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# 2 Becoming locally responsive

## THE GLOBAL QUEST OF LINCOLN ELECTRIC

The world's leading supplier of welding products, 125-year-old Ohio-based Lincoln Electric has long been a favorite case to show how people management can contribute to sustainable business performance. Lincoln strives to motivate its employees through a unique compensation system, based on the founders' beliefs in self-reliance, competition for human progress, and trust achieved through egalitarian treatment of managers and employees. The incentive system is based on piece rates and an annual bonus linked to profits that can amount to over half of employees' income. To determine the bonus, production employees are appraised on four criteria: output, quality, dependability, and ideas/cooperation.

However, the highly visible pay-for-performance system is only one piece of the puzzle. What is important in an environment with volatile demand is the ability to transform fixed costs into variable costs. In addition to high productivity, at the core of Lincoln's successful business model is a relentless focus on asset utilization and the elasticity of its cost structure—Lincoln does everything it can to "sweat the assets" and convert fixed costs to variable costs. So, production workers are expected to reduce their working hours in economic downturns and increase them when demand is high in return for security of employment.

At home, the company had enjoyed much-acclaimed growth and prosperity, driving most of its domestic competitors out of the business. Abroad, Lincoln invested successfully in Canada (1925), Australia (1938), and France (1955), but until the late 1980s the firm still focused mostly on its domestic market. Then, in part in response to a major competitor acquiring a foothold in the US market, the firm decided on a bold strategy for internationalization. Lincoln spent the equivalent of over half of its sales on building new plants in Japan and Latin America and on 19 acquisitions in Europe and Mexico.[1] Senior executives strived to leverage Lincoln's manufacturing and people management expertise internationally, implementing its motivational and incentive system, which already worked well in France and other foreign operations. Lincoln seemed destined to dominate the global market.

The rapid international expansion turned out to be a failure. Lacking managers with international experience, the firm relied on acquired managers who were not familiar with Lincoln's culture and who wanted to maintain their autonomy. In most of Europe and Japan, where piece-rate payments are viewed with deep suspicion, Lincoln's approach was rejected. In Germany, with its 35-hour working week, employees would not agree to work nearly 50 hours when necessary as they did in the US. The tight link between sales and manufacturing—another pillar of Lincoln's success—disintegrated, and inventory ballooned. To fix the problems, Lincoln recruited senior executives with strong international track records from outside the company—a major break from the past focus on internal talent development. A new team then sold off or restructured most of its international acquisitions.

Lincoln's first failed attempt at international expansion was in part due to the difficulties of transferring people management practices abroad to different cultural and institutional contexts. When Lincoln again expanded its international operations years later, it kept the expensive lessons from its previous internationalization attempt in mind. The company relied more on joint ventures and other alliances and, when necessary, adapted its management approach to fit local conditions.[2] It also gradually built a cadre of managers with international experience and transferred them to foreign units. By the mid-2010s, the company was enjoying record sales and profits, with a third of sales from foreign operations including the acquisition of the global welding business of Air Liquide.

Lincoln's core business model of high productivity and flexibility demonstrated its resilience even during the COVID-19 pandemic—despite a sales decline of 25 percent, the company remained profitable and continued to generate a strong cash flow.[3] Yet Lincoln still struggles to transfer its differentiating capabilities abroad, and profitability from international operations continues to lag behind the superb results achieved in North America.[4]

## OVERVIEW

Becoming locally responsive involves analyzing and responding to local environments and to differentiated market needs. The story of Lincoln Electric's international expansion provides a vivid example of a firm facing this challenge, as no company can operate abroad without assessing how its business model is impacted by local conditions.

In this chapter we explore key factors influencing how firms may adapt management and people practices in diverse international markets, and what capabilities are required to do this successfully. Firms and managers must know themselves and others. We start with an examination of two major—and well-researched—sources of diversity in context: cultural diversity and institutional diversity. Learning about these (and other) sources of international diversity is key to developing local responsiveness, which is today a critical organizational capability for many multinational firms.

Because understanding and responding to local contexts is hardly possible without a strong local management team, the final part of the chapter focuses on attracting and retaining local managers. Our conclusion emphasizes the paradox that successful localization does not necessarily mean playing by the local rules.

## THE IMPORTANCE OF LOCAL RESPONSIVENESS

As we discussed in Chapter 1, a key challenge companies face as they venture abroad is how to adapt management practices that support business in one country to another context. Lincoln's troubled journey overseas shows how difficult it can be to transfer a proven business model and organizational capabilities to subsidiaries abroad. People practices underlying success at home do not necessarily travel well and can fail the test of local responsiveness.

In the broadest sense, local responsiveness represents the capacity of the firm to sense and answer the varied needs of customers and other stakeholders, and how it handles relationships with employees, local suppliers and distributors, as well as host governments. In a past era with limited cross-border communication and transport, customer preferences around the world varied greatly, and the cost and delay of shipping goods internationally offset the economies of global mass production for all but a limited range of products. For these reasons, the early champions of internationalization at the beginning of the twentieth century, such as Nestlé and Unilever, started with focus on local responsiveness—adapting to each local context, country by country. In contrast, not having products and services that fit local requirements and/or not knowing how to manage people in unfamiliar environments put companies at risk of failure when entering new markets.

### Why is local responsiveness important?

Despite public questioning of the benefits of globalization as discussed in Chapter 1—further intensified during the COVID-19 pandemic—most trade and investment barriers remain low. Continuous digitalization has reduced the challenges of geography, while the internet and travel have globalized customer preferences. Many global companies decided to focus less on local market needs, and more on optimizing their supply chain,[5] for example by leveraging differences in input cost and economies of scale.

Still, many aspects of local responsiveness remain critically relevant, and, paradoxically, in a connected world, a lack of appreciation for the local environment and culture may have global implications. Starbucks learned this lesson when it had to close its store in Beijing's Forbidden City under pressure from a local online campaign against "cultural contamination" that became global front-page news in a matter of days.[6] And "rescuing the planet" from the consequence of climate change is an empty slogan without tackling first and foremost the local environmental concerns and sustainability issues.

The COVID-19 pandemic further reinforced the need to pay attention to local context. While a coordinated global approach might have been more effective in controlling, for example, cross-border travel, the lack of a suitable governance mechanism left countries to make their own, often incompatible, rules. Even more importantly, many governments quickly stepped in to establish control over critical medical materials, disrupting established supply chains, and exposing the fallacy of "seamless" global markets. And with international tensions on the rise, countries or regional blocs do not hesitate to take actions in their own immediate interests. Even in a global era, the concept of distance and its different dimensions—cultural, institutional, political, and economic—remains important, with implications for international business.[7]

From the multinational firm's point of view, some regions and markets are more distant than others.[8] Early research on internationalization provided some evidence that firms moving step-by-step to culturally distant countries, after establishing a presence in more proximate countries, are more successful than those that expanded by directly entering distant markets.[9]

Given such findings, decision-makers must pay attention not only to market opportunities but also to ease of entry in terms of social, cultural, and institutional factors, especially with respect to their impact on human resources.

With IT advances lowering the cost of centralized control, the tendency in many companies today is to reduce subsidiary autonomy—headquarters may believe that it has all the information necessary to make what before were local decisions. However, data does not always mean knowledge, and data centralization does not always solve the critical issue of how to enable responsiveness by tapping into local understanding. Products may be global, but to sell well, they must take into consideration local preferences. Consider the rapidly growing global video game business: with ever increasing production costs, reaching a global audience is critical, so most games are available for download (often for free) in a generic format to gamers around the world—but a skillful local "culturization" of selected features (the add-ons gamers buy) is the key to successful monetization.

In summary, there are a number of reasons why local responsiveness remains important—see some of the market, organizational, and political considerations in the box on "Business advantages of local responsiveness"). Some are related to the benefits of local presence while others concern the benefits of doing things differently from at home, although the two dimensions are often related.

### BUSINESS ADVANTAGES OF LOCAL RESPONSIVENESS

**Customer preferences.** Consumer products companies such as Colgate or Danone have always tended to respond to local preferences. But even businesses with a global recipe strive to modify their offerings to local expectations. Local dining habits forced both Disney's theme park in Paris and McDonald's European franchises to abandon no-alcohol policies applied in the home market. And Netflix's growth in Asia is driven by availability of local content.[10]

**Local alternatives.** Competition from local products or services with different price/performance characteristics may lead a company to local adaptation. Nestlé varies its infant cereal recipes according to local raw materials; in Europe they are made with wheat, in Latin America with maize and sorghum, and in Asia with soy. Whirlpool introduced a locally manufactured brand of appliances in Eastern Europe to compete against low-priced models.

**Markets and distribution.** National differences in market structure and distribution channels can have repercussions on expected speed of delivery, pricing, product positioning or design, promotion, and advertising. For example, the distribution infrastructure in the countryside of India may require adjustments to "global" product design or packaging to cope with the challenges of dust, heat, or bumpy roads.

**Industry characteristics.** In certain businesses, having local presence is a necessity for the firm to enter. For Lincoln, welding consumables are a big part of the market, but they must be made locally. Cement companies, from global giants such as Lafarge and CEMEX to new players such as Dangote (from West Africa), all engage heavily in local production because the shipping and tariff costs neutralize any cost advantages of importing construction material.

**Host government regulations.** Host government concerns—for national development or to protect the environment—may force a business to be locally responsive. Chemical firms must build close relationships with local authorities to be authorized to operate. Local content requirements can force a firm into development partnerships with suppliers. Retail practices that are standard in the US, such as opening 24/7, are not allowed in many EU countries.

**Access to skilled and/or low-cost talent.** As discussed further in Chapter 6, Western firms, driven by the desire to tap into talent pools with skills in science and engineering, have built relationships with schools and universities in Asian markets to secure access to local talent.[11] At the same time, Chinese and Indian multinationals are also expanding their R&D networks abroad, forging linkages with Western educational and research institutions.

In the process of "rediscovering" the value of local responsiveness, our understanding of it has also changed. The term "local" used to imply "national", whereas today it means "differentiated". Nations remain important drivers of differentiated market needs, but they are by no means the only ones. In fact, "local" can be viewed as reflecting any market that is distinct from others. Even Coca-Cola, which for most of its existence constituted the archetype of a firm pursuing a one world/one market strategy, felt the need to "rediscover" its own multi-local heritage, triggered by the slow responsiveness of the global headquarters to changing local market expectations.[12] Also, becoming locally responsive is not always a question of choice; companies often do not have other options when government bodies require companies to implement local (country, regional or community) rules.

## The multidomestic firm

Companies that focus on responding to local conditions take a *multidomestic* approach to international growth. At the core of the multidomestic approach is the argument that the capability of responding in a locally appropriate way helps to overcome the "liability of foreignness" that firms may suffer from when entering new markets.[13] This liability comes in part because foreign companies do not understand the local culture and institutions, and, therefore, do not know how to manage in the unfamiliar environment.

A multidomestic approach to international growth was favored when most companies had their own units in most markets, headed by country managers with a high degree of autonomy. Today, competing locally is sometimes presented as old-fashioned—a model not cut out for the rapidly changing "flat world". Indeed, during recent years, many multinationals have reduced the number of national subsidiaries and/or narrowed the scope of what earlier were fully-fledged organizational units to focus mainly on sales and distribution.[14]

Frequently, responsibility for country-level service activities has been moved to regional "headquarters" units.[15] However, local context (customer preferences, market structure, government rules) still heavily impacts business models in many market sectors, such as food retail (consumer preferences), energy (joint ventures with local champions), and accounting and legal services (regulation).[16] In all these businesses, an awareness of the need for understanding the local context and operational semi-independence is still critical, so that building the relevant local implementation capabilities is indispensable (see the box titled "Ladybug on the prowl").

### LADYBUG ON THE PROWL

Poland is the fifth largest country in the EU, so it is natural that its retail food market is of great interest to global players. So, who is the market leader? Carrefour, Tesco, Aldi or perhaps Walmart? It is a company from Portugal—Jeronymo Martins (JMT), who owns Biedronka (Ladybug), the supermarket chain that it acquired in 1995 (with 200 stores), and with its "everyday low price" strategy expanded to over 3000 sites today.[17]

JMT entered Poland (and Brazil) in 1995 looking for an opportunity to diversify risk outside of Portugal and leverage its experience in the wholesale food business. On the retail side, its only exposure was a domestic joint venture with the global retail chain Ahold. Seeing the challenge of running large-scale stores in a low-to-mid-income environment, JMT embraced an alternative model which it believed better suited Polish conditions: smaller stores in smaller cities, and local sourcing for customers needing necessities rather than a wide range of choices. However, in Brazil, despite the expected cultural proximity with Portugal, JMT could not find a winning formula and pulled out in 2002.

As the Polish economy developed, Biedronka's strategy evolved. It upgraded its supply chain, now offering "top (local) value for money" products, and aggressively moving to Warsaw and other larger cities. While in other markets, local authorities may bemoan that customers are abandoning downtowns for large shopping centers in the suburbs, the Warsaw city planners fret about "biedronkanization" of the city center—with Biedronka stores in every other corner.

Despite being foreign-owned, the Biedronka brand has become synonymous with Polish food, and copycat stores catering to the Polish diaspora are now emerging in the UK and the US – perhaps the best evidence that the JMT strategy of local responsiveness has succeeded.

## Roadblocks in transferring people management practices abroad

Biedronka's success stands out in a business sector where profitable cross-border ventures are rare.[18] Perhaps JMT's experience as a partner of Ahold at home taught its executives the wisdom of listening to the locals—especially when JMT's capabilities were in the upstream (wholesale) side of food business, so it had no model (for example of how to manage staff) on the shelf to impose on its Polish subsidiary. However, successful companies, particularly those that have operated unchallenged for long periods of time in home markets, sometimes adopt a universalist approach to people management when they expand internationally. They find out the hard way that some degree of local adaptation is necessary—which can in turn compromise the consistency of people management practices with other elements of the business model.

In contrast to the JMT experience, the failure to make sensible adaptations to different environments may be costly, as the Lincoln case shows. Even though Lincoln's work practices were introduced without much adjustment abroad, local managers often disagreed with the appropriateness of (for example) worker consultation or autonomy over working hours. At the same time, local employees and unions rejected other practices, and in some countries the proposed practices were simply illegal. The tension between internal consistency and external differentiation (two of the guiding principles introduced in the People Management Wheel) implied in local responsiveness could not be more pronounced.

Lincoln's mistake was not that it tried to "export" its unique approach to people management. When firms go abroad it makes sense to build on what helps the company to be successful at home. However, Lincoln may have misjudged how different its management approach was from norms in other countries and regions, and how difficult it was to change the behavior of managers and employees who had no experience of the Lincoln Way.

Another obstacle facing Lincoln comes from the holistic nature of its people management system. At Lincoln Electric's home US operations, the different people management practices, the organizational culture, and the social relationships and trust between workers and the leadership of the firms all fit together. To refer to one of the guiding principles in the People Management Wheel, internal consistency is strong. For instance, without the trust between employees and top management that had evolved over decades in the US operations, Lincoln's capabilities could easily fall apart. When the disastrous foreign expansion led to large losses in the 1990s, Lincoln borrowed money to pay bonuses earned by its US workers since these generous bonuses were a part of the psychological contract between the workforce and the company.[19] Such trust must be earned, it cannot be transferred.[20]

Lincoln may be perceived by some as an "old-world, rust belt" company, so perhaps it was no surprise that it stumbled badly in its initial attempt to go global. However, the difficulties experienced by the "millennial" Uber in transferring its business model abroad highlighted similar challenges; people management issues such as employment status and driver's pay structure were very much at the core of its problems.[21] Therefore, together with the business arguments for responsiveness, there are often equally compelling arguments for taking a local orientation in people management.

Because people management is context-specific, one response is to leave people practices entirely to the local subsidiaries with a mandate to adapt—an approach that might be characterized as "When in Rome..." Yet, this is too simplistic. If people management is viewed as the basis of the competitiveness of the firm, the answer cannot be "copy what others are doing". Therefore, adjusting people practices to the local context should not be framed as a Hamlet choice: *to adjust or not to adjust.* Rather, the challenge is to determine *what* needs to be locally adapted, held uniform across the whole organization, or perhaps completely reinvented to allow for both cohesion and flexibility.

Further, people management is not a monolithic domain; some people practices are more contextually bound than others. Research on foreign companies in China shows significant differences in the degree of localization of recruitment, training, compensation, performance appraisal, and promotion criteria.[22] Also, pay practices designed for rank-and-file employees may need to correspond more to local norms than practices affecting executives.[23]

Nonetheless, of all the management domains, people management is generally seen as the most sensitive to local influence.[24] Cultural differences (articulated or hidden) are one reason, but by no means the only one. National regulatory pressures are equally if not more important—on workplace representation, employee participation, fiscal incentives for training, acceptable practice when hiring and firing, working hours, and so on. Differences in the institutional environment add to the complexity companies may encounter. Therefore, appreciating context remains an essential foundation of global people management.

## APPRECIATING LOCAL CONTEXT

To capitalize on the advantages of responsiveness, and to avoid roadblocks when transferring practices, companies must respond to diversity across countries. In this section, we focus on the sources of diversity across countries and how firms learn to respond to contextual differences in the way they manage people. We present and discuss two perspectives that focus respectively on the differences between the cultural context in which the parent company and its local subsidiary are embedded (know yourself and others), and on the institutional configuration of the respective environments (know where you are).

### Know yourself and others: the cultural perspective

The cultural perspective rests on a premise that national culture—the set of shared norms, values, assumptions, traditions, and practices that exist within a society[25]—exerts a powerful influence on individual and organizational behavior. Members of a society internalize certain values, beliefs, and behavioral norms that become taken for granted. This perspective holds culture as a core factor that influences and, thus, differentiates management practices across societies.

Scholars and managers using this perspective typically focus on how the local culture influences the management practices of foreign firms in the country. But the starting point for sensible local responsiveness is recognizing that the parent organization is embedded in the societal culture of its home country. This cultural embeddedness may affect its international strategy, how the multinational controls and coordinates its foreign units, and the parent company executives' views about effective people management practices. Simply put, before you try to understand other people as well as the practices and strategies that may be effective abroad, you had better understand yourself.

Culture is a multi-faceted concept, operating at different levels,[26] and there are multiple cultural spheres (societal, organizational, and others) that interact in complex ways to exert their influence on business practices and organizational behavior. In this chapter we will focus on societal culture, postponing discussion of organizational culture to Chapter 5.

Research on societal culture has a long history in the fields of anthropology, psychology and sociology; its use in international management studies also goes back half a century. The most salient approaches to the use of culture in the international management domain can be broadly categorized into two camps: (1) the dimensional approach that uses universal models to explain differences in management practices and organizational outcomes across countries; and (2) the "distance" approach that includes the use of cultural, institutional, psychological, and other types of distance to explain differences in management practices across countries.[27]

#### Mapping cultural differences: dimensional approaches to understanding culture

The most influential body of literature concerning values in international business relates to cultural differences between countries. Its foundation is Hofstede's landmark book *Culture's Consequences*, published more than 40 years ago, which describes research grounded in one of the largest databases about workplace values ever analyzed—attitude surveys of 116 000 IBM employees in 53 countries.[28] The study showed that despite IBM's strong integrative culture, national culture played an important role in differentiating work values.

Hofstede identified four "universal" dimensions along which cultures could be compared: individualism/collectivism, power distance, masculinity/femininity, and uncertainty avoidance. Hofstede argued that these dimensions influence the way in which organizations are structured and managed.[29] His quantitative measures of culture gave birth to the notion of "cultural distance" between countries, influencing other fields of international business research. As a result of his collaboration with scholars from different parts of the world and drawing on new data sets, Hofstede later added two other dimensions, "Confucian dynamism" or short- versus long-term orientation,[30] and "indulgence versus restraint", which captures the extent to which people gratify or control their basic human desires in their pursuit of goals.[31]

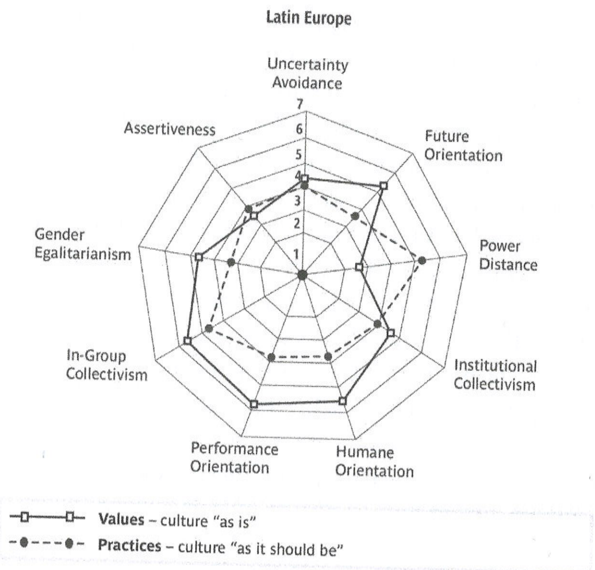
Following a similar line of inquiry, Trompenaars and Hampden-Turner mapped out the importance of opposing values, such as achievement versus ascription, and universalism versus particularism.[32] They identify seven cultural "tensions" (see Table 2.1) that they believe companies and managers should be aware of, since these could influence the transferability of management practices across borders.

**Table 2.1** Seven tensions of cultures

1. **Universalism versus particularism:** When no code, rule, or law seems to cover an exceptional case, should the most relevant rule be imposed, or should the case be considered on its merits?
2. **Analyzing versus integrating:** Are managers more effective when they break up a problem or situation into parts or integrate the parts into a whole?
3. **Individualism versus communitarianism:** When people reach decisions or make choices, should they consider their own best interests, or should they base their choices on the considerations of the wider team, organization, or community to which they belong?
4. **Inner-directed versus outer-directed:** Should managers be guided by internal standards, or should they be flexible and adjust to external signals, demands, and trends?
5. **Sequential versus synchronic view of time:** Should managers get things done as quickly as possible, regardless of the negative impact that their actions may have on others, or should they synchronize efforts so that completion is coordinated, and the negative impact minimized?
6. **Achieved versus ascribed status:** Should individuals be judged primarily or solely by their achievements, or by their status, as reflected in age, length of service, or other ascriptions?
7. **Equality versus hierarchy:** Should subordinates be treated as equals and allowed to exercise discretion in decision-making, or should relationships be delimited by hierarchy?

*Source:* Adapted from Hampden-Turner and Trompenaars (2000).

In a third commonly cited approach, a multinational team of researchers, with an acronym GLOBE, conducted another large-scale study of cultural differences, based on data from over 17 000 managers in 62 societies.[33] Partly overlapping with Hofstede's conceptualization of cultural dimensions, but measuring both cultural practices ("culture as is") and cultural values ("culture as it should be"), the GLOBE project identified nine cultural dimensions along which societies and societal clusters can be compared.[34] Figure 2.1 shows the cultural profiles—both practices and values—for the Latin European cluster, which comprises Italy, Spain, Portugal, France, the French-speaking part of Switzerland, and Israel (see Figure 2.1).[35]




*Source:* Adapted from Jesuino (2002).

**Figure 2.1** Dimensions of culture in the Latin Europe cluster

As can be seen, the societal practices in this cluster are characterized by high power distance and relatively high in-group collectivism, and relatively low gender egalitarianism and future orientation. However, comparing the societal practices and values scores, managers seem to dramatically prefer lower power distance along with significantly higher performance orientation, humane orientation, future orientation, and gender egalitarianism.[36] Such differences between cultural values and practices can be a major driver of societal change.

However, while the cluster scores reflect an overall picture, they mask potential country differences. A closer inspection of the GLOBE country scores shows that Italy, Portugal, and Spain form a culturally homogeneous sub-cluster, which can be contrasted with the sub-cluster of France and French-speaking parts of Switzerland, while Israel exhibits a more distinct cultural profile.[37] Such differences between societies within a cluster, although relatively minor, can be explained by historical, social, and economic factors.

The GLOBE dimensions, like differences around power distance, performance orientation, and assertiveness, allow us to understand the problems of interpersonal relations, teamwork,



and leadership across cultures. For instance, when there is a conflict or a problem that arouses strong feelings, people from some cultures (Israel and the Netherlands, for example) will tend to be direct and assertive in confronting what they see as the issue; others will find this distressingly aggressive to the point of loss of face (Japan and China). Indeed, these differences in communication style can cause irritations and conflicts in intercultural settings—even more so when people share the same mother tongue.[38]

As the American anthropologist Edward T. Hall argued, cultures vary in terms of their favored communication style—see the box titled "Low context – high context cultures".[39] Such differences in communication styles can lead to misunderstandings—in the worst case with catastrophic consequences.[40]

## LOW CONTEXT - HIGH CONTEXT CULTURES

In low-context cultures, messages are expected to be clear and direct, or explicit so people understand them without knowing the context or having to read between the lines. In high-context cultures, communication is highly dependent on the circumstances, and much is communicated in what is not said. People do not rely on language alone; tone of voice, timing, facial expression, and body language are additional means of communication.

Countries can be classified along a continuum from high to low context. In low-context cultures such as the Netherlands, Germany, or the US, words like "yes" have a clear meaning, indicating assent. But in "high context" cultures like Japan, where people rely more on subtle cues and non-verbal communication behavior, overly direct communication creates embarrassment and discomfort. For this reason, the Japanese have at least sixteen ways to say 'no', including silence, apologizing, saying 'yes, but…', or delaying the answer.[41]

As all the research suggests, differences in hierarchic orientation, assertiveness, and communication style from one culture to another affect the extent to which people feel free to challenge those in positions of authority. Without such understanding, cultural differences can be a source of friction and conflict.[42]

### Does cultural distance matter?

The question of how cultural differences and other types of distance influence managerial decisions and business outcomes is also important.[43] Coordinating the activities of companies or units that are dispersed across countries and regions requires dealing with geographic distance, time zones, international borders, and language barriers. Beyond this, multinational firms must also overcome the myriad differences in institutional, economic, and cultural environments. While temporal and geographic distances are absolute and indisputable, and institutional and administrative differences are codified in laws and regulations, cultural differences often operate at a subconscious level, with sometimes unrecognizable effects. At the same time, differences in ethnicity and culture are often a source of xenophobic biases, stereotyping and discrimination, so the effects of cultural distance on international business outcomes may be pervasive.

In their study on the effect of national culture on the choice of entry mode, Kogut and Singh introduced the concept of cultural distance.[44] They also launched a stream of research that was to become *the* dominant culture-related lens in international business and global strategy research for the next thirty years. They developed a mathematical formula for calculating the cultural distance between any two countries using national scores contained in Hofstede's four original cultural dimensions.[45]

Recently, research based on the Kogut and Singh index and other cultural distance measures has come under intense scrutiny and re-evaluation.[46] Scholars have pointed out that research on cultural distance suffers from the "illusion of symmetry", that is, the erroneous assumption that the cultural distance from country A toward country B is identical to the distance from country B toward A.[47] Also, the cultural distance concept, by its very definition, emphasizes the difficulties, costs, and risks associated with conducting business across borders. Although there is little doubt that cultural distance can make cross-national collaboration and transfer of practices more difficult, there is also evidence that cultural differences can be a driver of synergy, innovation and learning, and, thus, a source of competitive advantage. For example, in Renault-Nissan's automotive alliance, the collaboration and mutual learning of French and Japanese engineers led to better quality and lower cost for the final product.[48] We will return to this topic when discussing global teams in Chapter 9, knowledge creation in Chapter 12, and post-merger integration in Chapter 13.

## The cultural context of people management theories

Building on the assumption that cultural values condition organizational practices, Hofstede argued that the motivation theories dominating management thinking reflect American cultural values, especially individualism.[49] They stress achievement and self-actualization as the ultimate human needs, assumptions that may not hold true in other cultures.

Indeed, one can tease out some of the cultural assumptions underpinning standard people management practices, from selection and onboarding to performance management.[50] For example, some of the underlying assumptions around performance management have resonance in the US—the idea that goals can be set and reached (assuming control over the environment) and that objectives may be given a 6- to 12-month time frame (assuming that time can be managed). Managers and subordinates are expected to engage in a two-way dialogue to agree what must be done, by when, and how. Again, this assumes that power differences allow this to happen—that employees have the right to input in determining their goals and that they are eager to take responsibility.

Does performance mean the same thing to everyone? Is there an objective best approach to performance management? In the US-influenced rhetoric, performance management begins with a focus on individual results.[51] Individual appraisal is crucial for linking results to pay. However, contrast this with the Japanese concept of performance management. Toyota focuses on kaizen, or continuous improvement, steered by collective action.[52] Japanese management efforts are directed at supporting and stimulating the efforts of subordinates to improve the processes that generate results, and the time horizon for improvement is longer than typically found in the US. Appraisal focuses on employee skills and efforts (discipline, collaboration, and involvement) that lead to continuous improvement, rather than on short-term results.

In summary, proponents of the cultural perspective often assert that the development of HRM theories is based on a set of assumptions that are deeply embedded in one culture—the US, where many of the most influential HR scholars and consulting firms are based. This limits the applicability of this template to other cultures. The ultimate expression of this perspective is the memorable and vivid description of HRM as "a contemporary manifestation of the American Dream".[53]

## Should companies adjust people management practices to the local culture?

Companies should clearly be aware of the extent to which the home country cultural context influences its approach to people management. However, to what extent should the cultural environment of a subsidiary abroad influence its people management practices? Conventional wisdom suggests that national culture matters a great deal. Although we agree that cultural issues are of significance for people management, we also believe that it is important to critically examine the assertion that multinationals must adapt to the local national culture.[54]

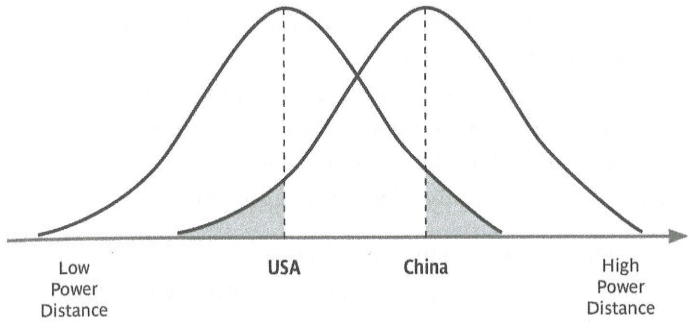



**Figure 2.2** Distribution of individual values in two cultures

- First, the within-country differences in values turn out to be substantially larger than the differences between countries. Studies show that the passport explains less than 5 percent of the within-country variance between individuals.[55] Contributing to this intracultural diversity are increased cross-border travel and migration, a growing number of individuals who have a multicultural background, and the fact that in many cases national borders are not aligned with ethnic boundaries.[56] Studies also point to the considerable overlap in values of individuals that can be found even between countries that are culturally distant (see Figure 2.2 for a graphic illustration of this).[57]

  These findings imply that companies can try to select people in a particular culture who fit with the values of their organization rather than with the typical values of the host nation. For example, in France, Lincoln Electric has been able recruit individuals whose values fit well with Lincoln's famous performance-based compensation system. In fact, Lincoln has successfully operated in France since 1955 with a people management system that is more like the one at its Cleveland plant in the US than those found in local French organizations.[58]

- Another assumption behind the cultural argument is that a misfit between national culture and management practice will reduce effectiveness. Indeed, there are numerous stories that show the risk of implementing alien people practices in overseas units. For example, providing public performance feedback may cause problems in cultures where maintaining face is extremely important. However, there are also examples of foreign and, indeed, local firms that have successfully introduced people practices at odds with local values and practices. In Chapter 7 we discuss the case of consumer appliance manufacturer Haier, whose fully transparent performance management system has become famous in China; while controversial, it has helped attract ambitious and self-confident employees.
- While the cultural fit argument would lead us to expect that HR managers of different nationalities would have different views about the effectiveness of people management practices, in fact they largely agree on which practices contribute to enhanced firm performance.[59] For instance, HR managers in China, Europe, Japan and the US rate the effectiveness of pay for performance systems almost identically.[60]
- Local managers often use culture as an alibi not to introduce change, protecting local fiefdoms against interference from the head office. Because culture is impenetrable, it is difficult to argue against these explanations. When the local manager in Thailand tells the head office that "confronting poor performers is not possible here for face saving reasons", there is some truth in the excuse—but it is also an exaggeration. Often, it is the approach, rather than the objective that must be altered.

In conclusion, while many people management concepts are heavily culture-bound—be it in the US (performance feedback and pay), in Japan (team-based problem solving), or in the Nordics (work conditions and work–life balance)—and they may have limited applicability in other countries, other studies indicated that good practices travel well and, in the digital era, increasingly fast.[61] Academic research and practical experience show that multinational firms have considerable leeway when deciding which people management practices to implement overseas (see the box titled "A commentary on the cultural perspective"). However, for companies trying to adapt their people management strategies to local needs, it is not enough to focus on cultural values. The cultural lens needs to be supplemented by consideration of institutional factors.

### A COMMENTARY ON THE CULTURAL PERSPECTIVE

The cultural differences argument holds intuitive appeal for international managers. It provides plausible interpretations for the many difficulties of working with people from different countries. For example, a compelling case can be made for the importance of the cultural perspective in understanding different attitudes toward authority, teamwork, and conflict resolution.[62] However, there are two important caveats. The first concerns the need to avoid stereotyping, while the second is related to the fact that culture is not static but fluid and constantly changing.

As discussed above, the cultural perspective tends to overemphasize value differences and neglect the fact that the cultural traits found in a particular country represent only a central tendency. While cultural distance can be a barrier to effective cross-cultural interaction, another substantial barrier is outsiders' lack of comprehension about diversity *within* a given culture. A potential danger of relying on cultural studies (like those of Hofstede, Trompenaars, and the GLOBE team) is that they create a notion of what ALL people from a certain country are like. While we now try to avoid stereotyping gender and race, we need to tackle culture in the same way.

A further reason for caution is that cultural stereotypes are mostly rooted in historical beliefs about people from other countries, and while national cultures seem to change slowly, cultural values and practices do co-evolve as societies transform themselves. Chinese society is a case in point. While China has traditionally been a high-power distance country,[63] characterized by high in-group collectivism, young urban Chinese exhibit a considerably higher degree of individualism and a more modest level of power distance. They are also more assertive than the previous generation. Human resource practices that were aligned with traditional Chinese values 20 years ago may not be suitable in China today. In fact, the World Value Survey that tracked attitudes and values in 81 societies over more than two decades found evidence of a "massive cultural change" even within this relatively brief period.[64]

More recently, a longitudinal meta-analysis of Hofstede's dimensions uncovered dramatic shifts in cultural values when compared with the original data reported in *Culture's Consequences*.[65] Looking at three decades of research (1980s to 2000s), the authors found that, for example, South Korea, one of the lowest scoring countries on individualism (i.e., a score of 18) in Hofstede's (1980) original study had a score of 61 in 2000, one of the biggest shifts in the entire dataset. Conversely, the US had moved from being the highest scoring country in the world on individualism (i.e., 91) to roughly the same level as South Korea (i.e., 60).

When cultural values change, so do consequences.

## Know where you are: the institutional perspective

Management has some discretion in whether to adapt to cultural differences but less so to institutional differences between countries.[66] As noted earlier, working practices that are acceptable under some conditions in one country (like working a 50-hour week in the US), may be questionable in another country, and illegal in a third (as would be the case in Germany, for instance). This reflects social, legal, and political differences that are captured by the institutional perspective on the diversity of management practices around the world.[67]

Consider the institutional environment for people management in two European countries: Denmark, with its reputation as a favorable business environment, including its employee relations,[68] and France, with its heritage of adversarial relations between firm and employee.

In Denmark, there are few restrictions on hiring a new worker, considerable flexibility about working hours, and few constraints on firing someone (for example, there is no obligatory legal settlement)—in an environment where most employees are unionized. For more than 100 years unions have favored working through agreements with top management rather than strikes, with proactive labor market policies introduced by a government that supports reskilling when technology and markets change. Responsibility for people management lies with line managers, with the HR function in a weaker advisory role.

By contrast, in France, newly hired employees must be given a permanent contract by law after an initial trial period; this makes it expensive and difficult to fire people. When the working week was reduced to 35 hours in 2000, employees could not work longer even if they wished to, though measures were later introduced allowing staff to work longer hours for supplementary pay. The French union environment has a long adversarial heritage, and the HR function has, by law and by tradition, a more powerful role in deciding who is hired and in determining employment conditions.

According to the institutional perspective, there are alternative ways of organizing economic activity, reflected in configurations of economic, educational, financial, legal, and political systems as well as historic legacy. As viewed by sociologists, capitalism is not a single economic approach. There are at least six successful configurations of capitalism, each distinguished not only by distinctive differences in ownership patterns and business objectives but also by different employment practices that shape and constrain the way in which companies conduct business—see the box titled "Six successful configurations of capitalism".[69]

### SIX SUCCESSFUL CONFIGURATIONS OF CAPITALISM

1. The main purpose of the *Anglo-Saxon individualist form*, dominant in North America and the UK, is to provide returns to shareholders (shareholder value). The focus on short- to medium-term returns tends to drive people management practices; employment security is relatively limited, and firms rely on fluid labor markets to recruit managers and professionals externally as needed.
2. The stakeholder perspective characterizes the more *communitarian European form* in large organizations. Here social contracts and obligations are more important: German firms have, for instance, been characterized as having patient capital, with HR practices based on co-determination of employees and management, long-term employment security, and a high reliance on internal promotions.[70]
3. The *European industrial district form* of networked enterprise, based on family ownership (but also involving skilled employees committed to the firm), is found in Italy and Scandinavia. Its aim is to optimize the interests and values of the family owners and senior professional managers associated with the firm.
4. The prime purpose of the *Japanese form* of capitalism, with its institutional cross-shareholding and lack of strong owners, is the stability of the organization. Lifetime employment of core employees and slow promotions are its most visible people management manifestation.
5. The *Korean chaebol* is simultaneously oriented toward retaining the influence of the entrepreneurs and their family successors as well as growth strategies supporting national economic development. While labor relations are often contentious, the emphasis until recently has been on lifetime employment of managers recruited from top Korean universities.[71]
6. The *Chinese capitalist form* is represented by family businesses throughout the Southeast Asian diaspora, and even in many privately-owned firms in mainland China. It exists primarily to support the vision and ambitions of owners, with trusted long-term employees playing important roles in the firm but with relatively few efforts to build formal HR systems.

## Assessing the institutional context

Societal factors clearly influence issues at the core of people management, such as compensation, training, job design, the role of the HR function relative to management, industrial relations, and, by extension, company performance. However, a number of researchers have suggested that insufficient attention is paid to the institutional context.[72]

Probably the widest attempt to capture the contextual factors influencing people management are studies from CRANET—an academic network that, for over thirty years, has organized periodic surveys of people management practices, originally in European countries and then extended further worldwide.[73] Among the early comparative research studies in Europe based on CRANET data is an influential investigation into the different concepts of the HR function.[74] Historically, HR in the UK and Germany played a technical role with little linkage to the strategy of the firm, that of a "professional mechanic". This contrasts with its "pivotal" role in Sweden and Switzerland where line management led HR and linked it to strategy. Norway and France have a heritage where the HR function is as policeman or "guarded strategist", closely linked to strategy but not devolved to line management; while the "wild west" prevailed in Denmark, with strong devolvement of people-related issues to the line and the function playing an advisory role, as mentioned above.

During the last decade, with the increased focus on the role of technology and innovation in economic growth, the studies of institutional factors have shifted to the development of "talent"—those with the biggest impact on the performance of the organization—supported by a stream of research and publications on "macro talent management".[75] Consequently, the need for an authoritative analysis of institutional factors related to vocational/technical and managerial/creative talent led to the development of an annual assessment called the Global Talent Competitiveness Index (GTCI).[76] In 2020 the GTCI compared 132 countries on 70 variables.[77] One of the pillars in GTCI's underlying model of competing for talent is the Enabling Context of a country or city, the extent to which its institutional structure facilitates the attraction, development and retention of the human capital that contributes to its prosperity.[78] Table 2.2 shows the ranking for 19 countries, including the top ten.

As the table shows, all the Nordic countries have institutional environments that are favorable to human resource management, although it is an Asian nation—Singapore, which 50 years ago was a developing country—that heads the list, alongside Switzerland. These are two nations that also rate high on innovation, and there is a clear relationship between talent and innovation at the national institutional level.[79] In contrast, much of Latin America and all Sub-Saharan Africa rank poorly on talent enabling, particularly when it comes to the Labor and Business Landscape.

## Employment relations vary greatly with context

If we turn from talent to unskilled labor, the role of labor unions varies markedly with the local institutional context, and this can influence a company's international operations. US companies such as Walmart often have a strong anti-union stance at home, but employees in China work under government-regulated union contracts, creating yet another layer of labor relation challenges.[80] The restructuring of Pfizer Japan ran into severe problems, forcing a CEO resignation under pressure from the company union, which was headed by company managers.[81]

**Table 2.2** Talent competitiveness ranking (for selected components and countries)

| Country | Talent Competitiveness | Enabling Context | Regulatory Landscape | Market Landscape | Labor & Business Landscape |
|---|---|---|---|---|---|
| Singapore | 3 | **1** | 1 | 4 | 1 |
| Switzerland | 1 | **2** | 3 | 8 | 3 |
| United States | 2 | **3** | 18 | 3 | 2 |
| Sweden | 4 | **4** | 6 | 5 | 8 |
| Netherlands | 6 | **5** | 7 | 10 | 5 |
| Germany | 11 | **7** | 12 | 7 | 4 |
| Japan | 19 | **8** | 15 | 2 | 9 |
| France | 21 | **23** | 21 | 13 | 30 |
| China | 42 | **45** | 70 | 35 | 41 |
| Indonesia | 65 | **54** | 80 | 66 | 37 |
| India | 72 | **63** | 78 | 84 | 42 |
| South Africa | 70 | **64** | 60 | 56 | 93 |
| Russia | 48 | **65** | 103 | 40 | 65 |
| Brazil | 80 | **79** | 85 | 47 | 91 |

*Source:* Lanvin and Monteiro (2020).

The degree to which workers are represented by unions varies greatly from one country to another. In the Nordic countries, Switzerland and Singapore, there is a heritage of consultation with employees. More than three-quarters of Scandinavian workers are union members, and even more are covered by collective bargaining agreements; unions are one leg in a social partnership tripod with government and business that negotiates most aspects of life affecting work and employment. In contrast, in the US, only 11 percent of employees are unionized, and 12 percent are covered by collective bargaining agreements, although recently there has been an increase in public and political support for unions.[82]

Worldwide, trade unions have lost membership during the last 40 years, including in Asia—in South Korea, with its heritage of confrontational labor relations, union membership is less than 10 percent today. As unions have lost membership, international organization such as the ILO and OECD argue that the role of unions is to help improve working conditions rather than simply defend worker pay and rights.

Just as the degree of union representation varies from one country to another, so, too, does the degree of cooperation or tension between unions and management. There is more tension between business and labor in the US than in Nordic Europe, and relationships have been mostly adversarial in France and Spain, as well as in emerging economies such as Brazil, India, and in South Africa, which has the highest degree of unionization in Africa, along with hostile, uncooperative relationships between labor and employers.

The structure and role of the unions also differs significantly from one region to another. In many European countries as well as in the US, unions are formed mainly around industry sectors and/or professions. In Japan it has been common to have separate unions for each corporation. In some countries, the government only recognizes one union, such as the All-China Federation of Trade Unions (ACFTU) in China. All companies there are expected to have trade unions, and even foreign firms that usually resist unionization have unions (and often also communist party cells) in their Chinese units. Recently, ACFTU has become much more involved in negotiations about collective contracts and issues related to layoffs and dispute settlement. COSATU, the Confederation of South African Trade Unions, was born in the struggle against apartheid, but it acts today as a social movement promoting a working-class agenda, particularly among public sector employees.



There are also differences regarding employee consultation. In Europe, works councils are typically required in all but the smallest firms, and the European Works Council Directive covers all companies established in the EU member states. Corporate decisions that influence employees in significant ways must be discussed with the works councils. Although councils have limited decision-making power, they often serve as important communication channels and as a sounding body for employees. However, from a management perspective, the obligation to discuss decisions in works councils may lead to delays in the decision-making.

With the ever-increasing impact of digitalization, robotics, and AI on work, labor market policies can help unemployed people or people whose jobs are threatened to reskill and find new employment.[83] Educational systems, training and employee development need to be oriented to lifelong learning. Proactive labor market policies (reskilling, retraining, and skills matching, etc.) have been common in the smaller economies of Denmark and Singapore, providing models for other countries. However, such policies are completely absent in countries with more adversarial legacies of labor relations such as Brazil and South Africa.[84]

## Responding to institutional "voids"

The institutional perspective is also helpful in understanding the problems and opportunities of emerging economies.[85] The lack of mechanisms (regulations, regulatory institutions, contract enforcement) to facilitate stable employment relations contributes to so-called "institutional voids"[86] characterized by inefficient capital, labor, and product markets—see the box titled "Institutional voids in South Africa and the Sub-Saharan Region".

### INSTITUTIONAL VOIDS IN SOUTH AFRICA AND THE SUB-SAHARAN REGION

Institutional structures in Sub-Saharan African countries are weak, with widespread political instability, corruption and cronyism (including "state capturing" where government agencies become piggy banks for political leaders), along with low levels of competition, uneven IT and communication infrastructures, and generally an absence of professional management.[87] The informal and agricultural economy predominates across this region, while the proportion of people in formal employment is lower than on other continents.

The informal economy dominates even in South Africa. Although the official pre-COVID unemployment rate was 26 percent, unofficially this was estimated to be more than 60 percent. In South Africa's public sector, 70 percent of staff are unionized, but only 24 percent in private firms. There is a legacy of low trust between employers and employees, also reflected in union militance and highly adversarial scores on labor–employer cooperation.[88]

With the world's highest population increase projected for the future, prospects for economic growth in Africa are often linked to homegrown entrepreneurship among its young, tech-oriented population in cities.[89] Indeed, to the surprise of some, there are already 400 companies with more than a billion dollars in revenues on this continent of 1.2 billion people—though half are based in the Johannesburg region of South Africa. The richness and power of informal and non-market institutions in shaping local economic activity is the other side of "institutional voids".

The cost and difficulties of adaptation to the institutional voids in these regions—the pervasive lack of skills in many emerging countries, the bureaucracy or corruption of the local or national government, and labor market practices that are branded as exploitative and unethical back at home—are such that multinational corporations find these markets difficult and expensive to penetrate. On top of this, the conditions in the employment markets are changing rapidly, requiring continuous adjustment of people strategies. Keeping up with the changes requires a strong local sensing capability.

India is a country with many such voids. While many traditional multinationals find it difficult to operate in this very complex country, locally grown information technology companies such as Tata Consultancy Services, Infosys, and Wipro have become leading global players in providing software services, in part because they mastered the challenge of how to recruit, train, and retain IT professionals from a complex web of schools of varying quality, providing locally-attractive compensation and careers at a cost which their global competitors could not match.[90]

## Convergence or divergence?

Some regard the influence of national business systems as declining, pointing to the individualization of people management practices in Japan, changes in the Korean *chaebol*, and what Nobel Prize economist Joseph Stiglitz called the Anglo-Saxonization of management.[91] Indeed, there has undoubtedly been some convergence of multinationals from different countries on an "Anglo-Saxon" model for people and organizational management.[92] For example, with respect to performance management practices, one recent study found very little difference between US and multinationals from six European countries.[93]

However, this convergence may be more nuanced than it often appears, since compensation and wage bargaining are more institutionally constrained than contingent employment or training practices.[94] Also, an earlier study revealed that though French and German multinationals are indeed adopting Anglo-Saxon practices in the domains of executive compensation, job restructuring, and corporate governance, they do so in a local manner.[95] For example, German preoccupations with long-term orientation and social responsibility have been merged with new concerns for shareholder value, leading to distinctly German ways of responding to the latter. Layoffs through restructuring are more moderate than in Anglo-Saxon countries, accompanied by an emphasis on partnerships and cooperation with the workforce.[96]

Overall, the institutional perspective emphasizes that firms are constrained by their local environments. But, again, there are dangers in relying excessively on this view (see the box titled "A commentary on the institutional perspective"). Irrespective of institutional constraints, in an increasingly professional and knowledge-based world, employees and managers are more and more aware of management practices in firms from other countries. Executives everywhere are bombarded daily by press reports on the latest global business and management trends in the US and elsewhere. The idea of cultural or institutional cocoons where firms are prisoners of their own national heritage is less and less true.

### A COMMENTARY ON THE INSTITUTIONAL PERSPECTIVE

Government regulations, educational systems, and political norms vary from one country to another. We apply the institutional perspective when thinking of foreign countries, but for the multinational firm there is a risk of being blind to the extent to which the home country context puts its mark on people management issues, just as home country cultural values do. As a company internationalizes, it should reflect on the way in which the institutional context of its own home country has shaped its people strategies and how this influences its approach to people management abroad.

Foreign subsidiaries, in fact, face dual institutional pressures—from the parent organization and from the local environment—that they need to balance.[97] Executives in these subsidiaries, and especially HR managers, need strong negotiation skills, particularly if headquarters executives are unaware of local institutional constraints. Headquarters may take a decision to cut headcount or to introduce new work practices globally, but such actions are strongly constrained by the local environment. Local managers cannot simply decline to comply; they must be objective about what is feasible, provide a realistic alternative, and argue cogently for it.

One of the dangers of the institutional perspective is to overestimate the strength of local institutional pressures. While labor laws and regulations may indeed restrict the range of possible management actions, and there may be strong local professional norms concerning what constitutes appropriate corporate practices, views on what works and what does not with respect to managing people may change over time. Even in Japan—the land of permanent employment—we can observe companies divesting unprofitable units and laying off employees as they battle to restructure their operations. Institutions matter, but they also *do* change.

As globalization progressed, many observers predicted (and often advocated) a gradual worldwide shift toward more market-oriented institutional mechanisms such as those prevailing in the US business system. However, following the 2008/2009 global financial crisis (ascribed by many to poor regulation), the recognition of the growing climate change and sustainability challenge and the need to temper the consequences of the COVID-19 pandemic have moderated—if not reversed—such expectations, and also reoriented the debate around regulation versus market far beyond people management.

## Learning about (and adjusting to) local context

Cultural diversity, institutional factors, and the company's ability to learn about the local context shape the ways in which multinational corporations manage people. Practice depends on the context, and all these factors constitute different sources of contextual influence. While internal consistency pushes the multinational toward a particular configuration of policies, work systems and practices, it is subject to the pushes and pulls of many different forces.

As Lincoln gained experience in operating overseas, it has chosen a pragmatic strategy of "flexible adaptation", implementing at least some core elements of its people management model (piece-rate, bonus, merit rating, employee consultations, etc.) wherever possible. The results have shown that increased internal consistency of subsidiary management practices improved business performance.[98]

A good way of summarizing the challenges of responding to global sources of diversity is to point out the main influences on international people management practices (see the box titled "Six sources of influence on the multinational").[99]

### SIX SOURCES OF INFLUENCE ON THE MULTINATIONAL

**Country-of-origin effect:** People and other corporate management practices reflect cultural and institutional conditions in the home country, and these practices then impact foreign units. The time perspective of the parent company is a case in point. US firms, where tenure of top managers often depends on annual results, are likely to have a shorter-term perspective than German firms, where employee representatives may have a strong influence on company boards.[100]

**Company-of-origin effect:** Companies develop distinctive HR practices that are successful at home and then transfer these to foreign environments. When Cisco recruits a native Brazilian engineer for its local operations, it is looking for an engineer who deviates from the Brazilian norms of organizational hierarchy, someone who is likely to thrive in its competitive globally networked culture.

**Host country effect:** Some firms adopt local practices or norms as a strategy—"Strategy may be global, but everything else is local implementation". Companies that expand internationally through acquisition and alliance are more likely to experience the pressures of local adaptation than those that grow by setting up greenfield sites.

**Foreign firm network effect:** In situations of uncertainty about what constitutes best practice, organizations often look at others and then mimic what they do or collectively develop a consensus about what to do. We often see that the networks to which foreign firms belong produce common notions about appropriate HR practices.

**Global convergence effect:** Knowledge today flows easily from one region of the globe to another. International companies compare themselves with others with international experience and model their practices on these. Diffusion of technology and management practices means that national effects become less important than the global "best-practice" effect.

**Global governance effect:** In response to increased stakeholder activism and regulatory scrutiny, companies have taken steps to align their activities with needs of a diverse set of stakeholders spread across the world. The aim is to achieve positive outcomes in economic, environmental, and social domains, such as improving working conditions along the global supply chain, reducing the carbon footprint, or increasing social contributions.[101]

## Global trends—and fads

Of course, firms can also look outside their immediate networks for ideas about what they should do and what may work. Increasingly, organizations have access to a kind of surrogate network in the form of cases gleaned from business professors, consultants, management gurus, and journalists. These trendsetters carry best practices and benchmark information across borders, geographical or industrial.[102] Each proposes new exemplar companies and organizational innovations. Companies fall sway to the routines and practices of key international competitors. In the 1980s and early 1990s Japanese manufacturing techniques were the rage, only to be replaced by global worship of General Electric and its CEO Jack Welch (for performance management), then by Apple (for innovation and design), now followed by Amazon, Facebook, and Google (AI-powered Internet platforms). In a broad sense, these companies and practices become part of an organization's extended network—legitimate sources of comparison.

And what will be the next "hot idea"? What self-respecting international manager has not heard of design thinking, or agile organization? Through the business media, these "leading edge" practices reach a broad audience and converge on a company's executives from several points at once. This can create intense pressure to follow suit to maintain the appearance of a "legitimate", "modern", or "progressive" organization, as defined by the reference network.[103]

The rapid rise of social media has spurred access to what is "in". Executives in Africa, Asia, or South America may be just as familiar as their European or North American counterparts with the latest innovative practices—or raging controversies. Accenture's decision to abolish annual performance reviews drew instant commentaries from people management experts around the world. When the *New York Times* published an article critical of Amazon's employment practices in its Seattle headquarters,[104] hundreds of Chinese bloggers commented within hours on its implications for employment practices in China.

Most executives in large companies today are still less digitally aware than an average teenager, but this is gradually changing, as today's teenagers become tomorrow's new employees and then executives—or leading entrepreneurs. However, with the rapid spread of alternative communication platforms, there is a danger that the fascination with the tool may get ahead of the content. We see an increasing number of HR professionals, prodded by their bosses, chasing the latest apps to connect, monitor, and respond to inputs from the virtual world. Yet, a balanced approach is essential. While a slow response to a critical social media message may create long-lasting damage, overreaction can be just as harmful.

In order to remain alert to new opportunities to access information, but at the same time to avoid flash-in-the-pan fashions and to preserve consistency and a healthy balance of views, we need to be aware of the ways in which our networks shape our perceptions of reality. Homogenization of perspectives leads to impoverished choices, not only in the world of politics. To learn and understand the local context, we need to network widely and not just with those who are like us.

Interacting with external networks is emerging as an important organizational capability.[105] In this context, being connected only to those who think like us may foster blindness to how one can take advantage of new opportunities—there are many up-and-coming innovative companies around the world, such as Sea/Garena (esports) and Grab(super-apps) in Singapore, GoTo/Gojek (car hire/Indonesia), or Zomato (food delivery/India), that still operate largely below the radar of the Western business press, although closely followed on local social media.

## IMPLEMENTING LOCALIZATION

As discussed in Chapter 1, companies typically internationalize by sending key people abroad—through expatriation. If their task is to follow the golden rule of "When in Rome, do as the Romans do", building local operations may not be difficult. However, executing a unique business model and doing things differently (but successfully) requires "knowing Rome better than the Romans do", a task hardly possible to master without a strong local management team. Responsiveness typically goes hand in hand with localizing management—smartly staffing overseas units and empowering local managers to make key decisions. Indeed, understanding the variations in a local context is essential for any company involved in cross-border operations, even including those aiming to build a global platform (see the box titled "Responsiveness at Mercado Libre").

### RESPONSIVENESS AT MERCADO LIBRE[106]

Mercado Libre is the largest e-commerce company in Latin America, operating in 16 countries, with over 175 million users. From its early days two decades ago in Argentina, Mercado Libre executives thought about the organizational approach that would best support their strategy of becoming a dominant player in each of the countries in which they wanted to do business. They assumed that the best approach would be to build their company from the ground up, adapting to user feedback as they gradually expanded the user base.

In contrast to Amazon's global template, this approach meant that Mercado Libre would need to localize and customize their service and marketing efforts. Hiring local country managers, the plan was to build local e-commerce companies, each with their sales and marketing organization, doing business according to customer expectations in that country.

Our concept of localization goes beyond people management, equating it with the degree of local responsibility for decision-making. A subsidiary may have only one expatriate, but if that individual makes all important decisions, the subsidiary's degree of localization will be low. This will also be the case if a local general manager must check out every decision with regional or corporate headquarters. In contrast, a high degree of localization is not synonymous with complete subsidiary autonomy; it simply implies that the local subsidiary managers are responsible for their decisions and live with the consequences of their actions.

### Attracting and developing local talent

Local responsiveness does not always imply localization. Experienced international managers can often be effective representatives of the local voice toward the corporate center, but it is difficult to sustain a local orientation in the long term by relying on expatriates. The difficulties facing Lincoln Electric as it tried to expand in China were partly associated with the fact that the company was not able to attract and retain talented Chinese managers.[107]

One key aspect of localization is, therefore, a systematic investment in recruitment, development, and retention of local talent. Unilever provides one of the earliest documented examples of this policy in action. Sensitive to the national aspirations of newly independent countries, starting in India, the company strived to replace expatriates with local managers. Since then, localization has become part of the corporate mantra for multinational enterprises around the world. Local employees nearly always have a better understanding of the cultural, institutional, and business environment in which the company operates, and localization helps foreign multinationals penetrate the network of personal and business contacts needed to build and consolidate a presence in the country.

Opportunities for growth and advancement are important concerns for local employees—and dissatisfaction with those opportunities is one of the most frequently cited reasons for turnover. Heavy reliance on expatriates is often perceived as blocking promotional avenues for local managers and a sign of the company's lack of trust in them. In contrast, the presence of influential local executives in a subsidiary provides role models for younger employees and improves recruitment and retention.

Employee commitment and motivation are also influenced by the degree of localization. Unless senior managers can convince local employees that they understand and honestly represent local company (and community) interests to headquarters so that local concerns are given due consideration, they may have difficulty eliciting commitment. Employee commitment is also likely to suffer if decision-making is overly centralized at a "foreign" corporate or regional headquarters.

Two other interrelated problems continue systematically to plague corporate efforts to localize. First, because of high demand and limited supply, competent local managers are often hard to find. Second, once found, they may be hard to retain. These two problems sometimes create a "catch-22" dilemma. If good local managers are going to leave us in any case, why bother to invest time and money in developing them?

#### Building local management teams

While there are no silver bullets for how to localize operations abroad successfully, there are initiatives that many companies can implement, starting with a focus on the attraction and development of local talent (this is discussed further in Chapters 6 and 8).

- **Establish a visible presence:** In many emerging markets, there may be a genuine scarcity of talent with specific functional or managerial competencies, while competition in the labor market is keen. The challenge even for well-known international firms is that they do not enjoy the reputational advantage over their peers that they may have at home. To overcome this hurdle, having a clear employee value proposition (EVP)[108] is a must, such as those developed by the energy-services leader Schlumberger (emphasizing gender diversity in a traditional male-dominated industry) or Danone (focusing on being a part of a purpose-led business).

- **Adjust selection criteria:** Developing a generic set of recruiting criteria is often difficult. For example, we will see in Chapter 8 how KONE, a global elevator company based in Finland, was obliged to modify its global criteria for evaluating potential when facing rapid expansion in China. Selecting based on "competencies" may not work in emerging markets. Instead, recruiters may prioritize candidates with the right attitude since functional skills can be developed through on-the-job and off-the-job training.
- **Sell careers, not just jobs:** When talking to prospective recruits, the company should communicate its localization objectives and connect those plans to the career prospects of local managers. When Schlumberger recruits engineers in Eastern Europe or Latin America, the candidates know that they will have the same career prospects as those recruited in France or the US and that the performance criteria are the same. A reputation for thorough training and skill development can enhance the outcome of the recruitment efforts.

Because of the difficulties of attracting and retaining experienced managers, some companies choose to grow their own. They take on young recruits, placing more emphasis on their future potential than on their current professional or technical skills. This entails large investments in training and coaching as well as in international assignments. In large markets this may even involve building local training institutions. And with many local companies also growing rapidly and advancing abroad, the market for talent is heating up.

Recruiting students who have graduated abroad (in particular, in the home country of the multinational) is another popular strategy to address the talent gap.[109] However, in some markets, such as China or Eastern Europe, tensions between locals and returnees with freshly minted foreign MBAs, commanding salaries well above local rates, may produce the same resentment that used to be provoked by the lavish packages granted to expatriates.

### Retaining local talent

Given the length of time that is often needed to develop qualified local managers, which may include investing in skills education that the local system has not provided, retention can be a real challenge. A large number of local managers trained to take over expatriate leadership positions never actually fill those posts or only do so briefly. The terms and conditions may not measure up to what the external market offers to ambitious, well-trained individuals. While the company expects a return on its training investment, competitors poach the most talented individuals. US automobile companies and German carmakers with US manufacturing sites systematically raid Japanese transplants to capture local talent, weakening the latter's ability to localize. Foreign firms operating in Chine have experienced similar problems. Yet investing in training may be a price worth paying if the company is still able to attract and retain the best.[110]

Inevitably, compensation features prominently among the mechanisms to retain local talent. Paying above market rates is typical, but market rates are less than transparent in emerging countries. This partly explains the curious fact that most multinationals claim to pay in the top quartile of the comparable market. However, cash is only one part of the compensation package. Today, retention bonuses, stock options, and restricted shares are just as common in Shanghai as in New York, if not more so. Some companies have introduced even more comprehensive packages, including executive coaching, private health programs, interest-free loans, or housing assistance. Localization is no longer a cheap alternative.

The inpatriation of local managers to the regional or global headquarters is another way to increase the retention of top local talent, as well as to develop it.[111] The capabilities of the multinational firm will be reinforced when local managers have been directly exposed to global methods and practices through such experiences, and not only through expatriates working in the local subsidiary. To ensure international mobility, Unilever has long had a policy of reserving at least one slot on all management teams in both emerging and developed countries for an expatriate—a European in Asia and an Asian or Latin American in Europe.

Retention strategies must extend beyond the subsidiaries, otherwise development opportunities may be blocked by entrenched insiders. During the era of rapid international growth, the danger of powerful local bosses clogging the career pipeline was reduced at 3M by an informal rule that executives should not become managing directors in their own country. Promising local managers were instead appointed as heads of subsidiaries in other countries, ensuring that local stars gain international exposure.[112]

## Localization starts at the head office

Localization is unlikely to be successful if it is only a faddish whim of transient expatriate general managers or regional directors. Systematic recruitment and development of local managers requires a long-term organization-wide effort that transcends the good intentions of individual managers, and this means a durable corporate commitment from the top. While the positive or negative outcomes of localization efforts are most visible within the subsidiary operations involved, the core of the problem may be far away in the corporate center.

The fundamental bottleneck of localization is often the inability of corporate headquarters to interact effectively with locally hired executives. For example, for several decades we have observed several Japanese multinationals that aggressively recruited talented local staff, recognizing correctly that the weakness of local management was an obstacle to faster global growth. However, within a relatively short period the newly appointed local managers left in frustration because they could not get the job done. What was going on?

Historically, the international growth of Japanese multinationals was coordinated through an informal network of Japanese executives, carefully orchestrated from a center that controlled critical resources. In contrast, the newly hired local executives (outside of the network) were simply not able to secure "global" resources necessary to drive the local business forward. They did not have the personal connections or language ability to communicate with the head office, which was often staffed by managers without much, if any, international experience. Only when more global-savvy executives were promoted in the head office, did localization efforts begin to show results. Chinese and Korean MNCs have experienced similar challenges.[113]

French cosmetic giant L'Oréal addressed the limitations of an ethnocentric head office by recruiting managers with multicultural backgrounds for positions at the center. Many come from local subsidiaries, some from other global firms or global business schools. Most are placed in product development teams tasked with combining innovative ideas from around the world.[114]

Companies that fail to take localization seriously right from the start can find themselves caught up in a fruitless process of serial localization. If, for whatever reason, the newly appointed local managers cannot do the job after the expatriates pull out, the subsidiary's performance will inevitably decline. Then expensive troubleshooters from the outside are sent in to fix the problems, followed by a second wave of managers with a new mandate to localize. The efforts must start again from scratch, but by this time in an atmosphere of increased local cynicism about the company's commitment (or ability) to get it done.

Similarly, when turnover of local managers is high, companies often become reluctant to invest enough in developing local employees, preferring, instead, expatriates with a proven commitment to the company; this merely confirms suspicions of a glass ceiling for locals. Expatriate-heavy structures restrict career opportunities for local managers, making it even harder to attract or retain local talent. If this continues through several rounds, the morale and motivation of local employees are bound to suffer.

Localization is important, but anything taken to an extreme can create a pathology. Excessive localization can lead to empire-building and ultimately loss of control by the head office. And when the company is over-localized so that opportunities for horizontal cross-border mobility are limited, it becomes difficult to develop managers with broad global experience. Put simply, if everyone is local, who is global? Indeed, localization should be viewed as a step on the journey toward cross-border organizational development and not as an end point.

## THE LIMITS OF RESPONSIVENESS

We started this chapter by describing challenges facing Lincoln in implementing people management outside of the US, attributing them largely to a failure to respond to local circumstances. However, a local responsiveness strategy also has its limits. Indeed, when localization of staff is combined with a decentralized structure, it can lead to local fiefdoms and inhibit collaboration. This often results in lost opportunities for the multinational to share best practices and learn across units. It can generate other inefficiencies as well, such as duplication of effort (reinventing the wheel) and resistance to external ideas—the "handmaidens of decentralization", as they have been dubbed.[115]

In many countries, developing ties to local authorities is essential for doing business. If a firm becomes a local insider, it is more likely to have a say in shaping new policies and regulations and to be invited to play a role in industry or trade associations. In this way it can gain valuable information and have a better chance of participating in local deals. However, there are also potential dangers. Being too close to the authorities can create its own risks, for example, if the host government practices come under attack elsewhere.[116]

Finally, too much emphasis on local adaptation in people practices can make it difficult to reap the benefits of differentiation. Recruitment, development, and performance management have a great potential for creating competitive advantage through people, but unless the firm is able to stand out distinctively in the labor market, it is unlikely to attract and retain employees with the required skills and attitudes—as Lincoln Electric has learned on its global quest.

### Local responsiveness does not necessarily mean playing by local rules

One critical outcome of successful localization is the recognition that local responsiveness does not always mean playing by local rules. Indeed, one of the benefits of localization is that local managers may have a better sense of **intracultural** variation—the broad range of options which may deviate from the standard rules but which are still acceptable. They also tend to have a better awareness of the strengths of cultural norms and the likely effects of breaking them, and they know how flexible local institutional structures are, and how to take advantage of some of the perceived market rigidities (see the box titled "Localizing Santa in KFC Japan").

#### LOCALIZING SANTA IN KFC JAPAN

Even though the Japanese do not celebrate Christmas, the most popular item on the 23–25 December menu of Kentucky Fried Chicken (KFC) Japan[117] is the "traditional American Christmas meal"—a bucketful of deep-fried chicken pieces. Customers who have not pre-ordered their buckets must line up for hours during a short sales campaign when the company reaches about 10 percent of its annual turnover in three days, watched over by statues of Colonel Sanders (the company founder) dressed as Santa in front of each of the 1000+ stores.[118]

What is the origin of this successful and distinctive marketing idea? Not the home country, as there is no such tradition in the US; it was launched years ago "bottom-up" in one of KFC Japan's stores in Osaka. Then it quickly spread around, not least because of the company's unique talent strategy of hiring ambitious and energetic staff eager to exploit opportunities for growth. Since opening its first store fifty years ago, KFC Japan selects and develops two kinds of employees: those who are young, looking for a challenge, and those who have experienced failure, such as losing a job, where the message is "don't let this happen again, beat the competition!"

By offering everyone a chance for a "career"—uncommon in a labor market with sharp boundaries between the core staff and temporary or part-time work force at the periphery—KFC Japan has created a strong competitive culture by blending perhaps the best of the East and West: relentless commitment to customer service and to entrepreneurship, enabling Santa, in the guise of Colonel Sanders, to perform his magic.

As the KFC Japan example shows, rather than embracing the local way (in taste or in talent strategy), companies can redefine the boundaries of what is considered "local"—showing smart disrespect. Finding ways to operate that neither mimic local firms, nor copy how the global firm does business in other parts of the world, may seed product and marketing innovations that can benefit the whole corporation.

We will present other examples later in the book illustrating how smart differentiation from local practices can create competitive advantage. However, to be able to differentiate successfully, cultivating deep insights about the local cultural and institutional context is essential.

## TAKEAWAYS

1. Local responsiveness helps the firm overcome the disadvantages of being an outsider in a country or market with distinctive needs, and it is valuable as a source of innovation and competitive differentiation.
2. People management practices are more sensitive to local context than finance, marketing, and other organizational routines. Some people practices are more dependent on cultural and institutional contexts than others.
3. The cultural perspective on people management in a local context—reflecting shared norms, values and practices within a society—is mainly focused on understanding different attitudes toward authority, teamwork, and conflict resolution.
4. The fact that cultural values influence people practices does not mean that companies must always adapt to local cultures. In any country, there are wide variances in values held by individuals, and some local employees may find practices that deviate from national norms to be attractive.
5. People practices of multinationals are shaped by six forces including host and home country institutional contexts and also global "best practices".
6. In many emerging markets, multinationals must deal with institutional voids—the absence of an institutional infrastructure that supplies firms with qualified personnel and provides a structure for dealing with people-related issues.
7. Academic research and practical experience show that multinational firms have considerable leeway when deciding on the people practices to implement in their subsidiaries.
8. Localization means local influence on decision-making, with local managers playing key roles while drawing on input from expatriates as well as from headquarters and other subsidiaries.
9. Localization of management requires a long-term strategy with commitment at all levels, especially among expatriates, to the development of local management.
10. Local responsiveness does not necessarily imply playing by local rules, though it does require knowing which rules can be broken and how.

## NOTES

1. Berg and Fast (1983); Hastings (1999); Bartlett and O'Connell (1998).
2. Siegel and Larson (2009).
3. See ir.lincolnelectric.com/news-releases/news-release-details/lincoln-electric-reports-second-quarter-2021-results.
4. Björkman and Galunic (1999); Siegel (2008a); Björkman et al. (2015). Lincoln Electric Annual Reports are available at www.lincolnelectric.com.
5. Mees-Buss et al. (2019).
6. Netzley (2013).
7. One framework of note conceptualizes the "local" in terms of distance from the home country of the multinational. In Ghemawat's CAGE framework, there are four dimensions to distance—cultural, administrative (what we call institutional), geographic, and economic. See Ghemawat (2018). Also, Berry et al. (2010).
8. For example, research on foreign companies in Brazil revealed that those coming from countries with strong ties to Brazil (in terms of language and institutional similarity, geographical proximity, colonial history, and immigration) were usually more successful than firms from countries with weaker ties to the country (Rangan and Drummond, 2004). However, as always, there are exceptions – see the Biedronka case later in this chapter.
9. Barkema et al. (1996).
10. "Netflix: Season 3, coming soon". *The Economist*, 24 July 2021.
11. "Intel's Vietnam engineering talent pipeline", *Bloomberg Businessweek*, 26 June 2014.
12. As noted by Coca-Cola's former CEO, "In every community, we must remember we do not do business in markets, we do business in societies... [This means making] sure that we stay out of the way of our local people and let them do their jobs" ("Back to Classic Coke", *Financial Times*, 27 March 2000). But the company swung the pendulum too far from the global to the local, and then back again, struggling for years to get the balance right.
13. Zaheer (1995).
14. Edwards et al. (2021).
15. We will return to the topic of regionalization in Chapter 4 p. 113.
16. The business and organization models of global law firms is discussed in "Soliciting success", *The Economist*, 1 January 2022. Denton, one of the largest, has offices in more than eighty countries, with no dominant culture, no standard rules on recruitment or pay—and no headquarters.
17. "Jeronimo Martins: A Portuguese explorer". *The Economist*, 28 February 2014.
18. Yoder et al. (2016).
19. A psychological contract is the (often informal) perceptions of the individual and organization of the employment relationship, including the reciprocal promises and obligations implicit in it (Rousseau, 1995; Guest and Conway, 2002).
20. Lincoln's management might have underestimated the challenge of introducing the new approach to people management in the acquired units. We discuss management of change and M&As in Chapters 10 and 12.
21. For example, in most countries where it operates, Uber opposes classification of its drivers as employees. See Marano et al. (2020) and Mackey et al. (2021).
22. Lu and Björkman (1997). A study on multinationals in Greece reported similar findings (Myloni et al., 2004).
23. Rosenzweig and Nohria (1994); Goodall and Warner (1997).
24. Rosenzweig and Nohria (1994); Gooderham et al. (1999); Mayrhofer and Brewster (2012).
25. Kroeber and Kluckhohn (1952).
26. Schein (2004).
27. Tung and Stahl (2018).
28. Hofstede (1991; 2001).
29. See, for example, the debate in *Journal of International Business Studies*, 2006 (6).
30. Hofstede and Bond (1988).
31. Hofstede et al. (2011).
32. See Trompenaars (1993); Hampden-Turner and Trompenaars (2000). Trompenaars' work was strongly influenced by the dilemma (duality) concept of Hampden-Turner.
33. For critical reviews of the GLOBE study, see several articles in *Journal of International Business Studies*, 2006 (6).
34. House et al. (2004).

35. For the survey methodology and a detailed definition of the nine dimensions, see Javidan et al. (2005).
36. Jesuino (2002).
37. House et al. (2004, p. 86).
38. It is said often that, when communicating, Americans like to be direct and get to the point—to be clear and explicit. However, when everything is spelled out, even when the meaning seems perfectly obvious, their British colleagues may find it exasperating.
39. Hall (1976).
40. Gladwell (2008). The author, a well-known journalist, concluded (amid controversy)—after analyzing transcripts from the black box of crashed airplanes—that communication style is "the single most important variable" in determining if a plane crashes.
41. Ueda (1974).
42. The framework of Meyer (2014) provides a useful behavioral guide on how to navigate cross-cultural communications. Building on the work of Hofstede and others, Meyer focuses on the seven dimensions of communicating, evaluating, leading, deciding, trusting, disagreeing and scheduling. For an illustration of the framework's application to Netflix, our opening case in Chapter 1, see the last chapter in Hastings and Meyer (2020).
43. Zaheer et al. (2012).
44. Kogut and Singh (1988).
45. Since the publication of this highly influential work, there have been hundreds of studies demonstrating that cultural distance is associated with outcomes such as the choice of foreign entry mode, post-merger integration success, cross-border knowledge transfer and organizational learning, and the effectiveness of global virtual teams. For reviews of this research, see, for example, Tihanyi et al. (2005), and Beugelsdijk et al. (2018).
46. Stahl et al. (2016); Maseland et al. (2018); Shenkar et al. (2020).
47. For example, an American expatriate in the Netherlands may face more severe cross-cultural adjustment problems than a Dutch expatriate in the US, and a Chinese company acquiring a French firm may face greater resistance and cultural barriers than a French acquirer in China. See Shenkar (2001).
48. Stahl and Brannen (2013).
49. Hofstede (1980; 2001).
50. Schneider (1988); Schneider and Barsoux (2003).
51. Ulrich et al. (1999, p. 171).
52. For discussion of kaizen, see Chapter 1 p. 11.
53. Guest (1990).
54. See Holden et al. (2015) for articles on this topic.
55. Gerhart and Fang (2005). For a comprehensive analysis see also Taras et al. (2010).
56. Tung and Stahl (2018).
57. See Beugelsdijk et al. (2015).
58. This example points to the importance of employee selection, a topic which we explore in Chapter 6.
59. Stahl et al. (2009).
60. See, for example, Festing et al. (2012).
61. For example, with respect to High Performance Work Systems (HRPS), these practices are positively related to organizational performance in a diverse range of societal cultures. See Dastmalchian et al. (2020).
62. See Meyer (2014).
63. Hofstede (1991).
64. Inglehart and Baker (2000).
65. Taras et al. (2012).
66. Brewster and Wood (2012).
67. Wood et al. (2012); Wood et al. (2014); Gooderham et al. (2019).
68. See Eucham.eu/charts/193-2016_07-best-european-countries-for-business-2016; see also Minbaeva et al. (2019).
69. Redding (2001); Whitley (1992; 1999); Orrù (1997). These configurations are also known as "business systems", "industrial orders", or "varieties of capitalism". See Morgan (2007); Wood et al. (2012); and Wood et al. (2014) for reviews. The six configurations have been extended to the Middle East (Haak-Saheem et al., 2017) and to developing countries (Fainshmidt et al., 2018).
70. Koen (2004).
71. Cho and Pucik (2005).
72. Gooderham et al. (2019).
73. For information on CRANET, including a list of publications based on the survey data in the period 1989–2017, see learn.som.cranfield.ac.uk/cranet.
74. Brewster and Larsen (1992).
75. Khilji et al. (2015). See Vaiman et al. (2019) for a series of country studies in developed markets.
76. Annual GTCI reports and rankings can be found at https://www.insead.edu/faculty-research/research/gtci. See Evans et al. (2021a) for the conceptual framework, and Evans et al. (2021b) for its research implications.
77. Data sources are the World Bank, UNESCO, the World Economic Forum (WEF), OECD, and others. See the annual GTCI Report (https://www.insead.edu/faculty-research/research/gtci) for details.
78. The Enabling Context evaluates three "landscapes": Regulatory, Market, and Labor & Business.
79. Innovation is assessed across countries by the Global Innovation Index (GII) (https://www.globalinnovationindex.org/Home). The importance of talent management for innovation was what led to the creation of the GTCI, as Evans et al. (2021a) point out.
80. See nytimes.com/2016/11/17/world/asia/across-china-walmart-faces-labor-unrest-as-authorities-stand-aside.html.
81. "Pfizer to slash Japan costs without job cuts", *Boston.com News*, 29 May 2006.
82. "The state of global trade union members", *Forbes*, 6 May 2019. Bureau of Labor Statistics, 2021 (https://www.bls.gov/news.release/pdf/union2.pdf); OECD, 2021 (https://stats.oecd.org/Index.aspx?DataSetCode=TUD); ILO, 2021 (https://ilostat.ilo.org/topics/union-membership/).
83. Reskilling and upskilling in the face of technology change is discussed in Chapter 8.
84. The WEF worldwide survey on labor market policies is reported annually in the GTCI (available at https://www.insead.edu/faculty-research/research/gtci) for 120 countries. See Evans and Rodriguez-Montemayor (2017) for a discussion and analysis.
85. Khanna and Palepu (2006; 2010).
86. Khanna and Palepu (2006; 2010). Also, Doh et al. (2017).
87. In terms of enabling institutional factors, as measured by the GTCI (see earlier), Botswana, Ghana, and South Africa are the highest-ranked African countries.
88. Labor–employer cooperation is measured by the World Economic Forum's Executive Opinion Survey, and South Africa ranks 128 out of 132 countries, as reported in the GTCI (Lanvin and Monteiro, 2020).

89. See Leke et al. (2018). Foremost among the institutes that are dedicated to developing Africa's entrepreneurs are the Africa Leadership Academy and University (ALA & ALU). ALA is based in Johannesburg and Rwanda.
90. This business model has come under threat as Western competitors, and even some large customers, have by now learned how to harness IT skills of the Indian workforce. See "In need of a software update: Indian IT consultancies struggle against technological obsolescence". *The Economist*, 23 July 2020.
91. Stiglitz (2006).
92. Pudelko and Harzing (2007) show that the HR practices in the foreign subsidiaries of German and Japanese multinationals have converged toward dominant US practices.
93. Edwards et al. (2016).
94. Farndale et al. (2017).
95. Ferner and Quintanilla (1998).
96. Ferner and Quintanilla (1998).
97. Rosenzweig and Nohria (1994); Kostova and Roth (2002).
98. Siegel and Larsen (2009).
99. Ferner and Quintanilla (1998) discuss four of these; we have added the influence of other international firms in the local context.
100. Loveridge (1990).
101. Stahl et al. (2020).
102. Micklethwait and Woolridge (1996); Abrahamson and Fairchild (1999).
103. Abrahamson and Fairchild (1999); Abrahamson and Eisenman (2008).
104. "Inside Amazon: Wrestling big ideas in a bruising workplace", *New York Times*, 15 August 2015.
105. We will explore external networking in Chapter 12 in the context of knowledge management.
106. Johnson et al. (2020).
107. Siegel (2008a).
108. The concept of a differentiated employee value proposition is explored in Chapter 6.
109. Recent studies of Japanese MNCs have shown that recruiting foreign graduates of Japanese universities may lead to reinforcement of the ethnocentric orientation in the head office—"great, they are just like us". See Conrad and Meyer-Ohle (2019).
110. Retention, which in the post-COVID era is a major challenge for many companies, is discussed in Chapter 8.
111. Sarabi et al. (2017).
112. When 3M's growth slowed down, its international mobility decreased. Most senior executives have rich international experience, but they now come nearly exclusively from North America.
113. Ouyang et al. (2019).
114. Doz and Hong (2013). For extensive discussion of L'Oréal's multicultural teams see Chapter 9.
115. Bartlett and Ghoshal (1989).
116. For example, Netflix has been criticized because of programming decisions that seem to exclude content disagreeable to authorities in Saudi Arabia.
117. The history of KFC Japan is mapped in one of the best-selling cases addressing global/local organizational tensions; see Bartlett and Rangan (1992).
118. "How KFC became a Christmas tradition in Japan". *CNN*, 25 December 2020 (edition.cnn.com/travel/article/kfc-christmas-tradition-japan/index.html).

# 3
# Enhancing global integration

## YOU CAN TAKE IKEA OUT OF SWEDEN, BUT YOU CANNOT TAKE SWEDEN OUT OF IKEA

An iconic brand for middle-class consumers worldwide, the Swedish furniture retailer operates more than 430 stores in 50+ countries. But while its products are made and sold all over the world, its culture and work practices are deeply Swedish.[1] IKEA's strength comes from its capability in optimizing these homegrown work processes worldwide—integrating innovative product design, low-cost manufacturing, efficient logistics, and friendly customer service.

Usually, consumer markets follow local cultural preferences, but IKEA's brand and global processes are built around a tightly controlled "low price with meaning" marketing concept that applies across the whole globe:

- Competitive pricing (superior value for money);
- Contemporary design;
- Pleasant shopping experience;
- Self-service, no free delivery.

Putting it all together creates a competitive advantage that many have tried to copy, but no one has come close to with much success.[2]

The complex supply chain is managed from the center. Price drives everything. At IKEA product pricing decisions always come first, followed by supply chain decisions—from assuring a cost-effective design and supplier selection to flat packaging enabling the customers to transport their purchases home on their own. While the company takes pride in its creativity, and stresses simplicity, its commitment to standardization of operational activities across all stores (such as floor plans, product layout, etc.) is not much different from McDonald's.

Key strategic decisions at IKEA emerge from a fast-moving process of data gathering and analysis, consultation, and debate. Different perspectives are actively encouraged but they get aligned quickly, enabled by the fact that many senior executives around the world came from the same place—Sweden.[3] They share a common language and cultural background, and they are used to working with each other.

IKEA is explicit about wanting to recruit "unique individuals who share our values" with emphasis on togetherness, frugality, respect, and simplicity, which can be traced to business principles laid down by the company founder and long-term CEO Ingvar Kamprad.[4] Most executives have been promoted from within, learning about the IKEA Way by designing IKEA products, working with IKEA suppliers, and serving customers inside IKEA stores. Because of their deep line experience, the "retail is detail" focus molded their management perspective.

Stellar intellectual credentials are not essential for entry to IKEA, but the company is not