

Transnational Human Resource Management – The More The Better? - Conceptualisation and Case Research in Spain, Britain and Germany -

Michael Dickmann, Teaching Fellow, University of Cranfield, Cranfield School of Management, Cranfield, Bedford MK43 0AL, UK

Abstract: Some authors have argued that in an increasingly integrated world economy an ideal multinational company (MNC) should be simultaneously locally responsive, globally efficient and innovative world-wide. Bartlett and Ghoshal (1989, 1998) suggest that a 'transnational' firm overcomes the global-local dilemma while being a highly innovative organisation and that MNCs should strive to follow this supra-national business logic to acquire competitive advantage. A key step to become such an ideal firm is to implement transnational HRM. This raises the issue of whether MNCs should take up these recommendations. If they do, what outcomes are associated with transnational HRM?

This paper proposes a framework of international HRM based on 'international standardisation' and 'international knowledge networking' and operationalises these dimensions. It uses this framework to discuss HR strategies, policies and practices of a large German MNC which has significant operations in Spain and Britain. A close look at the outcomes of transnational HRM shows that they are not consistently positive. Instead, the case company experiences HR inefficiencies and a lack of local responsiveness. The drawbacks of more extreme combinations of international HR approaches are described and moderate forms of knowledge networking and standardisation tentatively suggested. The conclusion discusses the findings in the light of the new framework and advocates a differentiated view of international communication and decision-making.

I Introduction: The Search for Competitive Advantage

The search for international competitive advantage has been a prominent theme in management literature of the last decades. In the 1960s Perlmutter introduced the well-known concept of ethnocentrism, polycentrism and geocentrism advocating a balance between domestic and international factors (Perlmutter 1969). But finding a compromise between local and global influence factors is a complex task. Evans, Lank and Farquhar (1989), amongst others, argue that while an ethnocentric MNC achieves scale economies, it lacks the flexibility to respond to local market pressures. This flexibility, on the other hand, is a strength of the polycentric enterprise. However, its fragmentation of resources is likely to carry efficiency penalties since its production facilities are split and in areas such as research and development, marketing or HRM a duplication of effort may occur. The resulting 'global - local dilemma' of MNC activity was captured by Prahalad and Doz (1987:255ff) with their integration - responsiveness framework. The authors argue that organisational culture can provide the corporate 'glue' that holds the organisation with its global interest and the individual local business together. A shared international vision and goals as well as the same management principles and a homogenous culture are seen to provide a common orientation. Martinez and Jarillo (1991) explored the interrelationship of global integration and local responsiveness in a study of subsidiaries in Spain and were able to identify subsidiaries that used a multifocal strategy combining high responsiveness and high integration. Taggart (1997) outlines four theoretical combinations of high and low integration and responsiveness and identifies foreign subsidiaries that operate in the UK in each of the categories. Their writing, however, does not describe exactly how the global – local dilemma can be overcome.

Efficiency, Responsiveness and Innovation

Even if it is possible to be globally efficient and locally responsive, this does not on its own make a multinational successful. Instead, many authors have identified innovation as key to corporate success in international markets (Porter 1985; Hedlund and Rolander 1990; Pucik 1992). While their arguments are based on diverse theories and frameworks, increasingly authors have moved away from the dominant strategy and structure focus to include corporate processes that are meant to create competitive advantage. One of the more radical approaches concentrates predominantly on structures and processes to enable knowledge creation and transfer. Hedlund argues that effective knowledge networking requires a move away from the hierarchical organisation and traditional structures (Hedlund 1994). Instead, he suggests the 'heterarchy'. Compared to the predominant form of MNCs, some of the heterarchy's characteristics are a less hierarchical power distribution, frequent lateral communication and many temporary project groups. These ideas contributed to a shift in emphasis from vertical lines of authority between head offices and foreign affiliates to looking at horizontal processes in networked organisations (Wolf 1997).

Overall, it is argued that an MNC needs integrated manufacturing to achieve global competitiveness. Moreover, it requires flexibility to be able to respond to national preferences and changing customer demands. Lastly, the firm should facilitate knowledge creation and transfer in order to be able to create differentiated products and services. However, none of the above theories explain how to become simultaneously nationally responsive, globally effective and innovative. Buckley (1995:64) maintains that the work of Bartlett and Ghoshal does exactly this.

Bartlett and Ghoshal (1995:14) suggest that there are four international configurations of MNCs: the multidomestic, global, international and transnational firm. Although the authors claim that there is no inevitability in either the direction or endpoint of the evolving strategic mentality of world-wide firms, the transnational is seen to represent the ultimate stage in the development of a multinational company in that the associated capability is the "key factor that separates the winners from the mere survivors" (Bartlett and Ghoshal 1989:212).

In 1989, the authors could not identify any truly transnational organisation but saw a number of their nine case companies developing transnational characteristics and capabilities. This prescriptive ideal firm should:

- be organised so that foreign subsidiaries have considerable managerial autonomy and have a differentiated role within the organisational network. The relatively equal power distribution relies more on informal than formal control mechanisms
- capture global economies of scale by integrating activities located in order to minimise costs
- create lateral and vertical international communication flows that are designed to develop knowledge jointly and to share ideas across borders.

Bartlett and Ghoshal maintain that the strength of the multidomestic firm is local responsiveness. The global company's strength is seen as efficiency while the hallmark of an international MNC is innovation. Only the transnational firm is simultaneously highly innovative, globally efficient and locally responsive. This raises the question of how to acquire these superior corporate characteristics.

Becoming a Transnational

The importance of corporate culture for success has often been stressed (Schein 1985; Denison 1990). Bartlett and Ghoshal (1989:199-207) outline that any move towards their ideal transnational has to work on three levels: it needs to change formal structures and responsibilities, interpersonal relations and processes, and individual attitudes and mentalities. The authors claim that “[W]hen a company focuses first on modification of individual perspectives and interpersonal relationships.....[the] process seems to have a greater chance of success” (p. 207). This raises the question of why the role of corporate culture is so crucial.

The transnational is characterised by a systematic differentiation of roles and responsibilities in its different parts so that “[b]usinesses, products and functions are all managed differently...” (p.63). This facilitates the emergence of subcultures since it creates distinct groups within an organisation that share a set of problems and routinely take action on the basis of collective understanding unique to the specific group (Maanen and Barley 1985:38). It creates centrifugal powers where managers are likely to put local above global loyalties (Bartlett and Ghoshal 1989:70). In order to overcome this problem the authors advocate to create an integrative organisational culture through what they call ‘co-option’, a process that encourages a shared vision and a personal commitment to integrate the organisation by individual members.

How is this cultural modification to be achieved? Interestingly, Bartlett and Ghoshal advocate mechanisms to build corporate cohesion at the level of international HRM (ibid: p. 206) and individual leadership. They suggest levers such as personal assignments or increased networking. Thus, the role of HRM became crucial for competitive success: “[A] fundamental *prerequisite* for the normative integration a transnational seeks is a sophisticated HRM system. The transnational uses systems of recruitment, training and development, and career path management to help individuals to cope with its diversity and complexity” (p. 71, italics added). Sophisticated HRM that facilitates a common vision is seen as the stepping stone to become a cohesive multinational company.

If successful transnational structures depend on the *prior* existence of transnational HRM it is likely that HR will display transnational characteristics first. If Bartlett and Ghoshal’s vision of a superior organisational configuration was valid, then a decade later one would expect to encounter a large number of MNCs that already practise transnational HRM or are well on their way to do so.

Summary of the key issues

This raises some key questions the remainder of the paper concentrates on. What is transnational HRM and how can we measure it? Part two of this paper will set out a framework of international HRM that incorporates transnationalism. Moreover, it will discuss the assessment of outcomes of different international HRM strategies, policies and practices. Part three applies the framework of international HRM. It uses the transnational HRM of a firm which operates in Germany, Britain and Spain to demonstrate the operationalisation of the concepts. Another important question is how successful transnational HRM policies and practices are. The paper assesses the outcomes of the case company in terms of HR responsiveness, efficiency and innovation. Part four will draw conclusions and outline some tentative recommendations.

II International HRM Strategies, Structures, Processes and Outcomes

II.1 The IHRM Framework: Standardisation and Knowledge Networking

The importance of Bartlett and Ghoshal's ideas lies in providing a framework for incorporating both the control issues (integration and responsiveness) of earlier literature on MNCs and the process issues that facilitate information flow and ultimately the generation of innovation. Their ideas addressing international communication and innovation have sparked considerable interest (Barham and Devine 1990), possibly because they propose some prescriptive process recommendations. The shift of the onus of analysis to processes has important implications for HRM.

Nevertheless, there are some problems with their approach. One main drawback is that the boundaries between the forms overlap. Taking corporate strategy and structure, their multidomestic company has a low degree of integration. On the other side of the spectrum, their global company displays a high degree of integration. The problem with depicting the integration of a transnational and Bartlett and Ghoshal's international MNC stems from the introduction of an extra dimension. It is the origin of ideas and the quality of the decision process that leads to what is being standardised across borders which distinguishes the two types. We do not know the degree of integration in a transnational; this creates problems in identifying and measuring it.

The boundary problem can be illustrated with the development and diffusion of knowledge. The implementation of new knowledge or instruments in a foreign subsidiary may either be seen as a characteristic of the international or of the transnational company. It is the process of intensive cross-national knowledge networking with which integration is determined that distinguishes the transnational.

These problems have been mirrored in empirical studies. Leong and Tan (1993:455ff) have found overlaps in the configurations, especially between international and transnational. The boundaries of the different configurations are not sufficiently specified: they rely on a mixture of structural, process and attitudinal dimensions. Thus, with the present categorisation it is hard to distinguish sufficiently between existing MNCs and to determine empirically whether any are truly transnational. Without looking at the *process* that leads to the degree of integration of world-wide operations, we cannot clearly identify transnational corporations. Below, a framework that avoids this boundary confusion and therefore allows for the possibility of a clearer empirical assessment is developed.

International HR Standardisation

A number of HR authors have implicitly argued that the underlying dimensions determining business strategy and structure can also be used in IHRM (Schuler and Jackson 1987; Adler and Ghadar 1990). Kamoche (1996:233) reviews the IHRM literature with respect to the local – global dilemma and argues that international integration reflects the needs for uniformity and control while differentiation recognises national diversity. Because international uniformity is the 'flipside' of national diversity, the concept of integration has overlaps with the concept of (lack of) differentiation. National differentiation often increases local responsiveness. In terms of HRM it is linked to a quality strategy. We will regard national differentiation as low 'strategic standardisation' to indicate its antagonistic relationship to international uniformity. An indicator for the degree of strategic standardisation would, for example, be whether HR strategies and principles are predominantly national or international. Strong international integration, on the other hand, involves structures that enable formal and informal control and uniform standards across borders. We will characterise these characteristics as high 'structural standardisation'. Indicators include formal and informal mechanisms of international control such as international planning and reporting.

Overall, it is the overlaps in the concepts of integration and differentiation that suggests they be combined in a single concept: **standardisation**. An advantage of the term ‘standardisation’ is that the focus of analysis is shifted from the corporate centre to a ‘meta-perspective’ looking at intra-company networks. Standardisation can include unitary integration around HQ standards as well as the cross-national joint co-ordination of strategy and structure within people management.

A high international standardisation is achieved by an MNC that uses complete structural and strategic integration while a low international standardisation uses little structural or strategic integration. It is possible to find hybrid positions. Kamoche (1996: 234) identifies high structural and low strategic standardisation – high integration and high differentiation - that co-exist. Companies that use mixed degrees of strategic and structural integration occupy moderate positions in international standardisation.

While international standardisation influences the local responsiveness and global efficiency of an MNC, world-wide innovativeness, another key characteristic of the transnational, is not directly affected. It is international communication that has a major impact on the diffusion and implementation of novel ideas.

International HR Knowledge Networking

During the last decade more and more authors have argued that organisational processes have become the key to competitive success. The broad objectives to be achieved include what has been variously called ‘creation and diffusion of knowledge’ (Bartlett and Ghoshal 1990), ‘supporting innovation’ (Hedlund 1994) or ‘organisational learning’ (Pucik 1992). This research utilises their ideas and uses the term “**knowledge networking**” to describe these corporate processes.

HR knowledge networking looks at the direction of formal and informal cross-national communication, the intensity of information exchange and the content of the interactions. Gupta and Govindarajan (1991) have shown that reciprocal information flows dominate in multinational companies. The research assesses whether international HR communication is predominantly unilateral - sparked off by the head office -, bilateral - between corporate centre and one affiliate -, or multilateral - using a network concept. Characteristics such as where major HR initiatives are developed, tested and the extent to which they are diffused throughout the company are evaluated. In so doing, the paper goes beyond existing quantitative approaches to assessing international communication.

It is helpful to outline the two extremes of knowledge networking so that a clearer, albeit simplified, picture of corporate HR processes and cross-national communication emerges. An MNC that uses low HR knowledge networking can be characterised by the fact that:

the content of international communication mostly concerns financial and business but not HR objectives, these objectives tend to be set in the corporate centre, and communication concentrates on progress and fulfilment information. There is practically no multilateral, international HR communication. New HRM initiatives in the foreign subsidiaries are rarely, if ever, implemented in other parts of the corporation.

Conversely, a company that uses high HR knowledge networking across borders can be described by the fact that:

the content of international communication includes objectives, processes and innovative ideas in HRM. Frequent formal and informal two-way communication is encouraged. New

initiatives in the foreign subsidiaries' HRM have a high chance of being implemented in other parts of the corporation.

Combining the Dimensions to Four IHRM Types

The standardisation and knowledge networking dimensions can be used to depict a multinational's IHRM. Four 'ideal international HRM types' are shown in Figure 1. Their relationship to multidomestic, global, international and transnational IHRM are as follows:

Standardisation	high	Global Integrator	Network Co-ordinator
	low	Low Integrator	Low Co-ordinator
		low Knowledge	Networking high

Figure 1: An International HRM Matrix of Standardisation and Knowledge Networking

Low Integrators are essentially multidomestic in their HRM so that they adapt strongly to local practices (Bartlett and Ghoshal 1989: especially 65, 95-114). In the extreme, management believes that it is not possible or effective to standardise any HR approaches internationally. Subsequently, foreign subsidiaries have a high degree of autonomy, there are few international HR coordination mechanisms and corporate control is likely to focus primarily on quantitative objectives outside the personnel arena. As a result, international HR communication is of little importance, its contents are rarely about HR processes and instruments, and knowledge is generally developed and retained within each individual unit.

Global Integrators predominantly follow a global HR approach with a strong transfer of HR strategies, structures and processes (Bartlett and Ghoshal 1989: especially 65, 75-94). Thus, there are many HR integration mechanisms such as international meetings and large numbers of parent country nationals working abroad. There is an intense interest in qualitative processes abroad as well as quantitative results both of which are defined at the corporate centre. This leads to a very unequal power distribution between subsidiaries and central HR. Although communication is of more importance than it is for Low Integrators, its content is not equally balanced. Knowledge is developed at the head office and diffused throughout the corporation, with foreign units frequently being obliged to implement resulting new HR approaches.

The manifestations of the HR systems used by Low Co-ordinators are similar to those of Low Integrators in that they both adapt their HR to local practice. However, the process involved in forming policies is different. The Low Co-ordinator decides not to standardise approaches after the evaluation of possible benefits using multiple, international sources. This assessment is facilitated by quantitative and qualitative international control mechanisms and a consciousness of the importance of vertical and lateral international communication. Knowledge is developed in the head office and subsidiaries and freely exchanged. Although no coordination in HRM takes place the cost of information is perceived to be outweighed by the potential superior control and a greater understanding of foreign operations that may lead to a stronger international coherence and the possibility that some future ideas may lead to coordinated superior policies.

It is more difficult to assign one of Bartlett and Ghoshal's configurations to the Low Co-ordinator. The closest may be the international company (Bartlett and Ghoshal 1989:65) that develops knowledge at the centre and transfers it to overseas units. While the international organisation has moderately high knowledge networking, the centralisation of some sources of core competencies (while others remain decentralised) indicates a moderate rather than a low standardisation position. Thus, the clarification of boundaries in the IHRM matrix means that the unspecified description of the international configuration cannot be precisely assigned to a quadrant.

Network Co-ordinators are essentially transnational firms (Bartlett and Ghoshal 1989:65, 75-133) - dispersed, interdependent and specialised HR functions develop knowledge jointly and share it world-wide in integrated world-wide operations. Local affiliates are not limited to their national environment but can play a global role. After analysing world-wide perspectives, Network Co-ordinators have chosen to implement core HR approaches that are similar or identical within their network of firms. In contrast to the Global Integrator, however, the ideas that shape the HR systems and processes have been developed in all parts of the company, HR approaches adopted are a result of an international consensus. Such integrated practices are seen as simultaneously efficient, responsive and innovative.

Naturally, we would expect hybrid configurations that are neither high nor low in knowledge networking or in standardisation.

Using the international HRM matrix provides a number of advantages. It uses standardisation, a dimension that combines strategic responsiveness and structural integration, and knowledge networking, a dimension that captures the international information processing and diffusion capabilities of MNCs. Thus, it has singled out the most important characteristics that help to classify multinationals (c.f. Hedlund 1986; Prahalad and Doz 1987; Egelhoff 1991). Moreover, it avoids the boundary confusion that characterises Bartlett and Ghoshal's typology and is able to discriminate clearly amongst MNCs. Moreover, the dimensions provide a classification of MNCs which allows their HR policies and practices to be depicted. Overall, the matrix reduces complexity and makes a tentative comparison between different MNCs possible.

Despite some difficulty due to the inadequate definition of standardisation within Bartlett and Ghoshal's organisational types, the IHRM framework is able to incorporate the transnational organisation. It can then provide the basis to assess the outcomes of transnational HRM, ultimately evaluating whether they do create local responsiveness, global efficiency and world-wide innovation.

II.2 Operationalisation of Outcomes of IHRM

While some writers have linked HRM to business performance or even wider societal outcomes (Huselid 1995; Beer, Spector, Lawrence, Mills and Walton 1985), the impact is difficult to measure and analyse. It is challenging to disentangle the effects of HRM on general profit or sales figures of a company. However, effective HR processes are part of the context facilitating corporate profits and sales. We propose that more direct effects of international HRM can be assessed in terms of the quality of HRM outcomes. Cameron (1980) distinguishes four major approaches to evaluating organisational effectiveness, amongst them internal and external efficiency. The external efficiency approach looks at how a firm links into its external environment and is able to generate and sustain needed resources. In contrast, the internal efficiency perspective stresses internal processes of a firm.

Hall's (1987) 'Contradiction Model' sensitises us to the difficulties involved in the measurement of outcomes. He argues that organisations face conflicting environmental constraints, have conflicting goals, have conflicting external and internal constituencies and work according to conflicting time frames. Due to this complexity any measurement of organisational results should use a variety of perspectives and will still be imperfect. We have outlined the multiple and conflicting constraints MNCs face in the global – local dilemma discussion. The hallmark of Bartlett and Ghoshal's transnational firm is that it is seen to overcome these conflicting factors. The discussion below outlines how it is assessed whether MNCs can successfully achieve potentially conflicting goals and whether they can satisfy multiple management stakeholders.

Bartlett and Ghoshal use the dimensions of innovation, efficiency and responsiveness to assess their four different types of MNC. We will take up these dimensions and apply them to international HRM. First, we evaluate HRM innovation as a key means of achieving competitive advantage. To get the fullest impact of innovation, it should be diffused widely to locations where it is applicable. Perlmutter (1969) and Hedlund (1994), amongst others, have argued that ideas applicable to more than one country can be developed. Thus, we will concentrate on HR strategies, policies and practices as a key indicator for successful innovation. The measure distinguishes between world-wide, parent and host country origins of HR approaches.

Second, we focus on IHRM efficiency and effectiveness, isolating two main sources of dysfunctionalities. In terms of knowledge networking we focus on the duplication of efforts. For example, the independent design of existing HR instruments (such as training or appraisal systems) without communication between countries about these can indicate an internal inefficiency if either local or foreign management believes that co-operation would have saved time or development costs. In terms of standardisation we look at the satisfaction of management with HR approaches. High standardisation may lead to local management not supporting certain HR policies and practices. Low standardisation may result in foreign affiliates using different HR approaches from the ones the head office wants to see implemented. Dissatisfaction with and/or resistance to the HR approaches was taken as dysfunctional. The lack of support among national or head office managers for international or local HRM strategies, policies and practices is an indicator of organisational ineffectiveness.

Third, we evaluate IHRM responsiveness by assessing the effects of local environments on national and international HRM. For example, a mismatch of international policies to the local context would be indicated by the use of an expensive German vocational training programme, when most of its graduates get poached. Another example of lack of external responsiveness would be the persistent use of standard contracts in Spain in situations when the firm is forced to lay off staff since this would increase the costs of the downsizing substantially.

Overall, we identify a wide range of internal and external positive and negative effects, using information gathered and the assessment made by local and head office HR managers. These can expose conflicting environmental constraints and goals as well as multiple stakeholders. To evaluate the degree of cross-national standardisation and knowledge networking, the unit of analysis must be the international firm studied in its home country and other host countries.

III A Case Study of Transnational HRM

The case of Elektroco¹ illustrates the operationalisation the new framework of international HRM. Between 1995 and 1997 14 semi-structured interviews with Elektroco managers in Germany,

¹ The real name of the company has been altered.

Britain and Spain were carried out and supplemented with written information. The data was summarised and sent to the company in all three countries for verification.

III.1 International HRM in Elektroco

History

Elektroco was founded in 1847 and utilised the technical innovation of the first electromagnetic telegraph. Milestones in its 150 year history included the discovery of the dynamo-electric principle in 1866 which led to the build up of the energy generating operations of the company. By 1855 its first subsidiary in Russia had been established, followed by an English subsidiary three years later, and a branch in Austria in 1879.

The Business

Elektroco covers a great number of product areas in the fields of electrical and electronic engineering. In the early 1990s it was among the world's five largest electrical and electronics companies in terms of sales (Kuehne 1991:10). In the mid 1990s it had a turnover of DM 90 billion and employed more than 370,000 staff. It had five main corporate areas: energy, industry, communication, transport and traffic, medical engineering and components. Elektroco produced more than 5000 single products (Willenberg 1996) and was split into 13 product divisions.

Internationalisation

In 1996, Elektroco was represented in about 190 countries. The establishment of 'centres of competence' in key technologies was seen as an important step in its globalisation (Elektroco 1996). It owned or held a controlling interest in 400 production plants in 45 countries and had expanded its foreign involvement and direct investment (Elektroco 1995b:1.4.1). Motives for foreign direct investment in the 1990s included:

- Overcoming protectionist trade policies. Since Elektroco often applies for public contracts, the local content of the products and services is important in the awarding of major contracts.
- Local responsiveness. Elektroco's sales abroad are seen to depend greatly on whether the company is committed to its host country through investment and industrial involvement.
- World-wide Integration. Every job created in a factory abroad is taken to "solidify the entrepreneurial basis for (the) entire company" (Kuehne 1991:4).

The Elektroco strategy in the 1990s was focused around a process of the wider internationalisation of management and production. Between 1992 and 1996, employee numbers abroad rose to 176.000 (from 160.000), but fell by 50.000 to 203.000 within Germany despite the expansion of Elektroco activities in the new German 'Länder' (Elektroco 1997b).

The UK

Elektroco founded the first subsidiary in Britain in 1858. Among its achievements were the laying of the first direct transatlantic cable between the UK and the USA; the world's first electric street lighting in Godalming, Surrey; and the construction of the Indo-European telegraph line (Elektroco 1994). By 1996, Elektroco had 13 factories and over 11,000 employees in the UK. A Elektroco UK executive pointed out that it is consistently among the top 20 research and development (R&D) investors in Britain.

The Elektroco operations had a matrix structure. As with other foreign operating units, two general managers headed all UK activities in 1996. Although operating in partnership, the technical general manager Jürgen Gehrels, a German, was seen to have most responsibility as he reported to the

Munich board of management. The British general manager was responsible for business administration. The UK subsidiary was subsequently the first foreign affiliate to abandon this dual management system and introduced a principle of unitary control by one person (Ferner and Quintanilla 1998).

Spain

Elektroco's activities in Spain began more than a hundred years ago. In 1895 the first official representation for the whole of the Iberian Peninsula was founded in Madrid. In 1910, the electrical company "La Industria Eléctrica" was acquired. By the mid-1990s, the most important Elektroco factories were near Barcelona, where electrical motors are produced, and Madrid, where electro-medical instruments are fabricated (Elektroco 1995c:4-5). Elektroco S.A. had about 2,230 employees in Spain in summer 1996. Its turnover was DM 890m in 1995/96 (Elektroco 1996:50) generating DM 14m profit. However, the Elektroco S.A. results had not always been good. Like other firms it was hit by the downturn in the Spanish economy at the beginning of the 1990s.

Elektroco invests heavily in Spain. Its strongest financial commitment has been the acquisition of almost a third of Amper, a Spanish telecommunication company. Elektroco is said to have paid between Pta 14bn and Pta 17bn (roughly between DM 170 m and DM 200 m) for the Amper interests.

An Overview of Size, Administrative Heritage and FDI Issues

Elektroco has a history of more than a century of operations in both the UK and Spain. The subsidiaries in both countries have grown to a large size and are important firms within their own national environments. A number of centres of core competencies were located outside Germany and significant research and development took place abroad. Some key objectives of foreign direct investment included local responsiveness and global integration, making it important to address the global – local dilemma. The size of Elektroco's foreign operations and the parent company's experience as a multinational enterprise facilitate a high sophistication of IHRM. Moreover, the company was in the process of stronger internationalisation, with almost half of its workforce being employed outside Germany. Thus, from the perspective of the whole business, Elektroco was in a strong position to take up Bartlett and Ghoshal's recommendations of global integration, local responsiveness and world-wide innovation. Did this apply for international HRM?

Standardisation and Knowledge Networking at Elektroco

In order to assess international HRM at Elektroco the research evaluated HR standardisation and knowledge networking at a meta level of general applicability as well as at the more specific level of HR recruitment and selection, training and development, appraisal, remuneration and career management. More specifically, meta issues such as international HR principles, guidelines and objectives were analysed. Moreover, formal HR planning and reporting patterns were identified. Next, informal international control and co-ordination influences, such as international management seminars or expatriation structures were assessed. Lastly, HR communication patterns were evaluated in terms of their intensity, direction and contents. Table 1 provides an overview of how standardisation and knowledge networking of MNCs can be classified.

Strategic Standardisation

In Elektroco, HR principles (such as co-operation with employee representatives) are used globally, while HR day-to-day work is local or regional (Schusser 1992). *Some* HR systems and instruments, however, are designed in Munich and applied globally. For example, there is Elektroco-wide standardisation in the areas of leadership (seminars), recruitment and development of top management, salaries for middle and upper management, expatriate policy, pension plans and similar commitments, job security and health, and trade union co-operation. A triangulation with Spain and the UK reveals that practices in these HR areas are indeed generally internationally co-ordinated. Looking at Table 1, Elektroco has a moderately high degree of strategic standardisation.

Formal Structural Standardisation

There are various departments that gathered international information at Elektroco Munich. This led one senior executive (on the supervisory board) to comment “if Elektroco knew what it knows...”. HR planning is generally local – there is no international setting of HR budgets. Reporting, however, covers not only general HR expenditure but also a host of other information in HR sub-categories such as training and development. Every four years a foreign operating unit is subjected to an internal audit. The auditors have the power to recommend minimum specifications that can include the introduction of certain HRM practices such as a specific appraisal system or Hay-based job evaluations. The application of these reserved powers, however, is very rare. Overall we categorise Elektroco as displaying moderately low formal structural standardisation.

Informal Structural Standardisation

One indication for the strong training focus of Elektroco is that the company’s training expenditure was 3.5% of wages in 1994 (Elektroco 1995a). In interviews in Germany, it was stated that management would receive ‘more’ training relative to their competitors around the world. Informal structural standardisation in IHRM can be achieved by providing management seminars with strongly company-specific content open to all international managers. Based on a McKinsey report, Elektroco was attempting to change its culture through a wide range of international management seminars for upper and middle management in the mid 1990s. Elektroco-wide leadership and cross-cultural training explicitly aims at achieving common values, shared leadership and business principles, increased entrepreneurship, as well as identification with the company. Moreover, some seminars deal with company-specific HR instruments such as employee appraisal (Elektroco 1995). The importance of these international seminars can be seen in that they were compulsory until autumn 1995. Based on the content and frequency of management training and interviews with development specialists, international management seminars are evaluated as contributing moderately highly to informal structural standardisation.

In terms of expatriate numbers, Elektroco has slightly less than 1 percent of German expatriates (Elektroco 1995b). Nevertheless, German expatriates are seen as instilling ‘Germaness’ into Elektroco’s operations especially since they are perceived as ‘working in strategic positions’ and as ‘controllers with better contacts to Munich’ (interview in the UK). This again points to moderately high informal standardisation.

In summary, Elektroco goes beyond the mere standardisation of principles and some, rather limited, HR reporting and an expatriate policy that does not aim at international integration of activities (moderately low standardisation). Equally, it is far from integrating principles, objectives, and all HR policies and practices, detailed international HR planning and monitoring for all HR areas and intensive efforts to co-ordinate informally (high standardisation). Overall, Elektroco’s IHRM standardisation is moderately high.

Knowledge networking at Elektroco

Intensity

The electronics company has one international personnel meeting of top HR executives per year. Some irregular regional meetings are held and frequent informal contact between HR specialists in Munich and HR personnel in the subsidiaries is ongoing. Spanish HR managers claim that they are often visited by German specialists and that these contacts are helpful in the case of cross-national HR issues. The intensity of knowledge networking is moderately high.

Content

Elektroco communicates its general HR principles and objectives internationally as in the case of leadership guidelines or expatriate policy. There is generally a focus on HR results which have to be reported and can be occasionally audited. Although there is a preference for national HR teams, international co-operation depends on the issues. Some bi-national project groups exist, for instance in selection and succession planning, involving German and Spanish specialists. Thus, sometimes ideas and process knowledge is exchanged across borders. Elektroco's international HR communication goes beyond general results and objectives but does not cover the whole HR spectrum of ideas and processes. Instead, a small number of issues are taken up internationally, with the foreign subsidiaries serving mainly as a guinea-pig for implementation. The content of international communication displays moderately high knowledge networking.

Table 1: The Categorisation of Elektroco (in bold)

Dimension	Areas	low	moderately low	moderately high	high
Strategic Standardisation	espoused standardisation objectives	no HR standardisation espoused	HR principles and general objectives, but <i>no</i> HR instruments standardised	principles, objectives, some HR instruments standardised	principles, objectives, <i>all</i> HR instruments standardised
Formal Structural Standardisation	IHRM Planning	no international HR planning	costs / overall HR budget planning	+ some HR sub-category planning for segment(s) of staff	+ general HR sub-category planning for the whole workforce
	IHRM Reporting	no international HR reporting	costs / reporting of general HR figures	+ some HR sub-category reporting	+ reporting for <i>all</i> HR sub-categories
Informal Structural Standardisation	International Management Seminars	few or none, strong general management skills content	some or many exist, strong general management skill content	some or many exist, strongly company-specific contents (e.g. international HR instruments)	many exist (sometimes compulsory), strongly company-specific contents
	Expatriates	local MD, few expatriates on level II, predominant learning role	some expatriates - predominantly in lower hierarchy with learning role	some expatriates but in strategic control positions (e.g. finance, reporting)	German MD, many expatriates on level II, control role and skills transfer
Knowledge Networking in HR	Intensity	(mostly) only GM meetings, formal and written	+ infrequent international HR visits (normally head of personnel)	+ HR head forums and frequent informal contact	+ HR specialist forums, intl. project groups, frequent visits
	Direction	little international HR knowledge flows in any direction	(predominantly) bi-national knowledge flows	regional and bi-national knowledge flows	often world-wide networked HR comm'tion.
	Content	main results	+ IHR strategy	+ objectives and more results, some ideas (derived from head office mostly)	+ more (multilateral) ideas / HR processes, joint implementation

Direction

The example of bi-national projects shows an unbalanced flow of communication and is described as ‘typical’ by Spanish management. Initially, ideas are invited from all countries. A unilateral development of strategic and international matters on the part of the German head office ensues. The project then turns bi-national, meaning that new instruments are implemented, often outside Germany, but with cross-border co-operation with the foreign unit. A Spanish executive commented: “It is inconceivable that strategic developments and international aspects are not under German leadership” (interview notes). Thus, the expertise in the development of international HRM instruments remains in Munich. Communication is not globally networked; rather it is normally regional or bi-national (moderately high knowledge networking). Nevertheless, the system can disperse knowledge around its component parts. Instruments such as the US accounting system or Hay-type job evaluations were introduced in Germany from abroad and have been subsequently implemented world-wide.

Looking at the overall picture of international communication, Elektroco practised moderately high knowledge networking paired with a mechanism to reserve some key expertise at the head office.

Figure 2: IHRM in Elektroco

Standardisation

High		Elektroco		
Moderately High				
Moderately Low				
Low				
	Low	Moderately Low	Moderately High	High
	Knowledge		Networking	

Overall Standardisation and Knowledge Networking

With a moderately high degree of standardisation and knowledge networking we can categorise the company as a moderate Network Co-ordinator. How can we explain the IHRM configuration of Elektroco? The reasons for the moderately high knowledge networking lie in the value of foreign HRM ideas which is reflected in the international uptake of HR instruments developed outside Germany. At the same time, a subtle control is exerted by pooling knowledge at the head office. While no HRM budget is set internationally, activities and results are controlled through intensive

reporting flows. Other control mechanisms allow local operations some autonomy and leave room for innovation. Overall, Elektroco allows 'controlled innovation' amidst a background of moderately high standardisation aimed at necessary local responsiveness and global corporate cohesion. It will be informative to identify HR outcomes in order to assess Elektroco's choice of international people management.

III.2 Outcomes of International HRM in Elektroco

Elektroco's global expansion and long history of foreign operations brought along the necessity for intensive international communication. The moderately high standardisation of Elektroco's international HRM and the particular processes in international communication, guaranteed that most international issues were worked out in Germany. At the same time the degree of HR standardisation is moderately high. Elektroco is displaying transnational characteristics. This should, according to Bartlett and Ghoshal (1989) mean that it is globally efficient, locally responsive and world-wide innovative. Does the research confirm these predictions for the HR arena?

Despite a moderately high standardisation most HR policies and practices have the support of local management. For instance, Spanish HRM managers do not object to work within a bi-national project group set up for the selection and succession of top executives. In this group they contribute ideas and 'guinea-pig' the implementation but are excluded from the actual development of the international system. Their argument is that the collected knowledge and experience with international matters resides in Munich so that it would be more efficient to develop ideas and practices in the head office. Thus, they accept the status quo of knowledge distribution that heavily favours Germany. Occasionally, however, management does not endorse the foreign policies since it believes that they are not applicable in the local environment. One example is the former 'security-minded' German remuneration system which operated until 1996 in Spain. It was seen as 'not motivating our managers' and was replaced by a locally developed compensation system that has a higher risk element geared to the achievement of individually set objectives.

In terms of global HR efficiency no example of a duplication of efforts could be identified. However, a potentially serious problem – although difficult to assess adequately – is that German expatriates are sometimes secretly seen as having a control function (interview in the UK). Local managers are concerned that the expatriates monitor subsidiary practices and use their superior links to their home base to report shortcomings. Moreover, they were perceived in the UK as 'blunt, sometimes insensitive communicators'. Both these factors were seen as a constraint to trust and co-operation with local managers. This may, therefore, lead to other internal inefficiencies. Moreover, there is an indication of other HR inefficiencies. For example, the high detail of HR reporting is regarded in Spain as 'bureaucratic' and 'too much effort'. Still, there is no active resistance to reporting measures that local management does not see as beneficial. Ironically, the extensive formal reporting may lead to an information overload in Germany where managers argued that it would be preferable to gather less data but to analyse and use it more carefully. Overall, cross-national HR efficiency could be improved by more tailored communication patterns.

In contrast, local managers criticised the limited German knowledge about Spain. German management would attempt to implement alien business practices into the Iberian environment. In finance, this leads to pressure on the unit to conform to German standards – for example in terms of the expected time to recover outstanding debt – that are difficult to meet due to the distinct business customs. This lack of external responsiveness is seen to result in hostile reactions from government customers and complicates the relationship with head office.

Despite the predominant ethnocentric development of international HRM, Elektroco is capable of internationally diffusing personnel ideas and instruments originating in its foreign affiliates. An HR example for cross-border innovation is the Hay-based job design which was developed and implemented in a number of countries before Germany adopted it.

Overall, Elektroco experiences largely positive HR outcomes. However, despite the moderate HR transnationalism, the company suffers dysfunctionalities due to formal and informal control measures and unbalanced international communication patterns. The reasons may not lie simply in the degree of knowledge networking but also in the predominant form it takes. Thus, Elektroco does not have an 'ideal' balance of HR standardisation and knowledge networking that results in complete local responsiveness and global efficiency.

Would extreme Standardisation and Knowledge networking have shown better outcomes?

The company does not use fully-fledged transnational HRM that would employ high standardisation and knowledge networking. This raises the issue of whether the outcomes of more extreme transnational HRM would have been superior. The discussion benefits at this point from the caveat that it moves into the area of speculation.

Increased standardisation is likely to lead to further dysfunctional outcomes. The reasons lie in the reduced ability of foreign subsidiaries to develop specific local solutions. In the case of Elektroco, it might have been impossible to create a remuneration system that satisfies both German and Spanish objectives. Equally, it seems that increased knowledge networking without a change in the ethnocentric pattern would have worsened the dysfunctional effects of information overload in Germany. Moreover, the perceived 'bureaucracy' and the feeling of unwarranted work might have increased in Spain. In contrast, a more focussed and balance international communication that moves away from the ethnocentric pattern appears to be capable of improving the situation. This would most likely entail a shift of power since open, intensive two-way communication is facilitated by a stronger position of the foreign subsidiary. Ultimate outcomes of a redistribution of power would impact on the ability of the head office to implement global policies against local objections and increased international HR innovativeness. These effects are complex and beyond the scope of this paper. In summary, fully-fledged transnationalism does not appear likely to improve the HR outcomes. It is highly probable that they would not have achieved global efficiency, local responsiveness and world-wide innovation simultaneously.

Conclusions

A number of tentative conclusions to be drawn. First, the concept of transnational management can be operationalised using the dimensions of knowledge networking and standardisation. The proposed framework avoids key problems of the original typology of international firms. Further, since it was developed on a general basis, it may be applicable to other areas of management such as marketing. Research applying the isolated dimensions to other management functions is needed to validate whether the international framework is more generally applicable.

Second, transnational HRM may not be free of problems. The case company showed that moderate Network Co-ordinator can suffer some dysfunctional HR outcomes which would not necessarily be improved by a move to more extreme forms of standardisation and knowledge networking. In contrast to a number of authors (such as Hedlund 1994), the findings show that 'more knowledge flows are not necessarily better'.

Competitive advantage does not only come from the possession of resources but also from the way they are accumulated, managed and deployed (Sampler and Short 1998). For more precise recommendations for organisational behaviour, we need to develop a more insightful assessment of knowledge networking and its implication for the distribution of power between head offices and subsidiaries. This could start with an assessment of the benefits of innovation. Many writers assume a rational choice perspective in which innovation is selected as 'efficient' based on rationality, certainty, and goal clarity. However, with the alternative assumption of bounded rationality and the integration of the power of outside influences, the acceptance of inefficient innovation (for example due to imitation) and the rejection of efficient innovation is possible (Abrahamson 1991). Overall, organisational innovation research has been "inconclusive, inconsistent, and characterised by low levels of explanation" (Wolfe 1994:405). What is clear is that increasing information flows without consciously altering power relations may create more costs than benefits.

While we cannot propose a best approach to IHRM, we suggest that extreme forms of high or low standardisation or knowledge networking are associated with dysfunctionalities. Moderate international HR policies and practices may result in improved outcomes. This may be one reason why some British and US multinationals have recently moderated their policies with respect to international standardisation (Dickmann 1997). Much of the actual formulation and implementation of strategies, structures and processes will depend on internal factors such as business aims and political power of stakeholders. What is clear is that successful IHRM establishes a subtle balance of home, host and global forces as well as internal politics. It is due to this multiplicity of powers that no extreme position in the IHRM matrix is likely to be a 'superior' one.

An actual good balance of local, global and parent influences is likely to vary substantially from one company to another. Thus, there is no one, universally applicable, best international management type, as the transnational implies. Therefore, it is not only the exact extent of knowledge networking and standardisation that determines the success of IHRM, it is the way specific areas are internationally co-ordinated and which issues become prominent that determine the sustainability of the chosen approach. Within a rapidly changing internal and external context it is likely that international HR strategies, structures, policies and practices will have to be kept under constant review. Ultimately, it is the quality of management judgement and the seamless interaction of managers in an international network of foreign affiliates and the head office that will determine the success of a company's international HRM.

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Note that the name of the case company has consistently been exchanged with Elektroco.