CHAPTER 2
The Organizational Context

CHAPTER OBJECTIVES

After reading this chapter, you will be able to do the following:

- discuss how international growth places demands on management
- define factors that impact on how managers of internationalizing firms respond to these management challenges including: structural responses to international growth and control and coordination mechanisms, including cultural control
- analyze the effect of responses on human resource management approaches and activities

CHAPTER SUMMARY

Chapter 2 provides an overview of the internal demands placed on management as an organization experiences international growth. It examines how managers respond to the challenges including structure, control and coordination and how HRM processes are affected by these demands and responses. The chapter provides an organizational context for which IHRM activities are determined.

SUGGESTIONS FOR END OF CHAPTER – DISCUSSION QUESTIONS

1. What are the stages a firm typically goes through as it grows internationally and how does each stage affect the HR function?

   Answer: The evolutionary stages a firm typically goes through as it grows internationally are exporting, licensing, subcontracting, use of a sales subsidiary, and foreign production (Figure 2.2: Stages of International Growth). The higher the stage the more HRM practices need to be adapted to the various cultural environments. The HRM strategies that are most appropriate from the firm at the different stages of internationalization are described below:

   HRM’s role in firms early exporting
   - unclear and limited
   - training of the foreign agency
   - staffing strategies that focus on the international customers demands
**HRM’s role in sales subsidiaries**

- staffing HCN’s and HR policies for local employees
- staffing PCN’s and expatriation management (staffing, training, compensation)

**HRM’s role in the international division structure (foreign production)**

- expatriate management
- monitoring subsidiary HR function
- communicating corporate values, beliefs and policies (i.e. compensation) and pre-departure training
- training (i.e. socialization and pre-departure cultural training)
- facilitating control of subsidiaries
- supervising transfer of management and technical know how

**HRM’s role in the global product/area division (foreign production)**

- adapting HRM activities to host countries specific requirements
- local employee decisions made by subsidiaries
- monitoring with less intervening in local affairs
- staffing and development of managers able to operate in international environments becomes imperative

**HRM’s role in matrix structure**

- focusing less on structure and more on developing the abilities, behaviour and performance of individual managers
- staffing (interpersonal skills)
- management development
- HR planning

**HRM’s role in the heterarchy structure**

- corporate culture and shared awareness of central goals and strategies
- organizational success rests solely on the required human resources: experienced personnel, rewards and performance management, use of staff as informal control mechanism, knowledge management
HRM’s role in the transnational structure

- developing global leaders
- staffing transfers

2. What are the specific HRM challenges of a networked firm?

*Answer:* In a large, mature, growing MNE there is an increasingly complex network of interrelated activities and relationships. The text discusses three networked organizational structures: the heterarchy, the transnational and the networked firm. In a multi-centered networked organization there a multitude of crisscrossing internal and external relationships (Figure 2.8: The Networked Organization). Dowling states that the management of a networked organization is complex and involves the following five dimensions:

- delegation of decision-making authority to appropriate units and levels
- geographical dispersal of key functions across units in different countries
- delayering of organizational levels
- de-bureaucratization of formal procedures
- differentiation of work, responsibility and authority across the networked subsidiaries

Refer to the text ‘Beyond the Matrix’ (pages 46-50), and more specifically ‘The Multinational as a Network’ (pages 49-50).

3. Country of origin influences the firm’s approach to organization structure. As MNEs from China and India internationalize, to what extent are they likely to differ from those observed for Japanese, European, and US MNEs?

*Answer:* The text describes how European firms tend to move directly from a functional mother-daughter structure to a global structure with world-wide product or area divisions, or to a matrix organization without the transitional stage of an international division. US firms have had limited success with the matrix structure. Japanese firms have tended to progress from export divisions to international divisions, although at a slower pace than their US counterparts (building approach). Korean conglomerates have a preference for growth through acquisitions. Chinese family firms face difficulties due to tight family control. Few Chinese international firms have international operations following an acquisition path. Both Chinese and Indian organizations follow indeterminate paths. Refer to the text ‘Different countries take different paths’ (pages 51 – 54) and Figure 2.9: Culture of Origin and Structural Paths to Globalization.
SUGGESTIONS FOR END OF CHAPTER – CASE: GLOBALIZING CORPORATE CULTURE” TRUE BELIEVERS IN “THE TOYOTA WAY”

This case allows students to apply all chapter learning objectives as well challenges the students to think critically and expand on what they have learned in this chapter to the staffing function of IHRM.

You will want to have the students discuss Toyotas stage of international growth (Figure 2.2: Stages of International Growth), the impact of management on this growth (Figure 2.1: Management Demands on International Growth), particularly strategy, structure, coordination and control and what IHRM approaches are most appropriate in dealing with Toyotas current stage of internationalization (Figure 2.10: Control Strategies for Multinational Firms).

Overview: Toyota is a MNE that has progressed to a higher stage of international involvement with assembly and production facilities in several countries and regions of the world. (Figure 2.5: International Division Structure). Toyota is trying to respond to its international growth and geographical spread by improving coordination and control of its newly established subsidiaries. “We must prevent the Toyota way from getting more diluted as Toyota grows overseas”. Toyota sees the integration and maintenance of their core philosophies and values that range from collective problem solving and quality assurance to employee respect and empowerment as a critical current and growing issue as they expand globally. Toyota believes that superimposing their corporate culture upon national cultures in subsidiary operations is a critical management tool that will help them maintain their corporate identity and provide consistency in how people are managed. It sees away to achieve control is through a shared corporate culture, a central element in its IHRM strategy. Foreign operations are managed by expatriates. The decision to use PCN’s allows Toyota to maintain direct control thorough parent country staffing of its expatriate management positions. IHRM practices are quite complex because they involve a growing large number of expatriates and their families in overseas assignments and diverse cultural environments in many countries. IHRM is heavily involved in expatriate management which includes: selecting staff, supervising the transfer of managerial and technical know how, communicating corporate values, beliefs and polices (i.e. compensation), training (i.e. socialization, pre-departure cultural training) and facilitating the control of overseas subsidiaries from multiple corporate headquarters. As the structure becomes more complex it is imperative that corporate strategy is clearly communicated and that the development of managers with the abilities and behaviours to lead and control in international environments. In order to be effective locally they may need to adapt to specific cultural requirements.

1. How is Toyota trying to internalize its corporate values and beliefs? What organizational level is Toyota targeting and why?

Answer: Toyota has chosen to focus on a shared corporate cultural as an informal control mechanism to ensure that all its new executives are socialized to embrace and role model the “Toyota Way”. Top level mangers and executives are moulded upon entry into their positions to the core beliefs, values and implicit rules that are considered appropriate for thinking and behaving in Toyota’s foreign operations. Managers are in an important role model position where what they say and the way in which they behave establish and maintain norms that are
filtered down through the organization. Employees are rewarded on these behaviours. Toyota managers are socialized through an intense week of 12-14 hour days lead by Toyotas top level executives on the “Toyota Way” as well as on specific concepts, practices, interpersonal values and cross cultural vocabulary training. Targeting training towards upper management can ensure the “Toyota Way” guides the behaviours of all levels of employees, conveys a sense of corporate identity to all organization members, enhances organizational commitment, increases consistency and control of employee behaviour, reduces employee ambiguity and enhances stability by providing standards.

2. Find examples of other multinational companies and their methods and tools for transferring their organizational values and beliefs to managers and employees?

Answer: Sanyo Canada, a Japanese electronics company socializes all new employees through an intense five-month course where they learn the “Sanyo Way”. [www.sanyocanada.com](http://www.sanyocanada.com/)
Four Seasons Hotel and Resorts [www.fourseasons.com/about_us](http://www.fourseasons.com/about_us)
GMP Securities [www.gmpsecurities.com](http://www.gmpsecurities.com)

3. Many national and multinational companies try to create a very strong organizational or corporate culture. Ideally managers and employees should eat and breath Company A. In times of skilled labour shortages and strong competition for management talents, how could a strong company culture be contra-productive and represent a barrier in the external recruitment and selection process?

The student’s answers may vary. Students can either discuss and share their answers to this question or you can have students debate the impact of a strong corporate culture on international recruitment and selection.

**Debate:** Divide the students into two groups to debate whether a strong company culture is contra-productive and represents a barrier in the external recruitment and selection processes as a company expands internationally. The objective of the debate is to examine and debate the advantages and disadvantages of a strong corporate culture for international companies and IHRM practices (in this case it is recruitment and selection). Debaters will be assigned one of two positions. 1. a strong company culture ensures the best candidate is hired in the external recruitment and selection process of MNEs vs 2. a strong company culture be contra-productive and represent a barrier in the external recruitment and selection process of MNEs. Students are to argue in favour of one position. The debate consists of two rounds. The purpose of the first round is for each team to learn the position of the other debating team. Each team has five minutes to explain their position as comprehensively as possible. At the completion of the first round, the debating teams are given 5-10 minutes to prepare criticisms of the other team for the second round. In round two, each debating team has 5-10 minutes to criticize the position of the other team. There is a team of student judges. The judges will listen to the different sides presented and at the end of the debate, tell the teams which they believe to be the stronger argument.

You will want to summarize the debate with the suggested answer below.
Answer: A global IHRM process such as recruitment and selection needs to be developed within the context of a strong corporate culture conveying a sense of corporate identity with practices that are more similar to each other than geographically different. It would seem important to have global standards with flexibility at the local levels for important differences. Global practices need to work within local systems. As MNEs’ global perspective accelerates it increasingly confronts the “think global, act local” paradox.

Position 1. A strong company culture ensures the best candidate is hired in the external recruitment and selection process of MNEs.

Organizational culture is derived from established traditional organizational philosophies and values and it is maintained through various IHRM activities such as recruitment and selection practices that hire individuals based on the close match of their values to the organization's values. The goal of selection is to hire individuals that have the KSAO’s to perform well in their job (good person-job fit) as well as perform well within the organizational culture (good person-organization/culture fit). The selection process is a two way process where the individual gathers information about the organization as well as the organization acquires information about the individual. If the applicant feels that a values conflict exists they will remove themselves from the recruitment and selection process. Organizations use various selection tools and processes (i.e. realistic job previews) to increase the accuracy of shared information about the job and organizational culture to improve job/organization fit and retention eliminating applicants that do not match the organization's culture.

The advantages (benefits) of a corporate culture are that it is a valuable management tool for organizations growing globally as it can provide the following to all levels of employees:

- acts as an informal control and coordination mechanism
- conveys a sense of corporate identity
- enhances organizational commitment
- increases consistency and control of employee behaviour
- reduces employee ambiguity
- enhances stability by providing standards

All of these factors assist IHRM meet their staffing goals.

Position 2. A strong company culture can be contra-productive and represent a barrier in the external recruitment and selection process of MNEs.

Many aspects of corporate culture are valuable to both the organization and the individual as described above, however a strong culture can have a negative effect for international organizations if it makes it difficult to create an inclusive environment. If the global standardized recruitment and selection process does not allow for the details to be worked out at the local level resistance from local managers could persist. Differences need to be investigated to determine their legitimacy. There could be local country traditional recruitment and selection practices that may be inhibiting applicants to apply (refer to IHRM Today 1.2: Former Malaysian Hiring Procedures and IHRM Today 1.3: Local Recruitment Practices) which would need to be resolved. Ignoring cultural differences and not treating local people equitably could create a barrier to effective recruitment, selection and retention. Applicants may self select out prior to or
early in an organizations recruitment and selection process if they perceive the organization as not openly acknowledging and demonstrating support for diverse cultures. Applicants who feel pressure to conform or that their gender or race is not valued will seek employment with equal opportunity employers. Culture can act as a barrier to change. As organizations experience growth and change through global expansion into new countries (from mergers and acquisitions to foreign production) the entrenched culture may require adjustments to be appropriate to the diverse situations. Corporate culture may unknowingly be eliminating the strengths that different people from diverse background bring to an organization.

**MULTIPLE CHOICE QUESTIONS**

1. **IHRM activities are determined by, and influence, the following internal organizational factors except:**
   a. competition
   b. strategy
   c. international growth demands on management
   d. structure
   e. control and coordination mechanisms

2. **The following are management demands of international growth except:**
   a. control mechanisms
   b. geographical dispersion
   c. internal responses
   d. structure and size
   e. flow and volume of information

3. **Finnish research suggests that HRM policies should _________ rather than follow international operation decisions.**
   a. lead
   b. follow
   c. mimic
   d. drive
   e. match

4. **As firms international activities grow, their organizational structures change, due to the following except:**
   a. the strain imposed by growth
   b. the need for improved coordination and control across business units
   c. market driven strategies
   d. the constraints imposed by host-government regulations on ownership and equity
   e. the strain imposed by geographical spread
5. The following concept illustrates the organizational adjustments required of a firm moving along the path to multinational status.
   a. global process
   b. structural process
   c. control process
   d. evolutionary process
   e. acceleration process

6. ________ is typically the initial stage for manufacturing firms entering international operations.
   a. sales subsidiary
   b. exporting
   c. acquisition
   d. foreign production
   e. network of subsidiaries

7. The role of IHRM at the sales subsidiary stage of internationalization is:
   a. unclear
   b. selection of export staff
   c. staffing PCN’s and/or HCN’s
   d. control through personal relationships
   e. support to marketing department

8. If a sales subsidiary wishes to maintain direct control, reflecting an ethnocentric attitude, it will opt to use:
   a. host country nationals (HCNs)
   b. parent country nationals (PCNs)
   c. both PCNs and HCNs
   d. export managers
   e. foreign agents

9. If a sales subsidiary wishes to incorporate knowledge of the foreign market, language and sensitivity to host country needs it will staff the subsidiary with:
   a. host country nationals (HCNs)
   b. parent country nationals (PCNs)
   c. both PCNs and HCNs
   d. export managers
   e. foreign agents

10. The IHRM activities at the foreign production stage of internationalization are concerned with the following except:
    a. expatriate management and monitoring of the subsidiary HR function
    b. identifying employees who can direct the daily operations of the foreign subsidiaries
    c. supervising transfer of managerial and technical know-how
    d. communicating corporate policies and keeping corporate HQ informed
    e. policies for compensation and pre-departure training
11. MNEs confront the following major issues of structure:
   a. the extent to which key decisions are to be made at the parent country headquarters or at the subsidiary units
   b. the demand for global responsiveness
   c. the type or form of control exerted by the parent over the subsidiary unit
   d. all of the above
   e. a and c only

12. The global structure has proven to be all but unmanageable due to the following contributing factors:
   a. dual reporting and overlapping responsibilities
   b. the proliferation of communication channels
   c. the barriers of distance, language, time, and culture
   d. all of the above
   e. a and c only

13. The following are mixed organizational structures that have emerged in response to global pressures.
   a. matrix, transnational and network
   b. network, heterarchy and global
   c. heterarchy, transnational, and network
   d. global product division, global area division, and matrix
   e. network, matrix and heterarchy

14. A multinational network structure has been termed a less-hierarchical structure and features the following except:
   a. delegation of decision-making authority to appropriate units and levels
   b. geographical dispersal of key functions across units in different countries
   c. bureaucratization of formal procedures
   d. delayering of organizational levels
   e. differentiation of work, responsibility, and authority across the networked subsidiaries

15. Control through corporate culture is defined as the:
   a. development of personal networks that foster informal communication channels
   b. fostering of knowledge generation and diffusion through lateral communication
   c. process of socializing people so that they come to share a common set of values and beliefs that then shape their behaviour
   d. optimization of a diverse workforce
   e. interdependence of informal and formal control strategies

**Multiple Choice Answers**

1. a 6. b 11. e
2. c 7. c 12. d
3. a 8. b 13. c
4. c  9. a  14. c
5. d  10. b  15. c

TRUE/FALSE QUESTIONS

1. Human resource practices, policies and processes are imbedded in the strategic, structural and technological context of the MNE.

2. The major elements encountered as a result of international growth that place demands on management are structure and control and coordination mechanisms.

3. How internationalizing firms cope with the HR demands of its various foreign operations determines their ability to execute their chosen expansion strategies.

4. IHRM policies should follow rather than lead international operation decisions.

5. Exporting is not typically the initial stage for manufacturing firms entering international operations.

6. IHRM plays a major role in the development of policies and procedures surrounding the HR aspects of the firm’s early international activities.

7. Staffing a subsidiary with host country nationals (HCNs) occurs when the organization regards country-specific factors such as knowledge of the foreign market as important.

8. The decision to use PCNs leads into expatriation management issues and activities.

9. Expatriate managers perform a major role in identifying and selecting employees who can direct the daily operations of the foreign subsidiaries at the international division stage of internationalization.

10. IHRM activities at the sales subsidiary stage of internationalization involve supervising the transfer of managerial and technical know-how and communicating corporate policies.

11. At the global product/area division stage of internationalization 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.

12. As the MNE grows and the trend toward a global perspective accelerates, it increasingly confronts the think global, act local paradox.

13. In the matrix structure the multinational is attempting to integrate its operations across more than one dimension.
14. The matrix structure has proven to be manageable and successful in increasingly complex international environments.

15. Most successful MNEs focus less on searching for the ideal structure and more on developing the abilities, behaviour, and performance of individual managers.

16. International managers require good interpersonal skills and the ability to deal with the ambiguities of responsibility and authority inherent in international organizational structures.

17. 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.

18. Traditionally multinational firms have emphasized more formal structural forms of control.

19. The unique cultural interactions and the contextual and physical distances that characterized multinational operations require structural and formal forms of control.

20. Control through personal relationships foster vital knowledge generation and diffusion through lateral communication via a network of working relationships.

21. Corporate culture is defined, as a process of socializing people so that they come to share a common set of values and beliefs that then shape their behaviour and perspectives.

22. Cultural controls are not effective because they superimpose parent country culture upon national cultures in subsidiary operations.

23. IHRM can build corporate culture through training and development programs, reward systems and promotions that reinforce company value systems.

24. Informal cultural control is a way MNEs can respond to stresses on their control mechanisms as they grow internationally.

25. Social capital is defined as contacts and ties, combined with norms and trust, that facilitate knowledge sharing and information exchanges between individuals, groups and business units.

TRUE/FALSE ANSWERS

1. True  8. True  15. True  22. False
SHORT ANSWER QUESTIONS AND ANSWERS

1. Corporate cultural control may be a contentious issue for some who see it as being superimposed upon national culture in foreign operations. Share a persuasive argument as to its value as a management tool as an organization internationalises. Incorporate an example of an organization that has successfully transferred their organizational values and philosophy to managers and employees.

Answer: The advantages (benefits) of a control through corporate culture as organizations growing globally include the following:

- acts as an informal control and coordination mechanism
- conveys a sense of corporate identity
- enhances organizational commitment
- increases consistency and control of employee behaviour
- reduces employee ambiguity
- enhances stability by providing standards

Sanyo Canada, a Japanese electronics company socializes all new employees through an intense five-month course where they learn the “Sanyo Way”. www.sanyocanada.com/  
Four Seasons Hotel and Resorts www.fourseasons.com/about_us  
GMP Securities www.gmpsecurities.com

2. Describe two key IHRM practices that incorporate corporate cultural control. Incorporate an example of an organization and how IHRM successfully used one of these practices.

Answer: Two key IHRM practices that maintain a corporation’s culture as they grow globally are: recruitment and selection practices and the socialization and actions of senior management.

Recruitment and Selection Practices

Organizational culture is derived from established traditional organizational philosophies and values and it is maintained through various IHRM activities such as recruitment and selection practices that hire individuals based on the close match of their values to the organizations values. The goal of selection is to hire individuals that have the KSAO’s to perform well in their job (good person-job fit) as well as perform well within the organizational culture (good person-organization/culture fit). The selection process is a two way process where the individual gathers information about the organization as well as the organization acquires information about the individual. If the applicant feels that a values conflict exists they will remove themselves from
the recruitment and selection process. Organizations use various selection tools and processes (i.e. realistic job previews) to increase the accuracy of shared information about the job and organizational culture to improve job/organization fit and retention eliminating applicants that do not match the organizations culture.

*Socialization and Actions of Senior Managers*

Organizations can focus on building a shared corporate cultural as an informal control mechanism by ensuring that all its new executives are socialized through a formal orientation and training process. Top level managers and executives are moulded upon entry into their positions to the core beliefs, values and implicit rules that are considered appropriate for thinking and behaving in an organizations foreign operations. Managers are in an important role model position where what they say and the way in which they behave establish and maintain norms that are filtered down through the organization. Employees are rewarded on these behaviours. Targeting training towards upper management can ensure at the corporate culture guides the behaviours of all levels of employees, conveys a sense of corporate identity to all organization members, enhances organizational commitment, increases consistency and control of employee behaviour, reduces employee ambiguity and enhances stability by providing standards. As organizational structures become more complex it is imperative that corporate strategy and culture is clearly communicated and that the development of managers with the abilities and behaviours to lead and control in international environments.

*Examples: The Case: Globalizing Corporate Culture-* “True Believers” in “The Toyota Way”
Sanyo Canada, a Japanese electronics company socializes all new employees through an intense five-month course where they learn the “Sanyo Way”. [www.sanyocanada.com](http://www.sanyocanada.com/)
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GMP Securities [www.gmpsecurities.com](http://www.gmpsecurities.com)