



Aalto University  
School of Business

# People management in multinational organizations

26E03400, 6 ECTS



Aalto University  
School of Business

# Global integration-local responsiveness of HRM practices Session 3

**Ingmar Björkman**

[ingmar.bjorkman@aalto.fi](mailto:ingmar.bjorkman@aalto.fi)

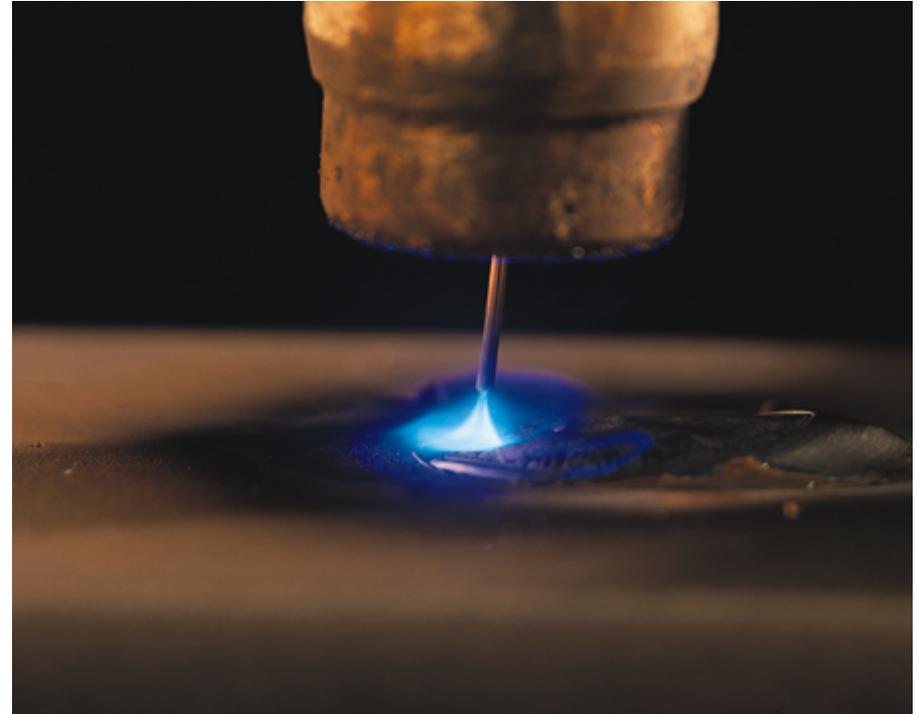
March 5, 2019





# What is Welding?

- A method of joining two pieces of material into one solid piece using high temperatures generated by a heat source
- Arc welding uses an electric arc to provide the heat for welding of ferrous and non-ferrous metals
- Arc welding **equipment** is used to generate and control the electric arc
- Arc welding **consumables** are filler metals which combine with the base metals to create a weld



# The Global Welding Market



Power Gen /  
Process  
14%



Pipeline  
3%

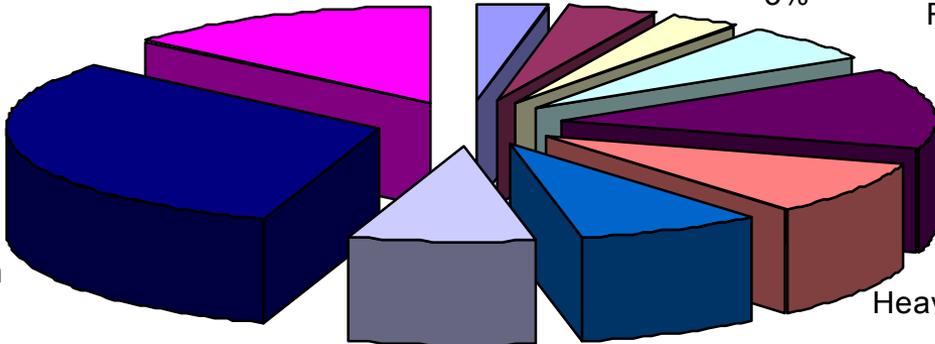


Offshore  
4%



Pipe Mill  
3%

Maintenance &  
Repair  
6%



Structural  
14%

Heavy Fabrication  
9%



General  
Fabrication  
31%

Automotive  
8%



Shipbuilding  
8%



**LINCOLN**  
**ELECTRIC**



**John C. Lincoln**

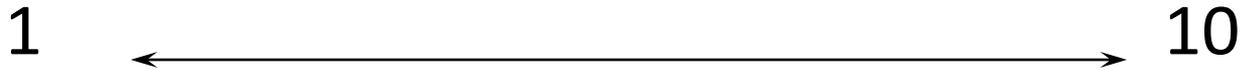


**James F. Lincoln**

- 1) How do you explain Lincoln's success in the United States? What roles does the way in which the company manages people play in its success?
- 2) Should the company introduce the reward system and other elements of how the firm operates in the United States also in China? Why/why not?

# Lincoln Electric

Is this a healthy company to work for?



*“A terrible model  
for a modern firm”*

*“A model company  
to work for”*

As an investor, would you invest in Lincoln Electric?

**Key capabilities:** Extremely High Productivity, Consistent Quality

**Strategy**

- Quality
- Value/costs

**Incentive System**

**Piecework**

- Price carefully & transparently set
- Price not easily changed
- Innovation encouraged
- Strict quality control

**Bonus**

- Broadens criteria (ideas, coop.)

**Employment Guarantee**

# Principles of Performance-based Rewards

## Expectancy theory

Strong (size, frequency), well-understood & trusted linkages between efforts -> outcome measures -> rewards (money, status, etc.)

But danger of sub-optimal efforts (lack of collaboration, knowledge sharing, etc.) if outcome measures are at a too low organizational level

→ Performance measures at individual, team, unit, etc. levels

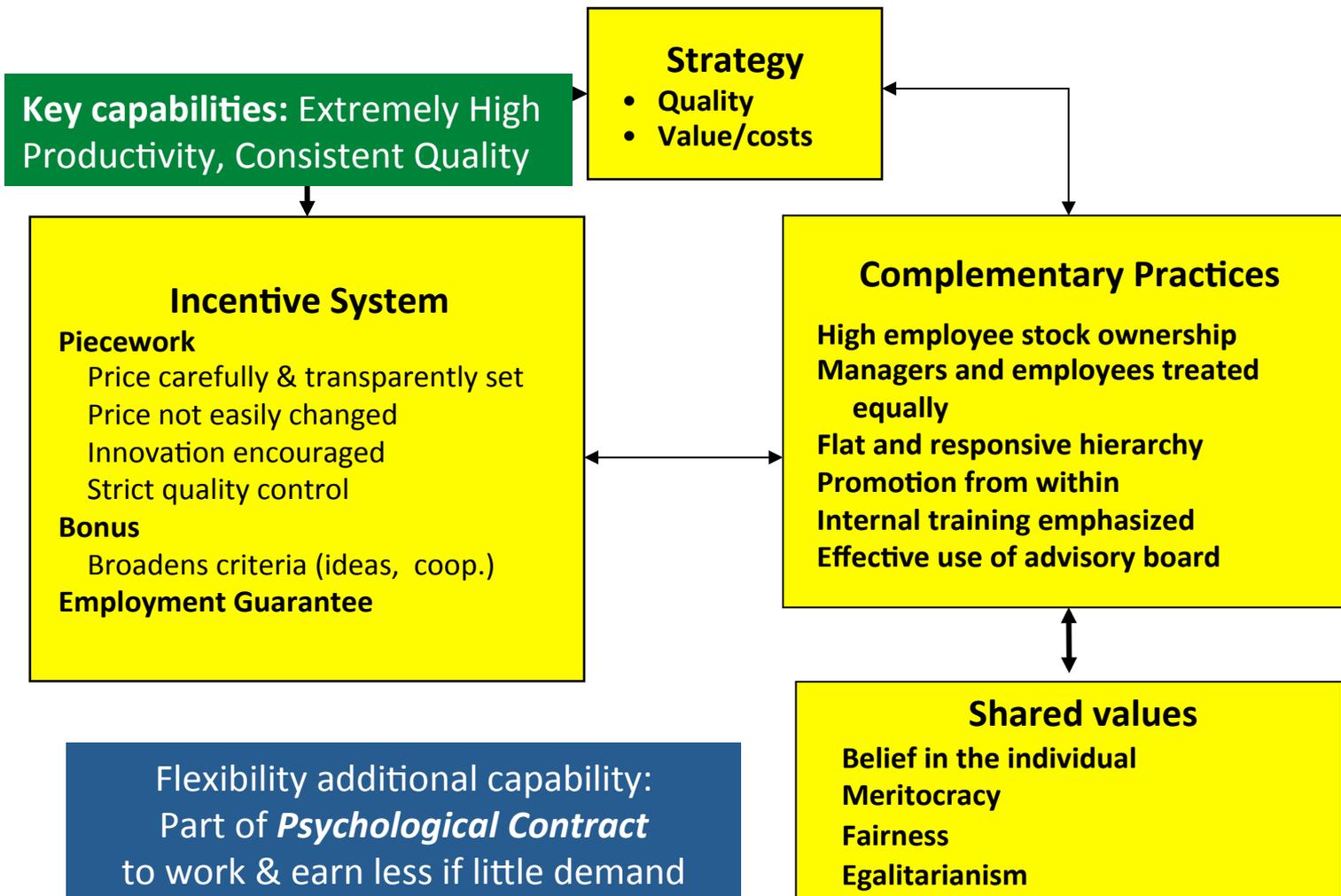
## Equity theory

The importance of internal and external comparisons

Fairness of compensation/reward (*'distributive justice'*), but also how it has been arrived at (*'procedural justice'*)

Management can influence employee perceptions of justice

+ *Introduction of aggressive systems may lead to poor performers leaving*



# The Psychological Contract

Individual perceptions of their own **obligations** towards the employer (and superior), and their **expectations** of the employer (and superior)

Built on the principle and expectancy of reciprocity, balance ("social exchange")



## The Psychological Contract (2)

Psychological contracts are subjective, unique & idiosyncratic  
Psychological contracts are built gradually, from external communication, initial meetings with the organization, etc.

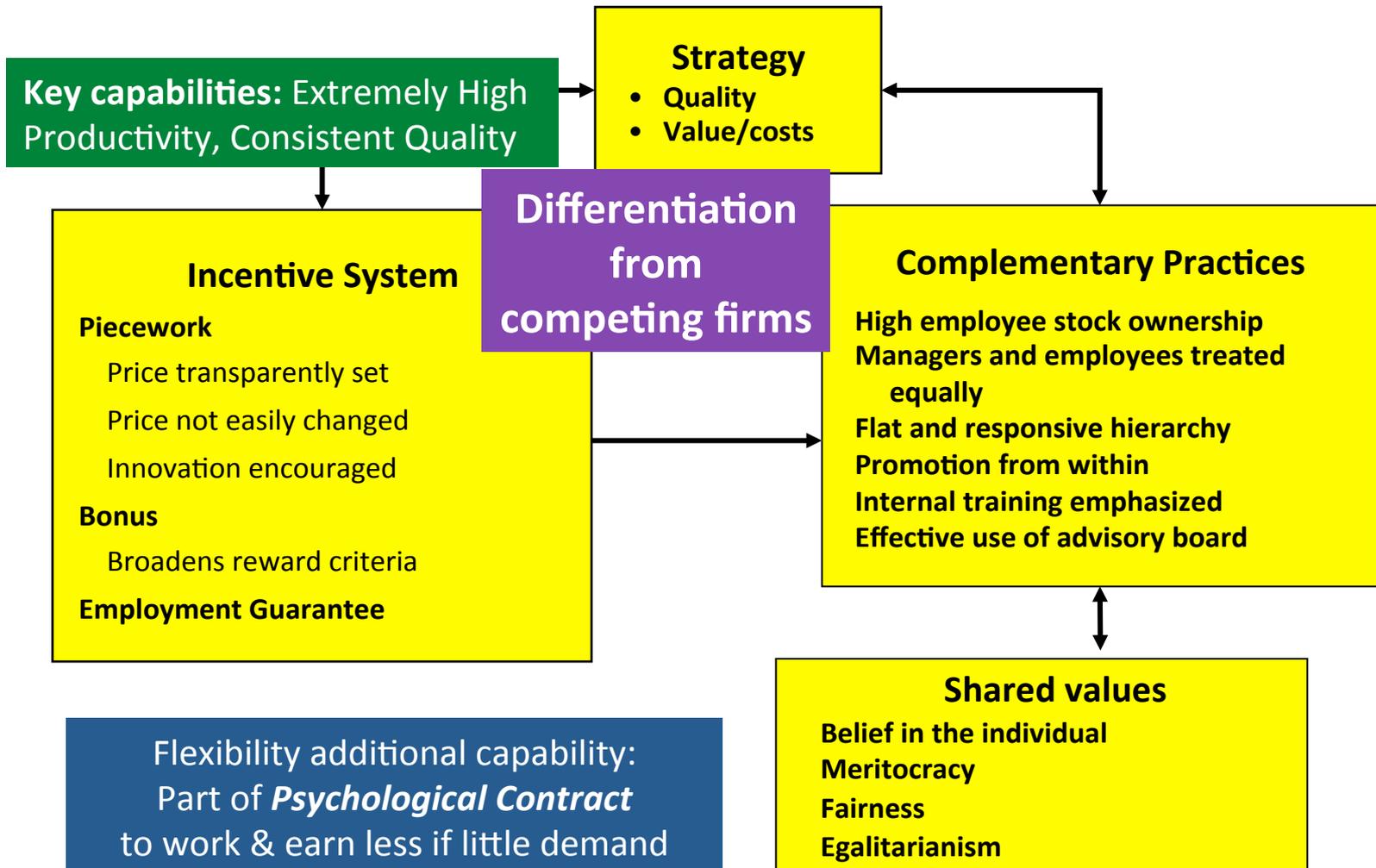
### *Why important?*

**As long as employer (and superior!) is perceived to keep its part of the "contract" => performance & engagement (through "social exchange") in line with the contract**

**BUT**

**Psychological contract violation -> lower performance & engagement**

*What is **your** psychological contract with your direct subordinates, peers, superiors?  
How does **your organization** build psychological contracts with employees?*



# 'Strategic' HRM (SHRM, Strategic People Management)

## Strategy, capabilities, people strategy

What is our business model (strategy)?  
How do we deliver value to **customers**?

What are the enabling and differentiating  
organizational **capabilities**?  
(A capability can be observed – but must be  
valuable, rare, difficult to imitate)

What kind of **people strategy** can create  
**competitive** advantage?  
[What human capital is required? What kind of  
social architecture (org. culture, social capital?)]

# Strategic HRM (People Management): Guiding Principles

- Starting point: **Internal consistency**
  - Fit across HR practices
  - Fit with other parts of the work organization
  - Consistency between HRM strategy, policies, and *actual* HR practices
- **Differentiation?**
  - *Internally* across employee groups, and
  - Across units (both nationally and internationally)
  - *Externally* from other firms
- **Balancing dualities:**
  - Too much consistency or too high degree of differentiation?

***At Lincoln?***

***In any organization?***

# The HRM Wheel

Pucik, Evans, Björkman & Morris (2017)



**LINCOLN**  
**ELECTRIC**



**John C. Lincoln**



**James F. Lincoln**

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# Lincoln's Expansion Abroad

**1988**

**Australia (1938)**

**Canada (1925)**

**France (1955)**

**United States (1895)**

**1993**

**Australia**

**Canada**

**France**

**United States**

~~**Brazil**~~

~~**Germany**~~

**Ireland**

**Italy**

~~**Japan**~~

**Mexico**

**Netherlands**

**Norway**

**Spain**

**United Kingdom**

~~**Venezuela**~~

New push into Asia in the mid-late 1990s  
– *What to do in China?*

# Developments in China

- 1998: Lincoln Electric (Shanghai) Welding Co. established
- 2000: Decision to implement piece rate system: challenges related to communication, trust building but progress seems to be good. Then, LE buys 35% of Kuang Tai Metal Industrial Co.: Kuang Tai takes control over all activities in China
- 2004: LE acquires controlling stake in 3 Kuang Tai units in China  
LE acquires stick electrode plant in Inner Mongolia
- 2005: Frank Young new head of North Asia, including China

*Should Frank introduce the incentive system and other elements of how the firm operates in the United States also in China? Why/why not?*

# Frank's choices

1. Introduces Advisory Board (though with some adaptation): important vehicle  
In hindsight: should have done so earlier, in all units
2. Introduces monthly "piece rate"-like bonus system + '13th month' bonus system

*"It is like a piece rate system. It is designed to drive people to do better. We put in the incentive system **to that extent that it was possible to do.** We **adapted** it to the circumstances – labor **laws** and **culture**..."*

*It is very important to have objective performance criteria **in China** – otherwise **personal relationships** and **power** may strongly influence the appraisals. The level of supervisor and peer evaluation in the US doesn't work as well here. It is a **cultural** issue to some extent. Here you can end up with a **system of favors**, and those who don't say the right thing to the right people may get bad assessments."*

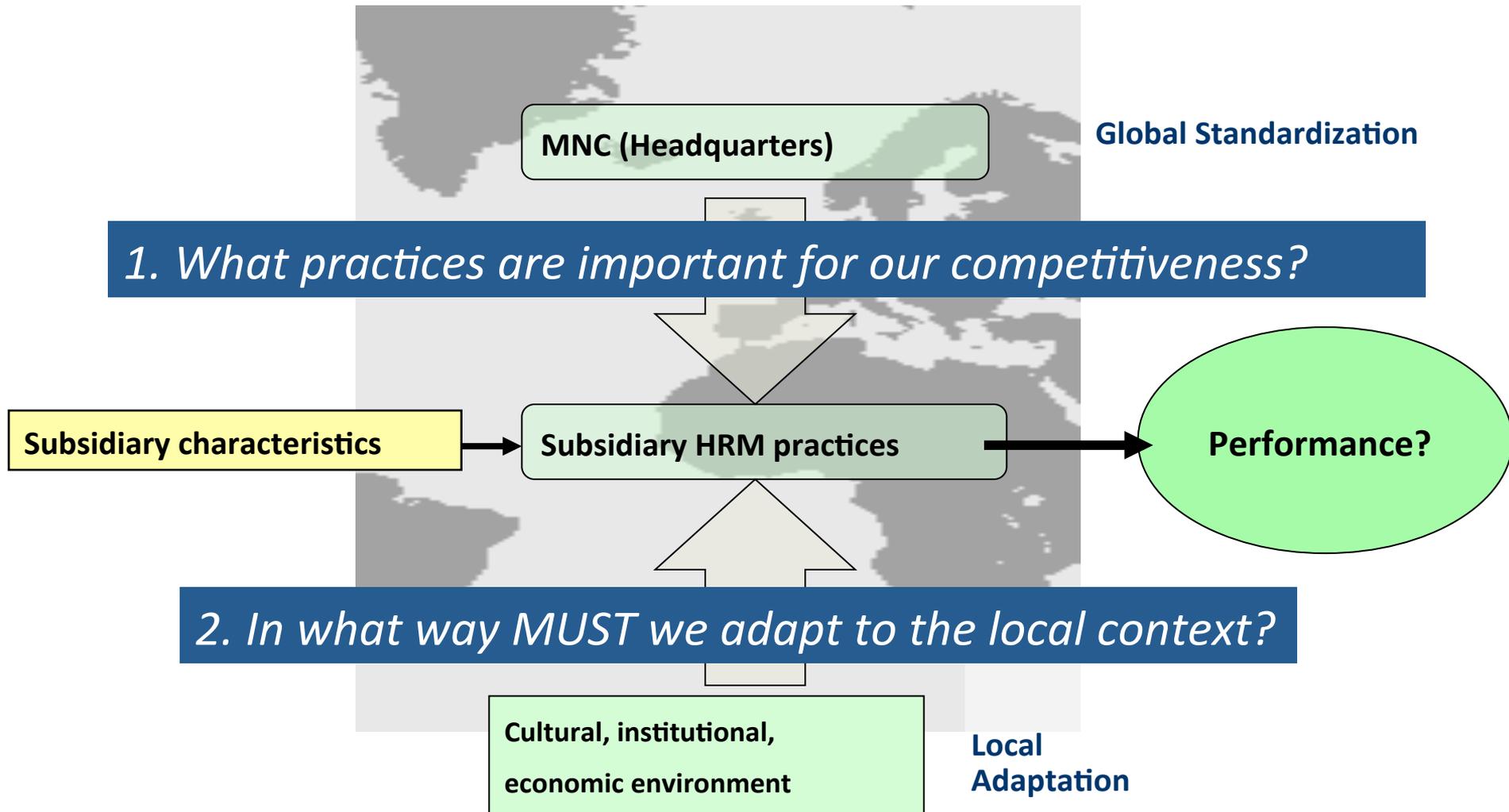
# Lincoln Electric Today?

The Company is famous for its productive and highly-skilled work force, as well as its unique compensation system, Incentive Management. The system compensates and encourages individual and team initiative and responsibility at all levels of employment within the U.S. subsidiary. Lincoln's other global operations have their own systems, where appropriate and practical. Lincoln has never experienced a work stoppage in its 100-plus year history.

- Promotion from within;
- Guaranteed Continuous Employment Plan provides covered employees with security against layoffs due to lack of work;
- Lincoln's pay-for-performance culture rewards employees for their contributions to the success and profitability of the Company. The average bonus award over the last 10 years is 40% of an employee's year to date (base earnings).



# HRM and the 'global-local dilemma'



# HRM and the 'global-local dilemma': Hamlet's question

To locally adapt and/or not adapt (globally standardize) organizational practices, that's the question

but also,

**What to re-create??** (finding a 'third' solution)

Answer requires an *in-depth* understanding of a variety of factors:

External: Cultural, Economic, Institutional (laws & norms)

Corporate: Degree of integration, perceived value of practices

Focal unit: Strategy, workforce, work organization, org. culture

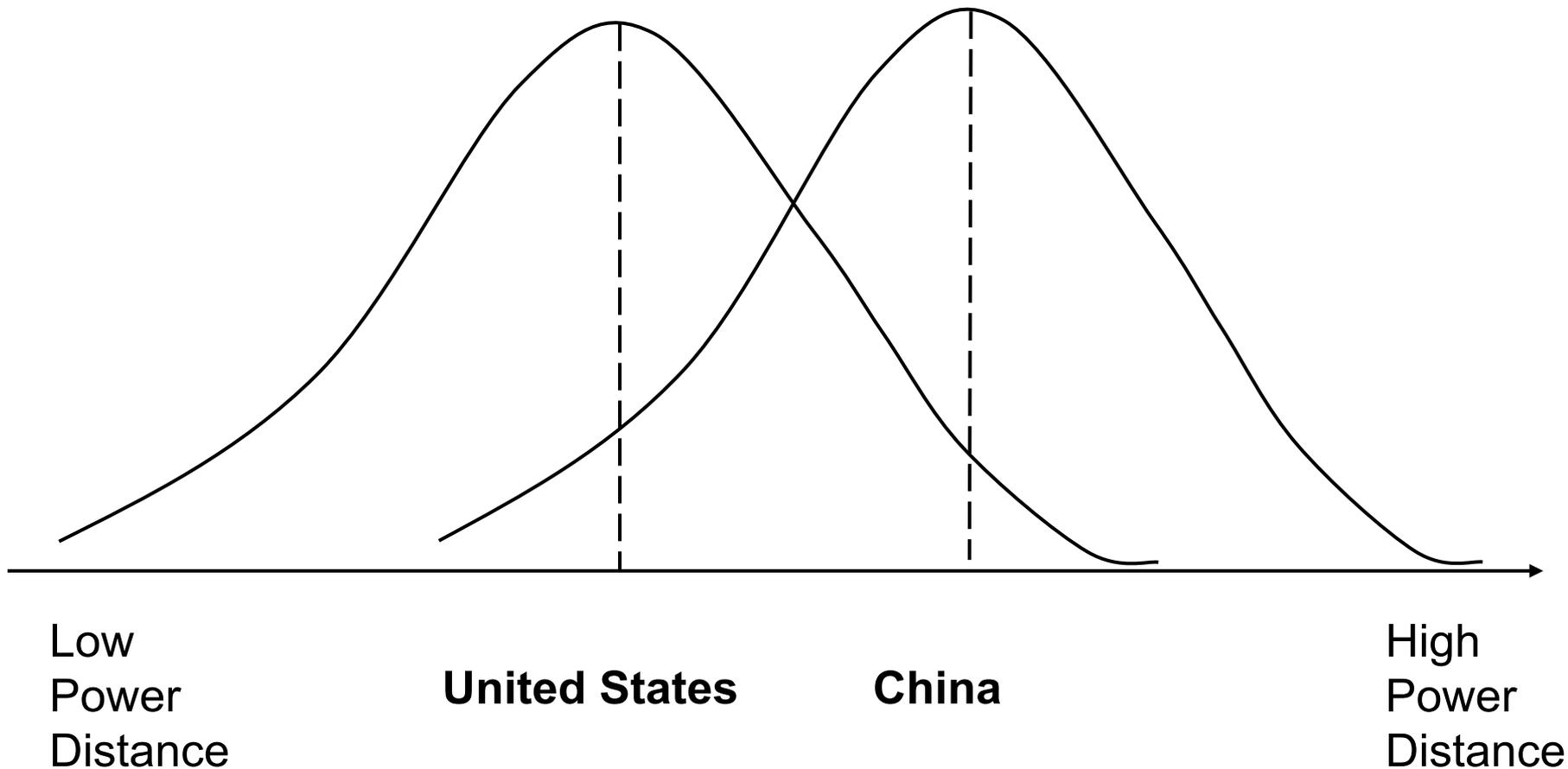
# Cross-cultural differences

*Basic questions existing everywhere,  
but answered differently in different countries:*

- ❑ Relation to Authority: Equality versus Hierarchy
- ❑ Conception of Self: Individuals versus Groups
- ❑ Conception of Societal Order: Rules versus Relationships
- ❑ What Determines Status: Achievements (*what you have done*) vs. Ascribed Status (*who you are*)
- ❑ What's Important: Past, Present, or Future?

# Culture as a “Normal Distribution”

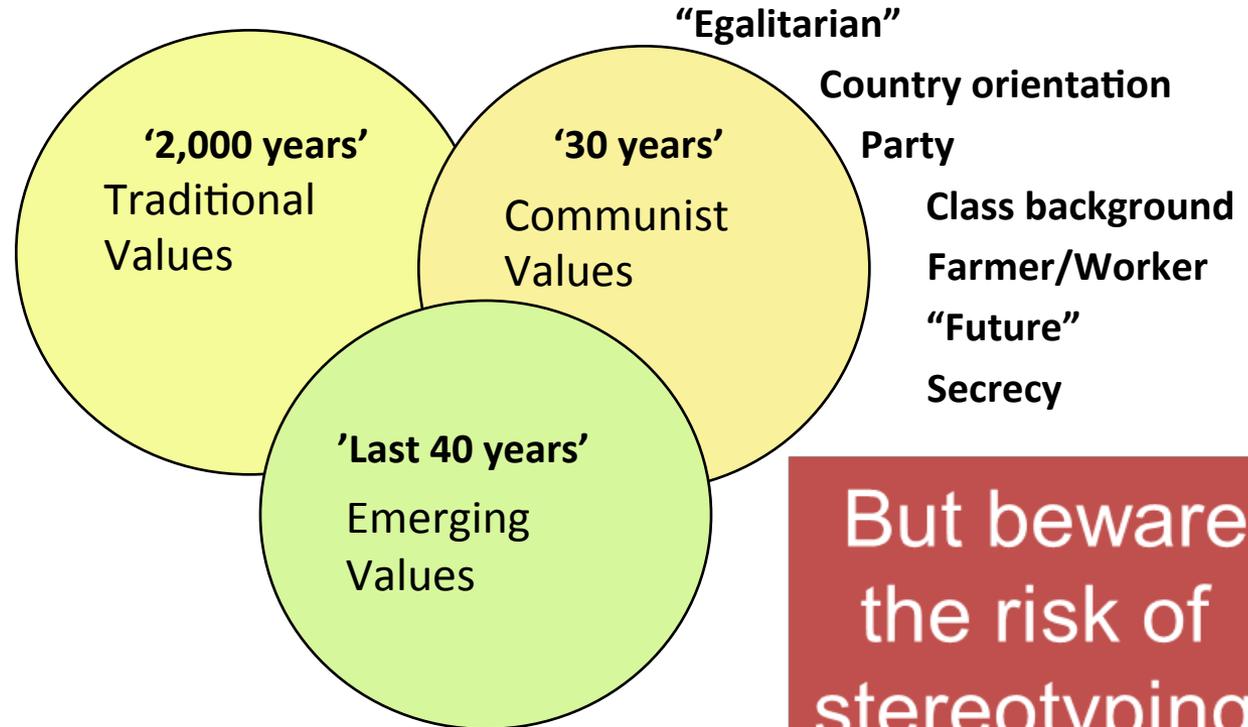
‘Power distance’ (hierarchy) among inhabitants in two countries



**→ Can we find people who “fit in?”**

# Chinese Culture in Flux

Hierarchy  
Group orientation  
Societal order: Relationship  
Ascribed status  
Hero: Scholar  
Past oriented  
Indirect (face saving)  
communication



But beware  
the risk of  
stereotyping!

Less hierarchical, Individualist-materialist, Towards 'rule by law'  
Achievements, Entrepreneur, Current oriented, More direct communication

Differences across generations, education, firms, regions..

# People Management:

## *To Adjust or Not to Adjust?*

- Arguments for a **local approach** to people management ...
  - Cultural differences (regarding authority, conception of self & collectives, societal order, etc.)
  - Institutional differences (regulations, local practices)
- ... **but a differentiated perspective is needed**
  - Some *practices* are more contextual than others
  - *Blue collar* practices may be more local than *managerial* practices
  - There are advantages to global standardization (& integration) of *some* people practices

### And remember:

There is more variation **within** a culture than there is between cultures

The importance of **selection**

Culture can often be an **alibi for resisting change**

Culture can become a catch-all for not trying to **understand complexity**

# Session 4: Organizational culture and new generation of employees

**Company visit:** Futurice, Host Santtu Seppänen

**Address:** Annankatu 34 B

## Readings:

- <https://hbr.org/2013/05/what-is-organizational-culture>
- Barney, J.B. (1986) Organizational culture: Can it be a source of sustained competitive advantage? *Academy of Management Review* 11(3), 656-665.
- Kultalahti, S. and Viitala, R. (2015). Generation Y: Challenging clients for HRM?, *Journal of Managerial Psychology*, 30(1), 101-114.