHRM has adopted such an instrumental perspective on language. For example, Fixman's (1990) study of foreign language needs in US-based multinationals suggests that foreign language skills per se were rarely considered in staff selection and career advancement. Instead they were viewed as a mechanical skill to be acquired if necessary and secondary to the candidates' technical skills.

The cultural perspective, as Janssens *et al.* (2004) describe, adopts a different view on the multiplicity of languages. Multinational corporations are understood as culturally embedded and linguistically diverse. These authors argue that such an approach avoids imposing one common language. Instead different languages will be encouraged in various local contexts allowing adaptation of the language strategy. Language is seen as a key to the understanding of different foreign cultures and an essential aspect of the cultural context (Brannen, 2004). Therefore proficiency in the

local language is often related to expatriates' cross-cultural ability and performance (Dowling & Welch, 2004). For example, in his study of Western expatriates assigned to China, Selmer (2004) found that expatriates' proficiency in Chinese was positively related to their sociocultural adjustment. He argues that learning a Chinese language reduced expatriates' feelings of being outsiders and improved their relationships with host country nationals. At the same time, learning the local language was also a vehicle to enhance communication between groups of employees and to reduce social exclusion. This suggests a certain degree of overlap between the instrumental and the cultural perspectives.

The political perspective introduces the explicit relationship between language and power. It argues that the selection of a given 'lingua franca' is a political process, not a neutral act, as suggested by the instrumental view. Recent research on international mergers and acquisitions clearly demonstrates the political play associated with language issues (Bruntse, 2003; Gertsen *et al.*, 1998; Piekkari *et al.*, 2005). The choice of a common corporate language raises questions and emotions about national dominance and may even undermine integration efforts. This is particularly true in the case of mergers that are announced as a 'marriage of equals' (Vaara & Tienari, 2003). The case study of a Nordic financial institution shows that the chosen corporate language, Swedish, sent an implicit symbolic message regarding the division of power between the merging parties (Björkman, Tienari & Vaara, 2003; Piekkari *et al.*, 2005). It restricted equal opportunities between employees and caused unfavourable disintegration.

Scandinavian Airlines (SAS), which is a pan-Scandinavian organization originating from Sweden, Denmark and Norway, did not formally appoint a common language partly in an attempt to maintain the power balance between the three nations (Bruntse, 2003). Janssens *et al.* (2004) write that the equality of languages can never be taken for granted in international companies: there is always a degree of manipulation, persuasion, resistance and negotiation. Even in organizations such as the European Union, in which the equality of languages is stated in writing (Wagner *et al.*, 2002), there is a constant competition between languages of large and small countries. As will be discussed later, the political perspective on language is not only associated with the process of choosing a common corporate language but also with its use.

The three perspectives – instrumental, cultural and political – introduced by Janssens *et al.* (2004) demonstrate different approaches to language in the MNC context. As discussed above, they are not mutually exclusive but sometimes overlapping. We now discuss more specifically language effects from an international human resource management perspective.

IHRM implications of language

Prior research on language and its implications for IHRM is here divided into four broad groups based on the level of analysis: (1) the individual, (2) cross-cultural teams, (3) headquarters–subsidiary and inter-subsidiary relationships, and (4) the MNC as a totality. Moreover our aim is to classify previous research in the field according to the authors' perspective on language.

Individual managers, employees and relationships between them

As companies introduce network structures and encourage direct horizontal communication between subsidiary units, there is an increasing need to use foreign languages in the daily work. This applies not only to the top echelons of the organization but also further down the hierarchy (Charles & Marschan-Piekkari, 2002). Such a 'democratization' process of international communication has a number of consequences. For example, once a common corporate language is in place, it becomes a requirement for being admitted to corporate training and management development programmes, potential international assignments and promotion (Marschan-Piekkari *et al.*, 1999a). In this way, multiple incentives are created for learning the corporate language, which demonstrates an instrumental perspective on language. However providing corporate training in one standardized language such as English may exclude groups of subsidiary staff who still lack the necessary language skills. This may also affect their opportunities to create and expand networks of personal relationships within the MNC.

Language ability is one of the selection criteria used in expatriate postings as it is regarded as an important aspect of expatriate performance. Dowling and Welch (2004) refer to the expatriate's skills in the local language of the host country as well as in the common corporate language of the MNC. In this context, Marschan-Piekkari *et al.* (1999a) found parent country nationals who sometimes became what they termed 'language nodes'. These persons were comfortable operating across several language interfaces, such as the host country language, the common corporate language and the parent country language. They communicated, often informally, with colleagues in other subsidiary and headquarters units and their language-based linkages tended to extend beyond the host and home units. For example, a third country national based in a subsidiary in Singapore of a Finnish MNC called his Finnish colleague 'our pet Finn', indicating the conduit role that this expatriate had in the local office (Marschan, 1996: 139–40). Goodall and Roberts (2003a) add another dimension to the discussion by emphasizing expatriates' proficiency in the 'company speak'. This contributed to the strength of expatriate networks and made them

virtually impermeable to outsiders such as host country nationals. The importance of language skills in foreign assignments may result in selective recruitment if particular nationalities or groups of employees are preferred over others. A recent survey shows that, even in a national context such as the UK, English class and regional accents may be a disadvantage, as they raise concerns about a person's competence and success in business (Aziz Management Communications Index, 2003). Such findings reveal political considerations associated with language use in recruitment practices.

Language skills may also influence the employee's chances of advancing his or her career within the MNC (SanAntonio, 1987). For example, in a study of a Finnish–Swedish merger it was found that Swedish as the common corporate language operated as a 'glass ceiling' effectively excluding non-Swedish-speaking individuals from climbing up the corporate ladder (Piekkari *et al.*, 2005). Research on Japanese-owned subsidiaries in different parts of the world provides supporting findings (Lincoln *et al.*, 1995; Negandhi *et al.*, 1985; Wright *et al.*, 2001; Yoshihara, 2001). Japanese companies are very ethnocentric in their staffing policies. Senior positions in most Japanese foreign subsidiaries are filled by Japanese expatriates, making the Japanese language a significant source of power. In Japanese-owned companies, such a 'glass ceiling' restricts the upward mobility of local staff and makes them pursue different career paths. In this context, foreign language skills can be seen as a feature distinguishing between corporate elites and non-elites (Odendahl & Shaw, 2002; Welch *et al.*, 2002). On the other hand, an individual who is competent in a key language of the organization may gain a strategically important position beyond his or her formal, hierarchical status (Marschan *et al.*, 1997; SanAntonio, 1987).

Related to career advancement and promotion, it may be particularly challenging for managers to carry out performance appraisal of employees with whom they do not have a shared language. Such situations are not uncommon in MNCs which operate under a global matrix structure. But even in organizations with unitary command structures operating primarily within one geographical region, such as the Nordic countries, serious language-related challenges may emerge. Piekkari *et al.* (2005) describe a situation in which a Swedish manager responsible for a Finnish-speaking unit found himself conducting appraisal interviews through an interpreter. After the introduction of Swedish as the corporate language of the merged organization, many Finns had to operate professionally without adequate levels of proficiency in the common corporate language (see also Björkman, Tienari & Vaara, 2003). At the time, investments in language training had not yet materialized. Consequently these otherwise capable and useful employees appeared unintelligent in their encounters with the Swedes. They often remained silent although professionalism would have

required active participation. In a way, their professional competence was hidden behind the language barrier and they seemed to be underperforming (Piekkari *et al.*, 2005).

In line with the political approach, language may also complicate the power dynamics of performance appraisal interviews in situations in which the subordinates have the linguistic edge. For example, an interview study of Japanese-owned subsidiaries in Germany shows how Japanese managers were reluctant to conduct direct appraisals of their German subordinates. The language of the workplace among Japanese subsidiaries in Germany was English and the Germans tended to enjoy a relaxed facility with English that few of their Japanese managers shared (Lincoln *et al.*, 1995). Indeed previous research shows that relationships between expatriates and local employees are likely to be negatively affected in the case where the subordinate group (local employees) possess a significant linguistic advantage (Lincoln *et al.*, 1995; Wright *et al.*, 2001).

The above discussion demonstrates an instrumental approach on language in expatriate selection, the use of expatriates as 'language nodes' and conduits in cross-border communication. In addition, the acknowledgment of language effects on career advancement and social inclusion/exclusion reveals political considerations.

Cross-cultural teams

On the next level of analysis, the recognition of belonging to a particular group and the categorization of others into ingroups and outgroups is a social process in which language plays a major role prior (Gudykunst *et al.*, 1989). Research on cross-cultural teams has examined cultural, national and functional diversity as a factor affecting team dynamics and performance (for example, DiStefano & Maznevski, 2000; Salk & Brannen, 2000; Schweiger *et al.*, 2003). On the one hand, it is often argued that diversity is a potential source of new ideas. On the other hand, extreme diversity among team members may slow down communication, operate as a barrier to interactions and negatively affect team performance.

However language diversity per se has received little specific attention in research on cross-cultural teams. Henderson Kassis (2005) argues that the importance of the language factor is often overlooked. In many studies the actual process of interpersonal interaction taking place through language is generally left unexamined. Cross-cultural teams, however, are composed of individuals who speak a variety of mother tongues and belong to different language communities. Drawing on sociolinguistics and discourse analysis, Henderson Kassis explains that language diversity is produced as team members not only speak several languages but also hear in a variety of different ways; that is, they use different interpretive mechanisms.

In particular, language use has been found to be associated with the socialization of team members and trust building (Lagerström & Andersson, 2003). Language and cultural diversity may also intersect with gender, as teams from a certain country or region such as the Middle East may largely be composed of males (see the chapter by Hearn, Metcalfe & Piekkari in this volume).

In MNCs, the use of English as the working language of the team is very common since many large corporations have adopted English as the official corporate language. Yet the two interview studies conducted by Schweiger *et al.* (2003) and Lagerström and Andersson (2003) demonstrate that language was a major source of problems for cross-cultural teams. Rather unexpectedly, the level of proficiency in English among the team members varied significantly. While one of the interviewees in Schweiger *et al.*'s study (2003: 134) admitted that 'we did not tap the full depth of the number of members' capabilities' owing to the problems associated with English, Lagerström and Andersson (2003: 91) report that one global team member had to be dismissed for the same reason.

Indeed cross-cultural teams are simultaneously both multilingual and monolingual since English is frequently used as a 'lingua franca' among native and non-native speakers (Henderson Kassis, 2005). However, when English is used as a working language of the team, participants are often under the false impression that they are sharing the same context as if they had a common mental space (Henderson Kassis, 2005). The widespread use of English in MNCs may create a sense of artificial confidence and familiarity; consequently team members may fail to perceive that they are culturally distant (Welch *et al.*, 2001). In this stream of research, language is primarily considered a barrier to effective communication between team members rather than a doorway into understanding the very cultural differences that may lie behind the communication challenges. Such an approach suggests an instrumental perspective on language.

Headquarters–subsidiary and inter-subsidiary relationships

Research on language and international business has also examined the implications of language for foreign subsidiaries, particularly from the viewpoint of control, communication and coordination challenges. This reflects the recent shift in MNC management research to study the foreign subsidiary as the central unit of analysis (see Birkinshaw & Hood, 1998; Holm & Pedersen, 2000, for reviews of research on subsidiaries).

Much of the earlier work regards language as a barrier to the effective functioning of the MNC (Feely & Harzing, 2003). Barner-Rasmussen (2003) examined the relationship between a Finnish-based headquarters

and its foreign subsidiaries and found evidence for the mental and physical distance created by the lack of a shared language. The interview with the CEO demonstrated not only that he does not visit the subsidiary in France because he does not speak French, but also a certain degree of ignorance towards the French unit (Barner-Rasmussen, 2003: 71). Similarly, in their study of Danish subsidiaries in France, Andersen and Rasmussen (2004) identified a number of problems faced by headquarters in communicating and controlling its French units because of the language barrier. Yoshihara's (2001) study of Japanese multinationals shows that one way of solving language-related communication and control challenges in headquarters–subsidiary relationships is to use parent country nationals. He argues that the Japanese model of globalization primarily relies on managing foreign operations by sending Japanese expatriates and by using the Japanese language. This removes the language barrier between the headquarters and the foreign subsidiary but introduces it lower down in the organization. But even in the case of using parent country nationals, these very same expatriates may lose their ability to communicate in the right 'company speak' after working in the periphery of the MNC. This may further magnify the perceived distance between headquarters and foreign subsidiaries (Goodall & Roberts 2003b).

Research on knowledge sharing and transfer in MNCs has largely been silent about the role of individuals and language in this process. However recent work in the area does incorporate language as a factor. For example, Buckley, Carter, Clegg and Tan (2005) examined how corporate social knowledge, along with language, promotes the transfer of knowledge between the Western headquarters and the Chinese subsidiary units. Corporate social knowledge is defined as knowledge held by individuals, or groups of individuals, that enable them to interpret, understand and predict the behaviour of others in the corporate context. Their evidence from four cases suggests that a common language alone is unable to secure effective knowledge transfer between the parties. Corporate social knowledge, which is often expressed in 'company speak', is essential for the articulation and assimilation of foreign knowledge. Knowledge transfer between headquarters and subsidiaries in China was achieved through the presence of expatriates, the circulation of staff internationally and the use of multinational teams (Buckley *et al.*, 2005). In this study, language was very much seen as a medium of knowledge transfer, as suggested by the instrumental view.

Similarly, in relationships between subsidiaries, Barner-Rasmussen and Björkman (2005) found that the intensity of communication among foreign-owned subsidiaries in Finland and China was related to the subsidiary managers' fluency in the shared language, and the extent to which

they participate in corporate training. Overall the accumulation of social capital in MNC subsidiaries has been found to be positively influenced by language skills (Barner-Rasmussen, 2003).

On the other hand, the cultural and political perspectives are perhaps more evident in a multiple case study conducted by Mäkelä, Kalla and Piekkari (2004). The authors discovered how informal subsidiary clusters such as the Germanic, the Latin and the Scandinavian explain much of the knowledge sharing within MNCs. Within these clusters, linguistically and culturally similar subsidiaries were inclined to exchange best practices and collaborate on a number of issues. At the same time, units outside these clusters remained isolated and distant from major information exchanges owing to the language and cultural barriers. Their findings depict the MNC as a clustered organization in which language skills of subsidiary staff are considered as part of the unit's competence base (Mäkelä *et al.*, 2004; Marschan-Piekkari *et al.*, 1999b). In this context, expatriates who possess multiple memberships in several clusters may be used to effectively transcend cluster boundaries (Mäkelä *et al.*, 2004).

The multinational corporation as a totality

At the corporate level of analysis, it has been shown that language may influence the internationalization pattern of the company and produce particular paths of foreign market expansion. Building on Johanson and Wiedersheim-Paul's (1975) work, Welch *et al.* (2001) argue that there is a strong tendency for companies to stay within the same language cluster in their initial foreign expansion as a way of minimizing the risks involved. These authors compare hypothetical company patterns between Finnish, Japanese, Spanish and Canadian companies. They suggest that companies headquartered in English-speaking countries may undertake extensive internationalization and yet remain within the English-speaking world. Compared to the Finnish and Japanese companies, the Canadian company is likely to cross the language frontier at a far later stage in its internationalization process and postpone its decisions regarding the selection, recruitment and training of language-competent staff (Welch *et al.*, 2001; see also Johanson & Wiedersheim-Paul, 1975).

Research on language effects in MNCs reveals broad and subtle influences on control and coordination of foreign subsidiaries. For example, Marschan-Piekkari *et al.* (1999b) found that subsidiary units formed what the authors termed a 'shadow structure' based on language clusters that lay behind the formal organizational structure. Owing to the lack of fluency in the common corporate language, English, subsidiaries in these language clusters worked together on a range of activities such as joint management development and technical training by communicating in various

subsidiary languages. Such regionalization within the MNC raises questions about the strength of corporate culture and the overall corporate cohesion. Research at this level of analysis touches upon the cultural perspective on language.

Language effects also extend beyond the boundaries of the MNC. Looking from outside at the MNC, the choice of the common corporate language may shape its corporate identity (Barner-Rasmussen, 2003) and its attractiveness as a potential employer from the viewpoint of future recruits.

For analytical purposes, the above review of language effects in multinational corporations was carried out at different levels of analysis. Obviously there is considerable interplay between these levels, which may be an attractive avenue for future research efforts.

Conclusion

The study of language and languages in MNCs has only just begun and offers considerable potential for making a contribution to the field. Given that language is a 'soft' issue associated with managing people, various attempts to measure and quantify its effects seem particularly promising. In the following we organize some suggestions for future research under the four levels of analysis discussed in the chapter.

At the first level of analysis, future research could examine how employees' language fluency influences performance appraisal ratings or outcomes of recruitment decisions. Previous research drawing on qualitative methods suggests that asymmetry in language skills has an effect on these practices. Moreover the relationship between 'language as a glass ceiling' and career development deserves further research. Given the emphasis placed on language in selecting suitable expatriates for foreign postings, researchers should move beyond the study of adjustment and focus on the effect of language on expatriate performance.

At the next level of analysis, language diversity among members of cross-cultural teams is still in its infancy. For example, a study of the control of language use in teams (that is who talks most, whose opinions are considered, and so on) can be supported by existing research in communication studies. Moreover interplay between language diversity and other forms of diversity such as gender, functional and educational background is unclear. It can be argued that the common professional culture binding, for example, engineers from different countries is transnational, facilitating communication between team members. On the other hand, based on her comparative study of three cross-cultural teams with engineers from several European countries, Chevrier (2003) warns against overestimating the power of professional cultures in teams. It would also be very interesting to

explore the effect of language diversity on team performance. Traditionally research on cross-cultural teams has adopted an instrumental perspective on language, offering significant potential for examining language issues from political or cultural perspectives.

Much of the research in this area examines the effect of language on internal headquarters–subsidiary and inter-subsidiary relationships. The subsidiary operations under study have largely been wholly-owned units, or in rare cases joint ventures (Buckley *et al.*, 2005). Anecdotal evidence suggests that, for example, British MNCs have outsourced call centre activities to India primarily on the basis of language considerations, that is English. This may offer a novel platform for investigating language issues from an IHRM perspective.

At the level of the multinational corporation as a whole, one may ask how the home country of the MNC is likely to shape and characterize its language use. It is worth noting that a considerable bulk of studies in this field has been conducted on multinationals headquartered in the Nordic countries which tend to apply a fairly flexible and adaptive language policy. This is in sharp contrast to the explicit English-only language policy adopted by an American company in Japan (SanAntonio, 1987). Given this, a comparative study of the effects of language on human resource practices in MNCs originating from English and non-English-speaking countries would be an interesting research avenue to follow. The importance of context needs to be acknowledged in this type of research.

In addition to inviting more empirical studies on the subject, the potential for theoretical and methodological contributions should not be neglected. The study of language in MNCs could successfully be grounded in organization theory such as agency theory, organizational learning and institutional theory (see Ghoshal & Westney, 1993, on the integration between international management and organization theory). For example, in line with the institutional theory (Björkman in the present volume), which emphasizes fit between the organization and its environment, Brannen (2004) introduces the concept of ‘semantic fit’. She explains that ‘semantic fit depends on how the firm assets are understood in each new cultural context’ (Brannen, 2004: 597). Whether the firm wishes to transfer personnel policies or teamwork concepts, language is the vehicle of communication and semantic fit is often the determinant of success. From a methodological perspective, West and Graham (2004) propose a measure of linguistic distance as a valuable tool for assessing cultural distance in future research on international management issues. Finally, it is worth noticing that language is likely to permeate all facets of conducting any international research project (see also Marschan-Piekkari & Welch, 2004).

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