ORGANIZATIONAL CHALLENGES TOWARDS INTERNATIONAL GROWTH

DR. ABHISHEK GUPTA*

*Administrative-cum-Accounts Officer & Head of Office, Sardar Swaran Singh National Institute of Renewable Energy, Kapurthala, Punjab, India.

ABSTRACT

In this research, we examine how international growth places demands on management, and the factors that impact on how managers of internationalizing firms respond to these challenges. We start with the premise that the human resource (HR) function does not operate in a vacuum, and that HR activities are determined by, and influence, organizational factors. We cover the following areas as structural responses to international growth; control and coordination mechanisms; mode of operation used in various international markets; effect of responses on human resource management approaches and activities. It builds upon material to provide a meaningful global and organizational context for drawing out the international dimension of human resource management the central theme.

1. INTRODUCTION

Before we look at the way in which the shift from a domestic to global orientation affects the HR function and the human resource management consequences involved, we need to develop an appreciation of the way in which various internationalizing firms have responded to the challenges of international growth. Previously, we looked at the general global environment in which firms compete. Here we focus on internal responses as firms attempt to deal with global environment challenges. An in-depth examination of all these elements is beyond the scope of this book. Rather, the purpose of this chapter is to explore some of the managerial responses to these influences that concern HRM. Our focus remains on the connection between organizational factors, management decisions and HR consequences. To a certain extent, how the internationalizing firm copes with the HR demands of its various foreign operations determines its ability to execute its chosen expansion strategies. Indeed, Finnish research suggests that personnel policies should lead rather than follow international operation decisions, yet one could argue that most companies take the opposite approach that is, follow market-driven strategies.

2. GLOBAL ORGANIZATIONAL DEVELOPMENT PLATFORMS

Most firms pass through several stages of organizational development as the nature and size of their international activities grow. As evolutionary stages, their organizational structures change, typically due to the strain imposed by growth and geographical spread; the need for improved coordination and control across business units and the constraints imposed by host-government regulations on ownership and equity. Multinationals are not born overnight; the evolution from a
domestic to a truly global organization may involve a long and somewhat tortuous process with many and diverse steps. Although research into internationalization has revealed a common process, it must be stressed that this process is not exactly the same for all firms. Some firms go through the various steps rapidly whereas others evolve slowly over many years, although recent studies have identified a speeding up of the process. For example, some firms are able to accelerate the process through acquisitions, thus leapfrogging over intermediate steps. Nor do all firms follow the same sequence of stages as they internationalize some firms can be driven by external factors such as host-government action or an offer to buy a company. Others are formed expressly with the international market in mind often referred to as born global. In other words, the number of steps, or stages, along the path to multinational status varies from firm to firm, as does the time frame involved. However, the evolutionary process is useful in illustrating the organizational adjustments required of a firm moving along the path to multinational status. As mentioned earlier, linked to this evolutionary process are structural responses, control mechanisms and HRM policies. Export typically is the initial stage for manufacturing firms entering international operations. As such, it rarely involves much organizational response until the level of export sales reaches a critical point. Of course, simple exporting may be difficult for service companies (such as legal firms) so that they may be forced to make an early step into foreign direct investment operations. Exporting often tends to be handled by an intermediary (for example, a foreign agent or distributor, as local market knowledge is deemed critical). As export sales increase, however, an export manager may be appointed to control foreign sales and actively seek new markets. This person is commonly from the domestic operations. Further growth in exporting may lead to the establishment of an export department at the same level as the domestic sales department, as the firm becomes more committed to, or more dependent upon, its foreign export sales.

As the firm develops expertise in foreign markets, agents and distributors are often replaced by direct sales with the establishment of sales subsidiaries or branch offices in the foreign market countries. This stage may be prompted by problems with foreign agents, more confidence in the international sales activity, the desire to have greater control and/or the decision to give greater support to the exporting activity, usually due to its increasing importance to the overall success of the organization. The export manager may be given the same authority as other functional managers. Exporting is still controlled at corporate headquarters, but the firm must make a decision regarding the coordination of the sales subsidiary, including staffing. If it wishes to maintain direct control, reflecting an ethnocentric attitude, it opts to staff the sales subsidiary from its headquarters through the use of parent country nationals (PCNs). With the spread of international activities, typically the firm establishes what has been referred to as ‘miniature replicas’, as the foreign subsidiaries are structured to mirror that of the domestic organization. The subsidiary managers report to the head of the international division, and there may be some informal reporting to the various functional heads directly. Many firms at this stage of internationalization are concerned about maintaining. Firm control of the newly established subsidiary, and will place PCNs in all key positions in the subsidiary. However, some firms decide that local employment conditions require local handling and place an HCN in charge of the subsidiary HR function, thus making an exception to the overall ethnocentric approach. Others may place HCNs in several key positions, including HRM to comply with host-government directives. The role of corporate HR staff is primarily concerned with expatriate
management although there will be some monitoring of the subsidiary HR function formally through the head of the International Division. Over time, the firm moves from the early foreign production stage into a phase of growth through production, or service, standardization and diversification. Consequently, the strain of sheer size may create problems. The international division becomes overstretched, making effective communication and efficiency of operation difficult.

Typically, tensions will emerge between the parent company (headquarters) and its subsidiaries, stemming from the need for national responsiveness at the subsidiary unit and global integration imperatives at the parent headquarters. The demand for national responsiveness at the subsidiary unit develops because of factors such as differences in market structures, distribution channels, customer needs, local culture and pressure from the host government. The need for more centralized global integration by the headquarters comes from having multinational customers, global competitors and the increasingly rapid flow of information and technology, and from the quest for large volume for economies of scale. As a result of these various forces for change, the multinational confronts two major issues of structure: the extent to which key decisions are to be made at the parent country headquarters or at the subsidiary units and the type or form of control exerted by the parent over the subsidiary unit. The structural response, at this stage of internationalization, can be either a product/service-based global structure (if the growth strategy is through product or service diversification) or an area-based structure (if the growth strategy is through geographical expansion). As part of the process of accommodating subsidiary concerns through decentralization, the MNE strives to adapt its HRM activities to each host country’s specific requirements. This naturally impacts on the corporate HRM function (the dotted arrows denote functions other than HRM and marketing). As indicated by the dashed arrows, there is an increasing devolution of responsibility for local employee decisions to each subsidiary, with corporate HR staff performing a monitoring role, intervening in local affairs only in extreme circumstances. This HRM monitoring role reflects management’s desire for central control of strategic planning; formulating, implementing and coordinating strategies for its worldwide markets. In addition, the growth in foreign exposure combined with changes in the organizational structure of international operations results in an increase in the number of employees needed to oversee the activities between the parent firm and its foreign affiliates. Within the human resource function, the development of managers able to operate in international environments becomes a new imperative. As the multinational grows and the trend toward a global perspective accelerates, it increasingly confronts the ‘think global, act local’ paradox. The increasingly complex international environment characterized by global competitors, global customers, universal products, rapid technological change and world-scale factories-pushes the multinational towards global integration whereas, at the same time, host governments and other stakeholders (such as customers, suppliers and employees) push for local responsiveness. To facilitate the challenge of meeting these conflicting demands, the multinational will typically need to consider a more appropriate structure, and the choice appears to be the matrix, the mixed structure, the hierarchy, the transnational or the multinational network.
3. MULTINATIONAL’S ATTEMPT TO INTEGRATE OPERATIONS

The multinational is attempting to integrate its operations across more than one dimension. The international or geographical division and the product division share joint authority, thus violating the unity of command. Advocates of this structural form see, as its advantages, that conflicts of interest are brought out into the open, and that each issue with priority in decision-making has an executive champion to ensure that it is not neglected. In other words, the matrix is considered to bring into the management system a philosophy of matching the structure to the decision-making process. In practice, firms that have adopted the matrix structure have met with mixed success. One reason is that it is an expensive form that requires careful implementation and commitment on the part of top management to be successful. It is in the attempt to master the matrix that many multinationals have floundered. However, if the multinational opts for a matrix structure, particular care must be taken with staffing. In an attempt to manage the growth of diverse operations, or because attempts to implement a matrix structure have been unsuccessful, some firms have opted for what can only be described as a mixed form. Similarly, the product-divisional zed firms have been reintroducing the international division. At Motorola, the product groups had worldwide responsibility for their product lines. As they compete with the Japanese in Japan, an international group has been introduced to help coordinate across product lines. Although all structural forms that result from the evolutionary development of international business are complex and difficult to manage effectively, given a firm’s developing capabilities and experience at each new stage, mixed structures appear even more complex and harder to explain and implement, and also control. Thus, as our discussion of the matrix structure emphasized, it is important that all employees understand the mixed framework and that attention is also given to supporting mechanisms, such as corporate identity, interpersonal relationships, management attitudes and HR systems, particularly promotion and reward policies.

Early studies of headquarter subsidiary relationships tended to stress resources, people and information flows from headquarters to subsidiary, examining these relationships mainly in the context of control and coordination. However, in the large, mature, multinational, these flows are multidirectional from headquarters to subsidiary, from subsidiary to subsidiary and between subsidiaries. The result can be a complex network of inter-related activities and relationships and the multinational management literature identifies three descriptions of organizational structures, the transnational and the network firm. Whilst they have been given different terms, each form recognizes that, at this stage of internationalization, the concept of a superior structure that neatly fits the corporate strategy becomes inappropriate. From an HRM perspective, the hierarchy is interesting in that its success appears to rest solely on the ability of the multinational to formulate, implement and reinforce the required human resource elements. The term transnational has been coined to describe an organizational form that is characterized by an interdependence of resources and responsibilities across all business units regardless of national boundaries. The term has also become a descriptor of a particular type of multinational that tries to cope with the large flows of components, products, resources, people and information among its subsidiaries, while simultaneously recognizing distributed specialized resources and capabilities. As such, the transnational demands a complex process of coordination and cooperation involving strong cross-unit integrating devices, a strong corporate identity and a well-developed worldwide management perspective. Therefore, developing transnational managers or global leaders who can think and act across national and subsidiary boundaries.
emerges as an important task for top management introducing these complex organizational forms. Staff transfers play a critical role in integration and coordination.

4. MULTINATIONAL AS NETWORK

Some scholars are advocating viewing certain large and mature internationalized firms as a network, in situations where subsidiaries have developed into significant centers for investments, activities and influence, and can no longer be regarded as at the periphery. For example, GE has established a 'center of excellence' in Hungary for research and development in its lighting division. Interaction between headquarters and each subsidiary is likely to be dyadic, taking place between various actors at many different organizational levels and covering different exchanges, the outcome of which will be important for effective global performance; Such MNEs are loosely coupled political systems rather than tightly bonded, homogeneous, hierarchically controlled systems. This runs counter to the traditional structure where linkages are described formally via the organization's structure and standardized procedures, and informally through interpersonal contact and socialization. The management of a multi-centered networked organization is complex. Apart from the intra-organizational network, each subsidiary also has a range of external relationships. The management of both the intra-organizational and inter-organizational spheres, and of the total integrated network, is crucial to global corporate performance. It involves what has been termed a less-hierarchical structure, featuring five dimensions: delegation of decision-making authority to appropriate units and levels; geographical dispersal of key functions across units in different countries; de-bureaucratization of formal procedures and differentiation of work, responsibility and authority across the networked subsidiaries.

As we point out in our treatment of the various forms, there has been little direct investigation into how the HR function develops in response to structural changes as a consequence of international growth. An exception is a study of the changing role of the corporate HR function in 30 UK firms. The authors, Scullion and Starkey, found three distinct groups which they describe as: Centralized HR companies, characterized by large, well-resourced HR departments responsible for a wide range of functions. The key role for corporate HR was to establish and maintain control over worldwide top-level management positions, such as divisional and subsidiary managers, so that strategic staffing was under central control. Internationalizing firms from other Asian nations may also vary in structural form and growth patterns. Korean conglomerates appear to have a stronger preference for growth through acquisitions than the 'Greenfield' approach taken by Japanese multinationals, and this will influence their structural responses in terms of control and coordination. The so-called Chinese bamboo network/family firms may face significant challenges as their international activities expand and it becomes more difficult to maintain the tight family control that characterizes overseas Chinese firms. As the Chairman of one Chinese multinational commented with regard to the effects of international growth, 'You have no choice but to trust foreigners and to delegate. You run out of family rather rapidly.'
5. CONTROL MECHANISM

International operations place additional stresses on control mechanisms. There is also additional stress on the firm’s ability to coordinate resources and activities. A consistent theme in the descriptions of transnational and networked organization forms is the need to foster vital knowledge generation and diffusion through lateral communication via a network of working relationships. Given that network relationships are built and maintained through personal contact, organizations need processes and forums where staff from various units can develop types of personal relationships that can be used for organizational purposes. For example, working in cross-functional and/or cross-border teams can assist in developing personal contacts. Training and development programs, held in regional centers or at headquarters, become an important forum for the development of personal networks that foster informal communication channels. Some advocates of more complex structural forms regard the use of cultural control as an effective informal control mechanism. Corporate culture is variously defined, but essentially it refers to a process of socializing people so that they come to share a common set of values and beliefs that then shape their behavior and perspectives. It is often expressed as 'our way of doing things'. Cultural control may be a contentious issue for some evidence of multinational imperialism where corporate culture is superimposed upon national cultures in subsidiary operations. However, its proponents offer persuasive arguments as to its value as a management tool. The emphasis is on developing voluntary adherence to corporate behavioral norms and expectations through a process of internalization of corporate values and beliefs. The literature on corporate culture recognizes the role played by HR activities in fostering corporate culture.

6. MODE OF OPERATION

One of the elements is mode of operation. We will now take a brief look at forms of operation mode utilized by internationalizing firms and the managerial and HR issues involved. The discussion on the range of structural adjustments and control mechanisms has been based on the literature relating to the growth of the multinational enterprise. The organizational forms illustrated are primarily concerned with integrating wholly owned subsidiaries. However, as Welch and Welch argue, internationalizing firms may also adopt contractual and cooperative modes in order to enter and develop foreign markets. Naturally, these modes are not mutually exclusive a firm may have licensing arrangements with a foreign joint venture, or have a general strategy of growth through international franchising, but combine this with a wholly owned subsidiary or a joint venture in some markets. These authors present a framework to illustrate how IHRM activities, such as staff placement, simultaneously link and influence the mode of operation utilized to support an internationalization strategy. Although decrying the paucity of empirical evidence regarding the IHRM demands of the contractual modes of operation, the authors suggest that HRM concerns affect, and may even govern the choice of market entry mode. They use the entry of the US hamburger chain McDonald's into Russia to illustrate the interconnection between mode of entry, an international joint venture, and IHRM, Expatriates were involved in assisting with the selection and training of local staff each crew member received the standard McDonald's training. Another way of operating in foreign markets is through the use of management contracts. They involve a management role in the foreign company for a specified period of time and fee, and therefore require the posting of staff for extended periods of time. Walt Disney is an example of a firm that utilizes this mode of
operation. The establishment of Euro-Disney combined 49 per cent equity with a management fee of 3 per cent of gross revenue. Management contracts are also used in the hotel and airline industries.

By its very nature, this form of contractual mode means that skilled, usually talented staff will be needed. Knowledge transfer is an important component, involving the training of HCN staff. However, there is little treatment of the HR demands of a successful management contract in the IHRM literature. In one of the few international business texts that covers this contractual mode of operation, the authors comment. The overall success of the contract operation, including the training aspect, depends on the quality of staff transferred or appointed to the contract venture, and therefore overall international human resource management by the company. Because management contracts are normally not a mainstream operational method, when used they will often receive secondary consideration in staffing requirements. For this reason, companies tend not to be keen to commit large numbers of quality staff to contract operations. Likewise the client organization prefers not to have large numbers of expatriate staff as it makes eventual replacement more difficult. Thus, for both sides there is an incentive to keep down foreign staff numbers. There is a similar paucity of information associated with the IHRM demands of international project management for the project firm itself, and also the range of contributing firms (that is, subcontractors, joint-venture partners, etc.) that may be involved in the international project. Another mode of operation is that of an alliance. A firm may enter into an alliance with an external party (or parties) such as a competitor, a key supplier or an, affiliated firm in order to compete more effectively in the global marketplace. Since these partnerships come in all shapes and sizes, the term alliance has come to mean different things to different people; strategic alliance, cooperative venture, collaborative agree mentor corporate linkage, of which one form maybe a joint venture. A corporate alliance is a formal and mutually agreed commercial collaboration between companies. The partners pool, exchange, or integrate specified business resources for mutual gain. Yet the partners remain separate businesses. The key point is that an alliance is a form of business relationship that involves some measure of inter-firm integration that goes beyond the traditional buyer-seller relationship; Stops short of a full merger acquisition, though some alliances can develop into mergers or takeovers at a later date. The particular type of venture that emerges is a function of the strategic importance of the venture to the parent company and the extent to which the parent seeks control over the resources allocated to the venture.

There has been a marked growth in alliance formation over the last two decades. Alliances are found in such diverse industries as telecommunications, aerospace, automobiles, electronics, and transportation equipment. Shared activities can include research and development, production and marketing. An alliance can involve arrangements such as licensing agreements, marketing or distribution partnerships and consortia. Regardless of the motive for entering into such an arrangement, the resultant partnership adds another dimension to a firm's structure. In order to meet the objectives of the collaborative partnership within the context of broader corporate strategy, the firm needs to integrate or link the partnership venture to its own existing activities and functions and to devise a method of monitoring its performance. The way the partnership is interlinked naturally depends on the form that the collaboration takes. As we have seen with other modes of operation, the various forms of inter-firm linkages affect HRM in different ways, depending upon the type of alliance involved. For example, in an international
joint venture, a new entity that brings together managers from two or more firms, the managers must become accustomed to working with a foreign partner (or partners). Staffing the joint venture with managers who are flexible in terms of different management styles and philosophies is probably the single most important task facing the human resource function at this critical time. The past decade has seen a plethora of mergers and acquisitions (M&As) as a form of market entry and expansion. There are considerable challenges involved in successful M&As. It is never a simple process to integrate two existing firms into one entity. As the President of Dow Performance Chemicals explained most M&As fail because the integration of the acquired into the new company does not go well ... You have to have the human side of it done very well: who is leaving, who is staying, have you sifted and sorted it so those who are staying buy into your company's value proposition.

7. SUMMARY

The purpose of this research has been to identify the HR implications of the various options and responses that international growth places on the firm. This research focused on the organizational context in which IHRM activities take place; Different structural arrangements have been identified as the firm moves along the path to multinational status from export department through to more complex varieties such as the matrix, transnational and networked; Control and coordination aspects. Formal and informal mechanisms were outlined, with emphasis on control through personal networks and relationships, and control through corporate culture drawing out HRM implications; The various modes such as wholly owned, franchising, management contracts and international joint ventures used by multinationals for foreign market entry and expansion. Again, we attempted to demonstrate the IHRM implications of these various modes, although noting that most of the literature focuses on wholly owned subsidiaries and international joint ventures; How international growth affects the firm's approach to HRM; Firms vary from one another as they go through the stages of international development, and react in different ways to the circumstances they encounter in the various foreign markets. There is a wide variety of matches between IHRM approaches, organizational structure and stage of internationalization. For example, almost half the US firms surveyed by Dowling reported that the operations of the HR function were unrelated to the nature of the firm's international operations. A study of nine subsidiaries of multinationals operating in Ireland that the majority adopted a local approach to the HR function, with headquarters involvement often limited to monitoring the financial implications of HR decisions; Stages of development, organizational forms and mode of operation should not be taken as normative. Research does suggest a pattern and a process of internationalization but firms do vary in how they adapt to international operations we use nationality of the parent firm to demonstrate this. We have been able to demonstrate that there is an interconnection between international HRM approaches and activities and the organizational context and HR manager have a crucial role to play. In order to perform this role better, it would seem important that HR managers understand the various international structural options along with the control and coordination demands imposed by international growth and the HR implications that accompany the range of operation modes outlined.
REFERENCES


