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Global integration and local responsiveness in multinational subsidiaries: Some strategy, structure, and human resource contingencies

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In this paper we analyze different aspects of organization and management in multinational subsidiaries, and investigate some organization design premises in these contexts. We develop some theoretical arguments for linkages between strategy, structure, and aspects of human resource management. Data were collected from a sample of 259 multinational subsidiaries, mainly from the Asia-Pacific area. Our findings generally support the association of organizational and human resource contingencies with subsidiary effectiveness in more localized than in more globalized situations. We conclude by discussing these findings and attempting to further the understanding of the management of multinational subsidiaries in the contemporary competitive environment.

Keywords: human resources, multinational, subsidiary, strategy

... tension between integration (centralization) and differentiation (localization) is becoming a major dilemma for IHRM and large global firms. (Briscoe and Schuler, 2004, 61)

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Multinational subsidiaries undertake dual roles: as cogs in the wheels of their parent organizations, and as competitors in local markets. Today, multinational subsidiaries are the contemporary gladiators of the competitive environment. Competing among themselves and with local firms, they attempt to bring global resources to bear in diverse international arenas (Brock 2000). However the management practices that enabled the original multinational enterprise (MNE) to grow out of its domestic markets do not always suit subsidiaries across national borders. One of the most prominent frameworks to shed some light on these contexts has been the integration–responsiveness grid popularized by C.K. Prahalad, Chris Bartlett, the late Sumantra Ghoshal, and others (e.g. Bartlett and Ghoshal 1988). However, much ambiguity and some gaps still exist in the literature about these concepts – often called global integration (GI) and local responsiveness (LR) – especially where it comes to questions of management of multinational subsidiaries in these varying contexts.

In this paper we investigate some well-accepted organization design premises in the GI and LR contexts. Using a contingency theory framework, we develop separate GI and LR theoretical arguments for linkages between strategy, structure, and aspects of human resource (HR) management in subsidiaries. Survey data collection among a large, diverse sample of multinational subsidiaries is described, leading to hypothesis testing. One of the many contributions is that our data set includes a series of effectiveness measures (e.g. profitability, market share, and cost control) against which to judge various contingency relationships. A series of correlation statistical tests shows a tendency for better contingency-effectiveness fits in the LR than the GI subsamples. We conclude by discussing these findings and attempting to further the understanding of the management of MNEs and their subsidiaries in the contemporary competitive environment.

Background and literature

The multinational organization

The field of international organization studies has its contemporary roots in the work of Chandler (1966) who studied how structures of some large American organizations were influenced by growth and strategic change. The growth and strategies observed typically involved international expansion of some type, eventually leading to some foreign ownership structures. A follow-up study by Fouraker and Stopford (1968) found that most US international organizations had diversified product lines and decentralized divisional structures. Stopford and Wells (1972) showed how increasing foreign product diversity and sales as a proportion of total sales leads to the adoption of global matrix structures via either worldwide product divisions or area structures.

The past few decades have seen replications and extensions of this work. Initially the point of view was mainly that of the corporate centre of the MNE. For example, Daniels, Pitts and Tretter (1984) found a coincidence of the worldwide functional structure and relatively low levels of product diversity. Further, their exploratory study showed that firms generally change from one structure to another as they grow, a typical path being from international divisions to area (or geographic divisional) structures. Habib and Victor (1991) analyzed the strategy–structure fit of 144 MNEs and found similar results.

The multinational's foreign operating units – generally called subsidiaries – are clearly the parts of the organization where foreign business opportunities are exploited, but also where the challenges of adapting to distant and unfamiliar contexts are often faced. The management of multinational subsidiaries has gradually emerged as a distinct field of research within the area of international and strategic management. Otterbeck (1981) was one of the earliest authors to try to define the field, focusing on headquarters–subsidiary relationships. A subsequent collection by Ettemand and Dulude (1986) contributed by bringing attention to world product mandates. More recently, Birkinshaw and Hood (1998a) and Paterson and Brock (2002) have made a relatively systematic effort not only to define and review the field, but also to define research agendas for the subsidiary as a unit of analysis.

Structure in multinational subsidiaries

Studying complex organizations several decades ago Lawrence and Lorsch (1967) noted that different parts of organizations typically differ with respect to time orientations, goals, formality, and other behaviors – *differentiation*. They also discuss how, contingent on the environment in which the organization finds itself, varying degrees of ‘collaboration ... to achieve unity of effort’ – *integration* – are needed with organizational effectiveness (Lawrence and Lorsch 1967, 47).

We see these same differentiation and integration mechanisms in contemporary MNEs (Luo 2002). They have differentiated structures to the extent that they have many diverse subsidiaries in different parts of the world (spatial differentiation), subsidiaries with different roles (horizontal differentiation), and many different organizational levels within the overall MNE (vertical differentiation). The Boeing Corporation is an example of a very differentiated organization¹ with hundreds of subsidiaries, mainly highly specialized, some close and some far from Seattle, some large and some small. A passenger jet marketing department would be very different from the weapon systems' R&D efforts.

¹ Interestingly, Boeing is not a typical multinational because such a large portion of its assets are in the USA.

On the other hand, many MNEs stress integrating mechanisms to help co-ordination and control among subsidiaries (Brock and Birkinshaw 2004). MNE manager's time is taken up by reporting requirements, overseas travel to corporate meetings, and seemingly endless planning cycles of little relevance to their local businesses. While integrating mechanisms are supposed to help the management of differentiated organizations (Lawrence and Lorsch 1967), there is clearly a tendency for some organizations to use them far more than others. Thus, in studying the organization structures of MNE subsidiaries, we expect to find some in which differentiation mechanisms predominate and others with stronger integrative mechanisms.

Strategy in multinational subsidiaries

International strategy concerns the extent to which diverse parts of the MNE are integrated and co-ordinated, and international capabilities are created and controlled (Roth, Schweiger, and Morrison 1991). A commonly used strategy typology in these contexts is multidomestic-global (Porter 1986; Roth, Schweiger, and Morrison 1991). Multidomestic strategies imply that the MNE allows each subsidiary to be managed separately and relatively independently, trying to maximize the advantage of each subsidiary in its own market (Luo 2002). This is consistent with the concept of LR developed above. Global strategies imply that the MNE tries to manage the entire organization as a whole for its collective advantage (Harzing 2002). This usually implies significant co-ordination of efforts among subsidiaries and head offices, greater centralization, and is consistent with the concept of GI.

However, we should be careful not to think of global strategies (or 'globalization') necessarily using a 'cookie-cutter' approach to their subsidiaries. Kanter and Dretler (1998, 61) mention the following as myths concerning global strategy: 'global strategy means doing everything the same way everywhere' and 'globalization requires abandoning country images and values'. Similarly, after weighing both 'subsidiary-level factors' and 'host-country-level factors', Birkinshaw and Hood conclude that 'the subsidiary appears to need a certain level of decision-making autonomy' (1998b, 792). This additional complexity in implementation of global strategies is a major topic in the discussion and recommendations section below.

Human resource management practices

Every organization has HR practices, whether explicit or implicit. These policies, routines, and systems are crucial to the effectiveness of the contemporary organization (Lawler 2005; Pfeffer 1998). HR practices, like salary packages, career development plans, and team-based pay have been shown to affect human performance significantly (Barkema and Gomez-Mejia 1998;

Schuster and Zingheim 1992). According to Lawler (2005), such incentives have replaced 'loyalty contracts' in large, contemporary organizations – employees now expect challenging work and substantial rewards in place of blind loyalty. However, organizational and contextual variables influence the specific mechanisms and degrees of HR's effects (Gong 2003; Welch 2003). Specifically, the multinational setting is a particularly challenging one in which to tailor these rewards (Harvey, Novicevic, and Speier 2001; Schuler and Rogovsky 1998). For example, managers and workers in different parts of a MNE may come from cultures that place different values on company stock and/or may live in countries with different tax incentives for certain employee rewards.

HR research in the multinational setting is relatively new and rare (Briscoe and Schuler 2004). There certainly is a growing understanding of adaptation of HR strategies to local contexts (Chew and Horowitz 2004). However, we have limited knowledge on the effectiveness of global implementation of specific HR programs. In this project we investigated the extent to which three HR programs (or tactics) are associated with the effectiveness of MNE subsidiaries for the strategic options described above. The three HR programs, with the definitions used on the survey instrument, were:

- profit-sharing plans: a plan providing for employee participation in company profits;
- broadbanding: salary structure that consolidates a large number of pay grades or ranges into a few 'broad bands';
- subsidiary performance information: to what extent are employees given information about the subsidiary's financial performance on a regular basis?

We chose to focus on these three due to their relevance to the multinational context (Abosch and Hmurovic 1998; Burg, Siscovick, and Brock 2000; Cornelius 2001; Schuler and Rogovsky 1998). The three represent different aspects of HR: profit sharing is a compensation strategy, broadbanding is a pay administration philosophy, and subsidiary performance information is an HR-related management technique. Of course all HR programs are applicable in multinationals; however, some are more problematic to implement than others (Harper and Vilkinas 2005). Profit sharing is generally considered to be tricky to implement among multinational units with currency, tax, and legal differences (Briscoe and Schuler 2004); but the very fact that it is considered necessary in contemporary multinationals encouraged us to include it in this study.

In the following section we begin to build a theoretical framework for our study that will enable us to link aspects of multinational structure and strategy with specific HR approaches.

Theoretical development

Local responsiveness and global integration

It has become a well-accepted proposition within the international management literature that multinational subsidiaries face competing forces of local responsiveness (or adaptation) and global integration (e.g. Bartlett and Ghoshal 1988; Ghoshal 1987; Prahalad and Doz 1987; Rosenzweig and Singh 1991). The international organization literature has built on general understandings of the trade-off between structural autonomy versus interdivisional synergy in multibusiness organizations (Pitts 1980). The basic idea is well summarized by Rosenzweig and Singh: 'subsidiaries of MNEs face dual pressures: They are pulled to achieve isomorphism with the local institutional environment, and they also face an imperative for consistency within the organization' (1991, 340). Bartlett and Ghoshal point out that 'retaining local flexibility while achieving global integration' is a feature of transnational organizations (1988, 66).

However, we can already note differing views of GI and LR in these sources: Some see GI/LR as environmental contingencies, perhaps akin to industry structural forces (Yip 1995). This view is exemplified in the above quote from Rosenzweig and Singh (1991). The fiercer the local competition and the more complex the operating environment, the more important it will be for the business to have the autonomy to respond locally. Also, the more fragmented the global marketplace, distinct local customer needs, local sourcing imperatives, heterogeneous costs, and trade barriers, the less the degree of globalization (Yip 1995) and thus the greater the imperative for LR. On the other hand, the more globalized the industry, the more the competitors and bases for competition in a country are similar to those in other countries, the less the need for LR and the greater the rewards of global integration. Forces for GI include institutional pressures for business units to be similar, to conform to the rest of the organization, to avoid conflict, and to practice various forms of isomorphism (Westney 1993).

Alternately, GI and LR can be seen as some organizational-level strategic or structural design parameters. The Bartlett and Ghoshal (1988, 66) quote above reflects this view. In this paper we adopt and explore this later view, using GI and LR as factors within which different strategic and organizational aspects should adhere. And we aim to extend this literature by exploring different strategic and organizational dimensions within GI and LR.

A contingency framework

The complex international settings in which MNE subsidiaries find themselves could be studied through an almost infinite set of variables and theoretical lenses. In this study we narrow our focus to a contingency approach, and then

choose a few strategic, structural, and HR options that we believe to be relevant to managing in these GI and LR contexts.

The term 'contingency theory' is attributed to Lawrence and Lorsch (1967) who show the impact of different environments or contexts on organizations (Scott 1992). In this study we argue that the effectiveness of the MNE subsidiary is contingent on the fit among organizational strategy, structure, and HR practices. We specifically work within the GI and LR framework, testing contingencies with subsidiary effectiveness within these two constructs.

However, as Sundaram and Black (1992) argue, the situation in MNEs is generally exacerbated by having to cope with inter-country differences (multiple sources of external authority) and complications associated with foreign valuation translations (multiple denominations of value) that occur when an organization has operations and customers in more than one country and currency. These distinctions call into question the generalizability of normative organization theory to the multinational context. Likewise, this project builds on research developed in relatively stable large American and British firms, and extends it for use in remote MNE subsidiaries. For this reason, this project is somewhat exploratory in nature. The following two sections look at strategy and structure within the context of the MNE, both as related to the GI and LR options.

Strategy and structure

Global integration

The globalization strategy is used by the MNC to maximize its company-wide effectiveness by co-ordinating its overall global efforts to a relatively narrow band of activities in different locations (Hout, Porter, and Rudden 1982; Yip 1995). Normative contingency theory would thus suggest that this strategy requires a serious commitment to integrative mechanisms in order to achieve the desired co-ordination, communication, critical path scheduling, and sharing of information and other resources (Prahalad and Doz 1987). Ghoshal (1987) found that firms from global industries such as telecommunications benefit significantly from integration. Thus, we hypothesize that the globalization strategy will be most effective with structures with predominantly integrative mechanisms.

Local responsiveness

A locally responsive subsidiary reflects a competitive situation more analogous to that of an autonomous firm. Therefore the imperative to have strategy–structure contingencies that promote effectiveness of the subsidiary itself (as opposed to corporate-wide policies) is clearer. The multidomestic strategy requires the MNE to allow each subsidiary to organize itself to maximize its

own effectiveness in the local competitive environment. We thus hypothesize that these strategies will be helped by differentiated structures and hampered by overly integrative structures, and that most existing firms will display these characteristics.

Our strategy and structure hypotheses can be summarized thus:

Hypothesis 1: Effectiveness in the global integrative situation will be associated with global strategies and integrative structures.

Hypothesis 2: Effectiveness in the local responsiveness situation will be associated with multidomestic strategies and differentiated structures.

Strategy and HR

Global integration

Strategy affects many facets of MNE operations, including, on the human resource front, the compensation of subsidiary managers (Boxall 2003; O'Donnell 2000). The GI situation entails relatively tight coupling between the subsidiary and the rest of the organization, aiming to get global efficiencies and uniformity (Briscoe and Schuler 2004). So, management incentive schemes in general that tie local managers into corporate objectives should be effective. However, remoteness from HQ and other multiple sources of external authority and multiple denominations of value (Sundaram and Black 1992) may make it difficult to tailor profit-sharing plans in these contexts. Similarly, Schuler and Rogovsky (1998) show how compensation schemes should be tailored to local conditions, and thus may not be well suited to global strategies.

Broadbanding should be effective in these contexts, because it provides a pay delivery platform with maximum flexibility, while allowing roles (e.g. a certain position that is common to different subsidiaries) to be consistent within the MNE. And even within GI contexts, broadbanding enables local managers to be responsive to local labor conditions, and thus have pay levels adaptable to local markets.²

On the other hand, subsidiary performance information may have little relevance in these contexts. Although it is traditionally accepted that feedback to employees is a good motivator (Festinger 1954), many GI subsidiaries are seen as cogs in larger wheels, and it is unusual for top managers to be able to present financial information in a constructive way in these contexts. It is common, for example, for arguments over transfer pricing to cause ill feelings within sister companies, and to erode local confidence in corporate financial information.

² See Abosch and Hmurovic (1998) for accounts of the global acceptance of broadbanding as an HR tool.

Local responsiveness

In multidomestic strategies where the subsidiary is required to manage at the extremities of corporate boundaries, HR policies have the challenge to foster flexibility and local initiative. Subsidiaries thus tend to behave more like independent local businesses (Paterson and Brock 2002). Tying employees to corporate initiatives and results far from their control will not be helpful for subsidiary competitive effectiveness at local level; in fact, it may be counter-productive to the extent that the subsidiary has to pay for those benefits. On the other hand, because multidomestic requires individuals to tailor their work priorities to specific local settings, profit-sharing plans can be useful tools to facilitate customization and prioritization of individuals' objectives within these subsidiaries.

Mathis and Jackson (2000) explain that broadbanding represents the removal of control mechanisms and allows employees more freedom of movement between business units. Thus we expect broadbanding to be especially effective in multidomestic situations because of the flexibility it affords local managers to adapt to their competitive environments. Finally, multidomestic settings are helped by empowered employees, so excellent communication is generally important, specifically with respect to financial performance of the subsidiary.

Our strategy and HR hypotheses can be summarized thus:

Hypothesis 3: Effectiveness in the global integrative situation will be associated with globalization strategies and broadbanding programs;

Hypothesis 4: Effectiveness in the local responsiveness situation will be associated with multidomestic strategies along with all three of the HR programs studied; and,

Hypothesis 5: Broadbanding will be associated with higher effectiveness levels with multidomestic than with globalization strategies.

Method

The survey and sample

Because this research deals with multinational subsidiaries in general, our objective was to obtain a wide, multi-country sample of these organizational units. The most direct approach is to sample the subsidiaries directly (without involving headquarters), as this saves time and minimizes various biases (e.g. sampling and auspices bias) that would be due to the surveys being distributed through corporate channels. Research in the multinational context is compli-

cated by language and cultural differences, and by the generally low response rates received for international surveys (Harzing 1997). International mailed surveys are also relatively expensive, often precluding second mailings and other approaches for dealing with non-response. Nevertheless, we used mail surveys because they were the most viable approach to collecting this kind of data from a large, geographically dispersed population.

We mailed a survey to a cluster sample of 2100 subsidiaries of MNEs, in Australia, Denmark, Hong Kong, and New Zealand; and received 259 usable responses – an effective response rate of 12.3 per cent, a level considered normal for international surveys (Frost, Birkinshaw, and Ensign 2002). We chose these four countries due to availability of mailing lists (obtained from Dunn & Bradstreet), and because they represent a good variety of geographic dispersion in the Asia-Pacific region – a key area of expansion for contemporary MNEs and their subsidiaries. Because our resources only permitted one English survey, we also wanted countries in which we could expect English to be spoken by multinational business managers. The resulting distribution of nationalities of the corporations and subsidiaries was pleasing, and is given in table 1. The survey was addressed to the subsidiary CEO because we wanted data from someone most likely to know about subsidiary level programs, performance, strategy and structure. Of the 259 responses, 212 (82%) were filled out by the subsidiary's CEO or general manager, 245 claimed to be male, mean subsidiary size was 547 employees, reporting a mean 40.3 years in the host country. This and other demographic data suggest the sample may over-represent larger, better established subsidiaries.

Table 1 **Details of the sample**

Country	HQ/home country ⁺	Subsidiary/host country
US and Canada	77	9
Australia	28	107*
UK	40	7
New Zealand	7	60*
Denmark	7	36*
Other Western Europe	66	7
Japan	14	
Hong Kong	9	27*
Singapore	3	
Other Asia	2	2
Africa	2	
Unnamed	4	4
Total	259	259

* All surveys were mailed to subsidiaries in these four countries. It is assumed that the surveys returned from the other countries (29 in total) were redirected and/or passed on via internal corporate mail.

⁺ The nationality of HQ/home country was obtained from a response to a survey item.

Variables

Items on the survey asked about the business' structure, strategy, HR programs, effectiveness, and various demographics. Factor analyses were performed on various strategy and structure items in the survey, as well as on the performance measures as explained in the following three sections.

Strategy

Our survey instrument included items intended to gauge aspects of the subsidiary's business focus, whether relatively autonomously focused on its national market or playing a role in the MNE-wide operations. We conducted a principal component factor analysis on six items (shown in appendix A), each of which was responded to on a 5-point scale of 'not at all; very little; neutral; somewhat; to a great extent'. Most of the six items loaded strongly and positively onto one factor, which we called 'globalization' (factor loadings shown in appendix A). Firms that scored positively on this factor were deemed to be pursuing a globalization strategy, and those that scored negatively a multi-domestic strategy (Porter 1986).

Structure

A similar method was used to derive a factor for organization structure of the subsidiary. Survey items used reflected on issues of interdependence and integration within the MNE. The six items used are shown in appendix B. This time a factor was derived by a principal component extraction with a varimax rotation and Kaiser normalization. We called the factor 'integration', implying a preponderance of integrative mechanisms in the structure; those firms scoring negatively were considered to have strongly differentiated structures.

Human resources

As explained above, we were interested in whether selected HR practices were used in the subsidiary. Using the definitions of the three programs mentioned above, we asked whether they were used in the subsidiary (yes or no). In addition, because 'Subsidiary performance information' is more a relative than an absolute concept, a survey item asked 'To what extent are employees given information about the subsidiary's financial performance on a regular basis?' and the response alternatives were 'not at all; very little; neutral; somewhat; to a great extent.' The responses were coded from zero to four; and the hypotheses were tested by simple regression. One-tailed tests were used here because of the strong theoretical support for the positive correlation between use of this HR tactic and effectiveness.

Effectiveness

Although defining effectiveness in this kind of research is often difficult (Harper and Vilkinas 2005), measures of organizational effectiveness are

important to enhance the relevance of managerial research (Cheng and McKinley 1983). There are various approaches to organizational effectiveness, including the systems resource approach (which assesses effectiveness in obtaining resources), the internal processes approach (which assesses internal functioning), and the competing values approach (which mediates between conflicting priorities); however, the most commonly accepted is the goal-attainment approach (Daft 1992). This approach involves assessing the extent to which organizational goals are achieved. So, for example, a start-up firm with the objective of simply breaking even during a difficult period would be considered highly effective if it made a small profit; whereas a well-established firm would want to make sizable gains in growth, margins, and cashflow. Further, goals reflect strategic aims; so in a given market, one firm may be aiming for increased margins while another would be aiming for increased market share (along with smaller margins).

In this study we assessed effectiveness of the subsidiary by asking the CEO to rate the extent to which the subsidiary achieved its budgeted/planned goals in the prior fiscal year with respect to sales, profits, growth, quality, cost control, and market share (six separate items). Similar approaches to measuring subsidiary effectiveness are widely used (Roth and O'Donnell 1996). An additional composite 'total' effectiveness item was created, also using principal component factor analysis. These items are shown in appendix C, along with the factor loadings for the 'total' variable.

Analyses

The sample was sorted into the two strategies types based on the globalization–multidomestic distinction described above; and similarly into the two structure groups (integrated–differentiated). Thirty-four records were eliminated for those subsidiaries that could not readily be classified into these groups, and for relevant missing data. Of the remaining 225, 119 were classified as globalization strategies and 106 as multidomestic. Of the 119 globals, 66 had predominantly integrative structures, and 53 predominantly differentiated. Of the 106 multidomestics, 59 had predominantly integrative structures, and 47 predominantly differentiated.

For most of the analyses,³ we sorted the sample into groups that mirrored the hypothesis in question – e.g. the group of all globalization strategies with differentiated structures versus those with globalization plus integration. Then, the mean effectiveness of the two groups was compared using two-tailed *t*-tests for each of the seven effectiveness measures (including 'total effectiveness' described above). It should be noted that one-tailed tests could have been used, and these would have resulted in many more statistically significant

3 The exceptions were in the final set of tests – for subsidiary performance information – as explained above.

findings. However, we made the judgment that stricter tests should be used due to the exploratory nature of the study.

Results

Strategy and structure

Global integration

Our hypothesis 1 follows normative contingency theory, predicting that the globalization strategies would perform better with integrated than with differentiated strategies. This was barely supported by our data analyses, as summarized in table 2. The global/integration subsidiaries had higher effectiveness ratings (than global/differentiation) in growth, quality, and cost areas; however, none of these differences was close to being statistically significant. On the other hand, the global/differentiation subsidiaries had slightly higher sales and profits, significantly better market shares ($p < 0.05$), and also rated higher on the total effectiveness factor. We discuss these findings below, and explain how some contemporary developments in global strategy research may explain this phenomenon.

Local responsiveness

We predicted (hypothesis 2) that multidomestic strategies would be better implemented with differentiated strategies. The data analyses (table 3) do support this, with the multidomestic/differentiation subsidiaries outperforming the multidomestic/integration group on every measure we used. The superior performance was statistically significant for the growth and market share measures, as well as the total effectiveness factor (all with $p < 0.05$).

Strategy and human resources

We begin this section by commenting on the tests of each of the three HR programs before discussing the GI and LR hypothesis tests.

Table 2 The global integration tests

	Standardized goal attainment ratings							n
	Sales	Profits	Growth	Quality	Cost control	Market share	Total effectiveness	
Glob & different'n	2.36	2.26	2.15	2.25	2.17	2.51	.156	53
Glob & integration	2.24	2.24	2.18	2.3	2.33	2.2	.065	66
p-value for 2-tailed t-test	.52	.92	.87	.66	.28	.04	.61	

Table 3 The local responsiveness tests

	Standardized goal attainment ratings							n
	Sales	Profits	Growth	Quality	Cost control	Market share	Total effectiveness	
Multidom & differ'n	2.26	2.09	2.32	2.3	2.33	2.51	.161	47
Multidom & integr'n	1.98	1.85	1.81	2.1	2.19	2.12	-.298	59
p-value for 2-tailed t-test	.16	.3	.01	.11	.37	.02	.02	

Profit-sharing plans

The results in table 4 show that profit-sharing plans scarcely impacted on effectiveness of the globalization strategies (top half of table), but are associated with superior effectiveness with multidomestic strategies (second half of table). For the globalization strategy, six of the seven measures were better without profit sharing, but of these only profitability was statistically significant ($p < 0.05$). Multidomestic strategies fared significantly better with profit-sharing plans than without them when judged by the 'total effectiveness' measure ($p < 0.10$) as well as profitability ($p < 0.05$); while three of the other four measures also indicated in the hypothesized direction, albeit not in statistically significant magnitudes.

Broadbanding

Results for the globalization strategy were very much equivocal, while those for multidomestic strategies were more effective with broadbanding (table 5). Globalization strategies were mixed: all seven measures were better with broadbanding, but not one was close to statistical significance. For the multidomestics, six of the seven measures indicated significantly more effectiveness

Table 4 Testing the effectiveness of profit sharing plans

	Standardized goal attainment ratings							n
	Sales	Profits	Growth	Quality	Cost control	Market share	Total effectiveness	
Globalization with	2.13	2.02	1.98	2.33	2.27	2.29	-.08	45
Globalization w/out	2.41	2.41	2.26	2.24	2.28	2.35	.22	82
p-value for 2-tailed t-test	.11	.06	.13	.48	.93	.69	.11	
Multidomestic with	2.28	2.23	2.18	2.27	2.21	2.3	.13	39
Multidomestic w/out	1.99	1.76	1.97	2.14	2.22	2.24	-.23	76
p-value for 2-tailed t-test	.13	.04	.31	.3	.95	.76	.08	

with broadbanding ($p < 0.05$). The exception – cost control – seems to be marginally better without broadbanding.

Subsidiary performance information

As explained above, different statistical tests were used for subsidiary performance information. This was possible because the measure for this variable was ordinal (while the others were categorical). The results are shown in table 6 and indicate generally very weak correlations between use of subsidiary performance information and performance for the globalization strategies; and three significant correlations for the multidomestics. Interestingly, cost control was negatively correlated in both cases. The above findings will be discussed in the following section.

Global integration

Hypothesis 3 reflected on the proposition that broadbanding would be a good partner for global strategies. The results in the top half of table 5 show that

Table 5 Testing the effectiveness of broadbanding

	Standardized goal attainment ratings							n
	Sales	Profits	Growth	Quality	Cost control	Market share	Total effectiveness	
Globalization with	2.37	2.28	2.162	2.36	2.37	2.45	.19	43
Globalization w/out	2.29	2.27	2.158	2.23	2.23	2.27	.07	84
p-value for 2-tailed t-test	.63	.98	.98	.35	.33	.23	.51	
Multidomestic with	2.4	2.28	2.43	2.34	2.16	2.49	.27	40
Multidomestic w/out	1.92	1.73	1.84	2.1	2.24	2.14	-.31	76
p-value for 2-tailed t-test	.01	.01	0	.05	.61	.05	0	

Table 6 Testing the effectiveness of subsidiary performance information

	Correlation coefficients (R)							n
	Sales	Profits	Growth	Quality	Cost control	Market share	Total effectiveness	
Globalization	.09	.08	.08	.03	-.05	.05	.086	123
p-value for 1-tailed t-test	na	na	na	na	na	na	na	
Multidomestic	.24	.11	.18	0	-.16	-.02	.134	109
p-value for 1-tailed t-test	.005	na	.03	na	na	na	.08	

subsidiaries with globalization strategies performed better with than without broadbanding in all seven of our measures. However, none of the difference measures were statistically significant. This point is continued both in the discussion of hypothesis 5 and in the discussion and recommendations section below.

Local responsiveness

Hypothesis 4 summarized several theoretical issues pointing to the expectation that all three of the HR programs studied in this project would be suitable for multidomestic strategies. This hypothesis is supported by the data analysis. The second half of table 4 shows that multidomestic strategies along with profit-sharing plans are significantly more effective (based on the profitability and 'total' measures) than those without profit sharing. The second half of table 5 shows that multidomestic strategies along with broadbanding are significantly more effective (for all measures other than cost control) than those without broadbanding. And the correlation coefficients presented in table 6 imply that multidomestic effectiveness is significantly more effective with subsidiary performance information schemes when measured by sales, growth, and the total measures. In the final paragraphs of the paper we look behind these results and consider their implications for the study and practice of management in multinationals.

Discussion and recommendations

The most persistent tendency revealed by our results was the generally better fit within the LR than in the GI contingencies. Our data suggest that integrative mechanisms seldom contribute to the effectiveness of a MNE subsidiary, even when implementing a globalization strategy. A reason for this may be that the contingency logic we used for GI often included various controls, standardization, and integrating mechanisms. These structural contingencies may make theoretical sense, but may conflict with other realities of the contemporary MNE. For example, Luo (2002, 198) argues that 'formal coordination mechanisms ... may not fit ... within a highly complex MNE network [or] in a highly uncertain market'. Kanter and Dretler (1998, 61) state that it is a myth that global strategy implies 'doing everything the same everywhere'; in fact local markets and conditions constantly need to be taken into consideration. It may well be that aspects of integration would lead to managers lamenting their diminished autonomy and resources wasted in complying with corporation-wide planning and control mechanisms. These conflicts are less likely in our LR hypotheses, where we generally support decreased integrative mechanisms and increased autonomy and flexibility for the subsidiary to compete with local businesses as best possible in the local conditions.

This is not to indicate a problem with the globalization strategy as such.

In fact our data show that subsidiaries pursuing globalization strategies were generally more effective than multidomestics. The dual roles that we discussed earlier present layers of complexity that need to be addressed in strategy implementation; and organization structures with more differentiation than integration mechanisms seem to help global strategies more in these contexts (Yip 1995). Clearly more research is needed to strengthen this conclusion.

Similarly, our findings on the contribution of some HR practices remind us of the uniqueness of the MNE subsidiary context. Researchers in the HR area have long argued for the differentiation or flexibility of managerial practices at local level (Doz and Prahalad 1986). Profit-sharing plans, which present the opportunity to tie rewards to local performance, were of significant benefit in multidomestic strategies; and seemed to marginally hurt the effectiveness of globalization. It may well be that managers and workers in global strategies are like cogs in larger wheels, presenting difficulties in measuring their performance relative to corporate outcomes. This is consistent with the findings of Schuler and Rogovsky (1998) and Doz and Prahalad (1986).

Indications are that broadbanding is quite ubiquitous and useful in multinational settings. This is consistent with work done by Abosch and Hmurovic (1998) and by Burg et al. (2000). Once again the underlying factor is one of flexibility. Our study showed that subsidiaries using broadbanding were more effective than those which did not; with the greater benefit derived in multidomestic strategies.

The findings on subsidiary performance information were positive but less statistically significant than expected. Also, there may be a reverse causality between performance and the flow of performance information – managers are more likely to communicate positive results rather than negative results.

Limitations of the study include the focus on only three HR programs, single source data and lack of triangulation of results. Future studies should also move beyond the English language: not only will this broaden the potential scope of MNEs to be studied, but also reduce the ambiguity that invariably results in non-English speakers responding to English surveys. Considering the impact of national culture on HR issues – as suggested by Schuler and Rogovsky (1998) – will also be useful in understanding how foreign subsidiaries perform under various GI and LR contingencies.

Finally, as we continue to unpack the concepts of GI and LR, we learn more about strategies and managerial processes that may contribute to organizational effectiveness in these contexts. The dynamic multinational environment, and the complexities brought about by multiple sources of authority and multiple denominations of value (Sundaram and Black 1992) indicate the need for some subsidiary autonomy and flexibility – and, conversely, the general ambiguous (often negative) effects of integrative factors at subsidiary level. We thus echo the call by Kanter and Dretler (1998) to acknowledge local country differences and norms. Generally, there is much to be learned about managing in the increasingly pervasive forms of organization, and we are confident that

this study will add to managers' and researchers' abilities to make progress in these areas.

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Appendix A The items measuring strategy and factor loadings

	Factor loadings
Our international operations are largely devoted to marketing our product to those overseas markets that show interest.	.347
Our international focus is on finding new markets for our product(s) and on moving production closer to these markets where appropriate.	.590
Our international focus is on gaining a competitive advantage through managing input costs by shifting operations to where they are least expensive.	.679
Our international focus is on continually adjusting products and organizational structures to meet the changing demands of local markets while sourcing input factors worldwide.	.564
In international subsidiaries, the legal and regulatory environment is a major factor in structures, policies and procedures of the subsidiary.	.668
In international subsidiaries, the degree of political risk in the environment is a major factor in structures, policies and procedures of the subsidiary.	.654

Appendix B The items measuring structure

	Factor loadings
To what extent are the policies and procedures standardized across the subsidiaries of the firm?	.648
To what extent do each of the subsidiaries of the firm have organizational structures that reflect the local environments in which they operate?	-.039
To what extent are the subsidiaries of this firm dependent on headquarters?	.477
To what extent are the subsidiaries of the firm dependent on other subsidiaries?	.548
To what extent is the role of the subsidiary manager consistent across the subsidiaries of the firm?	.784
To what extent do subsidiary managers have discretion in how they conduct their roles?	.047

Appendix C The items measuring effectiveness

To what extent did your subsidiary achieve its budgeted/planned goals last year with respect to (for each objective, mark the appropriate box):						*Factor loadings
	Far exceeded	Exceeded	Close to plan	Somewhat less	Much less	
Sales						.850
Profits						.816
Growth						.876
Quality						.418
Cost control						.266
Market share						.712
* These factor loadings (from principal component factor analysis) are for the overall factor we called 'effectiveness of the subsidiary' based on responses to the six items (sales, profits, etc.).						