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Strategic Human Resource Management: A Global Perspective*

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ABSTRACT

Managing the global enterprise and modern business management are becoming synonymous. "International" can no longer be relegated to a subset of organizations or to a division within the organization. Definitions of success now transcend national boundaries. In fact, the very concept of domestic business may have become anachronistic.

To succeed, many corporations have developed global strategies. Yet, few firms have created global organizational cultures and teams of globally skilled managers capable of fully implementing those business strategies. Unfortunately, many firms still conduct the worldwide management of people as if neither the external economic and technological environment, nor the international strategy and structure of the firm had changed.

This session will briefly trace the evolution of major firm's business strategy from their previously domestic focus to their current global perspective. Similarly, we will trace the evolution of human resource systems from domestic to global perspectives. We will then review the findings of recent research studies confirming a gap between current business and human resource practices. Within this context, we will identify some of the best human resource practices used by global firms.

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I. INTRODUCTION

New approaches to managing research and development (R & D), production, marketing, and finance incorporating today's global realities are occurring rapidly, and equivalent evolution in conceptualizing and managing international human resource systems appears absent. According to Evans (1987):

A review of research since the late 1960s shows that our understanding of the human resources strategies of multinational firms has advanced little since the pioneering studies of Perlmutter into the meaning of multinationalism that led to his Ethnocentric-Polycentric-Regiocentric-Geocentric typology [see Heenan & Perlmutter, 1979].

What is compelling about such apparently unchanging human resource practices is that the 1980s have made it mandatory for corporations to use global strategies if they are to succeed in the 1990s.[1]

As a context for addressing human resource management issues, this chapter will begin by reviewing four primary stages of operations of multinational enterprises. Within that context, we will then ask two fundamental questions.

First, how does national culture effect the firm and, thereby, its management of people? One of the central questions facing international human resource professionals in the influence, or lack thereof, of culture on the management of people worldwide. Yet, discussions concerning the influence of culture on strategic efficacy remain time-lagged, disconnected from other corporate realities. We continue to ask if culture impacts organizational functioning rather than the more relevant when, or under what conditions, does it do so. Perhaps we would give more attention to the second question if we placed

[1] See, among others, Doz, 1985, Doz, Bartlett, & Prahalad, 1981; Doz & PRahalad, 1987, Dunning, 1985; Gluck, Kaufman, & Walleck, 1980; Grub, Ghadar, & Khambata, 1986; Hammel & Prahalad, 1985; Hood, Schendel, & Vahlne, 198x; Hout, Porter, & Rudden, 1982; Leavitt, 1983; Porter, 1980, 1985, & 1986, Proter & Millar, 1985, Prahalad & Doz, 1981; and Watson, 1982.

our inquiry within the context of the evolving strategies and structures of global firms, rather than confining it to the more static assumptions that have governed international personnel decisions for years. In this first question, we thus investigate the consequences of culture at each phase in the multinational firm's strategic relationship with its external environment.

Second, what does each phase's strategy imply for effectively managing people? What are the implications for traditional human resource management decisions as well as for those decisions that will only make sense when taken from within a future perspective? Issues needing to be addressed include the cultural homogeneity of top executive teams, the purpose and process of expatriation, the firm's recognition and use of cultural diversity, and the overall management of geographic dispersion. Based on this third question, we will suggest some more appropriate approaches to managing people within today's and tomorrow's multinational enterprises (MNEs).

This chapter focuses on global strategy from the perspective of people and culture. It uses a decription of North American multinationals as a base, starting with the product life cycle in international trade and investment and proceeding to a commonly accepted three-phase model[2] describing the evolution of multinational enterprises (MNEs) from World War II to the present. Then, going beyond the third phase, it outlines some of the possible characteristics of future phase four MNEs. Within this framework of the evolving multinational firm, the chapter suggests some new and more powerful approaches to managing human resource systems and the cultural diversity engendered in global operations. It suggests that firms can compete successfully in the global economy, but that the majority of them can no longer do so without fundamental change.

[2] While originally espoused by Vernon in 1966, this argument has been picked up by many commentators; also see (Vernon, 1971 & 1981), Ghadar (1977, 1985 & 1986), among others.

II. A MODEL

One way that has been used to understand the evolution of multinational enterprises is through the products and services they produce. The changes that a product (or service) undergoes in the course of its life cycle have several important implications for the firm's relationship with the external environment as well as its internal functioning. At each stage, the product's characteristics dictate the environment in which it can be produced, and, to a certain extent, the environment dictates the possible products. In North America, post World War II economic conditions played a determining role in the way besinesses approached the development, manufacturing, and marketing of products. Vernon first described these forces in 1966, just as international markets were beginning to change. He astutely observed that one could divide the international product life cycle for trade and investment into three principal phases: high tech, growth and internationalization, and maturity. Although equally applicable to products and services, the model used product characteristics to describe each phase. As shown in the expanded framework in Table 1, these form the basis of a three-phase development model for multinational enterprises.

1. Phase One: A Product Orientation

The slient characteristics of Phase One's high tech products and services is that they are new and unique. Hence, they depend on research and development (R & D); that is, on the applicationof advances in science and engineering to product development. By definition, Phase One products have never been produced successfully before. Moreover, at most, only a handful of firms are capable of developing and manufacturing any specific product. High tech products are purchased by a highly specialized and limited market. Not surprisingly, given their uniqueness and the few firms capable of producing them, Phase One products generally command a high price relative to direct costs.

2. Phase Two: A Market Orientation

The entrance of competition marks the beginning of Phase Two, growth and internationalization. All firms embarking on this phase must now focus on expanding their markets and production. Frequently, they expand internationally. Firms based in countries with smaller domestic markets (such as Sweden) generally begin such expansions earlier than those operating in countries with larger domestic markets (such as the United States). Initially, the firm supplies new foreign markets through exports from the home country. Gradually, production shifts to those countries with the largest domestic markets, with firms erecting foreign plants and assembly lines to supply local demand. As these foreign markets grow, more is produced locally and exports from the original home country begin to diminish.

Thus, as products reach Phase Two, market penetration and control replace research and development as the most important functions. Because the product technology has been perfected in Phase One, R & D as a percentage of sales decreases. The firm's activity need no longer center on developing the product, but rather on refining the means of production. Consequently, the focus shifts from product engineering to process engineering, although the firm still may address specialized engineering problems associated with design modifications to suit the product for international markets. With other firms continuing to enter the market as producers, competition increases and drives down both price and the production of price to cost.

3. Phase Three: A Price Orientation

Products enter Phase Three, originally labelled "maturity", when standardization of the production process makes further reductions in production costs impossible. The product has become completely standardized. The technology inherent in both the product itself and the production process have become widely available; hence, R & D drops off completely. Moreover, the market, while large, is completely saturated with competitors. The potential for growth in either market or market share therefore becomes severly limited. Due to the competition, price often falls to a bare minimum above cost.

Given these conditions, Phase Three firms can gain a competitive advantage only by managing factor costs; that is, by shifting production to those countries in which the elements of production are least expensive. Market considerations no longer determine location, but rather production costs. Because product development occurs in countries with a high standard of living and relatively high labor costs, by Phase Three, home country production usually ceases to be competitive and therefore declines markedly. As a result, the home country market now is supplied primarily by production imported from offshore plants.

4. The Accelerated Product Life Cycle

In the years immediately following the Second World War, products generally took between fifteen and twenty years to move through the international product life cycle described above. During these years, products progressed gradually through the three phases from high tech development to maturity. Their evolution seemed inevitable (see Stopford and Wells 1972, among others).

While the international product life cycle provided a fairly reliable guide to business strategy throughout the twenty-year period following World War II, by the 1970s, its acceleration made the need for new strategies and models, and thus for new kinds of multinational enterprises, imminent. By the 1980s, instead of taking fifteen to twenty years for a product to move through the cycle from development to maturity, it generally took three to five years. For some products, it now takes considerably less than six months. While the changes in strategy, structure, production, and marketing appear evident, what has been less clear is how these changes effect human resource management systems.

5. The Future: A Possible Phase Four

Many scholars are attempting to describe the future of society and of corporations within that society (e.g. Naisbitt 1982). One particularly insightful management scholar, Stan Davis, in his most recent book Future Perfect (1987) tells us that we are headed for an era of mass customization, with products being designed to meet indivudual needs but assembled from components sourced worldwide. Firms will need to understand and respond to individual clients' needs by delivering top-quality products and services at the least cost. Successful firms will be responsive; that is, they will listen to clients, accurately identify trends, and respond quickly. In many ways, firms will compete in Phases One, Two, and Three simultaneously.

To succeed in such a Phase Four environment, firms must become simultaneously more highly differentiated and more integrated or coordinated. Structurally, successful firms will have passed far beyond the international divisions and foreign subsidiaries of Phase Two as well as the global lines of business offering mature, standardized products of Phase Three to global heterarchies[3] (Hedlund 1986) that weave together complex networks of joint ventures, wholly-owned subsidiaries, and organizational and project defined alliances (Galbraith & Kazajian 1986). Managers in this type of environment will use multifocal approaches combining Phase Two's demands for increased local responsiveness with Phase Three's opportunities for global integration (Doz & Prahalad 1986). To maintain responsiveness, successful firms will develop global corporate cultures that recognize cultural diversity and its impact on the organization (Adler & Jelinek 1986), thus allowing them to integrate

[3] Heterarchies, as used by Gunnar Hedlund (1986), describe non-hierarchically organized systems; e.g., holographic coding where entire systems are represented or "known" within each component of the system.

culture specific strategic choices within a global vision of the firm (Laurent 1986). Appropriate approaches to human resource management in these types of cooperative ventures will have to be redefined (Lorange 1986), if not reinvented altogether.

Table 1: International Corporate Evolution

	Phase I Domestic	Phase II International	Phase III Multinatonal	Phase IV Global
Competitive Strategy	Domestic	Multidomestic	Multidomestic	Global
Importance of World Business	Marginal	Important	Extremely Important	Dominant
Primary Orientation	Product or Service	Market	Price	Strategy
Product/Service	New, Unique	More Standardized	Completely Standardies (Commodity)	Mass-Customized
Technology	Product Engineering Emphasized	Process Engineering Emphasized	Engineering Not Emphasized	Product & Process Engineering
	Proprietary	Shared	Widely Shared	Instantly & Extensively Shared
R & D/Sales	High(10-14%)	Decreasing	Very Low	High
Profit Margin	High	Decreasing	Very Low	High
Competitors	None	Few	Many	Significant (Few or Many)
Market	Small, Domestic	Large, Multidomestic	Larger, Multinational	Largest, Global
Production Location	Domestic	Domestic & Primary Markets	Multinational, least cost	Global least cost
Exports	None	Growing, high potential	Large & saturated	Imports & Exports
Structure	Functional Divisions Centralized	Functional with International Division Decentrlaized	Multinational Lines of Business Centralized	Global Alliance, Heteroarchy Centralized & Decentralized

III. THE CONSEQUENCES OF CULTURE

How important are cultural differences to organizational effectiveness? To what extent must firms differentiate their products and operations by country and region, versus maintaining global products and integrated, undifferentiated worldwide operations? Integration versus differentiation; the dilemma is certainly not new. Some observers of corporate behavior say cultural differences are not at all important. Others claim them to be extremely important. Those adherents of the cultural convergence perspective argue that organizational characteristics across nations are free, or becoming free, from the particularities of specific cultures. This position suggests that as an outcome of "common industrial logic" - most notably of technological origin - institutional frameworks, patterns and structures of organizations, and management practices across countries are converging (Adler & Doktor 1986: 300-301)[4]. By contrast, others argue that organizations are culture-bound, rather than culture-free, and remaining so. They conclude that there is no one-best-way to manage across all cultures, but rather many equally effective ways exist, with the most effective depending, among other contingencies, on the cultures involved (Adler & Doktor 1986: 301)[5].

Perhaps this dilemma has not been resolved because we have been asking the wrong question. Using the four phase model described above as a guide, we can ask when culture has an impact on organizational functioning rather than if it does or does not. As shown in Table 2, the importance of cultural differences depends on the phase or phases of the life cycle in which the firm

4. Among the most notable proponents of this position are Kerr et al 1952, Hickson et al 1974 & 1979; Form 1979; Negandhi 1979 & 1985; Child 1981; Child & Tayeb 1983; and Levitt 1983 among many others.

5. Proponents of the culture specific perspective include Laurent 1983; Lincoln, Hanada & Olson 1981; Hofstede 1980; Bass et al 1979; England 1975; Heller & Wilpert 1979; and Haire, Giselli & Porter 1966 among many others.

operates. Phase One firms can appropriately operate from an ethnocentric perspective, and ignore most cultural differences they encounter. These firms have one unique product that they offer primarily to their own domestic market. The Phase One product's uniqueness and the absence of competitors negate the firm's need to demonstrate sensitivity to cultural differences. If the firm exports the product at all, it does so without altering it for foreign consumption. Cultural differences are absorbed by the foreign buyers, rather than by the home country's product design, manufacturing, or marketing teams. In some ways, the implicit message Phase One firms send to foreigners is "We will allow you to buy our product" and, of course, the more explicit assumption is that the foreigners will want to do so.

By Phase Two, competition brings the need to market and to produce abroad. Consequently, sensitivity to cultural differences becomes critical to implementing an effective corporate strategy. As Phase One's product orientation shifts to Phase Two's marketing orientation, the firm must address each foreign market separately. Whereas the unique technology of Phase One products fits well with adopting an integrated, ethnocentric, one-best-way approach, the competitive pressures of Phase Two fit better with an equifinality approach; that is, with assuming that many-good-ways to manage exist, with the best being contingent on the particular cultures involved. Successful Phase Two firms can no longer expect foreigners to absorb cross-cultural mismatches between buyers and sellers, but rather must modify their own style to fit with that of their foreign clients and colleagues. While managing cultural differences becomes important in designing and marketing culturally appropriate products, it becomes critical in producing them in foreign factories.

Table 2: Corporate Cross-Cultural Evolution

	Phase I Domestic	Phase II International	Phase III Multinatonal	Phase IV Global
Primary Orientation	Product/ Service	Market	Price	Strategy
Strategy	Domestic	Multidomestic	Multinational	Global
Perspective	Ethnocentric	Polycentric Or Regiocentric	Multinational	Global/ Multicentric
Cultural Sensitivity	Unimportant	Very Important	Somewhat Important	Critically Important
With whom	No one	Clients	Employees	Employees & Clients
Level	No one	Workers & Clients	Managers	Executives
Strategic Assumption	"One-way" or "One-best-way"	"Many-best-ways" Equifinality	"One-least-cost-way"	"Many-best-ways" Simultaneously

As firms enter Phase Three, the environment again changes and with it the demands for cultural sensitivity. By Phase Three, many firms produce the same, almost undifferentiated product. Firms compete almost exclusively on price. This price competition reduces the importance of many cross-cultural differences along with most advantages the firm could have gained by sensitivity to them. The appropriate Phase Three assumption for product design, production, and marketing can neither remain one-best-way nor even many-best-ways, but rather must become one-least-cost-way. With primary markets having become global, there is little market segmentation based on culture or other national considerations. Firms gain competitive advantage almost exclusively through process engineering, sourcing critical factors on a worldwide basis, and benefiting from the resultant economies of scale. During Phase Three, price competition reduces culture's influence significantly.

By Phase Four, top-quality, least-possible-cost products and services emerge as the minimally acceptable standard. Competitive advantage comes from sophisticated global strategies based on mass customization. Firms draw product ideas, as well as the factors and locations of production, from worldwide sources. However, firms tailor final products and their relationship to clients to very discrete market niches. One of the critical components on which Phase Four firms segment the market again becomes culture. Successful firms understand their potential clients' needs, quickly translate them into products and services, produce those products and services on a least-possible-cost basis, and deliver them back to the client in a culturally appropriate and timely fashion. By Phase Four, the product, market, and price orientations of prior phases almost completely disappear, having been replaced by a strategic orientation combining responsive design and delivery with quick, least-possible-cost production. Firms continually scan the globe, often including geographically dispersed and culturally diverse alliance partners. Since a strategic orientation requires firms to develop global R&D, production, and marketing networks, it forces them to manage cultural diversity within the organization as well as between the organization and its supplier, client, and alliance networks. Attention to cultural differences becomes critical for managing both the firm's organizational culture and its network of relationships outside of the firm (see Figure 1).

Does culture impact the organization? The question has no single answer. The impact of culture varies with the type of environment and the firm's overall strategy. In Phase One, culture has a minimal impact; in Phase Two, a maximal impact; in Phase Three, again a reduced, moderate impact; and in Phase Four, again a pronounced impact. Similarly, the location of the impact varies with the firm's environment and strategy. In Phase One, cultural diversity effects neither the organizational culture nor the relationship with clients. By Phase Two, cultural differences strongly effect relationships with the external environment, especially with potential buyers and foreign workers.

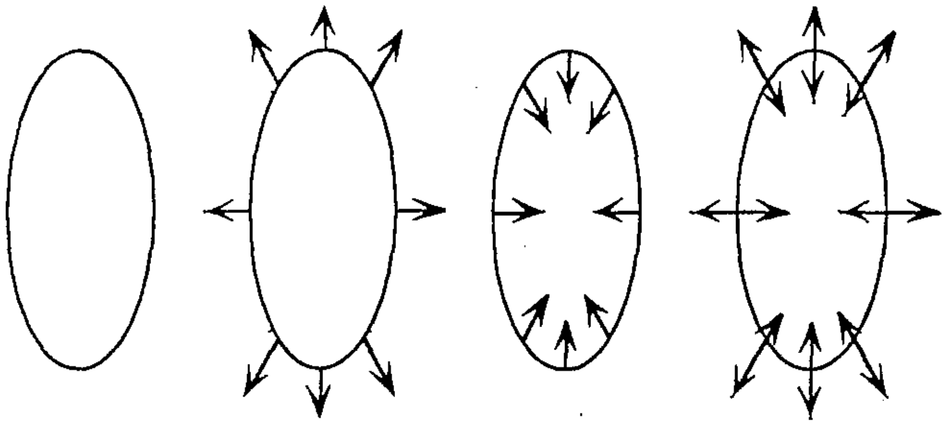

Figure 1: Location of Cross-Cultural Interaction

By Phase Three, there is less recognition of cultural differences outside of the firm, but a growing awareness of culture diversity within the firm. And by Phase Four, the firm must manage cultural diversity both within the firm and between the firm and its external environment. This progression from culture's lack of importance, to its critical importance with respect to the firm's external environment, and then with respect to its organizational culture underlies the efficacy of various international human resource management strategies (see Figure 2).

IV. INTERNATIONAL HUMAN RESOURCE MANAGEMENT

International human resource management (HRM) involves the worldwide management of people (see Tung 1984 and Miller et al. 1986, among others). Traditionally, it has focused on the selection, training and development, performance appraisal, and rewarding of international personnel. The effectiveness of particular HRM approaches and practices depends directly on the firm's environment and strategy. As summarized in Table 3, who the firm considers an international employee, who it selects for international assignments, how it trains them, what criteria it uses to assess their international

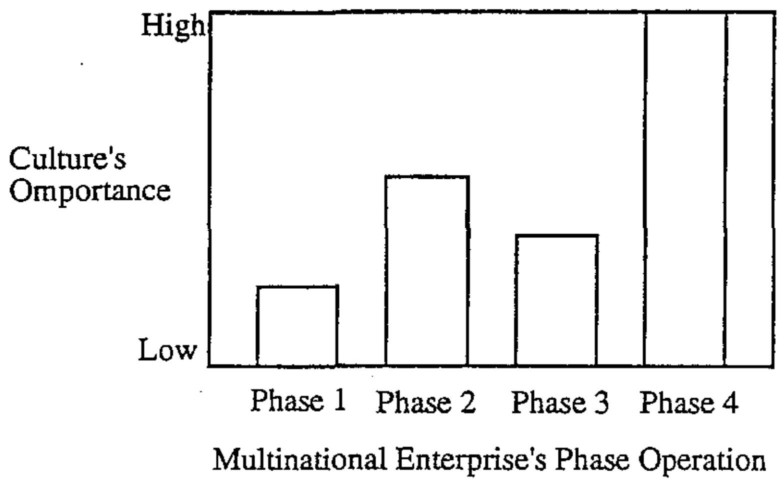

Figure 2: The Importance of Culture

performance, and what impact international experience has on employees' careers, should all fit the external environment in which the firm operates and its strategic intent. The central issue for MNEs is not to identigy the best international HRM policy per se, but rather to find the best fit between the firm's external environment, its overall strategy, and its HRM policy and implementation. Unfortunately, many firms continue to use Phase One and Two approaches to managing human resources, while operating in Phase Three and Four environments. The following section describes which approaches to managing people best fit with each phase in the firm's development.

Table 3: Globalization and Human Resource Management

	Phase I Domestic	Phase II International	Phase III Multinatonal	Phase IV Global
Primary Orientation	Product/ Service	Market	Price	Strategy
Strategy	Domestic	Multidomestic	Multinational	Global
Worldwide Strategy	Allow foreign clients to buy product/service	Increase market internationally, Transfer technology abroad	Source, product & market internationally	Gain global, strategic, competitive advantage
Staffing Expatriates	None-(Few)	Many	Some	Many
Why sent	Junket	To sell, control, or transfer technology	Control	Coordination & Integration
Who sent		"OK" performers, Saltes people	Very good performers	Hi-potential managers & top executives
Purpose	Reward	Project "To get job done"	Project & Career Development	Career & Organizational Development
Career Impace	Negative	Bad for domestic career	Important for Global Career	Essential for executive suite
Professional Re-entry	Somewhat Difficult	Extremely Difficult	Less Difficult	Professionally easy
Training & Development (Language & Cross-cultural Management)	None	Limited (One week)	Longer	Continuous throughout career
For Whom	No One	Expatriates	Expatriates	Managers
Performance Appraisal	Corporate Bottom Line	Subsidiary Bottom Line	Corporate Bottom Line	Global Strategic Positioning
Motivation Assumption	Money Motivates	Money & Adventure	Challenge & Opportunity	Challenge, Opportunity, Advancement
Rewarding	Extra money to Compensate for foreign hardships	Extra money to Compensate for foreign hardships	Less generous, global packages	Less generous, global packages
Career "Fast Track"	Domestic	Domestic	Token International	Global
Executive Passport	Home country	Home country	Home country, Token foreigners	Multinational
Necessary Skills	Technical & Managerial	Plus cultural adaption	Plus recognizing cultural differences	Plus cross-cultural interaction, influence & synergy

Phase One. In Phase One, the firm products a unique product and sells it primarily to its own domestic market. Given this domestic focus and the absence of competition, the firm's needs for internationally sophisticated people are minimal. The firm generally sends few employees on international business trips and none on expatriate assignments. Neither cross-cultural management nor language training is essential because potential buyers have few options other than the particular firm for purchasing Phase One products. This monopoly situation forces potential buyers (rather than the seller) to absorb the cross-cultural mismatches. Foreign buyers must speak the language of the home organization and accept business practise appropriate to the home environment. Moreover, foreign buyers must alter products and services, once purchased, to fit their needs. Not surprisingly, the majority of firms operating under Phase One assumptions provide no cross-cultural or predeparture training. As one manager aptly describes this Phase One perspective:

Managing a company is a scientific art. The executive accomplishing the task in New York can surely perform as adequately in HongKong (Baker & Ivancevich 1971: 40) as reported in Mendenhall, Dunbar, & Oddou 1987).

Based on Phase One assumptions, firms select the very few candidates for international work almost exclusively on product- or project-specific technical competence (see Mendenhall, Dunbar, & Oddou 1987).

In the past, understandably ethnocentric assumptions underlying Phase One strategies have led to numerous linguistic and human resource blunders (see Ricks 1983). While foreigner buyers rarely appreciate being forced to accommodate to the seller's language and culture. Phase One firms get away with such ethnocentric behavior because they are "the only game in town"!

Since domestic sales dominate Phase One profits, firms generally do not assign their best people to the few international positions. In selecting people for international travel, the firm's primary consideration is "getting the job done". Neither international career development for the employee nor international organizational development for the firm is considered important because international is not important. Consequently, in evaluating employees, most Phase One firms ignore internaitonal experience or, worse yet, treat it as hindering potential career advancement. As one manager of a Phase One firm said, "It is best to get your international experience standing next to the globe in the president's office".

Phase Two. Unlike Phase One, Phase Two firms face competition and respond by expanding from domestic to international operations, including actively marketing internationally and beginning to assemble and to produce overseas. Phase Two firms are polycentric. They are organized - and thus differentiated - into distinct national markets and operations, and only minimally integrated beyond the regional level. To maintain home country dominance, Phase Two firms often have overseas personnel reporting to an international division. Since executive decisions are generally made at a level above the international division, international is rarely considered either central or of primary importance.

Phase Two firms frequently select and send home country sales representatives to market products overseas, technical experts to transfer technology to overseas production sites, and managing directors and financial officers to control overseas operations. Since most R&D, and thus most innovation, still takes place at home, firms view foreign operations primarily as sites for replicating that which has already been down at home. Therefore, while not selecting marginal performers, Phase Two firms rarely send their very best people abroad.

Selection criteria for Phase Two should emphasize cross-cultural adaptability and sensitivity. However, in reality, many firms often continue to use Phase One's primary criterion - technical competence - supplimented by a willingness to go. As Torbiorn (1982: 51) bemoans:

The mass of possible selection criteria proposed in the literature is rarely likely to be matched by a wide range of available candidates and the man chosen is often simply the man who happens to be there.

This approach would be inconceivable if international activities were truly considered central. Consistent with this view of international is the lower stature and influence generally granted Phase Two's international personnel managers[6].

Unlike the prior phase, cross-cultural sensitivity and language skills become extremely important for Phase Two managers' effectiveness. Given the competition, firms create a comparative advantage by producing culturally appropriate products, using culturally appropriate management techniques, and marketing in culturally appropriate ways. To effectively implement these culturally appropriate strategies, international managers themselves need to develop cross-cultural skills. To this end, a number of techniques have been developed to reduce cultural shock and enhance both cross-cultural adaptation and effectiveness[7]

Unfortunately however, while numerous techniques exist, many firms - and, in particular, North American firms - generally have not recognized the importance of cross-cultural training to international effectiveness. Schwind (1985) claims that "a majority of companies involved in international trade do not provide any preparatory training for managers and employees destined to work abroad." Consistent with Schwind's observation, Mendenhall and Oddou (1986: 77) note that "there is a marked deficiency on the part of U.S. firms

[6]. For a discussion of Phase Two selection practices see, among others, Baker & Ivancevich, 1971; Miller 1973; Hawes & Kealey, 1981; Tung, 1981; Church, 1982; Torbiorn, 1982; Abe & Wiseman, 1983; Oddou & Mendenhall, 1984, Mendenhall & Oddou, 1985; and Zeira & Banai, 1985.

[7]. For a discussion of cross-cultural training approaches and techniques, see, among others, Hall, 1959; Oberg, 1960; Smalley, 1963; Byrnes, 1966; Guthrie, 1967; Higbee, 1969; Torbiorn, 1982; Ratiu, 1983; and Oddou & Mendenhall, 1984; Mendenhall & Oddou, 1985).

in offering comprehensive cross-cultural training to their employees who are assigned overseas." Tung (1981) corroborates others' observations with empirical evidence[8], reporting in 1982 that only 32% of U.S. companies conducted formal international training programs, as compared with 57% of Japanese companies and 69% of European companies. Rosen (1986) has noted that the 32% reported in Tung's 1982 study is the same figure as reported in earlier research by Baker and Ivancevich (1971): "this figure has remained virtually unchanged over the last two decades even though large numbers of overseas managers have indicated that proper predeparture preparation is absolutely necessary to improve overseas performance" (Ronen 1986: 548). This low and unchanging level of expatriate training in U.S. companies again exposes Phase One assumptions ill-fitted to the Phase Two (Three and Four) environment.

Moreover, this low and unchanging level of training also probably explains Americans' high expatriate failure rates-25-40% (Mendenhall & Oddou 1985) - when compared with Europeans' and Japanese' (see Tung 1982). What it does not explain is the acceptance of such high rates, especially when Tung (1982) has found a correlation of - .63 between expatriate failure rates and the rigor of the selection and training procedure used. Once again, the problem appears to be that firms operating in a Phase Two environment continue to make Phase One assumptions as an unquestioned convenience in their human resource planning. Needless to say, the consequences of this mismatch between environmental realities and HRM assumptions are quite serious.

While the firm sends expatriates from the home country to fill positions designed for integration and control (those of managing director, financial officer, and sometimes technical expert), it often includes host nationals in marketing and personnel positions. The selection of host nationals for positions in their own countries gives some recognition to the importance of cultural

[8] For similar observations, see Korn/Ferry International, 1981; Runzheimer, 1984; Dunbar & Ehrlich, 1986; and Mendenhall, Dunbar, & Oddou, 1986).

understanding and language fluency, even if this recognition is not extended to most home country employees. Kobrin (1984: 43) found that over half the U.S. firms surveyed had significantly decreased their expatriates over the past decade. Similarly, Berenbeim (1983: v) found that 80% of U.S. firms had local nationals heading the majority of country operations.

Phase Two firms generally evaluate expatriates performance based on that of the foreign operation. Yet, even the best evaluations rarely lead to significant career advancement. Most returnees from overseas assignments find re-entry extremely difficult. While abroad, the firm frequently views them as out-of-sight and out-of-mind. As returnees, it sees them as out-of-date and unimportant. To returnees' disappointment, their colleagues often evaluate them as somewhat inconsequential to the domestic mainstream (see Schein's 1971) discussion linking centrality in the organization to career (advancement). The home organization generally neither values nor uses their understanding of overseas operations or the exernal international environment (see Edstrom & Galbraith 1977). For ambitious managers who want to make it to the top of Phase Two firms (especially in North American companies), going abroad is generally a bad career strategy (For a discussion of re-entry, see, among others, Howard 1973; Adler 1980 & 1981; and Harvey 1982).

Similarly, host nationals' rarely, if ever, make it to the top of Phase Two firms. In most cases, an invisible ceiling stops them at the level of the country managing director. To get beyond the invisible ceiling, one must hold a passport of the home country. The almost complete absence of non-Americans on the boards of directors of American firms (and the similar absence of non-Japanese on Japanese boards) underscores the strength of the invisibl ceiling.

Phase Three. By Phase Three, the competitive environment again changes. Price, rather than either product of market, allows Phase Three firms to survive in the now global markets. Geographical dispersion often increases and with it the form's need to integrate. This geographical dispersion not only includes divisions within the firm, but also worldwide supplier, manufacturer, and distributor networks external to the enterprise. Phase Three firms accomplish integration primarily through centralizing and standardizing as many aspects of their products, processes, and structure as possible.

Given the critical role that multinational production and operations play in corporate survival, Phase Three firms attempt to select their best, rather than their marginal, employees for international positions. Specifically, rather than limiting selection to home country empolyees, they choose managers for international positions from throughout their worldwide organization. Integrating this diversity of employees, however, is not easy. One of the explicit purposes of international assignments, beyond getting- the-job-done, therefore now becomes firmwide integration. The firm uses international positions to develop an integrated, global organization through the international career development of high potential managers and thus the creation of a global cadre of executives. Similar to the role global lines of business play in integrating Phase Three products and markets worldwide, the international cadre of executives takes on the central role of integrating the firm through its top managers[9].

Whereas Phase Three makes international experience essential to firmwide management and career advancement, the importance of cross-cultural sensitivity and language skills diminishes somewhat. Rather than using cultural diversity, Phase Three firms often either assume or create similarity when attempting to integrate the global firm. For example, they frequently assume that consumers' tastes are essentially similar worldwide, thus allowing the firm to create generic products and services and to benefit from substantial economies of scope and scale (see Leavitt 1983, for an excellent exposition of this position). Similarly, Phase Three firms recognize that price substan-

[9] See Edstrom and Galbraith (1977) for a discussion of the use of international transfers as an organizational development strategy.

tially determines both market and market share, hence negating their need to differentiate products and services for individual or culture-specific tastes. Likewise, internal to the organization, Phase Three firms generally adopt the mother tongue of the home organization or English as a common language.

Moreover, organization culture is assumed to dominate national culture. Under the rubric of organization culture, firms generally require foreign nationals to accommodate to parent company - and implicitly parent culture - styles of interacting. The underlying assumption is that cultural differences either can be ignored because the organizational culture has molded nationals of all countries into similar employees - professionals who are "beyond passport" - or must be minimized because they cause problems (see Adler 1983). The first assumption becomes apparent in the lack of recognition for varying cultural styles of conducting business; that is, in the firm's cultural-blindness. The second assumption becomes apparent in such behaviors as the decision to use English exclusively, or the selection of host nationals who exhibit attitudes and behaviors typical of the parent company's culture. Many American companies traditionally have recruited host nationals from U.S. college campuses to insure that new hirees would have an excellent command of English and an adequate socialization into American ways of doing business. In this way, American firms have been able to hire Americanized foreigners rather than those more typical of their home country and culture.

As shown in Figure 1, Phase Three differs fundamentally from prior phases in that the primary location of cross-cultural interaction moves inside the organization. Phase One firms encountered little cross-cultural interaction because both their employees and their clients are from the same domestic environment. Phase Two firms encounter cultural differences when interacting with their expernal environment, primarily as home company nationals attempt to market abroad and to manage foreign workers. By contrast, Phase

Three firms, having hired people from around the world and integrated them into the overall organizaiton, encounter cultural differences within the firm's internal organizaitonal culture. The human resource management system should reflect the location of the cultural diversity. Unfortunately however, as has been described, Phase Three firms often attempt to assume away the culture differences by choosing to believe that organizational culture overrides differences in national perspective and behevior. Research, however, has shown this assumption of similarity to be incorrent. Organizational culture neither dominates nor erases national culture, but rather, in the case of multinational corporations, appears to accentuate it[10].

Re-entry in this environment poses less of a problem than in prior phases. Because firms value international experience, they often select top people to send overseas, recognize their international accomplishments, and bring them back to significant positions. Rather than hurting the expatriate's career, international assignments often become essential to career success.

Phase Four. In Phase Four, which combines aspects of Phase One, Two, and Three, firms face severe competition on a global scale. Successful strategies involve producing least-cost, top-quality products that, while differentiated for individual tastes, are produced globally and marketed globally. The increased severity of global competition forces multinationals to reexamine their traditional [Phase One, Two, and Three] approaches to human resource management (see Pucik 1984).

The Phase Four environment requires firms to assign their best people to international positions, because, by this time, the overwhelming dominance of the domestic market has become a relic of the past. Key employees must be multilingual and culturally sensitive to identify the needs of culturally differ-

10. See Hofstede (1980) for a study of the cultural diversity within IBM's corporate culture and Laurent (1983) for a study of cultural differences within a number of major American Corporations.

entiated market segments and to respond quickly and appropriately to each.

Moreover, top-quality, least-cost production necessitates worldwide operations, with location dictated by strategic, political, and economic constraints, along with the supply of inputs and market access. Hence, people from all over the world constantly must communicate and work with each other; in the vernacular, they must "think globally" to become global managers (see Murray & Murray 1986). Boundaries between expatriate and local personnel become obsolete (Doz & Prahalad 1986). Neither cultural forms of control emphasizing more homogeneous selection, socialization and training nor more bureaucratic forms of control can independently address the needs for intrgration and differentiation (see Jaeger 1983 and Baliga & Jaeger 1984). The first emphasizes integration through eliminating differences while the second emphasizes integration by controlling differences. The former is more appropriate to Phase Three's highly centralized organization while the later fits best with Phase Two's emphasis on decentralization. Because neither simultaneously emphasize integration and differentiation, neither fits particularly well in Phase Four.

Effectively managing such a culturally diverse organizational culture becomes an essential Phase Four skill. As Doz and Prahalad (1986) note, multinational corporations must find new ways to manage the dichotomy of cultural diversity and global integration, of national responsiveness and centralized coordination and control. One of the firm's major competitive weapons is its ability to use global human resources along both dimensions; that is, to enhance national responsiveness and global integration.

By Phase Four, as shown in Figure 1, cross-cultural interaction takes place both within the firm and between the firm and its external environment. Consequently, understanding and managing cultural differences becomes essentail both internally and externally. The firm's home country culture can no longer dominate its organization culture. Ignoring or minimizing cultural diversity has become a luxury of the past, as the firm must now continually recognise and manage it. Beyond recognition, successful Phase Four firms develop skills at identifying those situations in which cultural diversity can be used as an asset and those in which it must be regarded as a liability. Managers can then choose to accentuate and use differences, or attempt to minimize them, according to the particular situation. In no case does the firm ignore the differences (see Adler 1983).

Cultural diversity, by increasing differentiation, makes integration more difficult. However, if managed appropriately, cultural differences become a key Phase Four resource. For example, when they need differentiation, firms that recognize cultural diversity can use the differences to gain multiple perspectives, develop wider ranges of options and approaches, heighten creativity and problem solving skills, and thereby increase flexibility in addressing culturally distinct client and colleague systems. Simultaneously however, these same firms must be able to create similarity from the diversity when they need integration. This consciously created universality, Phase Four's form of organization culture, goes beyond cultural differences to heighten coordination and control[11]. Unlike firms in the prior phases, global Phase Four firms never assume similarity nor rely on naturally occurring universality to heighten integration: they create similarity - "universals".

For Phase Four managers, the salient question is not if there is cultural diversity, but rather how to manage it. They constantly use cultural diversity to balance three organizational tensions. First, they minimize the impacts of cultural diversity when integration is needed. Second, they use cultural diversity to differentiate products and services when culturally distinct markets or workforces must be addressed. And third, they use cultural diversity as a primary source of new ideas when innovation is needed. Thus, cultural diver-

[11] For a discussion of cultural synergy, see Adler, 1986, Chapter 4.

sity clearly takes on a role of primary importance in Phase Four. To achieve the appropriate balance, managers must become acutely sensitive to cultural nuances and highly skilled at managing culturally diverse environments.

Balancing cultural integration and differentiation influences all aspects of the human resource management system. For example, when firms promote managers from the local culture to positions of significant power in their own country, they are using cultural diversity to increase differentiation. By contrast, when they design multinational career paths for high potential managers and bring them together to create new approaches to managing innovation, production, finance, and marketing, they are using the diversity to create cultural synergy, Phase Four's powerful form of integration.

Phase Four firms no longer have an international division, rather, similar to Phase Three, they are international. They select their best people for global assignments and responsibility. They continualy train them in the skills necessary for national responsiveness and culturally synergistic integration. Promotions go to those managers who skillfully assess and balance the needs for differentiation and integration; those who are continually learning and therefore capable of continually makeing new choices. Re-entry problems diminish significantly given the centrality of global operations and the need for highly trained, experienced, and sophisticated international managers. Given this global perspective, international human resource management is no longer marginal, but becomes central to firmwide success. Without a human resource system well integrated into the firm's global strategy, the Phase Four firm cannot succeed. With anything other than a global perspective, the human resource system will cause the Phase Four firm to fail.

V. IMPLICATIONS: FUTURE TRENDS

As has happened over the past two decades, the world has again changed. Today firms face a global economy. "Fully 70% of ... [U.S.A.] industries, up from 25% only a dozen years ago, are under full-scale attack by foreign competitors" (Peters 1986: 11). Some firms have changed, while most will have to change significantly to compete successfully in the 1990s and the twenty-first century. Unfortunately, whereas most other functional areas have already begun to respond, many firms' human resource systems have failed to adapt sufficiently to this changing environment. In all too many firms, human resource systems are managed as if they were in Phase One, Two, or Three - the domestic, international, or multinational worlds that were - not the global world that is nor in the multiphase world that will be.

Already today, and certainly in the future, firms must understand cultural differences to successfully implement global R&D, global marketing, global production, and global financial strategies. Cultural awareness has become essential not only within global firm's, but also for coordinating and integrating activities among alliance partners of often differing national origins. If executives do not recognize and manage cultural diversity appropriately, their firms will not survive.

To compete globally, people involved in all aspects of the firm must not only think globally, they must realize that competition, and perhaps more importantly, collaboration is now on an equal footing. For most multinational enterprises, significant comparative advantage based on technology, production, or market share has rapidly become a vestige of the past.

The research agenda is clear. Management scholars need to study human resource management in context. They must study international HRM within the context of changing economic and business conditions. Similarly, they must study international HRM within the context of the industry and the firm's other functional areas and operations. Studying HRM out-of-context is not only no longer helpful, it has become misleading. Similarly, management scholars need to use multiple levels of analysis when studying international

HRM: the external social, political, cultural, and economic environment; the industry, the firm, the subunit, the group, and the individual. Research in contextual isolation is misleading: it fails to advance understanding.

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