

**University of Southern Queensland, Australia**  
**Faculty of Business**

**Transfer of human resource policies and practices  
from German multinational companies  
to their subsidiaries in South East Asia**

**A Dissertation submitted by**

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## ABSTRACT

The transfer of human resource policies and practices from headquarters to subsidiary locations becomes increasingly important in multinational enterprises as they develop from being exporting organisations to having stand-alone country subsidiaries, as a step towards the globalisation of their operations. The ability to transfer knowledge effectively across borders is a key characteristic of successful multinational enterprises. International human resource managers need to keep informed about the pressures of globalisation on their businesses and study local human resource issues relevant to their firms' operations. This study attempts to bridge the fields of international human resource management and strategic management, by investigating how German multinational enterprises transfer human resource policies and practices to their subsidiaries in Singapore, Thailand and Indonesia. While western multinational enterprises operating in Asian countries face different human resource issues from those in their home countries, existing research has a strong focus on Anglo-Saxon experiences, which results in a lack of studies of European and specifically, German multinationals. This study focuses on a sample of German multinational enterprises and the internationalisation of their human resource function.

Against this background, the research question is '*How do German multinational companies transfer human resource policies and practices to and from their subsidiaries in South East Asia?*' The themes to be investigated emerge from the fields of international human resource management; national, cultural and legal differences in human resource management in selected enterprises between Germany, Singapore, Thailand and Indonesia, and the impact of the headquarters policies and practices of these multinational enterprises on human resource issues in their subsidiaries.

The study investigates a number of research issues. The first is the international human resource management approach of German multinational enterprises' headquarters towards their subsidiaries. A second research issue deals with the key cultural, legal and societal differences that influence the transfer of human resource policies and practices. A third research issue analyses whether there is a general climate of innovation and trust between headquarters and subsidiaries that facilitates organisational change. A fourth research issue investigates how specific policies and practices could change when applied in different countries. Finally, the roles of headquarters people and subsidiary staff in the transfer process are studied.

This exploratory study uses qualitative methodology and is based on the analysis of case studies. The three main cases are German Fortune Global 500 industrial companies from different industries, namely electrical, mechanical and chemical, and with subsidiaries in Singapore, Thailand and Indonesia. Prior theory in the literature review and exploratory expert and pilot interviews led to the development of a detailed interview protocol. A total of 24 in-depth interviews with human resource directors and line managers form the backbone of data collection.

New contributions to the body of knowledge concern the incongruence between the internationalisation of the business versus the human resource function, the link

between knowledge management and the human resource field, and the significance of attitudinal relationships in the transfer process. Finally, cultural differences among the transfer coalition are found to have a more significant impact on the transfer than cultural differences of the respective workforces.

The contributions to management practice include five recommendations for practitioners. These revolve around increasing the international experience of the local human resource director to address the mismatch between the ever expanding role of the local human resource director and the required, but presently lacking, international profile to fulfil that role. For the organisation of the human resource function in headquarters, assigning a mentor to a country or region and providing more practical guidance, rather than policies, are examples of recommendations.

In brief, this study attempts to explain why German companies may experience problems when they transfer human resource policies and practices to their subsidiaries in Singapore, Thailand and Indonesia. In addition to being of interest academically, the results of this study might assist managers of multinational enterprises in designing better and more transferable international human resource management policies and practices. Contributions are made concerning the feedback routes from subsidiaries to headquarters, and finally, about the organisation of human resource management.

## **CERTIFICATION OF DISSERTATION**

I certify that the ideas, field work, results, analyses and conclusions reported in this dissertation are entirely my own effort, except where otherwise acknowledged. Furthermore, I certify that the work is original and has not been previously submitted for any other award.

\_\_\_\_\_  
Signature of Candidate

\_\_\_\_\_  
Date

## **ENDORSEMENT**

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Signature of Supervisor

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Date

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Signature of Supervisor

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Date

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The completion of this study marks a milestone in my private and professional life. Not only does it add to my formal education, it also underscores my development from an electrical engineer in the field to a manager and HR practitioner. It is, however, the journey, the learning and insights gained from the people involved, which are my biggest rewards.

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## TABLE OF CONTENTS

<b>ABSTRACT</b> .....	<b>II</b>
<b>CERTIFICATION OF DISSERTATION</b> .....	<b>IV</b>
<b>ENDORSEMENT</b> .....	<b>IV</b>
<b>ACKNOWLEDGEMENTS</b> .....	<b>V</b>
<b>LIST OF FIGURES</b> .....	<b>VIII</b>
<b>LIST OF TABLES</b> .....	<b>VIII</b>
<b>LIST OF APPENDICES</b> .....	<b>IX</b>
<b>CHAPTER 1: INTRODUCTION</b> .....	<b>1</b>
1.1 Background to this research .....	1
1.2 Research Question, Issues and Contribution.....	4
1.3 Justification of the Research .....	5
1.4 Methodology .....	7
1.5 Outline of this Study .....	8
1.6 Definitions.....	9
1.7 Delimitations of Scope and Key Assumptions.....	11
1.8 Summary .....	12
<b>CHAPTER 2: LITERATURE REVIEW</b> .....	<b>13</b>
2.1 Introduction .....	13
2.2 Integrative framework of strategic IHRM.....	14
2.2.1 Hierarchy of HR topics .....	15
2.3 International Human Resource Management.....	17
2.3.1 Existing IHRM Models .....	18
2.3.2 IHRM orientations and approaches.....	19
2.4 National, cultural and legal differences between Germany, Singapore, Thailand and Indonesia.....	21
2.4.1 Country Information at Macro Economic Level.....	22
2.4.2 Framework for comparative study .....	23
2.4.3 Differences in national cultures .....	27
2.4.4 Country Comparison based on Frameworks .....	29
2.4.5 Effects on transfer of HR policies and practices.....	34
2.5 Stages of internationalisation of MNEs and their impact on human resource issues .....	35
2.5.1 Internationalisation.....	36
2.5.2 Convergence and Divergence .....	41
2.5.3 Industry .....	42
2.5.4 Manager's role .....	43
2.5.5 German MNEs and Asia .....	44
2.6 Transfer of human resource policies and practices from multinational enterprises' headquarters to subsidiaries.....	45
2.6.1 Success of Practice Transfer .....	46
2.6.2 Relational Context.....	49
2.6.3 Attitudinal relationships .....	50
2.6.4 Levels .....	52
2.7 Research issues.....	53
2.8 Summary .....	56

## **CHAPTER 3: RESEARCH METHODOLOGY .....57**

3.1 Introduction .....	57
3.2 Scientific Realism Research Paradigm justified .....	57
3.3 Case study Methodology justified.....	60
3.4 Prior Theory and Case Study Research.....	63
3.4.1 The role of prior theory .....	63
3.5 Criteria for selecting multiple case studies .....	66
3.5.1 Replication logic for multiple case studies .....	68
3.5.2 Number of cases, interviews and sources of cases.....	68
3.6 Judging the Quality of Case Study Design .....	72
3.7 Data collection procedures for case studies .....	75
3.7.1 Sources of data .....	76
3.7.2 Case study protocol.....	77
3.7.3 Fieldwork for data collection .....	78
3.8 Case Study Analysis.....	80
3.9 Limitations .....	82
3.9.1 Limitations of qualitative research.....	82
3.9.2 Limitations of the case study method.....	83
3.10 Ethical Considerations .....	85
3.11 Conclusion.....	87

## **CHAPTER 4: DATA ANALYSIS .....88**

4.1 Introduction .....	88
4.2 Analysis Overview and Data Display .....	89
4.3 Case Details and Interview Partners' Details.....	90
4.3.1 Case Descriptions.....	92
Case E.....	92
Case M .....	93
Case C.....	94
4.4 Data on Research Issue 1: 'IHRM approach' .....	95
4.4.1 HR policy decision body in the MNE.....	96
4.4.2 Best practice integration into HQ policies .....	100
4.4.3 Networking among subsidiaries of one MNE in various countries .....	102
4.4.4 Differences in HR from other German firms in the country .....	103
4.4.5 Differences in HR from non-German firms in the country.....	106
4.5 Data on Research Issue 2: 'Cultural differences' .....	108
4.5.1 Perceived differences between Germany and the Asian countries .....	109
4.5.2 Perceived differences among the Asian countries .....	111
4.5.3 Local versus expatriate HR director.....	112
4.5.4 Cultural awareness of HQ and subsidiary staff.....	113
4.6 Data on Research Issue 3: 'Innovation and Trust' .....	114
4.6.1 Cooperation between HQ and subsidiary at large.....	115
4.6.2 Company-wide initiatives and programs .....	116
4.6.3 Job rotation between HQ and subsidiary .....	117
4.6.4 Perceived climate of trust and innovation.....	119
4.7 Data on Research Issue 4: 'Need for Adaptation' .....	121
4.7.1 HR issues to be modified specifically for each country.....	121
4.7.2 Perceived uniqueness of subsidiary .....	123
4.7.3 HR issues to be standardised globally.....	124

4.8 Data on Research Issue 5: ‘Roles of HQ People’ .....	125
4.8.1 Organisation of HQ with respect to subsidiary .....	126
4.8.2 HQ staff: Help or control?.....	127
4.8.3 Feedback to HQ.....	128
4.9 Summary of Findings on Research Issues .....	129
4.10 Conclusion.....	134
<b>CHAPTER 5: CONCLUSIONS AND IMPLICATIONS .....</b>	<b>136</b>
5.1 Introduction .....	136
5.2 Conclusions on the research issues .....	137
5.2.1 Conclusions on Research Issue 1: ‘IHRM approach’ .....	138
5.2.2 Conclusions on Research Issue 2: ‘Cultural differences’ .....	143
5.2.3 Conclusions on Research Issue 3: ‘Innovation and Trust’ .....	150
5.2.4 Conclusions on Research Issue 4: ‘Need for Adaptation’ .....	153
5.2.5 Conclusions on Research Issue 5: ‘Roles of HQ People’ .....	156
5.2.6 Conclusions on propositions .....	159
5.3 Conclusions on the research question .....	160
5.4 Implications for theory .....	162
5.4.1 Contributions of this study.....	163
5.5 Implications for Managerial Practice .....	165
5.6 Limitations .....	170
5.7 Implications for Methodology.....	171
5.8 Further research.....	171
5.9 Conclusion.....	172
<b>REFERENCES.....</b>	<b>173</b>

### LIST OF FIGURES

Figure 2.1.1: Overview of chapter outline .....	13
Figure 2.4.1: Framework for comparative study of countries.....	23
Figure 2.7.1: Influence of Research Issues on transfer success .....	54
Figure 3.4.1: Exploratory and confirmatory stages of the research process .....	64
Figure 5.5.1: Key success factors for successful transfer of HR policies .....	169

### LIST OF TABLES

Table 2.4.1: Basic facts about Germany, Singapore, Thailand and Indonesia.....	22
Table 2.4.2: Framework applied for comparative study of Germany, Singapore, Thailand and Indonesia .....	25
Table 2.4.3: Four frameworks to compare national cultural dimensions.....	28
Table 2.4.4: Hofstede’s cultural differences between Germany, Singapore, Thailand and Indonesia.....	29

Table 2.4.5: Trompenaars' cultural differences between Germany, Singapore, Thailand and Indonesia .....	32
Table 2.5.1: Comparison between ethnocentric, polycentric and geocentric orientation.....	38
Table 3.3.1: Selection of appropriate research strategy .....	61
Table 3.5.1: Research design for cases selected for literal replication .....	69
Table 3.5.2: Background of Main Cases .....	70
Table 3.6.1: Case study tactics for four design tests .....	73
Table 3.7.1: Summary of the research issues and related interview questions .....	78
Table 3.9.1: Limitations of case study research and related strategic responses .....	84
Table 4.3.1: Interview Participants' Details.....	91
Table 4.4.1: Decision making in MNE .....	97
Table 4.4.2: Subsidiaries' freedom to adapt policies .....	99
Table 4.4.3: Integration of country best practices in HQ policies .....	100
Table 4.4.4: Networking amongst subsidiaries in the region.....	102
Table 4.4.5: HR differences from other German MNEs HR in Singapore, Thailand and Indonesia.....	104
Table 4.4.6: Perceived effectiveness of other German MNEs HR in Singapore, Thailand and Indonesia .....	105
Table 4.4.7: HR differences of non-German MNEs HR in Singapore, Thailand and Indonesia .....	106
Table 4.4.8: Perceived effectiveness of other non-German MNEs HR in Singapore, Thailand and Indonesia .....	107
Table 4.5.1: Statements about cultural differences between Germany and Singapore/Thailand/Indonesia.....	109
Table 4.5.2: Levels of cultural awareness of HQ staff and strategies employed by the MNE to improve.....	113
Table 4.6.1: Cooperation between HQ and subsidiary at large.....	115
Table 4.6.2: Company-wide initiatives and programs .....	116
Table 4.6.3: Job rotation between HQ and subsidiary .....	118
Table 4.6.4: Perceived trust between HQ and subsidiary .....	119
Table 4.6.5: Perceived climate of innovation between HQ and subsidiary .....	120
Table 4.7.1: Local adaptation of variable income (example).....	122
Table 4.7.2: Perceived uniqueness of subsidiaries.....	124
Table 4.8.1: MNE organisation of interaction between HQ and subsidiary .....	126
Table 4.8.2: HQ staff: more helpful or more controlling.....	127
Table 4.8.3: Feedback on HR issues from subsidiary to HQ.....	128
Table 4.9.1: Overview of findings on research issues .....	130
Table 5.4.1: Summary of the research conclusions and contribution to knowledge	164

## LIST OF APPENDICES

Appendix A: Case study interview protocol for HQ in Germany.....	182
Appendix A: Case study interview protocol for subsidiaries in Singapore, Thailand and Indonesia .....	192

## **CHAPTER 1: INTRODUCTION**

### **1.1 Background to this research**

Multinational enterprises that are expanding their operations worldwide are exposed to and gain experience in the diversity of cultures, customs and practices in each country in which their subsidiaries are located. They recognise the challenge of deciding between a globally standardised approach and a locally adaptive approach in their international human resource policies. That is, multinational enterprises are confronted with issues of convergence versus divergence (Rowley & Benson 2002; Von Glinow, Drost & Teagarden 2002). Convergence at the global level in terms of economic forces and production technologies may result in divergence at the national and intra-national level as such forces are mediated by different institutions with their own traditions and deep-seated cultural differences, not susceptible to rapid change (Adler 2001). In this study, the ways in which German multinational companies deal with the challenge of divergence or convergence in the transfer of their policies and practices to their subsidiaries in Singapore, Thailand and Indonesia are investigated.

Germany, as the number one exporting nation in the world ahead of the United States and Japan (Financial Times Deutschland 2003), needs to be successful internationally not only as an exporter, but equally as an employer, to maintain its position in the world economy (Economist 2004). While the backbone of the German economy is comprised of small to medium enterprises, its biggest companies, 34 of which are among the world's 500 biggest corporations (Fortune 2004), have the highest visibility and strongest impact in other countries (Economist 2002). German multinational enterprises are best known for their activities in the automotive, mechanical, chemical and electrical industries, with only one bank and one insurance company being among the 10 biggest German companies (Fortune 2004).

Asia is the fastest growing region in the world (Economist 2002, 2004; Fortune 2004) and is still under-researched compared to Europe and the US (Chew & Horwitz 2004). The economies of the countries under study are often grouped together as being underpinned by "Asian values" though local customs, institutions,

and labour forces differ in each of the selected countries. Given the regional variation in economic development, the selection of countries allows exploration of transfer both to advanced economies such as Singapore and less-developed economies such as Thailand and Indonesia.

Multinational enterprises (MNEs) face multiple human resource (HR) issues that have received increasing attention in recent years (Bartlett & Ghoshal 1992, 1998; Briscoe 1995; Janssens 2001; Schuler, Budhwar & Florkowski 2002). Some critics argue that international HR has not kept pace with either the globalisation of businesses or the academic analysis of local HR issues (Briscoe 1995; Chew & Horwitz 2004; Clark, Grant & Heijltjes 2000). However, there is a relatively extensive coverage of expatriate assignments (Adler 2001; Briscoe 1995; Janssens 2001; Napier & Vu 1998). Globalisation and international trade and finance place substantial pressure on firms to standardise policies and practices. It is argued here that there is a lag in theoretical foundation as well as in actual design of the HR function in the country subsidiaries of an MNE. A further challenge is to change the predominantly national or local mindset in the headquarters (HQ) towards more international awareness of their subsidiaries' local practices. This study addresses these needs by considering the transfer of human resource management (HRM) policies and practices in German MNEs from the HQ to a number of diverse Asian countries.

Though detailed studies have emerged concerning HRM policies and practices of MNEs from different countries (Ferner, Quintanilla & Varul 2001; Kopp 1994), or operating in specific host environments (Chew & Horwitz 2004; Fisher & Haertel 2003; Rosenzweig & Nohria 1994), research discussing international HR processes systematically and in-depth is under-represented (Dickmann 2004). Field research is still mainly in the form of case studies with comparative and descriptive approaches (Chew & Horwitz 2004; Napier & Vu 1998), as is to be expected in a relatively new field of study (Perry 1998; Zikmund 2000). Furthermore, many previous studies in international management and organisation have a focus on Anglo-Saxon organisations with fewer studies of European and specifically, German multinationals (Adler 2001; Brodbeck, Frese & Javidan 2002; Clark, Grant & Heijltjes 2000) in an Asian environment. This study addresses these limitations by

adding a focus on German MNEs on the one hand and by comparing the internationalisation of the HR function to the internationalisation of any business function (Bartlett & Ghoshal 1998; Briscoe 1995).

As suggested in international management research, the ability to transfer knowledge effectively across borders is a key characteristic of the successful MNE (Bartlett & Ghoshal 1998; Kostova 1999; Poedenphant 2002). This is especially important for knowledge believed to be critical for the competitive advantage of the firm, such as the knowledge embodied in strategic organisational practices (Bartlett & Ghoshal 1998). Learning what factors might facilitate or impede the process of transfer of human resource practices and insights is therefore of strategic importance for MNEs. This study attempts to explain why German companies may face challenges when they transfer HR policies and practices to countries in Asia.

Management practices that reinforce national culture are more likely to yield predictable behaviour and high performance (Earley 1994; Mischel & Wright 1987). The international HRM literature, in conjunction with the fields of international business and management, supports the paradigm that culture is a key strategic factor in the management of employees worldwide (Adler 2001; Bartlett & Ghoshal 1992, 1998; Briscoe 1995; Schuler, Budhwar & Florkowski 2002; Taylor, Beechler & Napier 1996). Sparrow, Schuler and Jackson (1994) point out that world-wide competitive advantage can be enhanced through recognition of cultural dynamics. As Adler (2001) suggests, cross-cultural research can introduce a new understanding of employee behaviour in an organisational setting.

The contribution to management practice of the results of this study might assist managers of MNEs in designing transferable HRM policies and practices that motivate employees, while achieving competitive advantage. In brief, this study strives to provide a contribution in the area of international human resource management.

## 1.2 Research Question, Issues and Contribution

This study addresses the **research question**:

*How do German multinational companies transfer human resource policies and practices to and from their subsidiaries in South East Asia?*

To build the proposed focus three areas of interest are addressed, namely international human resource management (IHRM), national, cultural and legal differences between Germany, Singapore, Thailand and Indonesia, and finally, multinational enterprises and their impact on human resource issues. The immediate area of interest of this study is the transfer of HR policies and practices from German headquarters (HQ) to subsidiaries in South East Asia.

Five underlying **research issues**, investigating the extent to which selected German MNEs take account of cultural, societal, legal and business specific issues when transferring their IHRM policies and practices to a particular Asian country, are presented and discussed in detail in Chapter 2. The five research issues are:

- RI1: Which IHRM approach do MNEs headquarters versus subsidiaries currently follow along a continuum from exportive to adaptive and integrative approaches?
- RI2: What key cultural, legal and societal differences between the countries Germany, Singapore, Thailand and Indonesia influence the transfer of HR policies and practices?
- RI3: Is there a climate of innovation and trust between HQ and subsidiary in general that facilitates organisational change?
- RI4: How do specific policies and practices, for example compensation, need to change, given the MNE's approach and the established country differences?
- RI5: What are the roles of HQ people and subsidiary staff in the transfer process?

The research investigates whether German MNEs export policies and practices and whether they expect the subsidiaries to adapt policies and practices or expect the subsidiaries to formulate their own practices based on the policies and their respective local conditions.

The **contributions to managerial practice** are discussed in Chapter 5. In this study it is anticipated that recommendations to MNEs can be formulated, which practitioners in MNEs might be considering when designing international HR systems to enhance the quality of the transfer process in their MNEs. In brief, this study contributes to the fields of international human resource management by extending the boundaries of the existing literature and by adding value for professionals through practical recommendations.

### **1.3 Justification of the Research**

The previous section outlines the research question and issues. This section justifies the research within practical, global and strategic contexts.

**Practical Context.** The apparent lack of clearly formulated international human resource management policies and practices at the time of global expansion, focusing here specifically on South East Asia, has led to nationally independent ‘make-do’ HR solutions in the subsidiaries (Kamoche 2000). While those types of solutions are necessary and adequate to fulfil many of the administrative HR tasks, the quality of compensation, development and training processes - to name just a few - are not optimised with the same rigour in every country as those applying to the products and services that the respective MNEs offer. This need for the HR function to match the quality of the product and service business has led to an increasing interest of the MNEs’ headquarters in international HR. Theoretical models of IHRM may be of limited use only, as Rowley and Benson (2002, p.90) point out: *‘IHRM needs to be better grounded to take account of ‘lower level’ issues and practices, because this is where policies and practices are implemented and mediated and where possible constraints may appear.’*

**Global Context.** Because multinational corporations continue to increase their foreign geographic areas of operations, the importance of international studies such as this one is growing (Marquardt & Engel 1993; Schuler, Budhwar & Florkowski 2002). International human resource management increasingly advocates national culture awareness to form effective partnerships with the culturally diverse employee population found within MNEs (Bartlett & Ghoshal 1992; Dowling, Schuler & Welch 1999; Pace, Smith & Mills 1991). For example, within the 1990s there has been an increase in the number of mergers and acquisitions which cross national boundaries. This may result in the cultural composition of an MNE changing almost overnight (Rugman & Hodgetts 2000).

Despite the importance of a global perspective, it remains difficult to discover substantive studies from the literature on transfer of HR policies and practices. Although some research addresses the issue of convergence versus divergence (Rowley & Benson 2002; Sparrow, Schuler & Jackson 1994), it is presented primarily from a North American point of view. There has been a relative neglect of the specific research problem of HR transfer by previous researchers within the context of varying, specifically German, national cultures (Adler 2001; Briscoe 1995; Brodbeck, Frese & Javidan 2002; Herkenhoff 2000).

**Strategic Context.** The corporate mission statements of many MNEs articulate the proposition that employees are the most important corporate resource, and the relationship between employee motivation and corporate productivity is well documented in the literature (McAdams 1996). Within the context of strategic management, IHRM processes which are culturally compatible are more likely to endure and to be effective than those that are culturally incongruent, that is, human resource management is one way to give strategic support and to add value to the employee component of the corporate business plan (Adler 2001; Bartlett & Ghoshal 1992; Briscoe 1995; Evans, Pucik & Barsoux 2002; Marquardt and Engel 1993; Nankervis, Compton & Baird 2002; Schuler, Budhwar & Florkowski 2002).

This qualitative research attempts to provide an IHRM perspective on the transfer of HRM policies and practices from German MNEs to their subsidiaries in Singapore, Thailand and Indonesia. Companies may be able to reflect their own transfer

strategies and design more effective ones because understanding of the transfer process should go beyond the descriptive towards prediction and control (Beer et al 1985). The findings may stimulate further quantitative or qualitative studies while practical contributions to management practice help HR professionals to manage the transfer process more effectively. Next, the methodology of this study is discussed.

#### **1.4 Methodology**

This study is of an explanatory nature and the scientific paradigm employed is critical realism. Qualitative research is applied, specifically the case study method. Critical realism, qualitative methods and the methodology of this study are discussed in more detail in Chapter 3, research methodology. The case study method and its application to the problem, beginning with an exploratory phase to build prior theory and then moving on to pilot interviews and specific main case studies of *'how the transfer is actually taking place'* is briefly introduced below.

**Case study methodology** explores and analyses real-life people challenges and uses a variety of evidence (Yin 2003; Zikmund 2000). In this study multiple sources of evidence such as in-depth interviews, internal documentation, where permission was granted, and external information, such as public websites, provide the basis for an extensive discussion (Perry 1998). Case study research should focus on one specific contemporary part of business (Perry 1998; Yin 2003) and this study focuses on the transfer of HR policies and practices from MNE HQs in Germany to subsidiaries in South East Asia. Various dimensions of the transfer process are researched, including cross-cultural challenges and 'political' issues such as the standing of a certain manager in the HQ (Perry, Riege & Brown 1999; Zikmund 2000).

**Exploratory expert interviews.** Two experts on international HR processes were interviewed, one from a subsidiary of a German MNE in Singapore not included in the study and one from academia. These largely unstructured and conversational interviews were designed to build on and provide a contrast to the findings described in the literature, thereby giving a better structure to the confirmatory stages of the main cases. (Perry 1998).

Two **pilot interviews** were conducted in Singapore at the subsidiary of a German MNE not included in this study and were used to refine the interview protocol (Appendix A). Through the pilot interviews, the researcher could test the interview protocol and decide on measures to be adopted for the data collection to integrate the findings in the final procedure applied in the main and embedded cases.

There are **three main cases**, each representing one German Fortune Global 500 MNE, with the HQ view and the country subsidiaries of Singapore, Thailand and Indonesia each being an **embedded case**. The HQ views, together with the information relevant to each country, provide the required breadth and depth. Every case is fully analysed along the lines of the five identified research issues and discussed in chapters 4 and 5 (Miles & Huberman 1994; Patton 1990), using the techniques of *within-case analysis* and *cross-case analysis* supported by matrices and tables to provide an overview, as well as direct quotations for details (Perry 1998).

Eight **in-depth interviews** for each main case, that is a total of 24 in-depth interviews, form the backbone of data collection. For the subsidiaries these include interviews with the HR director and the Chief Executive Officer (CEO) or the Chief Financial Officer (CFO). For the HQ the head of global HR or HR experts involved in designing or transferring HR policies and practices to countries in Asia were interviewed. An interview protocol (Appendix A) has been developed during the exploratory expert interviews and then tested and refined during the pilot interviews. The interviews started with open, general questions, then went on to focus more and more on the specifics of the identified research issues (Perry 1998; Zikmund 2000).

## **1.5 Outline of this Study**

This study consists of five chapters, following a widely accepted model of presenting doctoral work (Perry 2002). This **chapter of introduction** discusses the background of the research as well as introducing the research question and the research issues employed to address the research question. Furthermore, the research is justified and

the methodology used in this study is introduced. Finally, key terms are defined and delimitations of the study are discussed.

**Chapter 2** discusses the existing literature relevant to this study. First, an integrative model addressing IHRM issues is introduced, followed by a discussion of international human resource management, cultural differences between Germany, Singapore, Thailand and Indonesia and the multinational firm. Finally, a discussion on the transfer of human resource policies and practices of German multinationals to and from subsidiaries in South East Asia is presented. Building on that discussion a model of success of transfer is developed and the five research issues are derived.

**Chapter 3** justifies and explains the methodology used in this study. First, the scientific paradigm is introduced and then the qualitative study method is justified. Case study methodology is discussed by outlining how the case study methodology is employed in this study, including pilot interviews, main case interviews, and data collection. Finally, limitations and ethical considerations of this study are discussed.

**Chapter 4** presents and analyses the data collected during the case studies. Analysis is along the lines of the five identified research issues and uses the techniques of *within-case analysis* and *cross-case analysis* supported by data displays using matrices and tables.

**Chapter 5** integrates the literature review of Chapter 2 and the data analysis of Chapter 4 to draw conclusions and discuss the implications of this study. Implications for both theory and practice are discussed. Finally, future research needs are identified and directions for further study recommended.

## **1.6 Definitions**

This section introduces definitions of key terms used in this study. Definitions adopted by researchers often vary, so key terms are defined to establish positions taken in this study (Perry 2002). These definitions, listed here in alphabetical order, are discussed and justified in more depth in the literature review, Chapter 2.

- **Culture** is the collective programming of the mind which distinguishes the members of one group or category of people from another (Hofstede 1980).
- **Human Resource Management, HRM**, includes most human resource (HR) administration tasks, such as payroll, as well as the topics of recruiting, performance management, training, development, compensation and benefits, and also includes labour relations (Dowling, Schuler & Welch 1999).
- **International Human Resource Management, IHRM**, includes HRM and adds the challenges of national, cultural and legal differences between the countries of the firms' operations (adapted from: Adler 2001; Briscoe 1995; Dowling, Schuler & Welch 1999).
- **Multinational enterprise, MNE**, is a company that is headquartered in one country and has significant operations as well as employees in other countries (adapted from: Rugman & Hodgetts 2000).
- **Multinational enterprise as a stage of internationalisation.** Characterised as a company having multiple fully functioning country organisations with strong input from headquarters (Briscoe 1995).
- **Policy** describes the abstract, strategic, general ideas and **practice** describes the actual day to day operation or implementation of an HR issue. In this study distinctions between philosophy, policy and principles are not found to be useful and therefore the focus in this study is only on *policies and practices*.
- **Transfer** is the process of applying and deploying a policy or practice from one place, for example HQ, in another place, for example a subsidiary. **Success of transfer** is the degree of institutionalisation of the policy or practice in the subsidiary (adapted from: Kostova 1999).

## 1.7 Delimitations of Scope and Key Assumptions

The scope of this study is limited as only three of the 34 German Fortune Global 500 industrial companies (Fortune 2004) are studied. The studied companies have a substantial amount of their business outside Germany and have subsidiaries in Singapore, Thailand and Indonesia. These countries are selected for this study to represent an area of geographic proximity close with high growth potential and different degrees of economic development and population size, in order to be able to make visible differences in the MNE's approach to the respective countries. Furthermore, three different industries, namely electrical, mechanical and chemical, are selected to allow for application of the results within more than one industry. Finally, interviews with participants in subsidiaries in the three specified Asian countries are limited to senior management, such as Chief Executive and Chief Financial Officers, as well as HR directors, and do not include general staff members.

One *assumption* of this study is that Western MNEs operating in Asian countries face different human resource issues from those faced in their home countries (Briscoe 1995; Dowling, Schuler & Welch 1999; Nankervis, Compton & Baird 2002; Napier & Vu 1998; Rowley & Benson 2002). This study looks not only at the transfer of HR policies and processes from HQ to subsidiaries, but also at the internationalisation of the MNE's HQ. Another *assumption* of this study is that the country of origin or headquarters location of an MNE indeed influences the behaviour of an MNE in another country (Brodbeck, Frese & Javidan 2002; Evans, Pucik & Barsoux 2002; Fisher & Haertel 2003; Pauly & Reich 1997; Rowley & Benson 2002; Schuler, Budhwar & Florkowski 2002), thus justifying the study of how German MNEs transfer HR policies and practices to their subsidiaries. Corporate culture and professional culture of an MNE are *assumed* to be less significant than the influence of national culture with respect to IHRM. This assumption is supported by the wide acceptance of the Hofstede (1980) model, which is based on the same assumption (Herkenhoff 2000).

## **1.8 Summary**

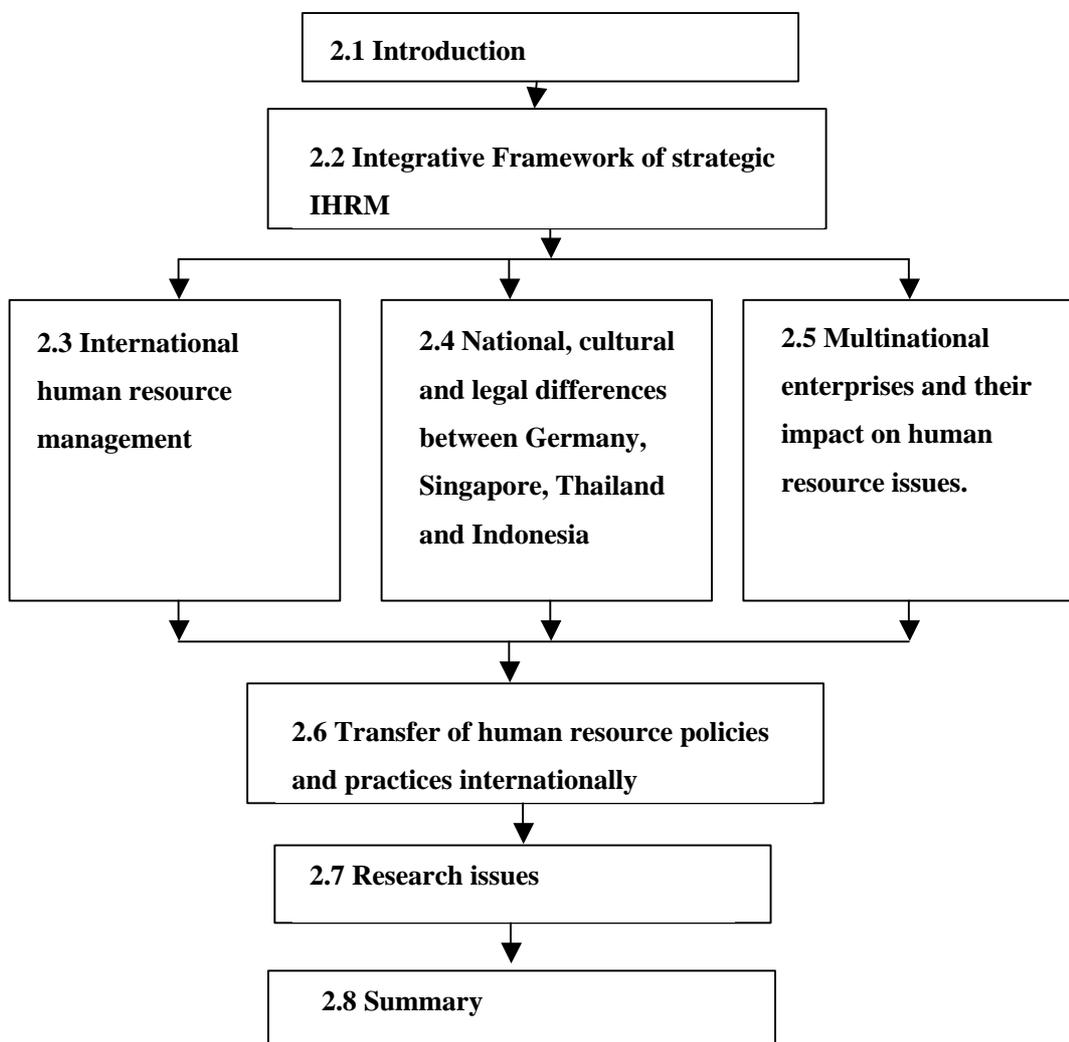
This chapter builds the foundation for this dissertation within the framework of the research question. First the background and the research question are discussed, and then five research issues and the contributions of this study to theory and practice are discussed. The research is justified within practical, global and strategic contexts, followed by an introduction of the methodology employed in this qualitative case study. An overview of all five chapters as well as delimitations of scope and key assumptions of this study are presented. The next chapter presents the literature review, beginning with an integrative framework of strategic international human resource management.

## CHAPTER 2: LITERATURE REVIEW

### 2.1 Introduction

The previous chapter introduced and outlined this study. This chapter presents the literature review of this study, which is concerned with the transfer of policies and practices in international human resource management. This chapter consists of eight sections, as outlined in figure 2.1.1:

**Figure 2.1.1: Overview of chapter outline**



Source: Developed for this study

First, an integrative framework for studying international human resource issues is presented. Then the literature overview discusses current thinking in the parent disciplines (Perry 2002). These are first, international human resource management, addressed in Section 2.3; second, national, cultural and legal differences between Germany, Singapore, Thailand and Indonesia, addressed in Section 2.4; third, multinational enterprises and their impact on human resource issues, addressed in Section 2.5, and the immediate discipline, transfer of human resource policies and practices from multinational enterprise headquarters to subsidiaries, which is discussed in Section 2.6. Finally, five research issues for this study are developed and presented before concluding the chapter.

## **2.2 Integrative framework of strategic IHRM**

This section introduces an integrative framework of strategic international human resource management by Schuler, Dowling and De Cieri (1993). Its structure and implications for this chapter are discussed. This framework is considered a seminal concept in the field of strategic international human resource management (SIHRM) and is widely used as a framework for research and academic teaching in the field of international HR (Erwee 2001). The framework is still valid and current, despite the growing interest in the field of strategic international human resource management over the last ten years (Evans, Pucik & Barsoux 2002; Fisher & Haertel 2003; Nankervis, Compton & Baird 2002; Rowley & Benson 2002; Schuler, Budhwar & Florkowski 2002). This literature review chapter is largely based on the framework's structure and on the factors identified by the authors to play a key role in SIHRM. These factors are basic human resource management (HRM) on the one hand and factors exogenous and endogenous to the firm on the other hand. Exogenous factors are national, cultural and legal conditions in a country, as well as the industry and environment in which a company is active (Schuler et al 1993, 2002; Verma, Kochan & Lansbury 1995).

The parent disciplines of this study are divided along the lines of the identified factors of the framework. The main discipline, that of international human resource

management, forms the discussion in Section 2.3; in other words, this study is in the field of international human resource management. Exogenous and endogenous factors form the discussions in sections 2.4 and 2.5. National, cultural and legal conditions are discussed and it is argued that industry effects play a subordinate role to national culture when transferring HR policies and practices; therefore industry analysis is not part of this study. Endogenous factors such as the stages of the internationalisation processes of a multinational enterprise and its effect on HR practices, as well as the structure and the strategy of the multinational enterprise, are addressed in Section 2.6, which studies multinational enterprises and their impact on human resource issues. Having established the link between the integrative framework of strategic international human resource management by Schuler, Dowling and De Cieri (1993) and the structure of the parent disciplines of this study, a hierarchy in the complexity of HR topics is discussed next.

### **2.2.1 Hierarchy of HR topics**

Schuler et al (1993; 2002) and others (Briscoe 1995; Nankervis, Compton & Baird 2002; Rowley & Benson 2002) see a hierarchy in the complexity of human resources (HR) topics. The foundation is human resource management in the firm at the national level. Human resource management (HRM) includes most HR administration tasks, such as payroll, as well as the topics of recruiting, performance management, training, development, compensation and benefits, as well as labour relations (Dowling, Schuler & Welch 1999). More complexity is added when going one level higher to international human resource management (IHRM), which includes HRM and adds the challenges of national, cultural and legal differences between the countries of the firm's operations (Adler 2001; Briscoe 1995; Dowling, Schuler & Welch 1999; Fisher & Haertel 2003). An even higher level of complexity is added when Strategic IHRM is defined as linking IHRM with the strategic needs of the business (Adler & Ghadar 1990; Bartlett & Ghoshal 1989; Evans & Lorange 1989; Evans, Pucik & Barsoux 2002; Schuler et al 1993; 2002). Clearly this encompasses not only the fields of HRM and IHRM but touches the very foundation of the business, its strategy, business model and indeed all managerial functions in

the firm (Adler & Ghadar 1990; Bartlett & Ghoshal 1989; Briscoe 1995; Evans & Lorange 1989; Evans, Pucik & Barsoux 2002; Nankervis, Compton & Baird 2002).

However, in its ambition to be truly integrative, the framework has become so all-encompassing that research based on it has to limit itself to a few selected factors rather than the whole set of cross-disciplinary factors; a fact that the authors are aware of themselves (Schuler, Dowling & De Cieri 1993). In researching the transfer of HR policies and practices in this study, the framework's factors form the parent disciplines. Some authors, arguing from the strategic management point of view, claim that industry and firm strategy are more important than other concerns, such as national culture for example, when determining the best ways to transfer policies and practices (Bartlett & Ghoshal 1989; Porter 1990). Pauly and Reich (1997) and others (Adler 2001; Briscoe 1995; Rowley & Benson 2002) on the other hand, arguing from an HR point of view, assume that national culture and historic legacy play a bigger role than the industry in which the multinational enterprise (MNE) is active when determining the best ways to transfer policies and practices. In other words, those authors support the assumption that there are national differences influencing how MNEs of a specific country do business internationally, that is, they support the idea that there is a German way of transferring policies and practices, distinctly different from an American or Japanese way, for example (Keeley 2001). The literature on national cultural differences (summarised in Herkenhoff 2000) and primarily the works of Hofstede (1980; 1993; 2001) equally support that assumption, which is also used in this study and indeed forms the foundation of the research problem. Finally, often the perspective of 'non-international' or domestic in the literature is the Anglo-Saxon experience (Adler 2001; Clark, Grant & Heijltjes 2000), particularly the American perspective. The study of German MNEs in Asia in this study takes a new approach and thus contributes to the body of research.

This section briefly discusses the parallels of the integrative framework of strategic international human resource management by Schuler, Dowling and De Cieri (1993) and Schuler, Budhwar & Florkowski (2002) and the structure of this study's parent disciplines. Furthermore, a hierarchy of HR topics is introduced. The next section discusses parent discipline 1, namely international human resource management, defines IHRM in more detail and discusses MNEs' approaches to IHRM.

## 2.3 International Human Resource Management

This section defines and then gives an overview of IHRM in the literature by discussing several existing IHRM models. Three orientations of MNE approaches towards IHRM are discussed.

**Definition of IHRM.** IHRM definitions are wide-ranging and for some, IHRM issues only explore aspects of HRM in MNEs (Briscoe 1995) while for others ‘*strategic international human resource management is no more than the application of SHRM to the international or global business context*’ (Nankervis, Compton & Baird 2002, p.617). Therefore, much IHRM work in the past has focused exclusively on the areas of international staffing and management development. However, if IHRM is taken to mean simply managing international assignments in MNEs, then it will neglect many areas (Rowley & Benson 2002). Another approach focuses on comparative industrial relations (IR) and HRM, where attempts are made to describe, compare, and analyse HRM systems and practices across countries (Verma, Kochan & Lansbury 1995). Most definitions typically share similar basic components. For this study a straightforward definition of international human resource management is used:

*IHRM consists of a collection of policies and practices that a multinational enterprise uses to manage the local and non-local employees it has in countries other than their home countries.*

(Adapted from: Dowling, Schuler & Welch 1994)

The integration of more comparative views, approaches and perspectives within IHRM can be useful, and helps in providing more insight into what is ‘normal’ as opposed to ‘exceptional’ in HRM practices and systems (Nankervis, Compton & Baird 2002; Rowley & Benson 2002). However, IHRM should not become a description of fragmented responses to distinctive national problems. Furthermore, IHRM is not simply about the ‘copying’ of HRM practices, as many of these practices suit national cultures and institutions without necessarily being transferable.

Indeed, the main issues of concern in IHRM are those of consistency, or standardisation, versus customisation, or adaptation, within diverse social and cultural environments (Nankervis, Compton & Baird 2002). In other words, IHRM describes the HR issues in an MNE in general without being limited to international employee transfer. Next, existing IHRM models are discussed.

### **2.3.1 Existing IHRM Models**

Several conceptual models seek to describe and predict how MNEs might conduct IHRM on an abstract level from a macro, strategic perspective (Adler & Ghadar 1990; Evans & Lorange 1989; Evans, Pucik & Barsoux 2002; Milliman, Von Glinow & Nathan 1991; Nankervis, Compton & Baird 2002; Schuler et al 1993, 2002; Taylor, Beechler & Napier 1996; Welch 1994). What MNEs actually do and, more importantly, how they do it is not so well documented.

The literature written by practitioners seems to struggle with the description of how the IHRM system ‘established itself’ in the wake of business expansion, rather than being aware of a choice (Napier & Vu 1998; Roberts, B. 2000; Rynes, Bartunek & Daft 2001). Authors of early conceptual models argue that the central issue is to find the best fit between the MNE's overall strategy and its IHRM policy, not to identify the best overall IHRM policy (Adler & Ghadar 1990; Milliman, Von Glinow & Nathan 1991). Later models specify other internal and external factors to explain MNEs' choices of IHRM systems. Specified factors include:

- the industry in which a MNE is operating (Schuler et al 1993, 2002)
- the MNE's international life cycle and experience (Adler & Ghadar 1990; Milliman, Von Glinow & Nathan 1991; Nankervis, Compton & Baird 2002; Schuler et al 1993, 2002; Taylor, Beechler & Napier 1996)
- the organisational structure (Schuler et al 1993, 2002)
- the HQ's international orientation (Schuler et al 1993, 2002; Taylor, Beechler & Napier 1996)

- the host country's cultural and legal environments (Adler & Ghadar 1990; Milliman, Von Glinow & Nathan 1991; Schuler et al 1993, 2002; Taylor, Beechler & Napier 1996)
- the resources or strategic role of affiliates and certain employee groups (Nankervis, Compton & Baird 2002; Taylor, Beechler & Napier 1996)

Schuler, Budhwar and Florkowski (2002) point out that one needs to use multiple levels of analysis when studying IHRM, including the external cultural and economic environment as well as the industry, the firm and the individual. The focus of this study is on the HQ's international orientation, the home and host country's cultural and legal environments and the roles of HQ and subsidiary staff in the transfer process. It is expected, and in line with previous findings (Adler 2001; Bartlett & Ghoshal 1992; Verma, Kochan & Lansbury 1995) that these three focus points can be used to explain the current transfer processes and for suggesting improvements. In brief, there are many well documented IHRM models; practical descriptions of IHRM are still limited. Next, IHRM approaches at large are discussed.

### **2.3.2 IHRM orientations and approaches**

Three different IHRM orientations in MNEs are exportive, adaptive and integrative (Briscoe 1995; Dowling, Schuler & Welch 1999; Taylor, Beechler & Napier 1996). These orientations determine the company's overall HR approach to managing the tension between integration, that is internal consistency, and differentiation, that is external consistency. Next, these three different orientations are discussed.

An **exportive** IHRM orientation is one in which the parent firm's HRM system is being transferred to its different affiliates. This approach emphasises integration across all affiliates. The negative aspect of such an exportive IHRM approach is its inflexibility. This may lead to an ethnocentric orientation from HQ and as a consequence, affiliates might be opposed to the imposed practice (Adler 2001; Taylor, Beechler & Napier 1996).

The second, an **adaptive** IHRM orientation is one in which each affiliate develops its own HRM system, reflecting the local environment. Differentiation is being emphasised with almost no transfer of HRM philosophy, policies or practices, either from the parent firm to its affiliates or between affiliates (Taylor, Beechler & Napier 1996). The negative aspect of such an adaptive IHRM approach is its lack of globally valid standards and possibly a lot of inefficiency due to the multiple creations of similar policies and systems (Roberts, B. 2000).

The third, an **integrative** IHRM orientation, both combines characteristics of the parent company's HRM system with those of its international affiliates, and attempts to take 'the best' HRM approaches and use them throughout the organisation. Transfer of HRM policies and practices occurs and can go in any direction, between affiliates or from one affiliate to HQ or from HQ to an affiliate (Kostova 1999; Taylor, Beechler & Napier 1996). If implemented well, the integrative approach is clearly the desirable win-win solution. The possible negative aspect is that the final IHRM policies of an MNE could represent the lowest common denominator rather than setting international standards (Kostova 1999; Rowley & Benson 2002).

The three orientations, namely exportive, adaptive and integrative approaches, or a combination thereof, varying either by issue or country, for example exportive to some countries or adaptive towards others, represent three basic choices for managers, forming an overall IHRM approach of their MNE. If asked, most people will prefer and actively choose the integrative approach for its obvious advantages. Yet many people in the field claim that their company uses an exportive, ethnocentric approach (Adler 2001) or an adaptive approach, which means the respective country subsidiary is basically left on its own (Dowling, Schuler & Welch 1999). Having identified the different options of IHRM in terms of an exportive, adaptive and integrative approach, the question is how to decide which option to choose.

In examining the different IHRM models, three factors seem to be crucial. All models mention the need for an IHRM system to balance the tension between global integration and local responsiveness (Bartlett & Ghoshal 1989; Evans, Pucik & Barsoux 2002). The second crucial factor in IHRM models is the cultural context of

HQ and its different subsidiaries with their different national cultures and the effects on organisational culture (Adler 2001; Hofstede 1991, 1993, 2001; Roberts 2003). A third factor examines the power dynamics within the MNE. This factor is crucial because the relationship between HQ and subsidiary influences to a great extent the acceptance of a decision by the subsidiary's HR team (Adler 2001; Bartlett & Ghoshal 1992; Briscoe 1995). The second and third factors, those of national culture and the setting of the MNE, are discussed in separate sections of this chapter while the first, that is the need to balance the tension between global integration and local responsiveness, is the general underlying problem. It is intended that this study may contribute towards a solution to the problem, both theory and practice.

In closing, it can be stated that very little of the available literature examines how the actual transfer of policies and practices is organised and managed. The models and choices are well researched and documented. The analysis or even the mere description of the implementation is still in its infancy (Briscoe 1995; Janssens 2001; Napier & Vu 1998) and is being addressed in this study.

The discussion above leads to the first of five research issues:

- RI1: Which IHRM approach do MNEs' headquarters versus subsidiaries currently follow, along a continuum from exportive to adaptive and integrative approaches?

This section, addressing international human resources, defines IHRM and discusses several existing conceptual IHRM models which lead to the first research issue. The next section compares macroeconomic, national, cultural and legal differences between Germany, Singapore, Thailand and Indonesia.

#### **2.4 National, cultural and legal differences between Germany, Singapore, Thailand and Indonesia**

This section first compares the four countries Germany, Singapore, Thailand and Indonesia on a macroeconomic level and then goes on to discuss a framework for

comparative studies on HRM issues. Furthermore, culture is defined and a comparison of the cultural differences of the countries, based on four authors' models, is presented. The ensuing discussion then leads to the second research issue.

### 2.4.1 Country Information at Macro Economic Level

Germany and Singapore are well-developed economies, with GDP figures per head among the highest in the world (World Factbook 2003). Indonesia, with its vast population and low GDP per head, is a developing country trying to make use of its cheap labour force (Kamoche 2000). Thailand is more developed than Indonesia but not as developed as Singapore or Germany (Rowley & Benson 2002). Table 2.4.1 presents an overview:

**Table 2.4.1: Basic facts about Germany, Singapore, Thailand and Indonesia**

<b>Comparison</b>	<b>Germany</b>	<b>Singapore</b>	<b>Thailand</b>	<b>Indonesia</b>
<b>Population (millions)</b>	82.4	4.6	64.3	234.9
<b>GDP (billion US\$)*</b>	2160	112.4	445.8	714.2
<b>GDP per head (US\$)*</b>	26200	25200	7000	3100
<b>Workforce (millions)</b>	41.9	2.19	33.4	99
<b>Workforce (%)</b>	50.8%	47.6%	51.9%	42.2%
<b>Unemployment</b>	9.8%	4.6%	2.9%	10.6%
<b>Religion</b>	68% Christian	76% Buddhist	95% Buddhist	88% Muslim

(Source: World Fact Book 2003) \*= based on purchasing power parity

Singapore is as much a city as a nation, not comparable to the area and population of the other three countries in question. Political implications, the EU's role in the case of Germany or ASEAN's role and the stability of the South East Asian neighbours for Singapore, Thailand and Indonesia, are important factors in addition to the macro economic environment (Rugman & Hodgetts 2000).

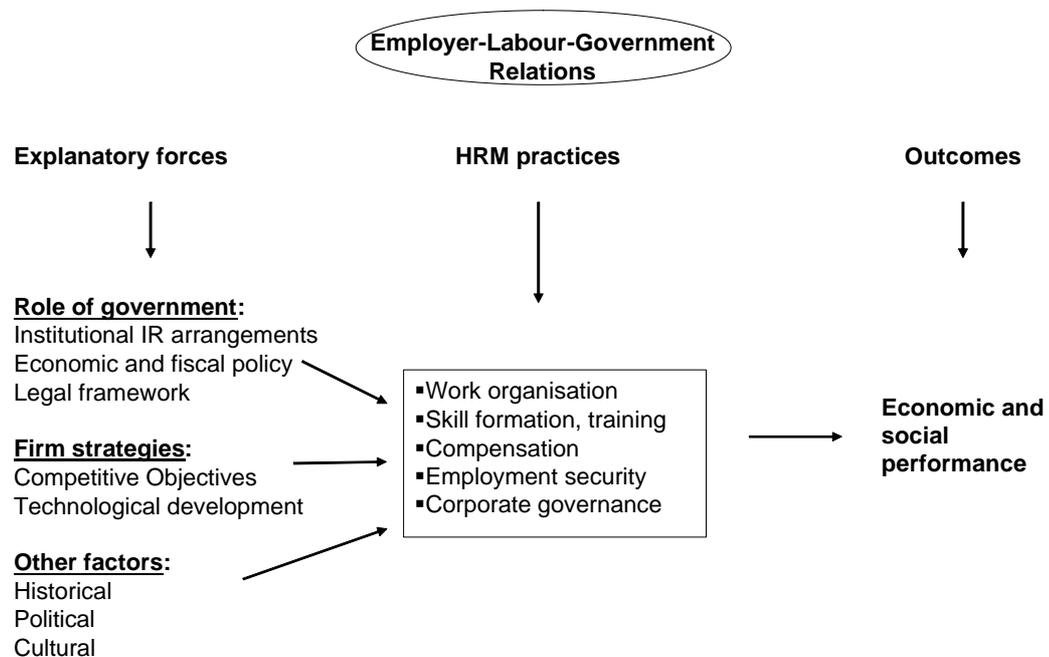
Over and above macro comparisons, there are without question national differences between the economic and social performance of the countries under study. Some of

these differences, especially in the field of HRM, require a comparative approach which considers more than macro-economic data. Consequently a framework for comparative study of HRM practices in different countries is discussed next.

## 2.4.2 Framework for comparative study

Following a proposed framework by Verma, Kochan and Lansbury (1995), shown in figure 2.4.1, an attempt is made to compare the four countries under study, considering HRM issues on five dimensions. The outcome is economic and social performance, with the input factors being role of government, including institutional and legal frameworks, firm strategies, including competition and technology, and finally, other factors, including historical, political and cultural factors. The five dimensions of country comparison are work organisation, skill formation and training, compensation systems, employment security and staffing and finally, corporate governance (Verma, Kochan & Lansbury 1995).

**Figure 2.4.1: Framework for comparative study of countries**



(Source: Verma, Kochan and Lansbury 1995:6)

The presented framework has been applied to many countries by Verma, Kochan and Lansbury (1995) and it has served as a basis for other researchers (Nankervis, Compton & Baird 2002). Verma, Kochan and Lansbury (1995) see historical, political and cultural factors as ‘other input factors’ among the earlier listed input factors of ‘role of government’ and ‘firm strategies’. It may be argued that historical, political and cultural factors are the most dominant factors in enduring national differences (Adler 2001; Briscoe 1995; Herkenhoff 2000; Hofstede 1980, 1991, 1993, 2001; Pauly & Reich 1997) and they do indeed contribute largely to the formation of government role and firm strategy, thus necessitating a more detailed discussion of cultural differences between Germany, Singapore, Thailand and Indonesia. In the following sections, this framework is applied to the four countries under study.

**Comparative Framework applied.** Comparative studies on national levels face the problem of contradicting trends and data (Rowley & Benson 2002). For example, within one single country vast differences in tradition, present economic activity and HR management may be encountered (Verma, Kochan & Lansbury 1995). Nevertheless an attempt is made below to present a summary of the four countries under study, applying the comparative framework of Verma, Kochan and Lansbury (1995) in table 2.4.2.

**Table 2.4.2: Framework applied for comparative study of Germany, Singapore, Thailand and Indonesia**

	<b>Germany</b>	<b>Singapore</b>	<b>Thailand</b>	<b>Indonesia</b>
<b>work organisation</b>	Extensive use of technology to increase flexibility and productivity of workforce.	Largely influenced by presence of American MNEs' regional HQ.	Largely influenced by Buddhism and the Monarchy.	Inflexible, extensive use of labour, little effort to increase productivity.
<b>skill formation</b>	Well trained workforce with emphasis on vocational training and practical education.	Government pushes high levels of education. Very limited effort from the private sector.	Abundance of unskilled labour. Shortage of training and skilled labour. Lack of effective public-private cooperation in educational sector.	Abundance of cheap, unskilled labour. Shortage of training and skilled labour.
<b>compensation systems</b>	Though a high wage country, real wages have been in decline for years. Relatively evenly distributed pay scales among industries and professions.	Salaries have been constantly rising in real terms with high multiples of pay scales as the norm. Singapore is not a cheap labour location anymore.	Salaries have been constantly rising in real terms with high multiples of pay scales as the norm. Since 1997 struggling with high wages and low skill base.	Extremely high differences in pay between skilled and unskilled labour. Wages declined in real terms since 1997.
<b>employment security</b>	High employment security and workforce loyalty with legal protection of the workforce in downturns that makes investors careful to expand in upturns.	Very dynamic labour market with no obligation on employer to provide permanent employment or job security. US system serves as role model.	Very dynamic labour market. At times of growth little loyalty of the workforce. Legal protection to prevent layoffs makes it costly for MNEs to downsize.	Very dynamic labour market. At times of growth little loyalty of the workforce.
<b>corporate governance</b>	Collective bargaining and strong positions of the unions who are also represented on the boards of directors (co-determination). Socially very stable.	Corporatist system where the state pushes labour in a role subordinate to government economic policy. Socially stable.	Very little unionisation. Firms are like families. Socially stable due to calming influence of Buddhism and the monarchy.	High unionisation. Frequent clashes between labour force and employers. Socially unstable

(Sources: Briscoe 1995; Herkenhoff 2000; Kamoche 2000; Lawler & Siengthai 1998; Verma, Kochan & Lansbury 1995; Wright University 2002)

**Work organisation.** Germany uses technology to increase flexibility and productivity of the workforce, Singapore is strongly influenced by American MNEs having their Asia HQ in Singapore. Thailand is influenced in its work organisation

by Buddhism and the strong presence of the monarchy and Indonesia, being rather inflexible, uses its abundant workforce without much effort to increase productivity. (Briscoe 1995; Kamoche 2000; Lawler & Siengthai 1998; Verma, Kochan & Lansbury 1995)

**Skill formation.** Thailand and Indonesia have an abundance of unskilled labour, with shortages in training and skilled labour, while in Singapore the government actively pushes for high levels of education and training. In Germany the emphasis is on practical education, deeply embedded in the system through vocational training (Briscoe 1995; Kamoche 2000).

**Compensation system.** Germany and Singapore are high wage countries with Indonesia being a cheap labour country and Thailand struggling with wages too high for the low skill base. While salaries and wages are distributed relatively evenly in Germany, making it very expensive for low skilled labour, Singapore as well as Thailand and Indonesia are more used to high multiples of pay scales (Herkenhoff 2000; Kamoche 2000).

**Employment security.** The three Asian countries under study have dynamic labour markets and little worker loyalty with the US being the role model for Singapore. The German labour market is highly regulated and protected, thus not dynamic, with high worker loyalty. Thailand and Germany protect their workforce legally against layoffs, resulting in more careful expansions during economic upturns (Briscoe 1995; Lawler & Siengthai 1998).

**Corporate governance.** Germany, Singapore and Thailand are socially stable, yet for different reasons. While in Thailand social stability stems from the family values and calming influence of Buddhism and the monarchy, social stability in Singapore is engineered by the government corporatist system and in Germany social stability is owed to the collective bargaining and relative power of the unions, who are also represented on the boards of directors. Indonesia, on the other hand, is socially unstable with frequent clashes between workforce and employers (Briscoe 1995; Kamoche 2000; Lawler & Siengthai 1998).

There is an ongoing debate as to whether national institutional differences are better suited than national cultural differences to compare outcomes in HRM practices (Kostova 1999; Rowley & Benson 2002). However, while macro economic data and country comparisons are important, they can only serve as background information when dealing with IHRM issues (Briscoe 1995). In line with the established literature (Bartlett & Ghoshal 1998; Herkenhoff 2000; Hofstede 1991; 1993; 2001) the assumption in this study is that national cultural differences are a most significant factor in shaping institutions as well as in shaping outcomes directly. Therefore the emphasis of research in this study is on national cultural differences rather than institutional differences. The next section defines culture and introduces four frameworks along which national cultural differences may be highlighted.

### **2.4.3 Differences in national cultures**

Definitions of culture are widespread. For Nankervis, Compton and McCarthy (1999, p.644) culture consists of '*language, religion, values and attitudes, education, social organisation, technology, politics and law*' of a country. While this offers a rather general definition, sometimes culture is just used as a synonym for nationality (Bhagat & McQuaid 1982). Most definitions seem to anchor around values and attitudes being the core of culture (Herkenhoff 2000). Hofstede (1980, p.25) defined culture as:

*'the collective programming of the mind which distinguishes the members of one group or category of people from another'*.

This definition is used within this study as a definition that is neither too narrow nor too general. In addition, the Hofstede definition leads to three general assumptions that are important in this context. First, the assumption that national cultural differences do exist; second, that these differences are associated with a certain number of shared values, and third, that shared value systems influence people's attitudes and behaviour in their working lives. This is consistent not only with Hofstede but also with the established literature (Evan 1975; Inkeles & Levinson 1969; Kluckhohn 1951; Kluckhohn & Strodtbeck 1961; Kroeber & Parsons 1958; Parsons & Shils 1951, all quoted in Herkenhoff 2000).

Four frameworks to describe cultural differences among different nationalities are discussed (Brake & Walker 1995; Hofstede 1983a, 1993, 2001; Kluckhohn & Strodtbeck 1961; Trompenaars 1993). These frameworks seek to highlight differences between national cultures along certain dimensions; an overview is presented in table 2.4.3 below.

**Table 2.4.3: Four frameworks to compare national cultural dimensions**

<b>Kluckhohn and Strodtbeck (1961)</b>	<b>Hofstede (1983; 1993)</b>	<b>Trompenaars (1993)</b>	<b>Brake and Walker (1995)</b>
beliefs about: <ul style="list-style-type: none"> <li>• Human nature</li> <li>• Time</li> <li>• Relationships (high versus low)</li> </ul>	<ul style="list-style-type: none"> <li>• Power distance</li> <li>• Individualism vs. collectivism</li> <li>• Masculinity vs. femininity</li> <li>• Uncertainty avoidance</li> <li>• <i>Later: long-term orientation</i></li> </ul>	<ul style="list-style-type: none"> <li>• Universalism vs. particularism</li> <li>• Individualism vs. collectivism</li> <li>• Affective-neutral</li> <li>• Specific-diffuse</li> <li>• Achievement-ascription</li> </ul>	<ul style="list-style-type: none"> <li>• Environment</li> <li>• Time</li> <li>• Action</li> <li>• Communication</li> <li>• Space</li> <li>• Power</li> <li>• Individualism</li> <li>• Competition</li> <li>• Structure</li> <li>• Thinking Patterns</li> </ul>

(Source: adapted from Nankervis, Compton & Baird 2002)

Kluckhohn and Strodtbeck (1961) distinguish value orientations such as beliefs about time or the importance of relationships in business. Hofstede (1983a, 1991, 1993) claims that national cultures can be categorised into four dimensions, which are power distance, individualism versus collectivism, masculinity versus femininity and uncertainty avoidance. Later Hofstede enlarged his model to contain a fifth dimension, long-term orientation, based on a study of Chinese scholars (Chinese Culture Connection 1987). Hofstede's (1983b, 1991, 1993) work is the best known and at the same time has been criticised for generalising findings from one company only, IBM (Nankervis, Compton & Baird 2002). The proven theoretical relevance of the Hofstede framework is based on the largest and most comprehensive data bank collected to date. The established validity and rigour of the Hofstede framework makes it an acceptable framework for this study (Herkenhoff 2000). Trompenaars (1993) builds on and refines Hofstede's work by highlighting cultural differences

along the dimensions of particularism versus universalism, individualism versus collectivism, affective-neutral, specific-diffuse and achievement-ascription. Brake and Walker (1995) define ten cultural dimensions including beliefs about the environment, time, action, communication, space, power, individualism and competition, as well as structure and thinking pattern. In brief, this section introduces four frameworks to compare differences in national culture. Next, the national culture of the four countries under study is discussed using two of these frameworks.

#### 2.4.4 Country Comparison based on Frameworks

While exact rankings are neither available nor stable over time, a general comparison between the four countries in question can be made (Wright University 2002). On the level of comparison required in this study the four culture frameworks discussed obtain similar results. It is therefore justifiable to discuss only the two best known and widely applied frameworks, that is those of Hofstede (1983) and Trompenaars (1993) (Herkenhoff 2000; Wright University 2002). Below are the four countries' descriptions along the cultural dimensions of Hofstede (1983a, 1991, 1993) and Trompenaars (1993) summarised in tables 2.4.4 and 2.4.5:

**Table 2.4.4: Hofstede's cultural differences between Germany, Singapore, Thailand and Indonesia**

<i>Hofstede (1983)</i>	<b>Germany</b>	<b>Singapore</b>	<b>Thailand</b>	<b>Indonesia</b>
<b>Power distance</b>	35 low	74 high	64 high	78 high
<b>Individualism vs. collectivism</b>	67 high	20 Low	20 low	14 low
<b>Masculinity vs. femininity</b>	66 high	48 low	34 low	46 low
<b>Uncertainty avoidance</b>	65 high	8 Low	64 high	48 low
<b>Long-term orientation</b>	31 low	n.a. high	56 high	25 low

(Source: Hofstede 1983b, numbers are normalised from 0 (lowest) to 100 (highest))

**Power distance.** Power distance is the degree to which people accept and expect large differences between the most and least powerful members of society in terms of

privileges, wealth and well-being (Wright University 2002). The greater power distance in Singapore, Thailand and Indonesia compared to Germany implies a greater acceptance of unequal power distribution and hierarchical differences, manifested also in vast differences in pay. Subordinates in low power distance cultures like Germany appreciate being asked for their input in decision making, and they often expect to be consulted about decisions that affect them. Such participative management might be seen as inappropriate, or at worst as incompetence, by Asian employees (Wright University 2002).

**Individualism versus collectivism.** In cultures that are highly individualistic, people are expected to be self-reliant and independent, and to focus primarily on caring for themselves and their immediate families. In cultures that are highly collectivist, people are expected to serve the groups to which they belong. Most Asian cultures are highly collectivist (Wright University 2002). The lower individualism in Singapore, Thailand and Indonesia compared to Germany, implies that measures tending to emphasise or reward the individual, such as individual appraisal systems, performance-related pay, 'employee of the month' or best practice sharing, does not find fertile ground or at least may be less successful than in Germany (Herkenhoff 2000; Kamoche 2000).

**Masculinity versus Femininity.** Also known as achievement versus relationship orientation, countries high on masculinity rate achievement and success higher than caring for others and the quality of life (Wright University 2002). The wording, masculinity versus femininity, has no gender connotation here and does not describe the role of men and women in a society. The lower masculinity in Singapore, Indonesia and specifically in Thailand compared to Germany implies that the tendency of the Germans to want to get the job done, regardless of the emotional or relationship cost that may be involved, makes the Germans appear rude and too direct, while the higher femininity approach of the Asian partners seems to the Germans like avoiding the issue (Brodbeck, Frese & Javidan 2002).

**Uncertainty avoidance.** Countries that are low in uncertainty avoidance are relatively comfortable with events and people that are unpredictable. Countries that are high in uncertainty avoidance develop elaborate formal and informal systems to

control their environments and have strict behavioural norms (Wright University 2002). Uncertainty avoidance is high in both Germany and Thailand. However, one has to be careful with the interpretation. While the Germans have developed elaborate formal systems in a system of rules, laws or quality standards to control their environment objectively (Brodbeck, Frese & Javidan 2002), the Thais have an elaborate informal system based on religion and behavioural norms to control their environment (Lawler & Siengthai 1998). The very low uncertainty avoidance of Singapore can be explained by the fact that the responsibility to worry about the future of Singaporeans has been assumed by the government, and therefore the individual feels with certainty that the government will take care of all important matters (Baker 1999). Especially during the time of Hofstede's study the latter view may have prevailed, whereas the Asian crisis of 1997 and the more recent crises of SARS and economic decline have shattered this confidence in the Singaporean government (Economist 2004).

**Long term orientation.** Confucian Dynamism describes the long or short-term orientation of different cultures with a view to the future. Thus, valuing tradition and past social obligations is considered a short term orientation, while saving and planning for the future and persistence is considered a long term orientation. This dimension is generally found to be strong in Asian cultures and weak in Western cultures (Wright University 2002), though the detailed results of table 2.4.3 appear not to confirm that notion. For example, long-term orientation in Singapore is certainly to be observed in terms of vision and endurance, yet it does not translate on an individual level to seeking long term, that is guaranteed, employment or offering long-term loyalty to the employer. Such behaviour is more observed in Germany, stemming however, from the desire to avoid uncertainty concerning one's future, rather than from a long-term orientation. Indonesia, with its strong traditions and fatalistic future outlook, scores low on long term orientation.

While similar to Hofstede's findings in many ways, Trompenaars found that cultures also differed on universalism versus particularism, neutral versus affective, specific versus diffuse and achievement versus ascription dimensions.

**Table 2.4.5: Trompenaars' cultural differences between Germany, Singapore, Thailand and Indonesia**

<i>Trompenaars (1993)</i>	<b>Germany</b>	<b>Singapore</b>	<b>Thailand</b>	<b>Indonesia</b>
<b>Universalism vs. particularism</b>	high on universalism	high on particularism	high on particularism	high on particularism
<b>Affective vs. neutral</b>	neutral	highly neutral	neutral	neutral
<b>Specific vs. diffuse</b>	highly specific	middle	highly diffuse	highly diffuse
<b>Achievement vs. ascription</b>	highly achievement-oriented	middle	highly ascription-oriented	highly ascription-oriented

(Source: Trompenaars 1993)

**Universalism versus particularism.** People who are high in universalism believe they can develop rules and standards that can be applied to everyone in every situation. They tend to use contracts, formal systems and procedures. People who are low in universalism develop their expectations of others based on personal relationships and trust rather than on rules (Wright University 2002). Compared to Hofstede's (1983a) framework, universalism versus particularism is similar to masculinity versus femininity. The Germans, high in universalism, believe in rules and standards applied to everyone. Singaporeans, and especially Thais and Indonesians on the other hand, want to develop a relationship with the other party before having substantive discussions towards making an agreement.

**Affective versus neutral.** In highly affective cultures, people tend to express their feelings openly. In highly neutral cultures, emotions are not expressed as openly and naturally (Wright University 2002). The four countries under study are categorised as neutral, which does not imply that the four countries are equal. Rather, the neutral score of Germany is a 'spill-over effect' from the next dimension, specific versus diffuse. The professional roles in Germany are so much separated from the personal emotions that the expression of feelings has no place in German business life (Brodbeck, Frese & Javidan 2002), while the neutral score of the Asian countries under study comes from the need to save face in business life.

**Specific versus diffuse.** This dimension describes the extent to which various life roles are kept separate. In highly specific cultures, professional and private roles are separated. In highly diffuse cultures, professional and private roles are mixed (Wright University 2002). Compared to Hofstede's (1983a) framework, specific versus diffuse is similar to a blend of individualism versus collectivism and masculinity versus femininity. Germany's high score on specific compared to the more neutral of Singapore and the more diffuse of Thailand and Indonesia confirms the discussion of Hofstede's dimensions.

**Achievement versus ascription.** In highly achievement-oriented cultures, social status is largely derived from a person's achievements. In highly ascription-oriented cultures, social status is largely derived from personal attributes such as age, experience, social origin and connections, or gender (Wright University 2002). Compared to Hofstede's (1983a) framework, achievement versus ascription is similar to individualism versus collectivism and again confirms the discussion of Hofstede's dimensions.

In conclusion, the differences between Singapore, Thailand and Indonesia seem small compared to the differences between the Asian countries and Germany. Whether this seeming similarity of the three Asian countries under study is objectively true or is due to the fact that most of the research has been conducted from a Western point of view is an ongoing debate (Nankervis, Compton & Baird 2002). Nonetheless, it is tempting to group the three Asian countries together – despite the cautioning by Rowley and Lewis (1996, p.11): *'National cultures are uniquely configured systemic structures and this makes the isolation and comparison of specific cultural attributes a hazardous enterprise'*. Ronen and Shenkar (1985) for example, cluster countries along the lines of Anglo, Nordic, Germanic, Near Eastern, Arab and Far Eastern amongst others. While they put Singapore, Thailand and Indonesia in the Far Eastern cluster and thus offer little help for differentiation of the Asian countries under study, it is noteworthy that the Germanic cluster including Germany, Switzerland and Austria, is distinctly different from the Anglo cluster containing the US and Australia amongst others. This distinct difference further supports the motivation for this study which looks specifically at German MNEs in South East Asia.

Having discussed cultural differences among the four countries under study, next the effect of cultural differences on the transfer of HR policies and practices is addressed.

#### **2.4.5 Effects on transfer of HR policies and practices**

In the last few decades human resource management in developed countries like Germany and Singapore has become much more complex than the purely administrative role of paying salaries (Kamoche 2000; Nankervis, Compton & Baird 2002). The flexibility of choice of benefits, the responsibility of the employer to improve the skill base of the workforce, and the increased pressure for the HR department to prove its value to management, have changed the profession and the impact the HR department has on the individual employee (Nankervis, Compton & Baird 2002). While most of this should be true for Thailand and Indonesia as well, the fact is that HR practice is lagging behind the economic development of these countries (Fisher & Haertel 2003; Kamoche 2000).

The discussion until this point has focused on national, cultural and societal differences between the countries under study, namely Germany, Singapore, Thailand and Indonesia. While it has been established that these differences have a strong influence on respective local HR practices, and that these local HR practices do indeed differ significantly, the question remains what impact these differences have on the transfer of policies and practices in the MNE. This discussion leads to the second research issue, namely:

- RI2: What key cultural, legal and societal differences between the countries Germany, Singapore, Thailand and Indonesia influence the transfer of HR policies and practices?

This section, addressing national, cultural and legal differences, compares the four countries on a macroeconomic level and establishes the second research issue. The next section will discuss the multinational enterprise or MNE. Stages of

internationalisation, as well as the influence of the MNE and the industry on HRM will be discussed.

## **2.5 Stages of internationalisation of MNEs and their impact on human resource issues**

This section discusses the stages of internationalisation of the multinational enterprise. Convergence and divergence are introduced and the influence of industry versus nationality is discussed. Furthermore, the manager's role in the MNE is discussed and a discussion of German MNEs is presented.

**Definition of Multinational Enterprise.** The internationalisation of business has a long history. Many expeditions to discover the world were driven by the desire to gain fortunes and riches from international trade (Rugman & Hodgetts 2000). Indeed, much of what is South East Asia today had been explored and opened for trade by the British-India Company long before official colonisation occurred (Baker 1999). In today's world of globalisation and ever increasing international political and economic ties, often an enterprise that is mainly domestic in its home country is multinational by the definition used by Rugman and Hodgetts (2000, p.38):

*'A Multinational Enterprise (MNE) is a company that is headquartered in one country and has operations in other countries'.*

A far more complex definition is offered by Sundaram and Black (1992, p.733):

*'A Multinational Enterprise (MNE) is any enterprise that carries out transactions in or between two sovereign entities, operating under a system of decision making that permits influence over resources and capabilities, where the transactions are subject to influence by factors exogenous to the home country environment of the enterprise.'*

Rugman and Hodgetts' (2000) definition convinces with its simplicity. To exclude all 'mostly domestic enterprises' and to stress the point made by Sundaram and Black (1992) the following definition is proposed here:

*'A Multinational Enterprise (MNE) is a company that is headquartered in one country and has significant operations as well as employees in other countries'.*

Even a small enterprise can be truly multinational. Therefore it is appropriate not to mention size in the definition. Neither is it beneficial in this context to differentiate between the Multinational Corporation, or MNC, and the MNE. For the purpose of this study however, it is appropriate to look only at large enterprises that have both the resources and challenges that come with size and complexity (Chew & Horwitz 2004; Dowling, Schuler & Welch 1999; Gong 2003). As a somewhat arbitrary, yet widely acknowledged, criterion, it is suggested that only companies that are part of the Fortune Global 500 companies (Fortune 2004; Rugman & Hodgetts 2000) be included. Having defined the MNE for the purpose of this study, next, the stages of internationalisation are discussed.

### **2.5.1 Internationalisation**

Nankervis et al (1999, 2002) acknowledge the difficulty in understanding internationalisation, because of its varied descriptions and definitions. Especially the use of the word 'multinational enterprise', defined above as describing geography and activities, is often also used as a developmental phase of a company on its path towards globalisation (Adler 2001; Briscoe 1995), thus creating a certain amount of ambiguity. Nonetheless, Briscoe (1995) integrates more complex descriptions of the internationalisation process (Adler & Ghadar 1990; Bartlett & Ghoshal 1989) and identifies six stages of the internationalisation of enterprises. The stages of internationalisation are first, export; second, sales subsidiary; third, international division; fourth, multinational enterprise, and finally, globalisation, alliance, partnerships and consortia.

**Export** is usually the first phase of internationalisation, where the domestic operation starts to export its finished products (Briscoe 1995; Nankervis, Compton & Baird 2002). Sales and distribution are handled by distributors or franchisees. When sales reach a certain volume, typically the firm establishes its own **Sales Subsidiary**, staffed with home office managers and local support staff. When the international sales volume reaches significant levels, for example 10-20% of total volume, the firm may set up **International Divisions** that take on more responsibility than just a sales office. These responsibilities may include foreign production, country specific marketing or product development. The next stage, **Multinational Enterprise**, can be characterised as one of having multiple fully functioning country organisations with strong input from headquarters. Once the notion of home country and home market is replaced by a global view of the world as one market, the level of **Globalisation** or *transnational* (Bartlett & Ghoshal 1998) is reached. The global organisation shares resources on a global basis to access the whole world market with the highest quality product at the lowest cost. An even higher level of internationalisation, that of **Alliances, Partnerships and Consortia** makes international firms share resources to accomplish tasks they normally would not be able to accomplish alone. Joint research and development projects across the globe are examples.

During the process of internationalisation, especially at the multinational enterprise stage, a company can adopt different orientations with respect to strategy and staffing of senior management positions abroad. Three possible orientations are ethnocentric, polycentric and geocentric and an analogy can be drawn to the IHRM approaches exportive, adaptive and integrative as discussed in Section 2.3.2. Table 2.5.1 provides an overview:

**Table 2.5.1: Comparison between ethnocentric, polycentric and geocentric orientation**

	<b>Underlying belief</b>	<b>Senior management staffing</b>	<b>IHRM approach</b>
<b>ethnocentric</b>	What works at home will work everywhere	Mostly from home country	exportive
<b>polycentric</b>	Every country is different	Mostly from the local operation	adaptive
<b>geocentric</b>	Global integration integrates the good things from each country to find one best way	Best talent internationally available	integrative

(Source: Developed for this study)

Corporate strategy in **ethnocentric** oriented companies is based on a home country perspective, which holds to the underlying belief that what is successful at home should be equally successful elsewhere. An ethnocentric staffing approach is one where key positions are filled by headquarters country nationals. In ethnocentric oriented companies the strong headquarters input in the stage of multinational enterprise is reflected in the choice of top management where *‘key personnel in the subsidiaries and regional offices are usually from the company’s home offices with many decisions still being made at corporate headquarters’* (Briscoe 1995, p.26). Further reasons for ethnocentric staffing are lack of qualified host country nationals, that lack being real or perceived, and the need to maintain good communication links with corporate headquarters (Erwee 2000; Fisher & Haertel 2003; Gong 2003). Challenges of ethnocentric staffing are first, the limits on development opportunities for the host country nationals; second, the possibly lengthy adaptation period of expatriates to the host country; third, the differences in compensation packages involving both cost and fairness issues, and finally, the difficulty for expatriates in evaluating host country nationals (Briscoe 1995; Erwee 2000; Gong 2003). The IHRM approach corresponding to an ethnocentric orientation is an exportive approach.

Companies with a **polycentric** orientation believe that each foreign subsidiary’s environment is unique and different, that is, too difficult to understand and deal with from a home base. Therefore, each foreign subsidiary is given a great deal of autonomy and decision making power. The subsidiaries become more self-sufficient

and independent with local national managers. One reason for firms to become polycentric is that as they expand they become overwhelmed by the increasing differences in their operating environments. One reaction is just to let each foreign unit assume responsibility for its own behaviour and profitability (Dowling, Schuler & Welch 1994). The polycentric staffing approach is one where local managers are recruited to manage subsidiaries in their own country and at corporate headquarters respectively. Four advantages of this approach are first, the language barrier between management and staff is eliminated; second, more comprehensive understanding of the local cultural, political, and economic environments; third, local managers are less expensive, and finally, there is more continuity to the management of foreign subsidiaries (Adler 2001; Erwee 2000). Challenges of a polycentric approach are bridging the gap between local national subsidiary managers, and the parent country managers as well as limited international development possibilities for the local managers, both in subsidiaries and headquarters (Erwee 2000; Gong 2003). The IHRM approach corresponding to a polycentric orientation is an adaptive approach.

A **geocentric** orientation within the firm is both a globally integrated business philosophy and a compromise between the extremes of ethnocentrism and polycentrism. The geocentric staffing approach is one where the best globally available talent is recruited to manage subsidiaries and corporate headquarters. The advantages and disadvantages of geocentric staffing are compounds of the challenges and opportunities that come with ethnocentric or polycentric approaches: while the talent pool is large and development possibilities are maximised, expatriation with all its problems, yet without the home country link, becomes the norm (Briscoe 1995; Chew & Horwitz 2004; Dowling, Schuler & Welch 1994; Erwee 2000). The IHRM approach corresponding to a geocentric orientation is an integrative approach.

Briscoe (1995) as well as Dowling, Schuler and Welch (1994) argue that the use of expatriate managers often develops over time along a typical path, that is, an initially ethnocentric orientation can over time gradually develop towards a more polycentric orientation and then towards a more geocentric one. In the initial phases of internationalisation many expatriate managers from the home office move to build up subsidiaries in a new foreign location. As the company trains local managers, expatriation declines in the countries. The number of international expatriate

managers, yet not from the home office, increases again as the company grows into a global or transnational operation and managers move from one subsidiary to the next (Briscoe 1995; Evans, Pucik & Barsoux 2002; Nankervis, Compton & Baird 2002; SHRM 2004). While the use of expatriates may develop over time in a typical fashion, Kopp (1994) and Gong (2003) argue that the national origin of the MNE puts a vastly different timeline on that 'typical' path.

Normally the process of internationalisation begins with a domestic operation that starts to export its finished products, going through the described stages towards a network of global alliances that renders the notion of home country somewhat irrelevant. In large organisations often all the stages are found at the same time in various business fields or product lines. This is also the case with the three German MNEs studied here (see Chapter 3): some businesses are truly global with business unit headquarters even outside Germany, such as in Sweden or in the US, thus making home country hard to define. Some other businesses in the same MNEs are at the stage of producing in Germany and having international sales subsidiaries. Almost all Fortune Global 500 companies are in the MNE stage, that is, as far as most of their business volume is concerned (Rugman & Hodgetts 2000), and are therefore in their totality referred to as MNEs. Bartlett and Ghoshal (1998) describe some activities of selected companies as transnational as well as some individual managers as being global managers. Yet, most large corporations which work across borders today are in the multinational enterprise stage. The concept of the global and the transnational company and its global managers is still more of a goal than a practice for entire organisations (Bartlett & Ghoshal 1989, 1998; Briscoe 1995; Evans, Pucik & Barsoux 2002), while it can be a reality for parts of an organisation.

Although the stages of internationalisation from export to transnational companies and global alliances represent a development continuum, it can not be concluded that it is desirable for every company to be transnational right away. One previously often quoted example (Bartlett & Ghoshal 1998) of a global or transnational company, ABB, is at present struggling for survival (Financial Times Deutschland 2004), whereas Adler (2001) points out that the world-wide operations of giants like NEC, Fujitsu, Mitsubishi and Siemens, where foreign subsidiaries are treated as appendages of the home country headquarters, are evidence that international

organisations can exist successfully at the stage between international division and MNE. The three German companies in this study are in the MNE stage and their approaches to international human resource management are studied. Having discussed the stages of internationalisation and possible strategic orientations, attention will next be focused on convergence versus divergence.

### **2.5.2 Convergence and Divergence**

Bartlett and Ghoshal (1989) introduce the transnational company that integrates assets, resources and people around the world. For these authors, the international or multinational company is already outdated and the transnational companies are borderless companies managed by a group of internationally minded and experienced people. This trend towards a universality of good management is referred to as convergence (Dowling, Schuler & Welch 1994), with some authors claiming that they discovered several universally embraced best practices, that is, convergence, in cross-cultural research (Von Glinow, Drost & Teagarden 2002). Recent evidence however, seems to indicate that MNEs are not converging in their practices, rather they may even diverge with respect to human resource management (Keeley 2001; Pauly & Reich 1997; Rowley & Benson 2002). In fact, Pauly and Reich (1997, p.3) claim: *'The institutional and ideological legacies of distinctive national histories continue significantly to shape the core operations of multinational firms based in Germany, Japan and the United States'*.

Adler, Doktor and Redding (1986) offer the suggestion that organisations converge on macro-level variables such as technology and structure, and continue to be different or even diverge sometimes on micro-level variables such as people's behaviour. While intuitively correct, this is challenged in the literature with the argument that macro-level and micro-level variables cannot be separated (Rousseau & House 1997). This study blends both arguments, namely if macro-level variables, that is, policies, converge and micro-level variables, that is, practices, diverge, or at least not converge, then the *task of translating policies into practices* becomes more complex. Finally, the concept of 'crossvergence' is introduced (Ralston, Holt, Terpstra & Kai-Cheng 1997) to explain that a blending of cultures can lead to

something either new or in-between which is not necessarily converging towards one universal, culture-free organisation (Fisher & Haertel 2003; McGaughey & De Cieri 1999). Drawing an analogy with the world of natural science, crossvergence seems most likely and can be observed in mechanics, fluid chemistry and biology as well as, on a more abstract level, in systems and control theory (Föllinger 1994).

In summary, it can be said that the discussion on convergence and divergence is still going on, with evidence and arguments pointing in multiple directions. While older arguments postulated convergence towards global best practice, more recent studies seem to find more evidence of divergence or crossvergence (Rowley & Benson 2002). In the context of this study crossvergence might be found in the dealings between HQ in Germany and the Asian subsidiaries. Having discussed the stages of internationalisation as well as convergence and divergence, next, the influence of industry on transfer is discussed.

### **2.5.3 Industry**

The field of activity or industry in which the MNE is engaged has been found to influence the MNE's structure, strategy and, to a lesser extent, its culture (Bartlett & Ghoshal 1989; Porter 1990). Many studies concern themselves with one industry across borders to find industry-specific criteria. It is widely acknowledged (Adler 2001; Briscoe 1995; Gong 2003; McGaughey & De Cieri 1999; Pauly & Reich 1997) that national history and legacy play a more profound role in defining culture than that played by industry. Indeed, the most widely accepted study of differences in national cultures by Hofstede (1983b, 1991, 1993) is based largely on findings in one company, IBM. While the latter study has been criticised for its limitation to one MNE only, it is still regarded as the standard or benchmark study on national culture (Herkenhoff 2000; Wright University 2002). This acceptance by the academic world implies an acceptance of the idea that national cultural differences are more important than industry or corporate values. Furthermore, it can be safely assumed, though this is not part of the present study, that differences between MNEs stem from a blending of present and past influencing factors (Fisher & Haertel 2003; Gong 2003). These include amongst others: the founder's personality, past mergers and

acquisitions, legal influences, industry and predominantly, national and societal and cultural differences (Pauly & Reich 1997; Porter 1990; Rugman & Hodgetts 2000). In brief, differences between MNEs are manifold, with national culture being a very significant one. In this study German MNEs from three industries and with operations in Singapore, Thailand and Indonesia are included. Next, the role of the individual manager is discussed.

#### **2.5.4 Manager's role**

The internationalisation of business and the need to compete for skills rather than natural resources or cheap labour led to a common understanding, if not yet practice, that IHRM is a key element of business strategy (Bartlett & Ghoshal 1998; Briscoe 1995; Dickmann 2004; Evans, Pucik & Barsoux 2002; Kamoche 2000; Rugman & Hodgetts 2000). IHRM is not solely the business of HR managers; rather it is the global manager's task to incorporate IHRM issues in his or her daily work (Bartlett & Ghoshal 1992, 1998; Evans, Pucik & Barsoux 2002). Bartlett and Ghoshal (1998) define the role of an MNE's country manager and functional manager amongst other things as those of 'sensor' and 'cross-pollinator'. This constitutes a change with respect to previous roles where the MNE's expansion was a parochial one way street and the main task of the country manager was to build up and introduce headquarters practices (Briscoe 1995). At the same time it is much harder to train or find and retain 'sensors' and 'cross-pollinators' than traditional builders. Consequently, the role of the corporate manager shifts towards one of being largely a 'talent-scout' (Bartlett & Ghoshal 1998). In other words, globalisation requires more people skills and cultural awareness of corporate and country managers in MNEs. In this study interviews with HR and line managers in headquarters and subsidiaries are included.

With the ever increasing importance of the role and people skills of the expatriate country manager, the need for the right selection and training gains equally in importance (Adler 2001; Black & Mendenhall 1991; Briscoe 1995; Erwee 2000; Fisher & Haertel 2003; Nankervis, Compton & Baird 2002). The key issues are to identify the training needs of the expatriate and his or her family and then design a program that addresses those needs (Adler 2001; Briscoe 1995; Fisher & Haertel

2003; Nankervis, Compton & Baird 2002). Furthermore, the training methods should be matched to the assignment at hand, rather than being standardised, and training needs should be constantly evaluated and adapted as needed. In other words, selection and preparation are important factors for successful expatriate assignments. Having discussed the manager's role, next, German MNEs in Asia are discussed.

### **2.5.5 German MNEs and Asia**

Germany is the number one exporting nation in the world ahead of the United States and Japan (Financial Times Deutschland 2003). Because of the smaller domestic market compared to the US, many of the German MNEs have more business and more employees abroad than in Germany (Rugman & Hodgetts 2000). Being successful internationally, not only as an exporter but equally as an employer, is increasingly important to sustain Germany's position in the world economy (Economist 2002). Germany, German MNEs and German behaviour are found to be different or distinct from other countries and their MNEs and behaviour (Brodbeck, Frese & Javidan 2002; Chew & Horwitz 2004; Dickmann 2004; Hunt 2002; Kopp 1994; Pauly & Reich 1997; Ronen & Shenkar 1985; Rugman & Hodgetts 2000). National and cultural differences discussed in the previous section help to explain these differences.

Having established the economic significance of Germany, there are also several reasons for looking at German MNEs specifically in selected Asian countries. First, there is the success of many Asian economies: Asia is, despite the setback of the 1997 crisis, the fastest growing region in the world (Economist 2002) and still under-researched compared to Europe and the US (Chew & Horwitz 2004). Second, the economies of the countries under study are often grouped together as "Asian" and underpinned by "Asian values" on the basis of geographical and cultural proximity. Local customs, institutions, and labour forces do, however, provide for significant differences among the selected countries. Third, in view of the regional range of stages of economic development, the selection of countries also allows exploration of transfer both to advanced Asian economies, namely Singapore, and less-developed ones, namely Thailand and Indonesia. In short, it is justifiable, indeed necessary, to

study the specific approach of German MNEs in South East Asia, rather than undertaking a general study of any MNE's approach to any foreign country.

To summarise, this section, addressing parent discipline 3, which concerns MNEs and their impact on HR issues, first discusses MNEs and their stages of internationalisation, followed by a discussion of convergence versus divergence with evidence towards neither being conclusive. The importance of industry field is found to be less significant than national culture when comparing MNEs, and the manager's role requires more cultural awareness with ongoing globalisation. Finally, the importance of Germany and South East Asia for the world economy is discussed, thereby justifying this study. The next section discusses the immediate discipline of this study, transfer of HRM policies and practices. A model of success of transfer is introduced. Convergence and divergence are revisited in the context of HRM policies and practices.

## **2.6 Transfer of human resource policies and practices from multinational enterprises' headquarters to subsidiaries**

This section discusses the immediate discipline, which is transfer of HRM policies and practices. A model of success of the transfer is introduced, stating in effect that successful transfer of policies and practices depends on cultural, organisational and relational factors. Convergence and divergence as possible outcomes of transfer processes are discussed. Finally, four formal propositions regarding transfer success are developed, forming the basis of the research issues derived in the next section.

Transfer of knowledge internationally is a key requirement for successful MNEs (Bartlett & Ghoshal 1998; Evans, Pucik & Barsoux 2002; Poedenphant 2002). The field of knowledge management has addressed mostly the diffusion of technical knowledge or product innovation (Bartlett & Ghoshal 1998). Kostova (1999) proposed a model of international transfer of organisational practices. Modified and adapted to fit the problems at hand, Kostova's (1999) model serves as the foundation to conceptualise transfer of HR policies and practices in this study.

The need or desire to transfer policies and practices to implement global HR systems often arises from relatively basic needs, such as wanting quick access to global headcount or payroll volume (Roberts, B. 2000). This is in contrast to the more strategic and theoretical notion that IHRM is an integral part of business strategy (Bartlett & Ghoshal 1989; Evans, Pucik & Barsoux 2002; Hamel & Prahalad 1994; Nankervis, Compton & Baird 2002; Rugman & Hodgetts 2000). The approach to internationalisation is more often than not to expand, and therefore impose the existing home country system or process internationally, without getting involvement of the people from the subsidiary, thus often referred to as an ethnocentric or exportive approach (Clark, Grant & Heijltjes 2000; Roberts, J. 2000; Taylor, Beechler & Napier 1996). Because the home country approach may be neither accepted nor appropriate, the practice at the operational level often establishes itself as a sub-standard solution.

Transfers of organisational practices can occur in various directions within the MNE, including transfers from the parent company to foreign subsidiaries, from foreign subsidiaries to the parent company, or from one subsidiary to another. The underlying ideas of the model used here are general enough to accommodate all these types of transfers (Kostova 1999). This study looks mainly at the transfer of HR policies and practices, not only from HQ to subsidiaries, but also at the internationalisation of the MNE's HQ.

### **2.6.1 Success of Practice Transfer**

This section discusses success of transfer of non-technical, organisational policies and practices. Based on the discussion, propositions are established which in turn lead to the formulation of the remaining research issues. In addition to transfer success in general, relational context, attitudinal relationships and levels of policies and practices are discussed.

How does an organisation know whether a strategic organisational practice has been transferred successfully to a subsidiary? Researchers have shown that there are various barriers to the transfer of success, some relating to the characteristics of the

practices that are being transferred, and others of a cultural and organisational nature (Ghoshal & Bartlett 1988; Poedenphant 2002; Szulanski 1996). Adapted from Kostova (1999) the following definition is proposed:

*The success of transfer is the degree of institutionalisation of the practice at the subsidiary. Institutionalisation is the process by which a practice achieves a taken-for-granted status at the subsidiary; a status of 'this is how we do things here'.*

**Implementation and internalisation.** Home country practices may be incompatible with prevailing employee values. That is, the transfer process does not end with the adoption of the formal rules describing the practice, but continues until these rules become internalised at the subsidiary. Successful adoption depends upon the degree of institutionalisation of the HRM practice at two levels (Kostova 1999). The first is at the implementation level, where employees simply follow formal rules. This is the relatively shallow level that is often used to support HRM convergence (Rowley & Benson 2002). A second and deeper level is internalisation, which is reached when employees have commitment to, and ownership of, the practice (Kostova 1999). This is a less readily visible form of transfer and more difficult and time consuming to research. It may be easy to implement, but much more difficult to internalise certain practices. Therefore, even if these are 'best practices,' they may not bring positive results until people become fully committed to them (Rowley & Benson 2002).

Implementation and internalisation, although different, are likely to be interrelated. Implementation is a necessary condition for internalisation. However, implementation does not automatically result in internalisation. It is possible that, although a practice may be formally implemented and its rules strictly followed, the employees do not internalise it by developing positive attitudes towards it. They may disapprove of the practice or of some of its aspects, or they simply may not have had the time to develop a positive attitude towards it (Kostova 1999; Rowley & Benson 2002).

Closely linked to the question of transfer is the discussion of convergence versus divergence. First, if transfer without adaptation was found to be successful, HRM

would converge towards HQ policies and practices. Second, if there was either little acceptance without adaptation, or a downright rejection of some elements of HQ policies and practices, a case for divergence could be argued (Rowley & Benson 2002). Third, if policies were transferable without adaptation, and practices needed significant adaptation, then attention needs to be given to the element that translates policies into practices. Finally, crossvergence, a form of convergence towards something new that is a blending of various ideas and practices, might be expected in some cases (Fisher & Haertel 2003; McGaughey & De Cieri 1999).

Building on Section 2.5, transfer success will be affected by the degree of national cultural differences of the home country and the recipient country, with regard to the practice that is being transferred (Adler 2001; Gong 2003; Hofstede 1983a, 1991, 1993; Herkenhoff 2000). This leads to the following proposition:

Proposition 1: The success of transfer of a practice from a parent company to a subsidiary is negatively associated with the cultural distance between the countries of the parent company and the subsidiary.

Proposition 1 could neither be confirmed or disconfirmed directly in this study because only German MNEs are studied. Transfer of practices is typically associated with organisational learning, change, and innovation at the subsidiary, that is, a cultural orientation of that unit toward learning, innovation, and change most likely results in more positive attitudes toward the transfer process and leads to its eventual success (Bartlett & Ghoshal 1998; Herkenhoff 2000; Poedenphant 2002). This effect is not practice specific, since it reflects characteristics of the subsidiary that apply to all types of activities associated with learning, innovation, and change in general. Therefore, organisational entities that score highly on innovation will tend to be more receptive of new practices in general. Thus the second proposition is formulated.

Proposition 2: The success of transfer of a practice from a parent company to a subsidiary is positively associated with the degree to which the unit's organisational culture is generally supportive of learning, change, and innovation.

Taking into account the nature of strategic organisational practices, one can suggest that the success of transfer will be affected by the compatibility between the values implied by the particular practice and the values underlying the culture of an organisational unit. When these values are compatible, it will be easier for employees at the subsidiary to understand and internalise the practice. However, it will be difficult for them to understand, implement, and moreover internalise a practice, the underlying values of which are incompatible with the values of their unit, implying a practice-specific effect of organisational culture (Rowley & Benson 2002). This leads to the third proposition:

Proposition 3: The success of transfer of a practice from a parent company to a subsidiary is positively associated with the degree of compatibility between the values implied by the practice and the values underlying that unit's organisational culture.

The discussions of Section 2.3.2 and 2.4.5 lead to the first two research issues. The above discussed proposition 1 further substantiates research issue 2, dealing with cultural differences. Propositions 2 and 3 from this section as well as proposition 4, introduced in Section 2.6.3 serve as a basis for the third, fourth and fifth research issues, all of which are discussed in Section 2.7.1. Having discussed transfer success in general, next, relational context is discussed.

## **2.6.2 Relational Context**

Transfer failures are possible, even when both the cultural and the organisational contexts are favourable (Bartlett & Ghoshal 1998; Poedenphant 2002). A potential reason for such failures could reside in the specific relationships that exist between the parties involved in the transfer, a factor that has been examined only recently and to a limited extent (Szulanski 1996). The set of key players typically involved in transfers, referred to here as the '*transfer coalition*' (Kostova 1999), is composed of two groups of people: a stable 'core' and a flexible 'expert' group. The core group consists of the senior managers of the subsidiaries, who quite often have considerable discretion in making a decision as to whether to engage in the transfer or not, and if

so, how much effort to put into it. The core group in the context of transfer success of HR policies and practices would mostly include the CEO and the HR director of a subsidiary, and therefore managers such as CEOs and human resource managers are interviewed in this study. The expert group is practice specific and may include employees who are experts in the functional area of the practice. For example, if a performance evaluation practice is being transferred, the transfer coalition in the subsidiary may include professionals from the human resources department at the subsidiary, in addition to the HR director and the CEO. The transfer coalition serves as a bridge between the subsidiary and the parent company and has a key role in understanding and interpreting the practice and its value to the unit. The transfer coalition is responsible for selling the practice to the employees at the subsidiary, and it also determines what is communicated, how it is communicated and how it is received (Bartlett & Ghoshal 1998). Finally, the transfer coalition is important because it has control over the resources employed towards a successful transfer. Having discussed relational context, next, attitudinal relationships are discussed.

### **2.6.3 Attitudinal relationships**

Kostova (1999) identifies attitudinal relationships as the most important relationships with respect to transfer. They affect the motivation of the transfer coalition to engage in the transfer process and are especially important when the direct value of the knowledge that is being transferred is difficult to assess, as is the case for transfer of HR policies and practices, as opposed to technologies or new product designs.

An individual's identification with an organisation results from a strong belief in, and acceptance of, the values and goals of the organisation (O'Reilly & Chatman 1986). In addition to using appropriate human resource policies and practices to link regional units of the MNE, **management development** can play a significant role. Development can be the glue to bond together otherwise loose and separate entities: through job rotation across units and management development programs including participants from various units, the subsidiary manager's values and norms become closely aligned with those of the parent company (Adler 2001; Briscoe 1995; Nankervis, Compton & Baird 2002; Schuler, Budhwar & Florkowski 2002; Schuler,

Dowling & De Cieri 1993). Identification with the parent company will reduce the effects of the 'not invented here' syndrome, and the policy or practice will be viewed to a lesser extent as 'theirs, not ours' that is, as strange and coming from an outsider. Furthermore, when the members of a transfer coalition identify with the parent company, they will probably prefer the subsidiary to become more similar to the parent by adopting the practices used by the parent (Kostova 1999). Trust of the transfer coalition in the parent company can be described as a shared belief among the members of the coalition that the parent company acts in good faith, is honest and does not take advantage of the subsidiary (Bromiley & Cummings 1995). Higher levels of trust in the parent company reduce the uncertainty regarding the value of the policy or practice for the subsidiary, as well as the motives behind the transfer. Higher trust also is associated with higher perceived reliability of the source, a factor shown to have a positive influence on transfer success (Poedenphant 2002; Szulanski 1996). Finally, trust may reduce the costs of communication, negotiation and exchange associated with a transfer between the senders, that is, the parent companies, and the recipients, that is, the subsidiaries (Bromiley & Cummings 1995).

In other words, it is argued that transfers are more likely to succeed when members of the transfer coalition hold positive attitudes toward the parent company. It should be noted that the ultimate success of a transfer depends on the support of all employees at the subsidiary and that this support does not follow automatically from the support by members of the transfer coalition. However, the role of the transfer coalition is still critical because its members are in a position to provide the necessary resources, as well as to influence the employees in general. Thus:

Proposition 4: The success of transfer of policies and practices from a parent company to a subsidiary is positively associated with the commitment of the transfer coalition at the subsidiary to the parent company, the identification of the transfer coalition with the parent company and the trust of the transfer coalition in the parent company.

This section leads to the formulation of the third research issue, namely:

- RI3: Is there a climate of innovation and trust between HQ and subsidiary in general that facilitates organisational change?

Having discussed attitudinal relationships, next, levels of policy and practice are discussed.

#### **2.6.4 Levels**

Some suggest that the convergence and divergence approaches are complementary, operating at different levels of an HRM system's structure (Becker & Gerhart 1996). These levels are first, philosophy, namely the guiding principles and basic assumptions. Second, policy that is consistent with the guiding principles, and assuring appropriate internal and external fit. The third level is practice, implementation and techniques, given appropriate decisions at the policy level. For the purpose of this study the distinction between philosophy, policy and principles is found to be too theoretical and therefore the distinction in this study is only between policy and practice. While policy describes the abstract, strategic, general ideas, practice describes the actual, operational 'doing level' of an HR issue. Taking into account the fact that most data for this study come from interviews with non native English speakers, it seems appropriate to have a few robust, rather than too many fine, distinctions.

Change at any one level does not automatically imply change at another level. Often, people at practice levels resist guiding principles or policies, as they may be unworkable due to local customs and practices, lack of training or even ignorance. At the policy level, operational practices may be tolerated but not built into policy or philosophy due to ignorance or wider environmental constraints (Becker & Gerhart 1996; Rowley & Benson 2002). For Becker and Gerhart (1996), universal 'best practice' effects would be expected at the policy level. At the practice level, however, divergent phenomena would be more likely. Therefore, the issue of transferability and convergence of HRM systems becomes more a matter of degree, not of kind, and less about 'all or nothing' and more about 'what aspects and how much' choices (Dickmann 1994; Taira 1990). However, with an expectation of

converging policies and diverging practice implementations the role of the *translator of policy into practice* becomes more crucial, because without effective translation of a policy, the risk of transfer failure, that is transferring policies that nobody pays attention to, becomes greater. For the purpose of this study, translation, application, implementation or deployment of a policy into practice is understood to be roughly the same and the general term used is *translation of a policy into practice*. In short, there are many difficulties in examining the issue of HRM transfer. The key question is not whether particular practices are being adopted, but at what levels they are implemented and internalised and what are the limiting factors. Therefore research must consider change at the two levels, policy and practice, and go deeper than mere implementation to study internalisation.

This section has discussed transfer of HR policies and practices. A model of success of the transfer was presented, stating in effect that successful transfer of policies and practices depends on cultural, organisational and relational factors. The next section draws from the results of the previous sections to present the five research issues of this study together.

## **2.7 Research issues**

This section defines the research issues based on the research question, the propositions of transfer success and the discussion of the previous four sections.

The research question that this study addresses is:

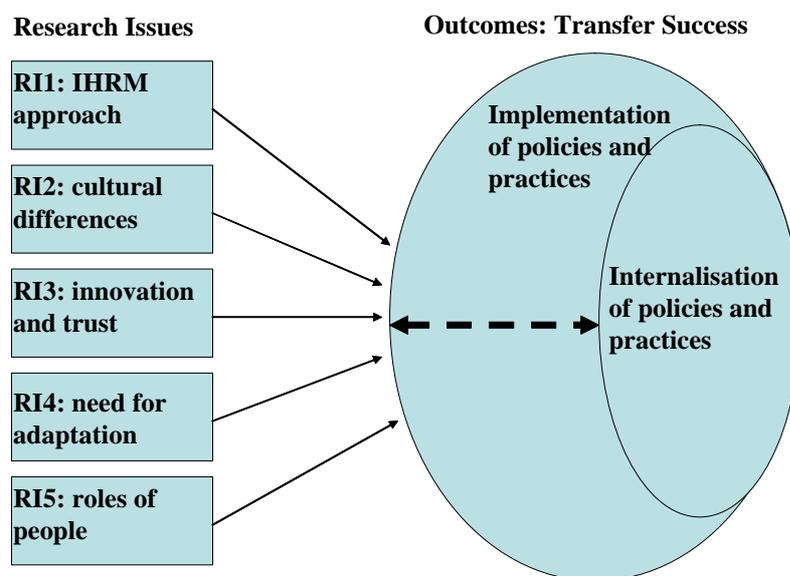
*How do German multinational companies transfer human resource policies and practices to their subsidiaries in South East Asia?*

The underlying research issues investigating the extent to which German MNEs need to take account of cultural, societal, legal, business and people specific issues when adapting their IHRM policies and practices in a particular Asian country are discussed next. As a first step in the study, the review and discussion of the literature on transfer of HR policies and practices internationally, presented in this chapter,

describes the knowledge currently available and identifies existing information or knowledge gaps (Perry 1998). These knowledge gaps form the open research issues (Yin 2003).

Overall, this study investigates five research issues derived from the discussion of the parent and immediate disciplines. Research issues in a qualitative case study, as discussed in the next chapter, Chapter 3 Research Methodology, need not be independent variables as they would have to be in a quantitative study. Thus, the influence of the research issues on the outcome, the success of transfer, which is shown in figure 2.7.1 below, is descriptive, rather than statistical:

**Figure 2.7.1: Influence of Research Issues on transfer success**



(Source: Developed for this study)

The first research issue follows from the discussion of the three different IHRM approaches that MNEs may use when internationalising their HR processes. Thus:

- RI1: Which IHRM approach do MNEs headquarters versus subsidiaries currently follow along a continuum from exportive to adaptive and integrative approaches?

The second research issue refers to the exogenous factors of cultural, legal and societal differences between countries and seeks to relate these differences to the research problem. It follows from proposition 1, made in the previous section, stating that the success of transfer of a practice from a parent company to a subsidiary is negatively associated with the cultural distance between the countries of the parent company and the subsidiary. Thus:

- RI2: What key cultural, legal and societal differences between the countries Germany, Singapore, Thailand and Indonesia influence the transfer of HR policies and practices?

Research issues three to five are directly derived from the propositions presented when discussing success of transfer. Proposition 2 states that the success of transfer of a practice from a parent company to a subsidiary is positively associated with the degree to which the unit's organisational culture is generally supportive of learning, change and innovation. Thus:

- RI3: Is there a climate of innovation and trust between HQ and subsidiary in general that facilitates organisational change?

Proposition 3 states that the success of transfer of a practice from a parent company to a subsidiary is positively associated with the degree of compatibility between the values implied by the practice and the values underlying that unit's organisational culture. Thus:

- RI4: How do specific policies and practices, for example compensation, need to change, given the MNE's approach and the established country differences?

Proposition 4 states that the success of transfer of practices from a parent company to a subsidiary is positively associated with the commitment of the transfer coalition at the subsidiary to the parent company, the identity of the transfer coalition with the parent company and the trust of the transfer coalition in the parent company. Thus:

- RI5: What are the roles of HQ people and subsidiary staff in the transfer process?

This section has formulated the five research issues of this study, bringing together the results of the previous sections of this literature review chapter. Next, the chapter is summarized.

## **2.8 Summary**

This chapter presents the background of the research problem and the research issues and discusses the relevant literature in the parent disciplines as well as in the immediate discipline. The structure of this chapter follows the structure of an integrative framework of IHRM studies (Schuler, Dowling & De Cieri 1993).

The parent disciplines are first, international human resource management; second, national, cultural and legal differences between Germany, Singapore, Thailand and Indonesia; third, MNEs and their impact on human resource issues, and the immediate discipline, transfer of human resource policies and practices to multinational enterprises' headquarters to their subsidiaries. The current thinking in the parent disciplines is discussed. From the discussion of the literature five research issues are derived, the study of which is expected to assist in understanding the challenges and success criteria for the transfer of HR policies and practices. The five research issues are; investigating IHRM approach, cultural and societal differences, climate of innovation and trust, need for adaptation and finally, the roles of the people involved. This study seeks to make an original contribution to knowledge by specifically analysing German MNEs' transfer of HR policies and practices to South East Asian countries.

In brief, this chapter reviews the literature, presents the research question and problem and derives the research issues of this study. The next chapter discusses the research methodology applied in this qualitative multiple case study.

## **CHAPTER 3: RESEARCH METHODOLOGY**

### **3.1 Introduction**

The previous chapter reviewed the literature and background of the research problem, which is concerned with the transfer of policies and practices in international human resources. This chapter discusses and justifies the research design and methodology applied, to collect data to address the identified research issues and ultimately to contribute towards an answer to the research question:

*How do German multinational companies transfer human resource policies and practices to and from their subsidiaries in South East Asia?*

This study is of an explanatory nature, operating within the scientific paradigm of critical realism. Qualitative research, especially the case study method, is applied. This chapter consists of 11 sections, starting with the justification of the scientific realism research paradigm and the case study methodology. Then, the role of prior theory and the criteria for selecting the cases are explained. Building on that, quality criteria of this study are addressed and the process of data collection is discussed. This is followed by a case study analysis section. Finally, limitations of the study and ethical considerations are addressed.

### **3.2 Scientific Realism Research Paradigm justified**

A paradigm is a basic set of beliefs about how the world works and what the individual's place in it is (Guba & Lincoln 1994). A paradigm can be viewed as the map that a person uses to go through life (Covey 1990). In the world of scientific research there are four competing paradigms, namely positivism, critical realism, critical theory and constructivism (Guba & Lincoln 1994). Two of these, positivism and critical realism, are the most relevant to this study and will be discussed further (Trochim 2003). Critical realism is argued as being the most suitable paradigm to operate within when investigating a topic as complex and dynamic as the transfer of

international human resource policies and practices (Perry, Riege & Brown 1999; Yin 2003).

**Positivism** is the default paradigm for a lot of scientific research (Guba & Lincoln 1994). Positivism assumes as an ontological position that there is one true reality that can be discovered by means of rigorous, mostly quantitative, empirical study. Specifically the natural sciences, the 'hard science' operates within, or under, the positivist paradigm (Guba & Lincoln 1994). Indeed, the natural scientist, experimenting and observing phenomena in a controlled laboratory environment, embodies the classic positivist research paradigm (Trochim 2003). Positivism assumes that researchers are neutral observers and their values and biases will not influence the research outcome (Guba & Lincoln 1994). This assumption leads to the postulate of perfect repeatability of most experimental, natural scientific research (Trochim 2003). Furthermore, positivism has a deductive rather than an inductive view because hypotheses are first deduced from accepted principles and then statistically tested (Chew 2001). That is, theories are first established and then tested by conducting experiments designed to verify or falsify the theory.

The positivist paradigm is not well suited for this study for a number of reasons. First, a normal search of sources found insufficient testable theory in the field of transferring HR policies and practices internationally; while there is research on HR policies and practices in different countries, theory and constructs about transfer of HR policies and practices, specifically from German companies, are yet to be established and thus cannot be tested in this study (Perry 1998). Second, positivist researchers detach themselves from the research problem (Trochim 2003) and thus are not able to interact with all the stakeholders as deeply and subjectively as is necessary in this study to understand fully the complex issues at hand (Perry, Riege & Brown 1999; Yin 2003). In this study many of the interview partners only agree to an interview as a result of personally knowing the researcher to be trustworthy and knowledgeable in the field of international HR, in other words knowing him as a colleague, which in turn means that the researcher involves himself in the research process. Furthermore, the transfer of HR policies and practices is influenced by the internationalisation process and the economic development of the researched multinational enterprises and countries under study, as well as by the people

involved. These points are undergoing constant changes, thus making it impossible to repeat the same study under exactly the same circumstances. Indeed, shortly after the data collection in the field, one MNE under study had a management reorganisation, resulting in all three CEOs of the subsidiaries in Singapore, Thailand and Indonesia being recalled to HQ in Germany. In brief, positivism is the dominant natural scientific research paradigm and is not suitable for this study. Next, critical realism is discussed.

**Critical realism**, also referred to as *realism* or *post positivism*, assumes that there is one reality of which a researcher can only observe certain parts and aspects due to its vast complexity (Perry, Riege & Brown 1999; Trochim 2003). In critical realism, especially in research where the organisational and social reality is complex (Yin 2003) and can only be observed partially and comprehended imperfectly (Perry, Riege & Brown 1999), there is a need for investigation of the different aspects and viewpoints of the one reality, a process referred to as triangulation (Trochim 2003). Triangulation is achieved in this study by interviewing multiple managers from HR and line management for each researched MNE, and by comparing interview results with publicly available documents such as brochures or company websites, as well as taking viewpoints from other experts, such as, for example, the Singapore German Business Association, HR chapter, into account.

While a certain level of objectivity is required from the researcher, ensured through a well documented methodology, he or she takes a more active and subjective role in the research than the positivist researcher, who deliberately keeps a distance between himself and the question at hand (Perry, Riege & Brown 1999; Trochim 2003). In this study the researcher investigates three German multinational enterprises and is closely aligned with one of them. Many of the interview partners are professionally involved with the researcher in other aspects of international HR. This involvement helps in building trust, and results in open answers that might not have been possible to obtain in a more anonymous interview situation.

Research of issues in international HR is often most promising when conducted under, or within, the realist paradigm (Napier & Vu 1998; Rowley & Benson 2002). First, many contemporary areas of IHRM, among them the transfer of policies and

practices across borders, still lack in-depth theory, established constructs and principles (Perry 1998). Second, transfer of HR policies and practices is embedded in, and cannot be separated from, the overall business situation and management philosophy of the researched MNEs, which calls for a research approach attempting to grasp as much as possible of the cultural, economic and political context in which the multinational enterprises operate (Yin 2003). That is, rather than controlling for external influences such as national or company culture, as the positivist researcher would do, this study seeks to understand the impact of these external influences on the transfer process. Furthermore, researchers operating within, or under, the critical realism paradigm often use an inductive approach and qualitative methods such as interviews or case studies, which lend themselves to the study of 'real-world' people issues (Zikmund 2000) as they occur in the transfer of HR policies and practices, as opposed to a controlled experiment (Janssens 2001; Napier & Vu 1998). In brief, critical realism is a suitable paradigm for business research and this study operates within the paradigm of critical realism.

Finally, while some researchers say that the paradigms are competing (Guba & Lincoln 1994), it seems desirable to see them as complementary and more or less applicable in different situations (Perry, Riege & Brown 1999). In other words, even though the discussion of paradigms is important, researchers have pointed out that '*practical research at the working level*' (Miles & Huberman 1994, p.4) often tends towards one paradigm while including elements of another at various stages in the research (Guba & Lincoln 1994; Miles & Huberman 1994; Trochim 2003). Trochim (2003) even goes one step further when he advises the practising scientist to check his or her assumptions, be aware of underlying paradigms and then proceed with the study as seems practical, without perfecting the paradigm discussion. Next, the case study methodology is justified.

### **3.3 Justification of the Case Study Methodology**

The previous section established critical realism as the appropriate paradigm to operate within for this study. This section first briefly discusses and justifies the use of a qualitative study, then more specifically the use of the case study methodology.

The existing theory development that is relevant for the research at hand is underdeveloped, as discussed in Chapter 2, and it is scientific practice to first build theory through qualitative research and then verify theory through quantitative research (Chew 2001; Zikmund 2000). If theory development is low and phenomena and constructs are not well established, a quantitative approach is not recommended, as it may lead to a false impression of accuracy that does not reflect the issues at hand (Varadarjan 1996). An inductive, qualitative approach, such as the case study methodology therefore, is an appropriate methodology for new research areas such as the transfer of HR policies and practices (Chew 2001; Napier & Vu 1998; Perry 1998; Yin 2003).

Yin (2003) lists five research strategies in social science and discusses their proper application. While each strategy has its distinct characteristics, large overlaps exist between them and elements of one strategy may be found in research employing predominantly another strategy. The five strategies, along with three associated characteristics of each strategy, are shown in table 3.3.1 and further discussed to establish the appropriate fit of the case study methodology for this study.

**Table 3.3.1: Selection of appropriate research strategy**

<b>Strategy</b>	<b>Form of research question</b>	<b>Requires control over behavioural events?</b>	<b>Focus on contemporary events?</b>	<b>Relevant to this study?</b>
<b>Experiment</b>	How, why	Yes	Yes	No
<b>Survey</b>	Who, what, where, how many, how much	No	Yes	Partially, when obtaining facts during structured interviews
<b>Archival analysis</b>	Who, what, where, how many, how much	No	Yes/No	Partially, when determining the case backgrounds
<b>History</b>	How, why	No	No	No
<b>Case study</b>	How, why	No	Yes	Overall strategy, primary focus on in-depth interviews

(Source: Adapted from Yin (2003, p.6))

Yin (2003) discusses three characteristics to determine which strategy is best employed; these are, the form of the research question, control over behavioural events and focus on contemporary events.

The **form of research question** can either ask ‘who, what, where, how many, how much’, requiring a more explanatory approach, best addressed by using a *survey* or *archival analysis*, or ‘how’ and ‘why’, requiring a more exploratory approach (Yin 2003). The aim of a *case study* is to answer a ‘how’ and ‘why’ question rather than seeking to verify a theory (Perry 1998). The research question in this study is *How do German multinational companies transfer human resource policies and practices to and from their subsidiaries in South East Asia?* and is more of a ‘how’ and ‘why’ type of question, seeking to explore the reasons behind the transfer rather than establishing only who and which topics are involved. Those parts of the interview protocol (Appendix A) asking for quantifiable facts, such as how many years an interview partner has been with the respective MNE, have a survey character.

**Control over behavioural events** describes the degree to which the researcher can manipulate the behaviour of the subjects, for example by giving or withholding motivators. Control over behavioural events is a prime characteristic of the *experiment*. In this study the researcher has virtually no control over behavioural events, neither directly over the respondents, nor indirectly by being able to influence the overall strategy of the researched MNEs for example. Furthermore, it is not possible to compare the results to a control group, since no manipulation or experiment takes place. Case studies, rather than an experiment, are best suited when the researcher attempts to understand the complex contemporary events in situations over which the researcher has little or no control (Stake 1995).

**Contemporary events** are events that take place at the time of the research and can be observed by the researcher, as opposed to past events where a researcher has to rely solely on records or recollections. Thus a *history* describes a case study about the past without direct observation from the researcher (Yin 2003). Other than establishing the historic context of the researched MNEs and countries, the events of this study are purely contemporary and consequently the main strategy employed is that of case study. Case study research should focus on one specific contemporary part of business (Perry 1998; Yin 2003), a condition fulfilled by focusing on one aspect of international HR, namely the transfer of policies and practices from HQ in Germany to subsidiaries in South East Asia. Case study methodology explores and

analyses real-life people challenges (Yin 2003; Zikmund 2000). In this study various dimensions of the transfer process are researched, including cross-cultural challenges between HQ and subsidiaries and line management and HR, subtle language skill differences between native German, Chinese, Thai and Bahasa Indonesia speakers conversing in English and ‘political’ issues such as the standing of a certain manager in HQ for example (Perry, Riege & Brown 1999; Zikmund 2000). In short, case study methodology is the most suitable research strategy for this study. Next, the use of prior theory in the case study design is discussed.

### **3.4 Prior Theory and Case Study Research**

This section discusses the use of prior theory in case study research. First a well-defined research problem is required before the researcher can commence the process of research design and subsequent data collection (Yin 2003). The level of prior theory can be of pivotal importance in the design and analysis of case study research (Perry 1998; Yin 2003). This section examines and justifies the development of prior theory as part of the case study research design. The prior theory derived from the review of the existing literature and two exploratory interviews with experts in the field is then used to develop the research issues and the questions that form the core of the interview protocol, which in turn is tested and refined during two pilot interviews (Chew 2001; Yin 2003).

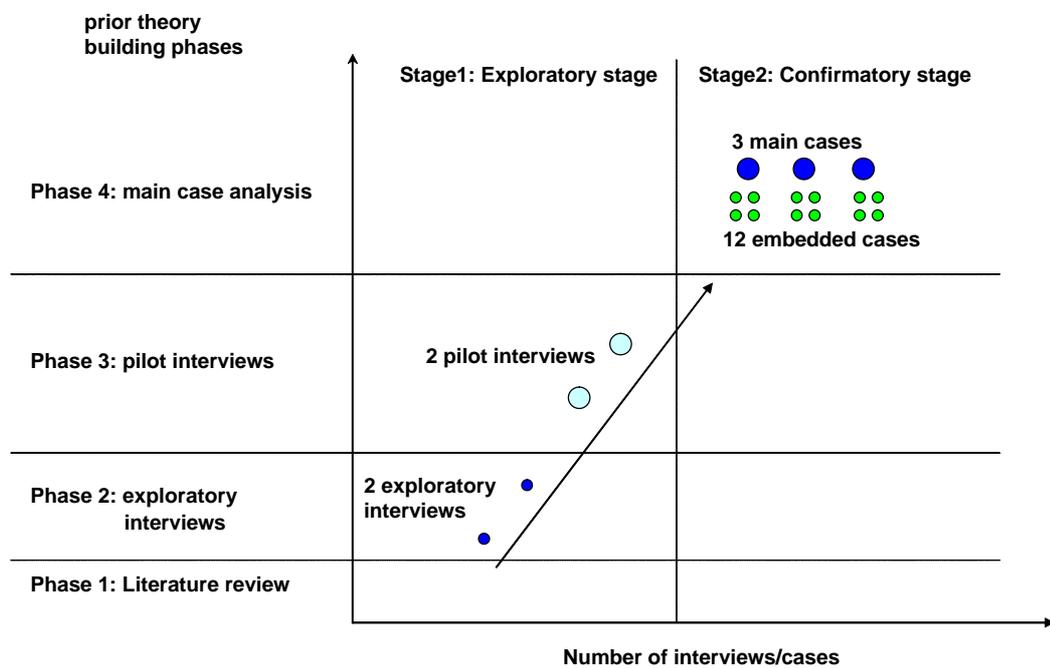
#### **3.4.1 The role of prior theory**

Earlier parts of this study highlight the lack of established theory within the literature about transfer of HR policies and practices. Whether taking a purely inductive approach, or a deductive approach, theory development is essential as part of the design phase for case studies, regardless of whether the case study’s purpose is to develop or test theory (Yin 2003). While inductive theory building is important (Perry 1998), it is unlikely that any researcher could genuinely separate the two processes of induction and deduction (Miles & Huberman 1994). The actual

process of theory building more often than not is a step-by-step mixed approach of both deduction and induction (Perry, Riege & Brown 1999; Zikmund 2000).

**Stages of theory building.** This study is conducted in two stages. Figure 3.4.1 gives an overview of the process of establishing prior theory through a largely inductive and exploratory stage, followed by a confirmatory or disconfirmatory stage encompassing the main cases.

**Figure 3.4.1: Exploratory and confirmatory stages of the research process**



(Source: Adapted from: Carson, Gilmore, Perry & Gronhaug 2001; Chew 2001)

The exploratory stage covers three phases and the confirmatory or disconfirmatory stage covers one phase. The exploratory stage begins with a thorough literature review, documented in Chapter 2, followed by phase two, **exploratory interviews**. Two experts on international HR processes are interviewed; one from a Singaporean subsidiary of a German MNE not otherwise included in the study and one from academia. These largely unstructured, conversational interviews are geared towards building on and contrasting them to the literature findings, to better structure the

confirmatory stages of the main cases (Perry 1998). Their purpose is to establish that the identified research issues are considered relevant by others in the field, and to identify questions best suited for exploring the research issues (Perry 1998; Yin 2003). One result of the expert interviews is a first draft of the interview protocol (Appendix A), with a slight modification between the HQ and the subsidiaries interview protocol for grammatical reasons. For example question C1 (Appendix A) asks *how free are you locally...* in the interview protocol for subsidiaries and *how free are the subsidiaries...* in the questionnaire for HQ. Furthermore, question G2 *whether HQ staff is perceived as more helpful or controlling* is only posed to the subsidiaries, while HQ is asked how they think the subsidiaries answer. Another result of the exploratory interviews, integrated in the literature review, is the inclusion of research issue five, concerning roles of HQ people.

Next, two **pilot interviews** are conducted in phase three of the exploratory stage, to hone the data collection processes before the main case studies start (Yin 2003). Pilot interviews are considered to be an effective tool to assess the usefulness, reliability and validity of the interview protocol for case study research (Eisenhardt 1989; Yin 2003). Furthermore, it is desirable, more so in the pilot interviews than in the main cases, that the interviewees should be supportive of the study (Yin 2003). For this study, two pilot interviews are conducted in Singapore, at the subsidiary of a German MNE not otherwise included in this study. The Singapore based managers of the MNE are approached for the pilot interviews to help the researcher refine relevant lines of questioning and also to provide some feedback on the overall research design (Yin 2003). Through the pilot interviews, the researcher can test the interview protocol and measures to be adopted for the data collection. The pilot interview partners are deliberately chosen for their accessibility, convenience and their willingness to cooperate (Yin 2003). In addition to the content questions, the researcher also seeks input on the interview duration and content from the interviewees, to integrate the findings in the final procedure applied in the main and embedded cases. Care is taken that the pilot interviews do not represent an extreme case (Stake 1995; Yin 2003) that is, the MNE has a stable presence in Singapore and a designated HR team with some form of established communication between HQ and subsidiary with respect to HR issues. The interview protocol developed for this study (Appendix A) is refined after the completion of the pilot interviews. While

most questions on the interview protocol remain the same in content, phrasing and sequence are adapted. For example, the question about other players in HR (B4 appendix A) is added, and the open question about anything particular about HR in the respective company (B5 appendix A) is moved forward to part B, rather than being a closing question. Finally, the pilot interviews give the researcher a sense of the time and the amount of prompting required, thus enhancing the confidence and experience of the researcher before the main case interviews. In brief, two pilot interviews help refine the interview procedures, add relevance to the questions and provide some interviewing practice for the researcher.

The confirmatory or disconfirmatory stage, phase four, involves the **main data collection** where the now finally developed interview protocol (Appendix A) is used in three main cases for a total of 24 interviews, with the protocol based on the prior theory from the literature review, in-depth exploratory interviews and pilot interviews discussed earlier. The same interview protocol (Appendix A) is used in all main case interviews, thereby not modifying the protocol during the main case data collection (Yin 2003). The data collected from the four phases of the research are then analysed in Chapter 4 and conclusions drawn in Chapter 5.

To conclude, the use of prior theory in this study facilitates the development of an appropriate theoretical framework. The prior theory in this study, derived from the existing literature and preliminary investigations through in-depth exploratory interviews and pilot interviews, aids in the formulation of the research issues and interview protocol. Having discussed the role of prior theory, the next section discusses the selection of the main cases.

### **3.5 Criteria for selecting multiple case studies**

Section 3.3 establishes the case study method as appropriate to investigation of the research problem. This section discusses the number and size of the researched cases. Two possibilities are: either conducting a single case study, or combining more than one case to form a multiple case study. It is argued here that a multiple case study

offers a more robust research design. Next, single and multiple case study designs are discussed.

A **single case study** approach can be appropriate if the single case study is a critical case, a unique or an extreme case or a revelatory case, in which it is possible to observe phenomena previously inaccessible to scientific investigation (Yin 2003). Furthermore, a single case study might be chosen if the case was a general or typical case of the phenomena (Yin 2003). For example, Hofstede (1980) based his study of cross-cultural differences on a single MNE case, IBM, suggesting that cultural differences among countries outside the MNE should be comparable but more explicit than they would be inside. The purpose of this study is to establish how German MNEs transfer HR policies and practices to their subsidiaries. By the nature of the research question it would be difficult to draw conclusions from a single case only, therefore replication and triangulation by use of multiple cases is deemed necessary for this study.

A **multiple case study** rather than a single case design approach is used for this study since a multiple case study has many advantages over a single case study (Miles & Huberman 1994; Yin 2003). These advantages are first, it involves a methodologically more rigorous approach based on replication logic (Chew 2001; Yin 2003). Second, multiple case design provides triangulation of evidence, data sources and research methods for more rigorous research (Eisenhardt 1989; Yin 2003). Furthermore, a multiple case study can be used for theory generalisation (Eisenhardt 1989; Patton 1990) and for theory testing (Eisenhardt 1989).

In brief, a multiple case study approach is better suited than a single case study design to answer the research question about German MNEs. Specifically, studying MNEs of different sizes and industries makes the results more robust and allows for generalisation. Next, two forms of replication, literal and theoretical replication, are discussed.

### **3.5.1 Replication logic for multiple case studies**

Cases are selected for their specific relevance to the research problem under investigation, in order to achieve theoretical and literal replication. *Literal replication* produces similar results for predictable reasons, while *theoretical replication* produces contrary results for predictable reasons (Perry 1998; Yin 2003). In both situations, information richness of the cases remains fundamental to the selection of cases (Stake 1995). In this study cases are selected mainly aimed at literal replication, finding the similar, common traits of German MNEs when transferring HR policies and practices to their subsidiaries in Singapore, Thailand and Indonesia. Theoretical replication is achieved in the analysis section by contrasting the case findings to the literature on, for example, American MNEs.

Applying this replication logic to the selection of cases for this study, based on the discussion in Chapter 2 that established national culture to be stronger than industry or firm culture, data patterns based on national culture and German organisational behaviour are expected to be somewhat similar, which constitutes literal replication, that is, it is expected that German MNEs behave in similar ways. Furthermore, it is expected that the patterns of data vary somewhat according to industry, MNE culture and management style in a subsidiary, which is the main argument for choosing multiple cases over a single case. In brief, in this study the cases are selected to produce literal replication to answer the research question at hand. Next, the number of cases and the processes used to select these cases are discussed.

### **3.5.2 Number of cases, interviews and sources of cases**

A total of three main case studies involving 24 interviews are selected for this study. Since there is no scientific agreement on the issue of what constitutes a case and the number of cases to be used for case study research (Chew 2001; Stake 1995; Yin 2003), this section discusses what forms a case in this study and justifies the number of selected cases as well as the number of conducted interviews.

**Case definition.** Qualitative researchers often struggle with the question of what a case is and where its boundaries are (Miles & Huberman 1994). A case could be one person, a program or a subset of organisations (Stake 1995). Miles and Huberman (1994) define a case as the unit of analysis, while Stake (1995) claims that precise definitions of cases or case studies cannot be made, defining a case loosely as ‘*a specific, complex, functioning thing*’ (Stake1995, p.2). One method often applied in complex, multi-location, multi-organisation studies is to define a unit of analysis at large as a *main case* and define sub units as *embedded cases* that can be used for data comparison (Scholz & Tietje 2002; Yin 2003). In this study one MNE under study is defined as a main case and the HQ as well as each country subsidiary of that MNE is defined as an embedded case. Based on this definition, this study is a multiple case study, involving three main cases and twelve embedded cases as shown in table 3.5.1:

**Table 3.5.1: Research design for cases selected for literal replication**

<b>MNE Country</b>	<b>MNE 1</b>	<b>MNE 2</b>	<b>MNE 3</b>
<b>Germany</b>	EC(H,H)	EC(H,H)	EC(H,H)
<b>Singapore</b>	EC(H,L)	EC(H,L)	EC(H,L)
<b>Thailand</b>	EC(H,L)	EC(H,L)	EC(H,L)
<b>Indonesia</b>	EC(H,L)	EC(H,L)	EC(H,L)
<b>Total</b>	MC(HHHHH,LLL) 1 main case 4 embedded cases 8 interviews	MC(HHHHH,LLL) 1 main case 4 embedded cases 8 interviews	MC(HHHHH,LLL) 1 main case 4 embedded cases 8 interviews

Legend: MNE= Multi National Enterprise, researched unit  
 EC= represents one embedded case  
 MC= represents one main case  
 H= represents one interview with an HR manager of headquarter (Germany) or the HR director of a subsidiary (other countries)  
 L= represents one interview with a line manager of a subsidiary  
 (Source: Developed for this study)

First, the MNEs are selected based on the criteria discussed in chapters 2 and 3, namely that MNEs participating in this study are German Fortune Global 500 industrial companies that have a substantial amount of their business outside Germany and have subsidiaries in Singapore, Thailand and Indonesia. Table 3.5.2 presents an overview:

**Table 3.5.2: Background of Main Cases**

<b>Case code</b>	<b>Industry</b>	<b>Part of Fortune Global 500</b>	<b>Subsidiaries in Singapore, Thailand and Indonesia?</b>	<b>More than 50% of turnover and/or employees outside Germany?</b>
<b>E</b>	Electrical	Yes	Yes	Yes
<b>M</b>	Mechanical	Yes	Yes	Yes
<b>C</b>	Chemical	Yes	Yes	Yes

(Source: Developed for this study; Fortune 2004)

To preserve confidentiality and to maximise ease of reading, the main cases are coded as cases ‘E’ for electrical, ‘M’ for mechanical and ‘C’ for chemical, based on the industries in which the main Case MNEs are active. The embedded cases are numbered so that each main case has four distinct numbers, for example ‘E’, the main case, consists of embedded case ‘E1’ (Headquarters in Germany), ‘E2’ (Singapore), ‘E3’ (Thailand) and ‘E4’ (Indonesia). Interview partners are grouped by their function, working as a line manager, including the Chief Executive Officer (CEO) or the Chief Financial Officer (CFO), ‘L’ or in HR, ‘H’.

As this researcher has visited numerous German MNEs and their subsidiaries in South East Asia over the last few years on a professional basis, the three MNEs were easily identified and the management of these MNEs agreed to participate in the research. Eight interviews per main case, that is, two interviews per embedded case, form the backbone of data collection. For the subsidiaries these include interviews with the HR director, the CEO or the CFO. For the HQ, the head of global HR and experts involved in designing or transferring HR policies and practices to countries in Asia are interviewed.

**Number of case studies.** There are two groups of researchers having distinctly different positions on the question as to how many cases a study should contain (Chew 2001). Within the first group, refraining from suggesting a number and recommending the decision be left to the researcher, Eisenhardt (1989) recommends that cases should be added until "theoretical saturation" is reached and Lincoln and Guba (1985) propose sampling selection "to the point of redundancy". Patton (1990) claims that there are no rules for sample size in qualitative research. The second group of researchers, however, is more specific on the number of cases to be used.

For example, Hedges (1985) sets an upper limit of 12 cases because of the high costs involved in qualitative interviews and the quantity of qualitative data that can be effectively assimilated. Others suggest that more than 15 cases make a study ‘unwieldy’ (Miles & Huberman 1994; Perry 1998). In this study a design with *three main cases* and *twelve embedded cases* in *four countries* is considered sufficient and practical; *sufficient* because first, it falls well within the range recommended by other researchers and second, with Singapore, Thailand and Indonesia representing a broad spectrum of subsidiary and country sizes, stages of development and colonial history are covered. *Practical* because the researcher has contacts in these countries and within the selected MNEs and can combine the numerous visits required in all four countries at least partially with professional engagements.

In brief, three main cases with 12 embedded cases are within the range suggested by researchers and are considered both sufficient and practical. The rationale for selecting the three main cases is discussed next.

**Selecting cases.** As discussed in Section 3.5.1, the selection of cases is based on the specific purpose of literal replication. In general, random selection of cases is neither necessary nor even preferable (Eisenhardt 1989) and random sampling is inappropriate for this case study. Patton (1990) outlines strategies of purposeful sampling, as opposed to random sampling, which are used to select cases. The objective of purposeful sampling is to select information-rich cases that can be studied in-depth (Patton 1990). In other words, purposeful sampling helps in selecting cases that allow the researcher to gather in-depth information, by drawing on the strong personal experiences of the respondents about the phenomena under study. In this study, the total population of possible cases, that is, German MNEs that are among the Fortune Global 500 companies and have subsidiaries in Singapore, Thailand and Indonesia and have a significant part of their business outside Germany is limited to approximately 20 MNEs (Fortune 2004). Furthermore, MNEs from the financial industry are eliminated because in the financial industry Thailand and Indonesia would not be comparable with Singapore which is dominant in the region (Economist 2004). Selecting MNEs from different industries further limited the choices. Among the various potential MNEs within one industry that are possible choices, the researcher approached those with whom he has a professional rapport

and some established personal contacts, a practice employed often in case study design (Stake 1995, Yin 2003).

In brief, a purposeful sampling strategy, as opposed to random sampling, results in the selection of three information-rich main cases for this study, thus fulfilling the requirements of literal replication (Perry 1998; Yin 2003).

**Number of interviews.** As highlighted in table 3.5.1, a total of 24 main case study interviews, that is, eight interviews for each of the three main cases are conducted. Adding the two in-depth exploratory interviews and the two pilot interviews conducted during stage one of this study, a total of 28 interviews is conducted. This number of interviews is within the recommended range of 20 to 50 (Perry 1998). More than half of the interviewees (15 out of 24 main case interviewees) are HR professionals in headquarters or the respective subsidiaries of the MNEs. The remainder (9 out of 24 main case interviewees) are line managers; in most cases the line manager is the CEO of the subsidiary, Section 4.3 provides more details. The two in-depth exploratory interviews, as well as the two pilot interviews are conducted in Singapore, with interview partners having practical experience from their involvement in transferring HR policies and practices in other German MNEs. Having justified the case selection criteria and the number of interviews in this section, the quality of case study design is discussed next.

### **3.6 Judging the Quality of Case Study Design**

The previous section discussed the selection of multiple cases and this section discusses how case study research achieves construct validity, internal and external validity and reliability, using four criteria suggested by Yin (2003). An overview of these criteria and the corresponding case study tactics applied at the relevant research phase are shown in table 3.6.1:

**Table 3.6.1: Case study tactics for four design tests**

Criteria	Case study tactics	Application in general	Application in this study
<b>Construct validity</b>	<ul style="list-style-type: none"> <li>• Use multiple sources of evidence</li> <li>• Establish chain of evidence</li> <li>• Have key informants review draft case study report</li> </ul>	Data collection Data collection Data analysis and report writing	Multiple interviews, documents, websites Structuring of data Report reviewed by interviewees
<b>Internal validity</b>	<ul style="list-style-type: none"> <li>• Do pattern-matching</li> <li>• Do explanation-building</li> <li>• Address rival explanations</li> </ul>	Data analysis Data analysis Data analysis	Cross-case analysis Implications, Chapter 5 Interview clarification
<b>External validity</b>	<ul style="list-style-type: none"> <li>• Use Replication logic in multiple case studies</li> </ul>	Research design	Choice of multiple case study over single case, comparison to literature
<b>Reliability</b>	<ul style="list-style-type: none"> <li>• Use Case study protocol</li> <li>• Develop case study database</li> </ul>	Data collection Data collection	Use of tested interview protocol Thorough documentation in Chapter 4

(Source: Adapted from Yin (2003, p. 34))

**Construct validity** in qualitative research describes the establishment of correct operational measures for the concepts under review (Yin 2003). In this study, the operational measures are based on the five research issues identified. Yin (2003) lists three tactics to increase construct validity in qualitative research. These are first, triangulation of data by using multiple sources of evidence; second, establishing a chain of evidence during data collection, and finally, having the interview partners review the draft case study report.

First, triangulation is achieved by collecting data from multiple sources, from both HQ and subsidiaries of the MNEs, including semi structured in-depth interviews (see Appendix A), paper-based documentation, web-based documentation, previous records and field observations. Specifically, eight interviews are conducted in each main case, with two managers from HQ in Germany, two subsidiary managers from Singapore, Thailand and Indonesia respectively (see Table 3.5.1) to obtain differing perceptions of the interview partners. Details of the interviews and other sources of evidence are discussed in Section 3.7. Second, establishing a chain of evidence enhances construct validity during the data collection phase of this qualitative research study. All the data are systematically recorded and sources of data are well documented and referenced during data analysis to achieve a high quality of research

(Yin 2003). A case study protocol is designed, along with an interview protocol (Appendix A). Feedback is obtained from three sources from academia and the business world on the interview protocol. This ensures a structured approach when exploring the research issues, ensuring for example a steady sequence of questioning during the interviews and a focus on the relevant data (Miles & Huberman 1994). Finally, the draft case analysis is reviewed by the key informants of the case during the data analysis and report writing phase. Through this tactic, any inconsistency or ambiguity can be discussed and clarified from the very beginning, which constitutes one way of enhancing the construct validity and overall quality of this study (Miles & Huberman 1994; Yin 2003). In short, measures are taken to ensure a high quality of construct validity in this qualitative research.

**Internal validity** describes the ‘truth value’ and credibility of study results (Miles & Huberman 1994). The primary concern of internal validity in quantitative research is the cause-and-effect relationships between variables (Yin 2003; Zikmund 2000). In qualitative research, cause-and-effect internal validity is normally not a major concern because qualitative research tries to identify what variables are involved in a phenomenon and leaves the cause-and-effect relationships between the variables to later quantitative research (Chew 2001). Internal validity in qualitative case study research can be extended to the bigger issue of when and how to make inferences in the absence of directly observable behaviour (Yin 2003). While it is difficult to provide clear tactics to increase internal validity, Yin (2003) recommends pattern matching and addressing rival explanations, before drawing conclusions from inferences. The proper selection of the cases, discussed in Section 3.5, allows for pattern matching during the data analysis, addressed in Chapter 4. In this study, internal validity is achieved through a constant effort of within-case analysis and cross-case analysis to establish linkages between data collected in the form of observations, quotes, inferences, explanations and meanings, to ensure that conclusions drawn in Chapter 5 are systematically explored (Miles & Huberman 1994; Perry 1998; Yin 2003). In brief, proper case selection, as well as thorough data collection and analysis, ensure internal validity in this study.

**External validity** describes the degree to which a study’s findings can be generalised beyond the cases at hand (Yin 2003). While quantitative research seeks

statistical generalisation, qualitative research seeks analytical generalisation to some broader theory (Miles & Huberman 1994; Yin 2003). In case study research using multiple cases, analytical generalisation is achieved mainly through replication logic and also through comparing the research evidence with the existing literature (Miles & Huberman 1994; Yin 2003). In this study, multiple case studies are used to achieve analytical generalisation by means of applying the literal replication logic. Comparing the research findings from Chapter 4 to the literature from Chapter 2 further facilitates analytical generalisations in this study (Miles & Huberman 1994; Yin 2003). In short, external validity is achieved through analytical generalisation in the discussion of implications, in Chapter 5.

Finally, **reliability**, or repeatability, describes the extent to which the study would produce similar results if repeated (Stake 1995; Yin 2003; Zikmund 2000). High reliability suggests that similar findings are obtained if the data collection techniques and procedures remain constant throughout the repeated research (Yin 2003). To maximise reliability of the research findings in qualitative research, Yin (2003) recommends developing a case study protocol in the research design phase and using this protocol to collect data and develop a case database during the data collection phase. In this study various reliability tactics are used. An interview protocol is developed in the research design phase. The protocol (Appendix A) is tested and refined in two pilot interviews before it is used for the main data collection. Furthermore, a case study protocol outlines the whole process of data collection and the procedures and requirements to be followed. Finally, a case study database is set up and kept up to date for the researcher to access the data if necessary (Yin 2003). In brief, documenting the process of data collection and using a tested interview protocol ensures reliability in this qualitative research. Next, the data collection procedures are discussed.

### **3.7 Data collection procedures for case studies**

Three key tasks should be considered in the data collection procedures. First, the data sources are identified, and then the data collection instruments and protocol for field investigation are developed. Finally, the data collection is conducted in the

field, using identified data sources and the developed protocol. These three tasks are discussed next in sections 3.7.1-3.7.3.

### **3.7.1 Sources of data**

Data for case studies may be gathered from several sources such as in-depth interviews, documents, through direct observations and participant observations (Miles & Huberman 1994; Stake 1995; Yin 2003). Multiple sources of evidence facilitate triangulation of the data sources and enhance the validity of the data analysis (Patton 1990; Yin 2003). In this study, data is drawn mainly from in-depth interviews, field observations, documents and archival records in the four countries Germany, Singapore, Thailand and Indonesia. The principal source of data comes from the in-depth interviews with selected managers of three German MNEs at HQ and subsidiaries in Singapore, Thailand and Indonesia. The analysis of relevant documents, handed to the researcher by the interview partners, further augments triangulation. For example, one interview partner at Case M handed the researcher an internal document detailing ‘the big five principles of HR in M’ and another interview partner at Case E handed the researcher a confidential consultant’s report about the state of Case E international HR. Archival evidence such as reports, newsletters, brochures, local and international newspaper clippings, financial and trade magazines and bulletins, both in paper form and as web pages, are used to check facts and figures about the cases at large and, for example, to verify published HR principles. In-depth interviews are the major source of data used in this study because they provide valuable insights into the five research issues developed in Chapter 2 (Yin 2003). In-depth interviews encourage interviewees to share their experiences and provide as much information as possible in a free-flowing environment (Miles & Huberman 1994; Stake 1995; Yin 2003). In short, data in this study is mainly drawn from in-depth interviews, supplemented by other sources. Next, the development of a case study protocol for data collection is discussed.

### 3.7.2 Case study protocol

A case study protocol is developed in this study to control the contextual environment of the case study (Chew 2001; Yin 2003). The case study protocol consists mainly of the interview protocol and also addresses the procedures and general rules that should be followed during data collection (Yin 2003). Since this chapter on the research methodology represents the part of the case study protocol outlining procedures and general rules, the interview protocol is discussed next.

The **interview protocol** is a core element of the case study protocol, serving two major functions in this study. First, it forces the researcher to think through the questions to be asked during the interviews (Yin 2003). Second, the interview protocol enables the interview questions to be grouped according to the five research issues and so to facilitate subsequent data analysis (Miles & Huberman 1994; Yin 2003). The exploratory interviews, as well as discussions with and feedback from two additional academics in the field of international HR and one business practitioner not otherwise involved in the study, lead to an interview protocol with relevant questions, subsequently tested in two pilot interviews. The questions have the same content for HQ and subsidiaries. There are two interview protocols for correct wording, one for HQ, one for the subsidiaries. The differences between these two protocols are minor and mostly address the different perspectives of HQ and subsidiaries. Both versions of the complete interview protocol for this study are listed in Appendix A of this study. A summary of the research issues and related interview questions contained in the case study interview protocol is shown in table 3.7.1:

**Table 3.7.1: Summary of the research issues and related interview questions**

Research issues developed in Chapter 2	Interview questions in the interview protocol
RI1: Which IHR approach do MNEs headquarters versus subsidiaries currently follow, along a continuum from exportive to adaptive and integrative approaches?	Questions C1 to C5 (Part C)
RI2: What key cultural, legal and societal differences between the countries Germany, Singapore, Thailand and Indonesia influence the transfer of HR policies and practices?	Questions D1 to D4 (Part D)
RI3: Is there a climate of innovation and trust between HQ and subsidiary in general that facilitates organisational change?	Questions E1 to E5 (Part E)
RI4: How do specific policies and practices, for example compensation, need to change, given the MNE's approach and the established country differences?	Questions F1 to F4 (Part F)
RI5: What are the roles of HQ people and subsidiary staff in the transfer process?	Questions G1 to G4 (Part G)
Additional information to help in addressing the research question	Questions H1 to H3 (Part H)

(Source: Developed for this study)

The interview protocol is divided into Parts A to H. Part A introduces the research project and outlines the ethical considerations. Part B contains the opening questions to build rapport and allows the interviewees to tell their experiences in their own words without any prompting or input from the researcher (Patton 1990; Stake 1995). The questions in Part C, D, E, F and G relate to the five research issues respectively. Some of the responses are measured in scales, triangulated with discussions and modified as necessary, to reflect an accurate assessment of importance. Part H contains general questions, which allow the interviewees the opportunity to express their opinions on any other issues they feel are important but are not asked, and to give their assessment of the quality of the questions asked (Chew 2001; Zikmund 2000). Interviews proceed as scheduled with minimal changes, taking on average 90 minutes per interview. Having discussed the interview protocol and questions, next, the fieldwork for data collection is discussed.

### **3.7.3 Fieldwork for data collection**

Following the development of the interview protocol, the process of data collection in the field begins. This study adopts a systematic process of conducting the fieldwork for data collection. All written documentation, in draft or final form,

and all written correspondence is in the English language. Based on the researcher's familiarity with German, verbal communication with German interview partners is often in German. Because of the English documentation, no translation issues are considered in this study. Because the researcher has good relationships with many of the relevant senior managers, participation in this study is readily agreed on. Interviewing HR directors and line managers such as CEOs and CFOs assures that the interviewees are directly involved in and affected by the transfer of HR policies and practices from HQ to subsidiary. The next operational step is to follow up with the interviewees through e-mail and fax to explain the research, assure them about confidentiality and make arrangements for the interviews.

Further on, the two selected managers of each participating MNE's subsidiary in Singapore, Thailand and Indonesia, as well as those from HQ, are interviewed. The interviews start with open, general questions and focus more and more on the specifics of the identified research issues (Perry 1998, Zikmund 2000). This semi-structured interview approach allows respondents greater freedom to express their views (Chew 2001; Zikmund 2000). Each interview begins with a general introduction to acquaint the respondent with the interview purpose and agenda as outlined in the interview protocol in Appendix A. Throughout the interviews respondents can illustrate, expand or digress from the questions in the interview protocol. Next, the result of the interviews are recorded in reports and shown to the respondents, for checking on errors and adding information as necessary. During the interviews the respondents are also asked to provide appropriate documents for triangulation purposes. The interview result is then triangulated with evidence given by the interviewed managers. Subsequently the reports of the eight managers in each main case study are integrated. Finally, each completed interview report is mailed to the managers of the participating MNE, to review the case content and clarify any discrepancies or inaccuracies.

**Scales.** Interview partners are asked to rate the relative importance or quality of issues, factors and themes on a scale offering five verbal choices, based on their experience and perception, where the first choice is unimportant or low quality or comparatively worse and the fifth choice is very important or very high quality or comparatively better. The ratings are then triangulated with discussion results and

other obtained and observed information, and therefore can be used as a relatively accurate assessment of importance of data (Perry 1998; Yin 2003). However, the ratings from these scales only indicate an approximation and a perceived relative result, and therefore can not be used for further quantitative analysis (Zikmund 2000), which is why the results are not transformed to represent numerical values.

**Case identifier.** The main cases are coded as ‘E’, ‘M’ and ‘C’, with embedded cases being coded by numbers 1-4, denoting Germany, Singapore, Thailand and Indonesia respectively, thus ‘C2’ is the code for the subsidiary of Case C in Singapore for example. By grouping interview partners into ‘L’ and ‘H’ for line management and HR, a quote attributed to ‘C3H’, for example, stems from the HR interview partner of Case C in Thailand. Since both interview partners in the HQ of the three MNEs are from HR, the identifier in this study is ambiguous, while in the internal data recording the interviews are coded as HR1 and HR2. Information obtained from other sources is coded as ‘O’. An ‘O’ can either be attributed to a main case or to an embedded case. Therefore both, ‘MO’ or ‘M3O’, are possible identifiers, for example.

**Quotes** from interviews and other conversations are used in the data analysis chapter to reflect the views of the respondents on the issues under study (Miles & Huberman 1994). Specifically, reported differences between cases are supported by direct quotes (Perry 1998). Quotes are shown in italics and with quotation marks, accompanied by the case identifier.

In brief, this systematic fieldwork approach ensures that data collection in this case study research progresses smoothly and effectively, despite the geographical challenges involved. Having discussed the data gathering process in the field, next, case study analysis is discussed.

### **3.8 Case Study Analysis**

The data collected from the embedded and main case studies needs to be compiled, examined and analysed to address the research problem and its associated questions

(Eisenhardt 1989; Miles & Huberman 1994; Yin 2003). Conventions on data analysis in qualitative research are far less stringent than in quantitative research (Miles & Huberman 1994). Nonetheless, a well organised data analysis and documented procedures add credibility and value to any qualitative study (Miles & Huberman 1994; Yin 2003). While data analysis is presented in Chapter 4, some of the data analysis methods are discussed briefly in this section.

In this study, data collected from the interviews and captured in transcripts, as well as documents obtained, observations and published material are first analysed, then grouped and presented in matrices to structure the data flow (Miles & Huberman 1994). Next, figures and tables using interpretations, such as scales to indicate importance, are developed and presented. Finally, where appropriate, a summary or conclusion of such a table of data is included.

This study presents two forms of case analysis. First, **within-case** analysis compares data and patterns within one main case, drawing on the embedded cases (Scholz & Tietje 2002). This reveals the pattern in, or approach to, transfer of HR policies and practices inside one MNE to the different subsidiaries. The common factor is the organisational culture. Second, **cross-case** analysis, employed here mostly on the level of the embedded cases, compares data and patterns within one country across different MNEs (Scholz & Tietje 2002; Yin 2003). This reveals specific approaches in one country. The common factor is the national culture. Finally, **cross-cluster** analysis compares data and patterns among clusters that have a common trait regardless of the case (Miles & Huberman 1994). These could be common traits of interview partners, for example educational background, position or gender. In this study the most valuable analysis comes from within-case analysis and cross-case analysis, with cross-cluster analysis being integrated, where appropriate, in the reporting of data analysis along the lines of the research issues. In other words, the twelve embedded cases are first analysed individually, using triangulation of data methods, and then two forms of case analysis are used to highlight patterns and themes emerging from the data.

The next step of data analysis consists of conclusion drawing and verification that develops meanings from the data displayed (Miles & Huberman 1994). Conclusion

drawing and verification takes place during the data transformation process, as data are consolidated, clustered, sorted and linked together to observe patterns and themes (Miles & Huberman; Yin 2003). The final phase in the case study analysis process is to build conceptual and theoretical coherence through comparisons with prior theory in the existing literature, seeking out opportunities to replicate the research findings (Miles & Huberman 1994), further elaborated on in Chapter 5.

In brief, the discussed data analysis procedures give structure and credibility to the study. Cross-cluster and cross-case analysis allow for the development of theoretical concepts and comparison to the literature. Next, limitations of qualitative studies in general and specifically of this study are discussed.

### **3.9 Limitations**

Previous sections of this chapter establish the appropriateness of the critical realism research paradigm and the use of qualitative research, and specifically the case study method, to address the research question. There are, however, limitations to this approach and these are discussed in this section. Further, the method of addressing these limitations in this study is discussed.

#### **3.9.1 Limitations of qualitative research**

Four problems with qualitative research are often cited (Perry, Riege & Brown 1999): These are first, a lack of controllability; second, a lack of deductibility; third, a lack of repeatability and fourth, a lack of generalisability (Gable 1994; Zikmund 2000). In the context of this study these limitations manifest themselves in the following way:

**Generalisability.** By researching only German MNEs it is difficult to generalise the findings to MNEs with headquarters in different countries. It is partially this lack of generalisability of other research studying international transfer of HR policies and

practices from an Anglo-Saxon perspective that led to this study (Adler 2001; Briscoe 1995).

**Deductibility.** The complexity of the issues and the absence of clearly defined independent and dependent variables and measures do not allow theory building from deduction. This study uses an inductive approach to describe and to establish theory (Perry 1998), and does not seek or claim deductibility.

**Controllability.** The HR function is embedded in the business environment and as such, is subject to influences from the market or political situation that cannot be controlled for. Care is taken in the selection of the MNEs under study that they have a stable presence in the respective countries. To minimise the influence of macroeconomic differences between the MNEs, all the interviews in one country are conducted in the same timeframe. This coincides with logistical ease as well.

**Repeatability.** Internationalisation of HR is an ongoing process. It is not possible to turn the clock back and 'repeat' the transfer of HR policies and practices under the same circumstances as would occur in a controlled experiment. Among other things it is this lack of repeatability that justifies and necessitates a case study over an experiment.

In brief, the apparent limitations of a qualitative study are due to the complexity of the research question. Qualitative research, as argued before, is best suited to address this research question.

### **3.9.2 Limitations of the case study method**

The need for rigour and stringent procedures of case study methodology is well established (Miles & Huberman 1994; Perry 1998; Stake 1995; Yin 2003). Yin (2003) identifies five common criticisms of case study research. These criticisms and the strategic responses (Chew 2001) taken in this study to address these criticisms are listed in table 3.9.1:

**Table 3.9.1: Limitations of case study research and related strategic responses**

<b>Criticism of case study research</b>	<b>Strategic responses to overcome shortcomings</b>	<b>Sections where limitation is addressed</b>
1. Results in overly complex theories	Develop prior theories and specific research questions	Chapter 2
2. External validity	Use theoretical replication logic, compare evidence with existing literature	Section 3.5.1
3. Difficult to conduct	Use case study protocol and a systematic fieldwork process	Sections 3.7.2 & 3.7.3
4. Not sufficient for sound theory development	Use multiple approaches	Section 3.4.1
5. Researcher bias and lack of rigour	Use of validity checks and discussion with other researchers and practitioners	Section 3.4.1 & 3.5.1

(Source: Adapted from Chew (2001))

First, case study research is criticised for developing complex theories (Stake 1995). The development of specific research issues in Chapter 2 ensures a focus during the case studies. Development of prior theories and the use of expert interviews help the researcher to focus only on important core issues of the research. The second criticism suggests that case study methodology is unable to achieve external validity, even with careful replication. To counter this potential shortcoming, this study uses the replication logic strategy across all main and embedded case studies. External validity is further enhanced by comparing the collected data with the literature in Chapter 5 (Chew 2001). The third criticism is that case study research is difficult to conduct due to operational and logistical problems (Yin 2003). In this study, this problem is addressed by the use of a case study protocol, interview protocol (see Appendix A) and a choice of locations that are accessible to the researcher. The fourth criticism of case study research is that it is not sufficient for sound theory development (Stake 1995). This limitation is addressed in this study by using multiple approaches such as the in-depth exploratory interviews and pilot interviews for prior theory development during the exploratory stage, and the main case studies during the confirmatory or disconfirmatory stage (Section 3.4). Moreover, further quantitative research is suggested when discussing implications for future research. The final criticism concerns the impact on the research by the researcher's bias upon the respondents' answers during the interviews and the impact on the interpretation of the data (Stake 1995; Zikmund 2000). To avoid bias, the research design, data analysis and findings are discussed with supervisors, other researchers and practitioners in the field of international HR. Validity checks to

ensure consistency of interpretation are used, rather than depending on the researcher's interpretation only.

In brief, with the discussed precautionary steps taken, case study research is presented as a sound methodology for this study. Having addressed the limitations of this study, ethical considerations in this study are discussed next.

### **3.10 Ethical Considerations**

Ethical considerations are an integral part of academic research methodology (Miles & Huberman 1994; Zikmund 2000). Having evolved historically from considerations towards subjects and patients in medical research, there is a generally accepted consensus on ethical standards in social science research (Trochim 2003). Four principles of ethical standards are often cited (Miles & Huberman 1994; Trochim 2003). These are voluntary participation, informed consent, avoidance of harm, and confidentiality. Next, these standards are discussed below, as well as the measures taken in this study to ensure high ethical standards.

**Voluntary participation** requires that people not be coerced into participating in research (Trochim 2003). In this study all interview partners are approached directly and no pressure is put on them by going through top management first. After initial consent, the researcher secures consent from the superior of each interview partner.

**Informed consent** means that prospective research participants must be fully informed about the procedures and risks involved in research and agree to participate (Trochim 2003). The purpose of this study is fully explained to the interview partners in detail, from the initial contact to follow-up communication and formal interviews (Stake 1995). The purpose and details of the interview are also explained clearly in the interview protocol (see Appendix A) which is made available to each interview partner.

**Avoidance of harm.** Ethical standards require that researchers not put participants in a situation where they might be at risk of physical or psychological harm as a result

of their participation in the research (Stake 1995; Trochim 2003). In this study physical harm is not considered a potential risk and psychological harm is eliminated by approaching the respondents first and after their voluntary consent seeking to secure approval also from those who could cause psychological harm, such as the superiors.

**Confidentiality** is required to protect the privacy of research participants (Trochim 2003). Care and due diligence are exercised throughout all personal exchanges to respect and maintain the privacy and confidentiality of the interview partners (Miles & Huberman 1994). Anonymity is agreed upon for all participating MNEs and individuals. Due to their relatively unique positions, back tracing of the MNEs in general might be possible, even though steps are taken in the reporting to make it more difficult. These steps include not reporting very specifically on the precise product range or subsidiary size in the respective country, since the number of large German MNEs with a presence in Thailand, for example, is limited.

Over and above these concerns towards the research subjects, be they institutional or human, ethical considerations also include such issues as fraud, misconduct, and plagiarism (Trochim 2003). It is crucial to the integrity of the researcher to ensure that the research is carried out responsibly and honourably. In addition, this study is from the beginning aligned with the ethical standards of the supervising institution. The University of Southern Queensland, Australia, has a process of ethical clearance for all doctoral research and ethical clearance is obtained from the *Office of Research and Higher Degrees* with the reference number H03STU270. For example, ethical clearance is issued by the Office of Research and Higher Degrees after asking for clarifications on language used (all written documentation, provisional or final, is in English) and requesting a slight modification to the procedure of obtaining consent from the interview partners.

In brief, the ethical concerns of the interview partners are addressed, as well as ethical standards of academic work in general. This in turn enables open and direct discussion during the research. Due to the researcher's professional standards, experienced previously by many interview partners, trust is often already established

prior to the interview and many pieces of information are given 'off the record' to the researcher during the interviews.

### **3.11 Conclusion**

This chapter develops and justifies the research methodology applied in this study to answer the research question introduced in Chapter 1:

*How do German multinational companies transfer human resource policies and practices to and from their subsidiaries in South East Asia?*

The critical realism paradigm and qualitative research, more specifically the case study method, are discussed and concluded to be appropriate for the problem at hand because existing theory is not well developed and the study needs to be largely exploratory. The issues of validity, reliability and generalisability are discussed and a multiple case study method is found to be addressing these issues appropriately. This methodological process incorporates two exploratory interviews, as well as two pilot interviews and three main cases, each of which is further broken down into four embedded cases, resulting in a total of 28 interviews conducted in this study. Case selection criteria, interview protocol and data analysis used are introduced.

Limitations are discussed, with the most important limitation of qualitative research being its subjective nature. Therefore subsequent, quantitative studies will be needed to test hypotheses and theories presented in Chapter 5. Finally, ethical considerations are addressed and the proceedings of due ethical process are explained.

Up until this point, no analysis of the data has been presented. Having justified the methodology and data requirements, in terms of both the theoretical and practical considerations in the first three chapters, analysis of the data follows in the next chapter.

## **CHAPTER 4: DATA ANALYSIS**

### **4.1 Introduction**

The previous chapter discussed the research methodology employed in this qualitative multiple case study. In this chapter the data collected from the cases are analysed and analysis results are presented. The objective of this chapter is to present, examine and interpret data and patterns obtained from the cases. The implications of the results and comparison to the literature are then discussed in the next and final chapter, Chapter 5. This chapter consists of ten sections, starting with an overview of the analysis and data display. Then the background of the main cases is discussed and the interview partners' profiles are introduced. In Section 4.4 to 4.8 the chapter presents data obtained along the lines of the five earlier identified research issues. Before concluding the chapter, a summary, Section 4.9, on the findings across the research issues draws the bigger picture and thus provides an overview.

The structure of the cases, three main cases with 12 embedded cases, allows for analysis along various patterns and clusters (Miles & Huberman 1994). Comparisons are made within the main cases, between embedded cases in the same country and along clusters that emerged during data collection. Triangulation of data is obtained by using the interview data, documents received, observation and use of published material about the respective multinational enterprises (MNEs).

One challenge is to address both qualitative details and data patterns within this chapter (Perry 2002). The patterns in the data explain why and how human resource (HR) policies and practices are transferred, while details also have to be presented in this chapter to establish the foundation of the outlined patterns. There are matrices for each type of finding (Miles & Huberman 1994) that show the results for each case. Furthermore, the requirement for trustworthiness in qualitative research makes it necessary to provide detailed evidence for the patterns found in the data (Perry 2002). In brief, patterns have to be drawn from the data without losing sight of the qualitative details leading to these patterns. To meet this challenge, this chapter is

clearly structured around the five research issues and there are frequent summaries of the patterns of data, with supporting quotations (Perry 2002).

## **4.2 Analysis Overview and Data Display**

Procedures and techniques for case study analysis were introduced in the previous chapter. This section defines data analysis and stresses the need for an analysis strategy before analysing data on an operational level.

**Data Analysis.** The definition of data analysis used here stresses that:

*'data analysis consists of examining, categorizing, tabulating, testing or otherwise recombining both quantitative and qualitative evidence to address the initial propositions of a study'*

(Yin 2003, p.109).

Yin (2003) goes on to recommend one of three strategies for data analysis. These are first, relying on theoretical propositions; second, setting up a framework based on rival explanations and third, developing case descriptions. This study employs the first strategy, relying on theoretical propositions, which is why the interview protocol and this data analysis chapter are presented following the research issues, which in turn are developed from propositions on transfer of policies and practices in the literature review, Chapter 2. In other words, the strategy employed is that of analysing the evidence, research issue by research issue.

As outlined in the methodology chapter, the twelve embedded cases are first analysed individually, using triangulation of data methods, and then within-case, cross-case and cross-cluster analysis are used to highlight patterns and themes emerging from the data. The main cases and the interview partners' details are discussed next.

### **4.3 Case Details and Interview Partners' Details**

First, the MNEs are selected based on the criteria discussed in chapters 2 and 3, namely MNEs participating in this study are German Fortune Global 500 industrial companies that have a substantial amount of their business outside Germany and have subsidiaries in Singapore, Thailand and Indonesia.

All three MNEs have a history in Germany of well over 100 years, with their international growth taking place predominantly after World War II. Currently, all three MNEs have more than 50% of their employees and/or business volume outside Germany. They have wholly foreign owned subsidiaries in more than fifty countries worldwide, including those studied in Singapore, Thailand and Indonesia. The biggest market and subsidiary of all three MNEs, as is the case with many large German MNEs, is in the United States (Rugman & Hodgetts 2000), while the biggest market and subsidiary in Asia of all three MNEs is in China. This leads in all cases to an implicit or explicit understanding that while Singapore, Thailand and Indonesia are important markets, the subsidiaries do not receive the attention and resources from headquarters (HQ) in Germany that they would like to receive. The MNEs' headquarters, as well as their largest research and development and production facilities, are in Southern Germany. While active in Asia for many years, all nine individual Asian subsidiaries visited in the course of this study have been legally established in the last twenty years. In short, the three main cases are about large German MNEs in the stage of multinational enterprise as defined in Chapter 2.

Eight interviews per main case that is, two per embedded case, supply the lion's share of the evidence, supported by documents, publications and input from other sources. Interview partners are the human resource (HR) director, the Chief Executive Officer (CEO) or Chief Financial Officer (CFO) for the subsidiaries, and the head of global HR or, where appropriate, the Vice President HR Asia as well as experts involved in designing or transferring HR policies and processes from HQ to subsidiaries in Asia. Details of the interview partners are outlined in table 4.3.1.

**Table 4.3.1: Interview Participants' Details**

Case	Function	Title	Nationality	Gender	Years in MNE
E1	HR1	Vice President HR, Asia Coach	German	male	> 20
E1	HR2	Specialist global compensation	German	male	< 10
E2	Line	CEO	German	male	> 20
E2	HR	HR Director	Singaporean	female	> 10
E3	Line	CEO	Australian	male	> 20
E3	HR	HR Director	Thai	female	> 10
E4	Line	CEO	German	male	> 20
E4	HR	HR Director	Indonesian	female	< 5
M1	HR1	Vice President HR	German	male	> 10
M1	HR2	Specialist global compensation	German	female	< 5
M2	Line	CEO	German	female	> 10
M2	HR	HR Director	Singaporean	female	< 5
M3	Line	CEO	German	male	> 10
M3	HR	HR Director	Thai	male	> 10
M4	Line	CFO	German	male	> 20
M4	HR	HR Director	Indonesian	female	< 5
C1	HR1	Head of Global HR	German	male	> 20
C1	HR2	Vice President HR	German	male	< 5
C2	Line	CEO	German	male	> 20
C2	HR	HR Director	Singaporean	male	< 5
C3	Line	CEO	German	male	> 20
C3	HR	HR Director	Thai	male	< 5
C4	Line	CFO	German	male	< 10
C4	HR	HR Director	Indonesian	female	> 10

(Source: Developed for this study)

The main cases are coded as 'E', 'M' and 'C' with embedded cases being coded by numbers 1-4, denoting Germany, Singapore, Thailand and Indonesia respectively, thus 'M3' denotes the subsidiary of Case M in Thailand for example. Interview partners from HQ and from line management in the researched countries are predominantly male (13 out of 15 interviewees) and of German nationality (14 out of 15 interviewees), while the HR directors in all 9 embedded cases involving Asian subsidiaries are local nationals with a majority being females (6 out of 9 interviewees). Differences in nationality, that is, cultural background of the interview partners are part of this study, whereas the gender information is given to provide

detailed information. The line managers especially tend to have long standing experience within the MNE, often in more than one country, with all of them having more than 10 years within the MNE, many of them over 20 years. In short, the twenty-four interview partners have positions as CEO, CFO and HR directors and have long standing experience in the respective MNE. Next, the cases are described one by one.

### 4.3.1 Case Descriptions

#### Case E

**General.** Case E is the biggest of the three MNEs researched, with a broad field of activities in the electrical industry. Based on a strong culture of German engineering, the company has made big investments in Asia throughout the 1990s, even though business activity in Asia goes back historically as early as 1870. The subsidiaries in Singapore, Thailand and Indonesia are comparable in size, with Singapore having some regional responsibilities and Indonesia having the only sizeable production facility, the major portion of the business being sales and engineering activities. The CEOs of the subsidiaries are male expatriates, two of them German, while all three HR directors are female locals.

**HR structure.** Even though the business activities are diverse and all three subsidiaries have more than one location in each country, the HR function is centralised with the HR director reporting to the CEO. The MNE parent company has a central HR division, located at the German HQ, which is organised by HR function with a global responsibility. The regions of Asia, Europe, South America, North America and Middle East have a senior manager as a coach and partner, for HR concerns that the subsidiaries may have with HQ. Twice a year the HR directors of all the countries in one region get together to discuss their regional concerns and to formulate regional inputs to the global HR via the coach for the region, this being the Asia coach for the region under study. One of the regional HR directors is elected to be the HR chairperson of that region and as such is the designated voice of the region. Thus there is a system in place that enables regional concerns to be voiced

and addressed, either by the chairperson or the Asia coach. In addition to the national HR function in Singapore there is an HR office with a regional Asia scope, located in Singapore. This regional office is staffed with an expatriate manager reporting to the German HQ Asia coach and has an advisory role into the region only.

**Interview partners.** Interviews in HQ are conducted with the Asia coach, a vice president with a business and HR background reporting to the head of global HR, and an HR specialist for global compensation. Main interviews in the subsidiaries are conducted with the CEO and the HR director in Singapore, Thailand and Indonesia. Additional input was sought from other business unit heads and HR staff.

## **Case M**

**General.** Case M has the best known brand name of the three MNEs researched, with a strong presence in one line of products in the mechanical industry. After big investments in the US, both in production as well as marketing throughout the 1990s, the current focus is on the Chinese market. The subsidiaries in Singapore and Indonesia are similar in size and are predominantly sales offices, independently reporting to Germany, with Singapore having had some regional profit and loss responsibilities in the past. Thailand has a factory and is in some ways a hub for the MNE's South East Asia product distribution. The CEOs of the subsidiaries are expatriates, two of them German and one of them female, while the HR Directors are locals, two of them female and one of them male.

**HR structure.** In the subsidiaries the HR function is centralised, with the HR director reporting to the CEO in Singapore and Thailand and to the CFO in Indonesia. The MNE parent company has organised its HR, located at the German HQ, as operational HR and central HR. Central HR has global responsibility for HR policies, with HR specialists being responsible for policies worldwide, and no specific regional support. Once or twice a year, depending on need, the HR directors of all the countries globally get together, usually at German HQ, to discuss their regional concerns and to formulate regional inputs to the global HR. The international transfer office is responsible both for international transfers of

expatriates as well as ensuring that the MNE's global HR standards are applied locally. At the time of this study the MNE is running an internal project to internationalise HR inside central HR, feeling that the production and sales internationalisation has outpaced the present HR structure, which is considered predominantly German.

**Interview partners.** Interviews in HQ are conducted with the head of the international transfer office, a vice president with a strong and varied HR background reporting to the head of central HR, and a specialist from central HR on leadership and development as well as compensation and benefits. Main interviews in the subsidiaries are conducted with the CEO and HR director in Singapore and Thailand and with the CFO and HR director in Indonesia. Additional input was sought from business unit heads and HR staff.

## Case C

**General.** Case C is the smallest and least known of the three MNEs researched, with a broad range of activities in the chemical and pharmaceutical industry. The chemical and pharmaceutical industry in Germany has a closely knit network to discuss approaches and developments in all fields of business, including HR, so that the MNE of Case C is well aware of, and aligned with, the chemical industry in Germany in general. The subsidiaries of Case C in Singapore, Thailand and Indonesia are comparable in size with roughly 300 employees in each country, although specialising in different product groups, depending on the customer base. Singapore and Malaysia are served by one subsidiary located in Singapore, an arrangement not found in the other cases. The MNE's main interest and markets in Asia, other than China, are in Japan, Korea and Taiwan, so that the three subsidiaries in Singapore, Thailand and Indonesia are small even amongst the Asian subsidiaries. The CEOs of the subsidiaries are male expatriates, all of them German, while the HR Directors are locals, two of them male.

**HR structure.** In the subsidiaries the HR function is centralised with the HR director reporting to the CEO in Singapore and Thailand and to the CFO in Indonesia. The

MNE parent company has a central HR, located at the German HQ, which is organised by HR function with a global responsibility. Asia, as well as Europe and South America, has one HR director as a coach and partner for HR concerns that the subsidiaries may have with HQ. The regional HR directors meet on an as needed basis, approximately twice a year, in the region to discuss their regional concerns and to formulate regional inputs to the global HR via the Asia coach. Thus there is a system in place that enables regional concerns to be voiced and addressed. The international HR cooperation and the support structure in HQ are less than one year old, thus relatively new and still in the finding phase. Prior to the current system, there was no formal system and only some informal HR comparisons through the expatriate CEOs' networking.

**Interview partners.** Interviews in HQ are conducted with the vice president HR reporting to the Executive Board and the head of compensation and benefits and international transfers reporting to the vice president HR, as well as other specialists in the field of training and international transfers. Main interviews in the subsidiaries are conducted with the CEO and HR director in Singapore and Thailand and with the CFO and HR director in Indonesia. As with the first two cases, input is also sought from business unit heads and HR staff.

In short, this section provides an overview of the main cases and the respondents' profiles. Next, in Section 4.4 to 4.8, the data collected with respect to each of the five research issues is discussed.

#### **4.4 Data on Research Issue 1: 'IHRM approach'**

This section analyses the data collected with respect to research issue 1 which examines the IHRM approach that the MNEs under study employ when transferring HR policies and practices from German HQ to their subsidiaries in Singapore, Thailand and Indonesia. The research issue investigates:

**RI 1:** *Which IHRM approach do MNEs headquarters versus subsidiaries currently follow, along a continuum from exportive to adaptive and integrative approaches?*

Part C of Appendix A, interview protocol, documents the questions related to this research issue. The respondents are asked to provide information as to where and by whom HR policies are decided (question C1 in appendix A), if and how country expertise is integrated into HQ (C2) and whether there is a network among subsidiaries (C3). Furthermore, respondents are asked to comment on their knowledge and perception of HR effectiveness of other German and non-German MNEs in their country (C4, C5). These last two questions are relevant for the research question overall and they also serve to establish how well the respondents are aware of the HR environment in their country. In brief, respondents are asked to tell in their own words which approach towards IHRM their MNE is taking.

#### **4.4.1 HR policy decision body in the MNE**

The three MNEs under study each have a central HR department in HQ and it is there that global policies are made and decided upon. There are differences between the cases with respect to the rigour of HQ policy formulation and how the subsidiaries perceive these policies, as detailed in Table 4.4.1:

**Table 4.4.1: Decision making in MNE**

	<b>Case E</b>	<b>Case M</b>	<b>Case C</b>
<b>(1) HQ Germany</b>	Policies are made in the HQ by central HR; regions have a platform to give input but do not yet use it effectively.	Policies are made in the HQ by central HR, yet only on a strategic level, no platform for regions to give input, yet input would be welcome.	Policies used to be made locally, yet with international HR coming up, policy making moves to HQ central HR who is installing a platform for regional input.
<b>(2) Singapore</b>	Policies are given by HQ and implemented by subsidiary.	Policies are made in HQ and subsidiary struggles to make them locally operational.	HQ assumes a more and more active role, so far all HR has been local.
<b>(3) Thailand</b>	Policies are suggested by HQ and finally modified and decided in subsidiary.	Policies are made in HQ, but subsidiary has to make it operational.	HQ assumes a more and more active role, so far all HR has been local, with Thailand being a trendsetter for the region.
<b>(4) Indonesia</b>	Policies are given by HQ and implemented by subsidiary.	Policies are made in HQ, but subsidiary has to make it operational.	HQ assumes more and more active role, so far all HR has been local.

(Source: Developed for this study)

**Within-case analysis** indicates that in Case E policies are made in HQ and communicated to the subsidiaries. There is a formal platform to deal with the input of the subsidiaries to policy formulation, yet this platform is not yet used by the subsidiaries. HQ and the subsidiaries in Singapore and Indonesia perceive the policies set by HQ as binding, while the subsidiary in Thailand perceives them as suggestions that can be modified and decided upon by the subsidiary.

In Case M policies are made in HQ and communicated to the subsidiaries. Case M HQ welcomes input in principle, but has no platform for, and no example of input from the subsidiaries. HQ and the subsidiaries in Thailand and Indonesia agree that policies should be made on a strategic level and have to be made operational by the subsidiaries, while the subsidiary in Singapore perceives the policies as unreasonable and struggles to make them operational. The interviews with the CEO and the HR

director of the subsidiary of Case M in Singapore are different from all the other interviews. The high level of aggression towards, and disillusion with, HQ, displayed mostly by the CEO, is both challenging for the interviewer and provides significantly more negative answers than any other interview in this study.

Finally, Case C has no history of global policy formulation and is beginning this process at the time of research. The subsidiaries in Singapore, Thailand and Indonesia welcome this more active role of HQ. The subsidiary in Thailand regards itself as a trendsetter for Case C in HR policies and practices in Asia.

**Cross-case analysis** shows that HR policies are made in HQ of all three MNEs under study. Case E has a process and more detailed policies, Case M defines policies on a general and strategic level and Case C is starting the process of HQ policy formulation. The subsidiaries in Thailand are the most self-confident, seeing themselves as trendsetters (C3) and in a position to decide whether or not to accept a policy (E3). The subsidiaries in Singapore and Indonesia are closely in line with HQ thinking, with the exception of the subsidiary of Case M in Singapore, who feels that the policies from HQ are both unreasonable and not fitting for Singapore. In brief, HR policy formulation on a strategic level is carried out in and by HQ in an **exportive** way.

Having reviewed the policies on a strategic and thus general level, the next question is geared towards finding out how free the subsidiaries are in applying and adapting these policies. Responses are summed up in table 4.4.2:

**Table 4.4.2: Subsidiaries' freedom to adapt policies**

	<b>Case E</b>	<b>Case M</b>	<b>Case C</b>
<b>(1) HQ Germany</b>	Regions are free to adapt HR policies according to their needs. Regions have to report and justify their decisions by using centrally set standards. Standardisation is highly recommended.	Regions are free operationally as long as they adhere to the five guiding principles set by HQ. No checks by HQ if the guiding principles are adhered to in local adaptation of policies.	Regions are free, mainly due to a past lack of coordination. HQ seeks to establish standards to have a common approach.
<b>(2) Singapore</b>	Subsidiary is free to adapt most things and would like more freedom to decide.	Subsidiary has no freedom to adapt, is bound to the rules from HQ.	Subsidiaries have to make own policies due to a lack of corporate standards and wants more input from HQ.
<b>(3) Thailand</b>	Subsidiary is free to adapt most things and would like more freedom to decide.	Subsidiaries are free to adapt.	
<b>(4) Indonesia</b>	Wants more practical suggestions on implementation.		

(Source: Developed for this study)

In Cases E and M, HQs are aware of the need for policies to be translated into local practices, yet they have different strategies in following up practices in the subsidiaries. The subsidiaries recognise and accept the freedom but need to translate the strategic policies into operational practices.

**Within-case analysis** shows that Case E requires the subsidiaries to report in a standardised way and strongly suggests using standards across the regions. The subsidiaries agree they have the freedom to adapt policies locally, with the subsidiaries in Thailand and Indonesia wanting more practical guidance as to how to adapt policies. Case M trusts that the adaptation and application is satisfactory when the five guiding principles, defined as the '*Big Five HR principles at M*' (MO) are adhered to. The subsidiaries in Thailand and Indonesia regard themselves as rather free to adapt the policies from HQ, while the subsidiary in Singapore sees no such freedom. In part this can be attributed to the fact that the Singapore subsidiary, while being a separate legal entity, is not managed like other regional companies, but rather

like a representative office. Case C HQ regards the regions as having been free to act in the past, yet sees the push for internationalisation mainly with a view to future standardisation. This is recognised and welcomed by the subsidiaries who want more input on all levels from HQ.

The biggest difference in policy deployment from HQ is strategies for follow up of implementation, as **cross-case analysis** reveals. Case E requires standardised reporting, while Case M and C trust the subsidiaries to adhere to principles, yet they do not follow up. On the subsidiary level, Case C subsidiaries welcome and look forward to more HQ guidance, while Case E subsidiaries want more freedom to adapt policies. General agreement among the interviewed subsidiaries is that *'policies from HQ should have practical suggestions and value'* (M3H).

In brief, HR policy translation from a strategic level to operable practices is performed in and by the subsidiaries, and the subsidiaries would like more practical guidance from HQ.

#### 4.4.2 Best practice integration into HQ policies

The integration of country best practices in the formulation of corporate policies is not well established in the Cases E, M and C as is outlined in table 4.4.3:

**Table 4.4.3: Integration of country best practices in HQ policies**

	<b>Case E</b>	<b>Case M</b>	<b>Case C</b>
<b>(1) HQ Germany</b>	Yes, but the process in place to ensure this integration is not used to its fullest potential by the subsidiaries.	Not currently	Not currently, future process will integrate country best practices.
<b>(2) Subsidiaries</b>	No, process not suitable.	No	Singapore, Indonesia: No. Thailand sees itself as best practice and seeks to influence corporate policies.

(Source: Developed for this study)

**Within-case analysis** points to Case E HQ having a platform and process for best practice sharing that is open to the subsidiaries, which in turn do not use the process, which they consider not suitable for best practice sharing. The respondents in the HQ are aware of the lack of integration of country best practice in its HR policies. However, HQ places the responsibility to provide those best practices and expertise within the countries, since the platform with its HR chairperson and HR Asia coach already does provide the opportunity for the individual countries to share their best practice. The respondents of the subsidiaries all express concerns about the process, being *'too formal'* (E2H), or choosing inappropriate language *'we do not want to put our colleagues off, 'good practice' would be better than 'best practice''* (E4H).

The HQ respondents of Case M admit that country expertise and best practices of the countries under study are currently not integrated in the formulation of HR policies. Rather, corporate policies are made, taking the German situation and the situation of those countries where big production facilities are located, such as the US, into consideration. Case C HQ respondents are aware that at the time of this study there is little or no integration of international best practice in the formulation of policies. Case C HQ wants to change that with its new push towards internationalisation and regional cooperation in the field of HR, yet the process is currently at the planning stage only (CO). The subsidiary in Thailand, more so through the CEO than the HR director, takes an active interest in making its local HR policies and practices known in HQ and has a reputation for *'being the most active in HR in Asia'* (C1H, C3L).

**Cross-case analysis** at HQ level reveals that while best practice integration in policy formulation would be *'nice to have'*, it is either not actively sought (Case M), carried out with a process that the subsidiaries are not at ease with (Case E), or achieved by going through the German expatriate CEO (Case C). The subsidiaries on the other hand, do not see the need or the desire, to have their best practice incorporated in HQ policies and guidelines. In the words of one HR director, HQ *'should help us and not ask us to provide best practice'* (E2H). Best practice sharing is seen as a powerful tool for regional cooperation, which leads to the next issue regarding networking among subsidiaries.

#### 4.4.3 Networking among subsidiaries of one MNE in various countries

The HQ of all three main cases facilitates and encourages the networking between the individual countries through regional HR meetings, as outlined in table 4.4.4:

**Table 4.4.4: Networking amongst subsidiaries in the region**

	<b>Case E</b>	<b>Case M</b>	<b>Case C</b>
<b>HR regional meetings</b>	Twice a year in the region, funded and organised by HQ at first, now regional responsibility.	Infrequent, funded and organised by HQ and located in Germany.	Approx. twice a year in the region, funded and organised by HQ, only recently established.
<b>other</b>	Active group in e-mailing, social visits, project help, only after personal contact in regional meeting.	Beginning to know each other, the well established subsidiaries help the newer ones, e.g. Thailand shares with Indonesia.	Beginning to know each other. People exchange to align individual topics, e.g. training.

(Source: Developed for this study)

The approach used is to organise meetings in the region, as in Cases E and C, or at HQ, as in Case M, where, in addition to formal meeting content, informal networking and socialising is encouraged. Participants at such meetings are the HR directors from each country subsidiary in Asia and selected HQ HR managers. Case C has only recently implemented such a forum of regional meetings, with one having taken place and the next one planned less than a year after the first meeting. Case E has a well established process of having two such regional meetings per year at alternating locations in Asia and once every two years at HQ in Germany, in conjunction with a global HR conference. The responsibility to organise and fund these meetings has shifted from HQ to the region, facilitated by the regional HR chairman. Case M is ‘*getting the relevant people together when the need arises*’ (M1H), usually in Germany. Interviews at HQ (E, M, C) suggest that the meetings themselves are the ‘*core of the networking*’ (M1H).

**Cross-case analysis** at subsidiary level suggests that the formal meetings are a vehicle to get to know each other and that '*real networking*' (E2H) takes place informally without the HQ involvement. This real networking has both a social and a professional dimension. First, the HR directors get to know each other, meet informally, share backgrounds during the regional meetings and go shopping or sight seeing together. After this socialising and trust building, the exchange of information via e-mail or telephone begins, with concrete help in the form of exchanging results, telephone conferences or sending an employee to share experience for a project. To avoid the message that one country is better than another, '*it is important to have a balance of give and take, of learning and teaching*' (C4H). When one subsidiary is newly established and another has been in the same situation a few years before, '*it is acceptable that they come and teach us and we will do the same for the next country*' (M4H).

In brief, HQ supports networking by organising regional HR conferences. These conferences are welcomed by the regions as a platform to get to know each other. The networking itself takes place among the subsidiaries without involving HQ.

#### **4.4.4 Differences in HR from other German firms in the country**

The relevant question, C4 in Appendix A, has two parts. The first part asks about what other German companies in Singapore, Thailand and Indonesia are doing differently in terms of HR, and the second part asks how the interview partner would rate their HR effectiveness in the respective country. Table 4.4.5 gives an overview:

**Table 4.4.5: HR differences from other German MNEs HR in Singapore, Thailand and Indonesia**

	Case E	Case M	Case C
<b>HQ Germany*</b>	More international HR than other firms, more regional organisation and structure than other firms.	Lose network with other large German MNEs in Germany, no knowledge about differences in Asia.	Close network of chemical industry, no difference, national and international, from other chemical firms, no knowledge about other industries.
<b>Singapore**</b>	no big difference from others	Others have more local freedom, subsidiary depends on HQ.	no big difference from others
<b>Thailand**</b>	no big difference from others, Case E has the most sophisticated HR.		
<b>Indonesia**</b>	no big difference from others	M very new, others are better established.	no big difference from others

\*= referring to all three Asian countries under study

\*\*= referring to their country only

(Source: Developed for this study)

The HQ respondents of all three main cases refer to informal meetings within the German electrical, mechanical and chemical industry respectively. These HR circles that meet infrequently, and whose results are not documented, seem to be rather strong in the chemical industry, with one interview participant saying: *‘The chemical industry has a close network and we are all personal friends. Therefore our approach is intentionally aligned with other chemical companies’ HR approach, both national and international’* (C1H). Case E HQ considers itself as the German trendsetter of internationalising HR, a position that is assumed to be true by the interviewees of Cases M and C without having any specific examples to justify this belief. In general, none of the interview partners, at either HQ or subsidiary, has substantial knowledge about the HR policies and practices of other German MNEs in Singapore, Thailand and Indonesia.

**Cross-case analysis** at subsidiary level puts Case E in Thailand in a position of being recognised as having the most sophisticated HR of the German MNEs in Thailand, though again, no concrete example of this sophistication is available. *‘They*

*just do more and have more possibilities'* (M3H) describes this finding. In Indonesia no big differences between the German MNEs in HR terms are visible, a credible perception, since two of the interviewed HR directors previously had similar posts in other German MNEs in Indonesia. Case M is rather new in Indonesia and thus regards itself as not so established as the others, while the subsidiary of Case M in Singapore perceives itself once again at a disadvantage compared to others because it regards itself as too tightly governed by HQ. When asked about the perceived effectiveness of other German MNEs in Singapore, Thailand and Indonesia, the results are mostly in line with the findings discussed above, as outlined in table 4.4.6:

**Table 4.4.6: Perceived effectiveness of other German MNEs HR in Singapore, Thailand and Indonesia**

	<i>others much worse</i>	<i>others worse</i>	<i>same as own MNE</i>	<i>others better</i>	<i>others far better</i>
<b>HQ Germany*</b>		E	M, C		
<b>Singapore**</b>			E, C		M
<b>Thailand**</b>		E (E3L)	M, C	E (E3H)	
<b>Indonesia**</b>			E, C	M	

\*= referring to all three Asian countries under study

\*\*= referring to their country only

(Source: Developed for this study)

The HR director of Case E in Thailand argues that other German MNEs in Thailand have a more effective international HR, while the HR directors of Cases M and C in Thailand readily agree that Case E *'is the first among equals in HR in Thailand'* (M3H). Further probing reveals that the higher degree of sophistication discussed above, is something positive and admirable for Cases M and C, while it reflects a complex and complicated, yet ineffective structure for the HR director of Case E.

In summary, there is little evidence of factual knowledge of differences in HR effectiveness among other German MNEs, both in HQ and the subsidiaries. The perception across the interviews is that the HR effectiveness of the MNEs under study is comparable to the HR effectiveness of other German MNEs.

#### 4.4.5 Differences in HR from non-German firms in the country

Shifting the focus from other German MNEs to other non-German MNEs, the relevant question, C5 in appendix A, again has two parts. The first part asks about what other non-German companies in Singapore, Thailand and Indonesia are doing differently in terms of HR and where their origin is. The second part enquires about how the interview partner would rate their HR effectiveness in the respective country. The interview partners at the HQ of all three main cases have little or no specific information regarding what other non-German companies are doing in international HR in Singapore, Thailand or Indonesia. The view of the HQ respondents in all three cases is that the US style is different from the German style in that the US is assumed to be more exportive of its national HR policies and practices. The assumption on quality is that *'we are probably just as good or bad as the others'* (M1H) and there is no intention to follow up on that assumption with a more structured approach. Tables 4.4.7 and 4.4.8 give an overview over differences and perceived effectiveness:

**Table 4.4.7: HR differences of non-German MNEs HR in Singapore, Thailand and Indonesia**

	Case E	Case M	Case C
<b>HQ Germany*</b>	More international HR than any other firm, more regional organisation and structure than other firms.	No knowledge about differences in Asia, assumption is that the US is more focused on the US policies.	
<b>Singapore** Thailand** Indonesia**</b>	Japanese MNEs are more rigid, and not adapting, US firms have more practical guidelines.		

\*= referring to all three Asian countries under study

\*\*= referring to their country only

(Source: Developed for this study)

**Table 4.4.8: Perceived effectiveness of other non-German MNEs HR in Singapore, Thailand and Indonesia**

	<i>others much worse</i>	<i>others worse</i>	<i>same as own MNE</i>	<i>others better</i>	<i>others far better</i>
<b>HQ Germany*</b>			all; M,C,E		
<b>Singapore**</b>		J: E,M,C	US: E,M,C		
<b>Thailand**</b>		J: E,M,C		US: E,M,C	
<b>Indonesia**</b>		J: E,M,C		US: E,M,C	

J: Japanese MNEs

US: US American MNEs

\*= referring to all three Asian countries under study

\*\*= referring to their country only

(Source: Developed for this study)

Case E has a report by an internationally renowned HR consultancy, comparing its international HR approach in general as published, not necessarily as practised, with that of its major US competitor. The report states that Case E is ‘*most advanced in internationalising HR*’ (EO), yet that report does not look at Asia specifically, let alone individual countries.

Subsidiaries in Thailand and Indonesia have a very distinct view that the MNEs under study are more effective in terms of HR than Japanese companies and less effective than US companies. ‘*The Japanese do everything like in Japan and all documents are in Japanese and they are not willing to adapt in any way*’ (M3H) says one manager who worked for a Japanese company before joining M. The US companies on the other hand, are regarded as more effective by the subsidiaries in Thailand and Indonesia ‘*because they have how-to-manuals that are easy to understand and apply and local HR does not have to invent everything here, plus they are open to adapt if they are told something does not work in Thailand*’ (E3H). The subsidiaries in Singapore are of the opinion that the US approach may be different, yet equally as effective as the German approach. The answers are unanimous along national clusters. While the German HQ view is that the US approach is more exportive, understood to be negative, the subsidiary view from Thailand and Indonesia is that the US approach is more helpful because it tells them what to do, and how to do it, in more concrete terms.

In summary, there is little evidence of factual knowledge of differences in HR between the MNEs under study and MNEs from other countries, both in HQ and the subsidiaries. The perception across the interviews in HQ is that the HR effectiveness of the MNE under study is comparable to the HR effectiveness of other German MNEs, while subsidiaries think that German MNEs are more effective in HR than Japanese MNEs and less effective in HR than US MNEs. Having outlined the findings on RI1, 'IHRM approach', the findings on RI2, 'Cultural differences' are presented next.

#### **4.5 Data on Research Issue 2: 'Cultural differences'**

This section analyses the data collected with respect to research issue 2 which examines the cultural differences between Germany, Singapore, Thailand and Indonesia that influence transfer of HR policies and practices. The research issue investigates:

**RI 2:** *What key cultural, legal and societal differences between the countries Germany, Singapore, Thailand and Indonesia influence the transfer of HR policies and practices?*

Part D of appendix A, interview protocol, documents the questions related to this research issue. The respondents from subsidiaries are asked to comment on perceived cultural, legal or societal differences between their country and Germany (question D1 in appendix A), while the respondents from HQ are asked the same question from a German perspective, that is perceived cultural, legal or societal differences between Germany and the three Asian countries under study. Next, the perceived cultural, legal or societal differences between one Asian country and the other two Asian countries under study (D2) are explored. Further, respondents are asked to give their opinion whether a local or an expatriate HR manager is the better choice for HR director (D3), and to what extent cultural awareness is prominent among their own staff and HQ staff (D4). In brief, respondents are asked to talk in their own words about cultural differences between Germany and the Asian countries under study.

#### 4.5.1 Perceived differences between Germany and the Asian countries

**Culture and society.** The HQ respondents of the MNEs are well aware that ‘*Asia is different*’ (M1), even though the specific local knowledge of Singapore, Thailand and Indonesia is rather limited: ‘*German people are very direct*’ (E3H) versus ‘*The Asian people are quiet and never say what they mean*’ (M1H) only describes some issues on a relatively generic level and reduces the differences to a communication issue. Table 4.5.1 lists some statements that reflect this generic level:

**Table 4.5.1: Statements about cultural differences between Germany and Singapore/Thailand/Indonesia**

	Case E	Case M	Case C
<b>HQ Germany</b>	<ul style="list-style-type: none"> <li>• Asia is different from Germany</li> <li>• Germans are more structured, more result oriented</li> <li>• Asians are not proactive, need to be pushed</li> <li>• Asians are quiet and do not say what they mean</li> </ul>		
<b>Singapore Thailand Indonesia</b>	<ul style="list-style-type: none"> <li>• Asians are more polite</li> <li>• Germans are direct and rude, have little understanding of the Asian way of avoiding conflict</li> <li>• Germany is part of the West</li> </ul>		

(Source: Developed for this study)

Thailand views itself as the ‘*most different from Germany*’ (E3H, M3L). The differences in culture mentioned by all interviewed Thai and Indonesian nationals are different styles of communication, with Germans being seen as direct and rude and Thais and Indonesians as indirect and polite. The concept of face saving and of never saying no to a superior is seen to cause many difficulties between Germans and Thais and Indonesians, whereas Singaporeans do not have a big problem with face saving. Conflict resolution, dealt with in Germany by addressing the conflict openly and ‘*fighting it out*’ is considered the biggest difference and the biggest problem between German managers and local managers of the subsidiaries.

In the same way that HQ respondents assume Singapore, Thailand and Indonesia to be part of Asia without the need to approach individual countries differently, the subsidiaries regard Germany by and large as ‘*part of the West*’, rather than an

individual country distinct from the US, for example. Only the subsidiaries in Singapore differentiate between the German directness and the British way of avoiding direct statements.

**Cross-case analysis** shows that while respondents in Cases E and M are quite content with their generic acceptance of differences between Asia and Germany, one MNE, Case C, is systematically mapping cultural differences in the MNE, using Hofstede's framework of cultural dimensions, referred to in Chapter 2. This systematic approach is facilitated by the fact that the HR manager in HQ of Case C responsible for Asia, as well as the HR directors in the two subsidiaries in Singapore and Thailand are academically qualified in the field of international HR and have experience as lecturers in universities. While having no conclusive result at the time of this study, Case C is the only case under study that is attempting to map cultural differences and plans to adapt its approach in a country specific way.

Differences in the **legal** system between Germany and Singapore, Thailand and Indonesia are not considered an issue in international HR in any interview. The common understanding of subsidiaries and HQ is that the subsidiaries must ensure legal compliance in the relevant country and that HQ in Germany accepts this as given, if the respective legal practice is explained. All respondents are well aware of sizeable differences in legal systems, being relevant to HR overall. These would include payroll administration or compulsory compensation for a 13<sup>th</sup> month; the role of the unions in collective bargaining of work time and salary reviews, and recruitment, separation and retrenchment regulations amongst others. However, those HR issues that are directly affected by the legal environment are regarded by all interviewed parties unanimously as *local issues*, not being part of the discussion of internationalisation of HR. In brief, cultural differences between Germany and South East Asia are viewed as relevant for HR mainly in terms of communication style. Legal differences between the countries are acknowledged and the subsidiaries must ensure local legal compliance.

#### 4.5.2 Perceived differences among the Asian countries

In the HQ of the MNEs of Cases E, M and C the underlying belief is that there are differences between Singapore, Thailand and Indonesia in culture, society and legal systems, yet they are unknown in HQ and not regarded as relevant when designing or transferring HR policies and practices. While it is seen that *'it is somehow easier to talk to the guys in Singapore'* (C1H), this fact is attributed to individuals rather than a difference in national culture between Singapore and Thailand or Indonesia, which might lead to a strategically different approach from one country to another. The one exception, as discussed in the previous section, is the attempt of Case C to map cultural differences along Hofstede's model and to formulate a different approach towards each country in the future.

The subsidiaries are aligned in their views along national lines. Thailand is the only country of the three Asian countries under study that has never lost its independence to a colonial power, a fact stated in 5 out of 6 interviews in Thailand, and used to explain why there is less alignment with the West than in Singapore and Indonesia, less English spoken and generally, a greater cultural distance between Thailand and Germany, than between Singapore and Germany. Also, the geography of having not many significant sea ports is a reason given when explaining why Thais often *'struggle with the English language and the Western ways of doing things'* (M3H). While Thai and Indonesian interview partners make a point that their respective cultures are similar with the exception of religion, the perception of Singapore is that of being *'efficient, rude and more like Westerners'* (C4H). The Singaporean interview partners note the similarity between Thailand and Indonesia; their self image is that of being business minded and at ease with both worlds, the East and the West.

All interview partners make a point of saying that professionally they are not concerned with the differences between the countries under study, and that their answers represent a general perception based on experiences from travel and reading. It must be stressed again that cultural, societal and legal differences between the countries under study are considered so significant that a local HR department is a necessity in every subsidiary. Given this fact, the interview partners are not

concerned professionally with the differences from other countries. Other, smaller firms, who attempt to have one HR department running the HR in different country subsidiaries report nearly insurmountable difficulties (O). In brief, there is a perception that Singapore, Thailand and Indonesia are different, yet there is little specific real knowledge and the underlying belief is that the study or knowledge of differences between the countries is professionally unimportant for international HR in a German MNE.

#### **4.5.3 Local versus expatriate HR director**

When asked whether it is better to have a local or an expatriate HR director, all 24 interview partners respond strongly in favour of a local HR director, irrespective of cost issues. The main reasons are familiarity with local regulations and being able to communicate with local employees and institutions without language or cultural barriers. This focus on local HR reinforces the findings from the previous points on the relevance of cultural, societal and legal differences for international HR. In Singapore and Thailand it is possible to have an expatriate HR director; in Indonesia the law requires the HR director of a company to be an Indonesian national. However, when questioned further it emerges that all three MNEs had an expatriate HR director in at least one of the three country subsidiaries under study over the last five years. It becomes clear in the discussion that there is a deep belief at HQ that it is better to have an expatriate manager to *'get things going in the beginning'* (M1H) or when there is a need *'to align the company with the German standard'* (C1H). The ambivalence between wanting a local HR director and a trusted partner is expressed in one interview (C1H): *'It is better to have a local HR director, but that means that we have to settle some things with the CEO directly.'* The underlying assumption here is that the CEO is a German expatriate. In brief, a local HR director is preferred over an expatriate in all cases, yet there is a tendency to keep some sensitive issues between the HQ and the expatriates.

#### 4.5.4 Cultural awareness of HQ and subsidiary staff

There is a low level of cultural awareness among HQ staff. A culturally insensitive example is found in one MNE's internal promotional material which states: '*We want a culture of open dialogue and commitment!*' (EO). Lack of international experience among the HQ staff is cited in all HQ interviews as the main reason for the lack of cultural awareness, as outlined in table 4.5.2:

**Table 4.5.2: Levels of cultural awareness of HQ staff and strategies employed by the MNE to improve**

	Case E	Case M	Case C
<b>Level of cultural awareness of HQ staff</b>	Limited cultural awareness of HQ staff.		
<b>Strategies to improve</b>	Increase international experience and exposure of HQ staff.		
<b>Practices employed</b>	Create international positions and promote to senior level only people with international experience.	Hire outside people with international experience.	
<b>Challenges</b>	Costly, takes time.	Lack of company experience.	

(Source: Developed for this study)

HQ in Cases M and C employs outside HR specialists with international experience, though still German nationals, to overcome the lack of cultural awareness in their HQ staff (MO, CO). Case E takes the approach of providing international positions for HQ HR staff and when promoting from within, international experience plays a significant role: '*We only appoint staff to senior management positions in central HR who have international experience, which is defined as having lived and worked outside Germany for at least 18 months.*' (E1H). This approach takes time and the commitment and money to provide international positions. Whereas recruiting new staff with relevant international experience is fast, the new staff may lack the necessary company experience.

While HQ and the subsidiaries agree that the cultural awareness and intercultural competence of HQ staff needs to improve, and the way to do this is through gaining international experience, only Case M is also concerned with increasing the

intercultural competence of its local staff: *'We train our people specifically in workshops to work with foreigners and learn how to deal with their more direct style and culture of dialogue and commitment'* (M3H).

In brief, cultural awareness of HQ staff is perceived as limited. Gaining international experience is the preferred way to address this limitation. Increasing cultural awareness of subsidiary staff is systematically handled in one case and not addressed in the two other cases. Having outlined the findings on RI2, 'Cultural differences', the findings on RI 3: 'Innovation and Trust' are presented next.

#### **4.6 Data on Research Issue 3: 'Innovation and Trust'**

This section analyses the data collected with respect to research issue 3 which examines the trust and innovation climate between HQ and the subsidiaries. The research issue investigates:

**RI 3:** *Is there a climate of innovation and trust between HQ and subsidiary in general that facilitates organisational change?*

Part E of appendix A, interview protocol, documents the questions related to this research issue. The respondents provide examples of cooperation between HQ and subsidiary in areas other than HR (question E1 in appendix A) and specifically on HQ initiatives and programs and their value to the subsidiary (E2). Furthermore, respondents are asked about frequency of job rotation between HQ and subsidiary (E3). Their opinion on the extent to which the climate in the MNE could be described as innovative and trusting is also sought (E4). In brief, respondents are asked to tell in their own words how the MNE operates along the lines of being innovative and trusting in its internal dealings in and outside of HR. Next, the points are addressed one by one.

#### 4.6.1 Cooperation between HQ and subsidiary at large

In all three researched cases the interest of HQ in Asia is growing, which leads to a higher focus on business processes. This represents a shift from the past when HQs tended to manage on the numbers alone. Table 4.6.1 lists some of the trends:

**Table 4.6.1: Cooperation between HQ and subsidiary at large**

	Case E	Case M	Case C
<b>General trend over the last 3 years</b>	<ul style="list-style-type: none"> <li>• Consistent financial reporting</li> <li>• Standardised processes</li> <li>• Global ethical standards</li> </ul>		
<b>Main form of cooperation</b>	Regional structure, company-wide initiatives	Individual initiative	Trust and tradition

(Source: Developed for this study)

Case E has a regional structure in place and a company-wide initiative for productivity gains. Case M, on the other hand, relies heavily on individual initiative and fosters this culture, being different again from Case C, which is using trust and tradition to manage its subsidiaries, much like a family business. Product expertise and international management skills are thought to be centred in HQ in all three cases. This view is most expressed in Case M, which has a very strong self-image as a German company producing quality products. Sales activities used to be left almost exclusively to the subsidiaries and quotes such as *‘as long as the numbers were good they (the CEOs of the subsidiaries) could do whatever they wanted, just like kings’* (C1H), typify the not so recent past. But over the last 3 years all three MNEs have taken a greater interest in the management and the processes of the subsidiaries in areas such as consistent financial reporting (EO, CO), standardised processes and, due to a greater exposure to the US, ethical business conduct.

**Within-case analysis** in all three cases reveals that, while these changes are regarded in HQ as an opportunity to increase transparency and save costs, they are perceived largely as additional workload in the subsidiaries, with little direct positive impact: *‘HQ wants new information, is not coordinated in its request and never tells us what they do with the data’* (E3L). In brief, over the last three years HQs are taking a more

active interest in managing their subsidiaries. The approaches vary, yet are usually driven by HQ and are not seen as beneficial by the subsidiaries.

#### 4.6.2 Company-wide initiatives and programs

Table 4.6.2 presents an overview on company-wide HR and non HR initiatives used in Cases E, M and C:

**Table 4.6.2: Company-wide initiatives and programs**

	Case E	Case M	Case C
<b>General trend over the last 3 years</b>	Asia more in the focus of management, more involvement in HQ programs and initiatives.		
<b>Non HR</b>	Company-wide project with a distinct name, rolled out first in Germany, then US, then Asia. The goal is standardisation, synergy and growth.	Individual projects, country specific and/or product specific, e.g. a sales initiative for product line x in country y or a process improvement project in one country.	
<b>HR</b>	Regional cooperation, using the regional HR structure, no specific initiatives.	HQ <i>HR excellence</i> initiative to internationalise HR in Case M.	HQ initiative <i>HR international</i> , initiative to internationalise HR in Case C.

(Source: Developed for this study)

**Non HR initiatives.** Case E has a large initiative with a ‘catchy’ name, applied first in Germany and then in the US. During the research period the initiative is being rolled out to Asia, with the effects not yet visible. This business initiative is meant to standardise, use synergies across borders and to foster growth. The perception from the interviewed CEOs is positive, possibly selling the initiative internally, whereas the perception of the HR directors is more sceptical. General (non HR) HQ initiatives and programs designed to help the subsidiary are not present in Cases M and C, even though there is a keen sense of ‘*Asia being more and more in the focus of management*’ (C1H). Another interview partner says: ‘*We have very little tolerance*

*for flavour-of-the-month projects in M, which explains why we do not have such programs and initiatives’ (M1H).*

**HR initiatives.** Case M has a HQ project, international *HR excellence*, which has the goal to overcome ‘our Southern-German focus’ (M1H). Similarly, Case C has an initiative, *HR international*, which aims to internationalise the HQ HR approach. The strategies to improve cultural awareness of the HQ staff that are discussed in Section 4.5.4 are, for example, parts of the HR initiatives at Cases M and C. Case E does not have any special HR initiatives over and above its structure and process of regional cooperation.

In short, the subsidiaries are involved in a number of HQ projects, both in HR and other central functions as well as in the business, that aim to streamline reporting and processes, as well as to create synergies between the various subsidiaries.

#### **4.6.3 Job rotation between HQ and subsidiary**

On the websites (EO, MO, CO) of each embedded case, some reference to international opportunities and assignments is made to attract highly qualified graduates. Yet the interviews bring to light the fact that most job rotation is from HQ to the respective subsidiary; some job rotation, mostly for training purposes, takes place from subsidiary to HQ and virtually none takes place from one subsidiary to another. The regional focus of all interviewed subsidiaries is on improving the intraregional job rotation, as outlined in table 4.6.3:

**Table 4.6.3: Job rotation between HQ and subsidiary**

	<b>Case E</b>	<b>Case M</b>	<b>Case C</b>
<b>General situation at time of research</b>	<ul style="list-style-type: none"> <li>• Job rotation mainly German expatriates to Asia</li> <li>• Very few jobs for Asians in HQ, except for training</li> <li>• Focus on intraregional exchange, in the start-up stage only</li> </ul>		
<b>Process to improve intraregional job rotation</b>	Regional job market, managed by regional HR chairperson.	Exchange program for trainees in the region, informal management by the concerned individuals.	Young talent network, facilitated by HQ.

(Source: Developed for this study)

Statements such as ‘*Sending people to and from Germany is too costly and helps us not so much as a region*’ (EO, C4L) explain the shift from HQ-to-subsidary job rotation to intraregional job rotation. The statement that ‘*There is never enough job rotation; the problem is to balance the desire for development and the reality of cost cutting and pressure for results*’ (M1H) focuses on cost implications of job rotation. In addition to cost issues, a respondent notes ‘*there is neither system nor incentive*’ (E3L) to have intraregional job rotation and ‘*coming to HQ means you have to speak German or you will not survive*’ (C1H). At the time of this study, Case E is setting up a regional job market, Cases M and C are designing systems to exchange young talents intra-regionally, yet it is too early to tell if these efforts are successful. **Cross-case analysis** highlights no substantial differences between the main cases’ current situation with respect to job rotation. However, true to their different management philosophies, the cases differ in how to improve the situation. For example Case E is creating a process managed by the regional structure, Case M leaves it to the individual and Case C is facilitating a regional network through HQ.

In general there is an international career perspective and a good infrastructure for German expatriates in South East Asia; however there is neither the perspective nor infrastructure yet for intraregional rotation or international management positions at HQ in Germany. Consequently, at the time of the interviews the number of local people from one subsidiary on international assignment and international, non German, people present from other subsidiaries was very limited (<3) in all subsidiaries, with the exception of a large infrastructure project that brings together engineers from various countries in Thailand (E3L, EO). All parties interviewed

regard it as desirable to have more job rotation, to share experience and to build an internationally well-versed talent pool. In brief, job rotation and international experience are regarded as desirable and helpful, with the reality that most international assignments are taken up by Germans working in a subsidiary.

#### 4.6.4 Perceived climate of trust and innovation

When it comes to the perceived climate of trust and innovation, the general perception tends to be rather positive, with the exception of the Singaporean subsidiary of Case M, as shown in table 4.6.4:

**Table 4.6.4: Perceived trust between HQ and subsidiary**

	<i>not at all</i>	<i>somewhat</i>	<i>neutral</i>	<i>To some extent</i>	<i>To a great extent</i>
<b>Germany</b>			M, E		C
<b>Singapore</b>	M		E		C
<b>Thailand</b>		E		M	C
<b>Indonesia</b>			E	M	C

(Source: Developed for this study)

Cross-case analysis shows that especially Case C, the MNE with the least control structure in place, has a very high feeling of trust, both in HQ and the subsidiaries. Case E on the other hand, the most advanced in terms of international infrastructure and procedures, tends to have a perception of ‘somewhat trusting’ to ‘neutral’ between its subsidiaries and HQ. When asked to provide examples of why this level of trust is perceived in the relationship it is very difficult to get a concrete example. The trust level seems to be a feeling based on incidental anecdotes and a general feeling about ‘*the way we talk to each other*’ (C3H) or ‘*the way the HR regional meetings are conducted*’ (E3H) or the way ‘*the CEO represents HQ in the subsidiary*’ (M3L).

Trust and innovation are regarded as two separate issues and the results vary from one case to the next as is detailed in table 4.6.5.

**Table 4.6.5: Perceived climate of innovation between HQ and subsidiary**

	<i>not at all</i>	<i>somewhat</i>	<i>neutral</i>	<i>To some extent</i>	<i>To a great extent</i>
<b>Germany</b>			C	E	M
<b>Singapore</b>			C	E, M	
<b>Thailand</b>			E, C	M	
<b>Indonesia</b>			E, C		M

(Source: Developed for this study)

Case C, the highest in perceived trust, is the lowest in perceived innovation, being seen as neutral, whereas Case M is the highest in perceived innovation, a spirit that runs through the company reflecting its product image: *‘Everything we do is innovative, just like our products’* (M1H, M3L), a statement that is deeply ingrained in the company culture of Case M. Despite putting innovation at the forefront of its public relations (EO), the perceived level of innovation in Case E is neutral to rather innovative and the responses are markedly less enthusiastic than those of the interviewees of Case M; after a thoughtful pause one subsidiary CEO says with a half smile: *‘I guess we are innovative, at least that is what we say’* (E4L). The HQ of M is seen as *‘pushing and expecting innovation, new ways, different ways’* (MO, M2L) and according to one CEO of a subsidiary sometimes *‘puts too much confidence in the individual rather than creating a process’* (M3L). During the interviews everybody at Case M has an anecdote about one individual who wants to do something, just does it, and then is rewarded. So, a spirit of innovation is equated with the possibility, and positive reaction of the MNE, to try out new things on an individual level. Even the respondents from the subsidiary of Case M in Singapore who are rather critical in many instances, are quick to point out that *‘innovation is our strength in all areas’* (M2L). Case C on the other hand, while very innovative on its product scale and technology (CO, O), sees itself as managed *‘based on trust and tradition’* (C1H, C3L) with innovation not being a central thought when describing management.

**Within-case analysis** shows that Case C has a strong common feeling of trust which is manifested in positive statements about other colleagues and departments. The common denominator in the interviews of Case M is the pride in being part of a very dynamic and innovative organisation, regardless of differences of opinion between

HQ and subsidiaries. Case E has no such enthusing common denominator, even though it has a process and a structure for everything.

In brief, perceived levels of trust and innovation between HQ and subsidiary vary from case to case. Having outlined the findings on RI 3: 'Innovation and Trust', the findings on RI 4: 'Need for adaptation' are presented next.

#### **4.7 Data on Research Issue 4: 'Need for Adaptation'**

This section analyses the data collected with respect to research issue 4 which examines the need for adaptation of policies and practices when transferring from HQ to their subsidiaries. The research issue investigates:

**RI 4:** *How do specific policies and practices, for example compensation, need to change, given the MNE's approach and the established country differences?*

Part F of appendix A, interview protocol, documents the questions related to this research issue. The respondents are asked to give examples of HR issues that need adaptation to fit the subsidiary (question F1 in appendix A) and specifically, why these modifications should occur (F2). Another question addresses how unique a subsidiary feels in comparison to others (F3) and to what extent HR issues ought to be standardised globally in the MNE (F4). In brief, respondents are asked to tell in their own words which, if any HR policies and practices needed to be adapted when applied in their country. Next, the points are addressed sequentially.

##### **4.7.1 HR issues to be modified specifically for each country**

When asked if specific HR issues such as variable compensation should and could be modified from the HQ rule to fit the subsidiary, the need and possibility of adaptation when discussing a concrete example is widely acknowledged, as is reported in table 4.7.1:

**Table 4.7.1: Local adaptation of variable income (example)**

	<b>Case E</b>	<b>Case M</b>	<b>Case C</b>
<b>Germany</b>	Yes, depending on local need, subsidiary has to decide but still adhere to the guidelines.	Yes, depending on local need, subsidiary has to decide but still adhere to the Big Five Principles and keep the culture of M.	Yes, depending on local need, subsidiary has to decide, CEO ensures that company culture is respected.
<b>Singapore</b>	Yes, rules are modified depending on local market conditions.	Yes, rules <b>SHOULD</b> change, but subsidiary cannot change the rules.	Not applicable, subsidiary makes own system and wishes for more guidance from HQ.
<b>Thailand</b>	L: No, the rules are applied to everybody in the MNE. H: Yes, because Thailand is different.	Maybe, but only after a set of HQ rules has been applied and failed.	
<b>Indonesia</b>	Yes, rules are modified depending on local market conditions and national culture.		

L: line manager

H: HR manager

(Source: Developed for this study)

*Note.* Care is taken that the question avoids terms such as policies, principles, guidelines or practices and mentions ‘rules’ instead. Furthermore, it is not a general question, rather the interviewer asks specifically for the rules on variable compensation.

Interview partners in HQ in Germany state that under certain conditions the company rules, usually derived from the German practice, can be modified. In all cases the decision to modify lies with the subsidiary. In Case E the subsidiary has to adhere to the globally valid guidelines, in Case M the subsidiaries have to adhere to the more general ‘global five’ principles and in Case C the CEO in the respective subsidiary can decide individually, yet has to ensure that the company culture is respected.

The subsidiaries are not very clear about their freedom to decide on modification of rules. In Case E3 the CEO and the HR director have differing opinions: the HR director does not hesitate to point out that the final decision which rules to apply lies in Thailand and that HQ rules of course have to be modified due to the difference in size of organisation and national culture. The CEO on the other hand, is adamant that the rules that apply in Germany also apply to the employees in Thailand. Cases E2 and E4 mention the local market condition as an important factor in deciding if and how HQ rules on variable income are modified. Case M subsidiaries think that HQ rules can only be modified after having tried them without success. Specifically, Case M2 is adamant that HQ rules have to be applied, and while they should be modified, HQ neither modifies them nor allows the subsidiary to modify those rules. Case C subsidiary interview partners wish for more guidance from HQ, having a problem with too few rules and guidelines. In brief, modification of HQ rules is possible in all three main cases. While HQs regard the process as clear, the subsidiaries have some uncertainty what and when to modify.

#### **4.7.2 Perceived uniqueness of subsidiary**

The subsidiaries of the MNEs in Cases E, M and C regard themselves as being part of a larger group of country subsidiaries in Asia. The uniqueness of the subsidiary is not argued based on the nature of the business, the local market or the organisation of the subsidiary. Legal differences are also not at the core of thinking. Rather, the different national situations leading to different national cultures are used to explain why the subsidiary is unique in the respective MNE. HQ respondents, on the other hand, view the countries as comparable countries in South East Asia and differentiate the subsidiaries in Singapore, Thailand and Indonesia based on their respective size and product range. Table 4.7.2 provides an overview:

**Table 4.7.2: Perceived uniqueness of subsidiaries**

	<b>Singapore</b>	<b>Thailand</b>	<b>Indonesia</b>
<b>HQ Germany</b>	HQ differentiates its respective subsidiaries based on subsidiary size and product portfolio.		
<b>Subsidiaries general</b>	Subsidiaries see themselves as part of a group in Asia and differentiate themselves along national boundaries.		
<b>Subsidiaries individual</b>	Unique because Singapore is an efficient and business minded city state that bridges East and West.	Unique because Thailand has no colonial past, no significant sea ports and is therefore more secluded from the West.	Unique because Indonesia is the only Muslim country under study and the fragmented island structure makes it hard to govern.

(Source: Developed for this study)

The Singapore respondents argue their uniqueness based on Singapore being an efficient city state that bridges the East and the West. The respondents are of the opinion that Singapore is more developed and more business minded than Thailand and Indonesia. The respondents from Thailand set their country apart, as reported in Section 4.5, because of its lack of colonial past. Respondents from Indonesia cite religion, Indonesia is the only Muslim country in the study, and geography, Indonesia comprises hundreds of islands and is difficult to govern centrally, as the main reasons why Indonesia is different. In short, while the question asks for the uniqueness of the subsidiary of the MNE in the respective country, the answers from the subsidiary respondents address national cultural differences.

### **4.7.3 HR issues to be standardised globally**

There is a strong belief in the HQ of all three MNEs that some globally valid principles apply to all subsidiaries, that *‘there is something to being an employee of M which is stronger than national culture’* (M1H). These are principles rather than processes, for example principles of compensation, and it is left to the subsidiary to interpret these principles and apply them locally. Examples of such principles of Case M are:

- *‘M always pays higher than the market’*. (MO)

- *'M pays for individual performance'*. (MO)

While calling these principles mandatory, HQ of M acknowledges freely that *'there is very little control if and how these principles are applied'* (M1H).

On the other hand all HQ respondents unanimously state that the respective companies' leadership principles and talent identification processes are to be applied globally, something that the subsidiaries in Thailand for example see differently: *'Our leadership principles and style have to be modified here to fit the country'* (M3L). *'The leadership principles from Germany are no good in Thailand and cannot be applied'* (E3H).

In brief, the common approach in the three main cases is that HQ sets principles on a strategic policy level and the subsidiary develops its own practice and process.

Where HQ insists on standardisation to the letter, the subsidiaries resist it. Having outlined the findings on RI 4: 'Need for adaptation', the findings on RI 5: 'Roles of people' are presented next.

#### **4.8 Data on Research Issue 5: 'Roles of HQ People'**

This section analyses the data collected with respect to research issue 5 which examines the role of people, both from HQ and subsidiary when transferring policies and practices. The research issue investigates:

**RI 5:** *What are the roles of HQ people and subsidiary staff in the transfer process?*

Part G of appendix A, interview protocol, documents the questions related to this research issue. The respondents give examples of HQ people assigned to their subsidiary by region or issue (question G1 in appendix A) and specifically, if these people are perceived as helpful or controlling and if they take the subsidiary's concerns into account (G2, G3). Another question asks more generally how the subsidiary ensures a feedback process to HQ (G4). In brief, respondents are asked to tell in their own words who the players are and what their roles are when HQ

transfers policies and practices to the subsidiary. Next, the points are addressed one by one.

#### 4.8.1 Organisation of HQ with respect to subsidiary

While the organisation of the interaction between HQ and subsidiaries depends on the product line (M, C) or the division (E), the HR field does not provide historical examples. Global HR competence centres, having emerged from the previously German competence centres in fields such as compensation and benefits for example, are present in all cases. Table 4.8.1 presents an overview:

**Table 4.8.1: MNE organisation of interaction between HQ and subsidiary**

	<b>Non HR</b>	<b>HR</b>
<b>Case E</b>	Responsibility for Asia on board level, with business divisions being organised individually. At HQ a corporate department to determine business development per country and to monitor progress.	Specialists in HQ for selected topics like leadership or compensation with a global scope and regional experts both in HQ and in Singapore. One HR director from Asia is the spokesperson for concerns regarding HQ.
<b>Case M</b>	Responsibility along the product lines globally. At HQ a corporate department to determine business development per sales region and to monitor progress.	Specialists in HQ for selected topics like development or compensation with a global scope. Regional interface by the operational HR who takes care of the German expatriates in the subsidiary.
<b>Case C</b>	Responsibility for Asia on board level; below board level along the product lines globally.	Specialists in HQ for selected topics like training or compensation with a global scope and, in the process of being established, regional experts in HQ.

(Source: Developed for this study)

The support structure to transport these global HR competencies and responsibilities varies greatly from case to case. Case M uses the HR contacts between HQ and subsidiaries, stemming from expatriate management as the interface between HQ and subsidiaries. Case E has a complete system with councils, spokespersons and a regional HR competence centre in Singapore, and Case C is only recently realising

that something ought to be done to connect the HR from HQ with the local HR in the subsidiaries. In brief, all three cases have a central HR in HQ, yet size and organisation of this central HR varies greatly.

#### 4.8.2 HQ staff: Help or control?

All the subsidiaries agree that the function of the HR HQ staff should be and indeed is more helpful than controlling, whereas HQ staff for issues other than HR, finance for instance, at least has a strong controlling element, as outlined in table 4.8.2, and is therefore viewed with a certain distance. As to how helpful the HR HQ staff is, opinions and evidence vary. Often it is perceived that the HR specialists from HQ are not primarily interested in advancing the subsidiary, but in fulfilling their need to report implementation success back at HQ.

**Table 4.8.2: HQ staff: more helpful or more controlling**

	More helpful	More controlling
<b>HR HQ staff</b>	X	
<b>Non HR HQ staff</b>		X
<b>Weakest points</b>	<ul style="list-style-type: none"> <li>• communication to subsidiary</li> <li>• HQ reporting interest before subsidiary interest</li> </ul>	
<b>Areas for improvement</b>	<ul style="list-style-type: none"> <li>• improve understanding of subsidiary business situation</li> </ul>	

Note: This question was only posed to subsidiaries  
(Source: Developed for this study)

For example, Case E has a system of reporting globally on implementation of various policies, ranging from recruiting to pension schemes, that employs colour codes, for example red for bad, white for no action yet, yellow for begun action and green for implemented. The subsidiaries view the specialists who are in charge of facilitating the implementation worldwide as people *‘who want to have the boxes green, regardless of the difficulty in our country’* (E2H). This sentiment is mirrored by a CEO who has past experience of working in a corporate department: *‘Sometimes the HQ specialists are prisoners of their own system, failing to see the other side’* (M3L).

When asked specifically whether the subsidiaries' concerns are adequately addressed by HQ staff, the uniform response from the subsidiaries is that there is much room for improvement, viewed by the subsidiaries mainly in terms of sensitising the HQ staff about ways to communicate and awareness of the business reality in the respective country. The HQ respondents of all three main cases are aware of these deficits and regard sending junior level HQ employees to Asia to gain first hand experience as the best solution. Yet they are aware of a cost factor in transferring German expatriates to Asia to be responsible for HR issues and wish for the regions to also be more willing to embrace a Western attitude, to address at least the communication problems. Of the three main Cases Case M has a clear strategy to conform to that ideal: *'We look inside the Thai society for talent that is open towards modern management methods and people who have been educated abroad, therefore we have fewer problems now than in the past'* (M3H). In brief, HQ HR staff are perceived as helpful rather than controlling. Overall HQ HR staff are regarded as not very effective due to a perceived lack of local, subsidiary knowledge.

#### 4.8.3 Feedback to HQ

The HQ view is that there is not enough feedback from the subsidiaries to HQ. More input and proactive interest in global HR issues is desired from HQ respondents, whereas the subsidiaries are ambivalent about this, as exemplified by one statement: *'It is not our culture to complain or to show off, we prefer to be quiet and do our job'* (E3H). Table 4.8.3 presents an overview:

**Table 4.8.3: Feedback on HR issues from subsidiary to HQ**

	Case E	Case M	Case C
<b>HQ perception</b>	Platform and processes are in place, subsidiary people need to use these more proactively.		Platform and process is being created, expectation is that platform will be used.
<b>Subsidiary perception</b>	Formal feedback procedures are seen as either complaining or showing off and usually create more work for the subsidiary.		
<b>Feedback route taken</b>	CEOs formally part of the regional HR structure.	Informally via CEOs.	

(Source: Developed for this study)

Case C HQ is aware of its lack of structure to receive and use such feedback and consequently is in the process of creating a regional HR council and a web tool for communication. The statement *'We expect people to use the platform when available'* (C1H) reflects a level of optimism already vanished in Cases E and M. The statement *'While we have all the tools and processes we receive little to no input for fear of sounding stupid or generating more work for themselves'* (E1H) describes the current state of affairs. HQ HR managers realise that the process will take time, however there is a tension between top management and HR, with senior management *'wanting to make up for lost time in a hurry'* (M1H).

Meanwhile, the most used route for feedback from subsidiaries to HQ is via the CEOs. In 8 out of 9 subsidiaries under study the CEO is German with HQ working experience and a network in HQ. The CEOs travel to Germany frequently and are obviously culturally conversant in the German HQ ways. Case E has recognised the importance of the CEO with respect to the international HR network and invites one CEO from the region to its regional HR meetings on a rotational basis. While that increases effectiveness of HR in the region it does in a way undermine the effort to establish HR communication paths, so that HQ views this CEO participation with *'mixed feelings'* (E1H). Having outlined the findings on RI 5 'Roles of people', a summary of the findings on the five research issues is discussed next.

#### **4.9 Summary of Findings on Research Issues**

Having discussed the data analysis and findings on each of the five research issues in sections 4.4 – 4.8, this section summarises the main findings in condensed form. Table 4.9.1 presents the main points of data analysis of the five research issues:

**Table 4.9.1: Overview of findings on research issues**

<b>RI 1: ‘IHRM approach’</b>	Decisions made in HQ by central HR for strategic level policies in an exportive way, with the expectation that the subsidiaries translate policies into operational practices.
<b>RI 2: ‘Cultural differences’</b>	Big differences between Germany and the three Asian countries, especially in the form of communication and conflict resolution. Legal differences acknowledged and not seen as key to international HR.
<b>RI 3: ‘Innovation and Trust’</b>	Relationship between HQ and subsidiary seen as trusting (mostly Case C) and innovative (mostly Case M). Job rotation considered the best tool to increase trust and sharing, yet not developed beyond the practice of rotating expatriates out of HQ in the subsidiaries.
<b>RI 4: ‘Need for Adaptation’</b>	General company policies adapted and applied locally are the norm. When a high degree of standardisation is required, resistance is generated in the subsidiaries.
<b>RI 5: ‘Roles of HQ People’</b>	HR HQ staff is seen as helpful yet not very effective because of perceived lack of intercultural sensitivity and not enough knowledge about the specific country situation.

(Source: Developed for this study)

**Research Issue 1**, ‘IHRM approach’, establishes that on a general policy level all decisions are made in HQ in Germany and passed to the subsidiaries in an exportive way. The translation of these general policies into practices rests with the subsidiaries.

With respect to **Research Issue 2**, ‘Cultural differences’, there is agreement that cultural, societal and legal differences between Germany and Singapore, Thailand and Indonesia do exist. Most prominent among these differences is the different approach to communication that the Germans use compared with their Asian, especially Thai, counterparts. To be culturally more aware is desired both in HQ and subsidiaries and the most common solution suggested to overcome the lack of intercultural sensitivity is to exchange people within the MNE.

Data analysis of **Research Issue 3**, ‘Innovation and Trust’, finds that the relationship between HQ and subsidiaries is very trusting in Case C, less so in Case M and only neutral in Case E. The relationship between HQ and subsidiaries is perceived as very innovative in Case M, less so in Case E and only neutral in Case C.

**Research Issue 4**, 'Need for Adaptation', finds that the expectation from HQ is that the subsidiaries adapt HR standards that are passed on from HQ in the form of principles and guidelines, or state clearly where these guidelines cannot be applied. HQ and subsidiaries agree that almost all practices can and should be adapted individually. In cases where HQ seeks standardisation to the detail level, the subsidiaries insist on the need to adapt locally. Subsidiaries with a lot of freedom wish more guidance as in Case C, whereas subsidiaries with a lot of interaction with HQ wish more freedom to decide on their own systems.

The main finding of **Research Issue 5**, 'Roles of People', is that HQ staff with global or regional HR responsibilities are regarded as helpful, rather than controlling or threatening. However, the HQ staff are regarded as not very effective, basically lacking the skill to adapt to local ways of doing things, which is one reason why the CEOs of the subsidiaries have an important role in giving feedback to HQ on HR matters.

**Open questions.** Questions H1, H2 and H3, appendix A, are meant to give the interview partners the possibility to add in their own words what other factors they think relevant for the subject at hand and specifically, how relevant cost issues are to the research topic. Cost is not seen by any respondent as a major impediment to the transfer process, over and above the general perception that '*cost is always an issue in everything*' (M3L, C4L). The open question part in the interviews is used to round the interview off and to reinforce points made earlier. No major new issues are raised and the individual answers are integrated in the previous discussion. Next, the findings are discussed in the context of within-case and cross-case analysis.

The **within-case analysis** is incorporated in the individual discussions of the cases and the research issues. A short summary of the general perceptions of the cases is given below.

**Case E** is the most structured, with processes and procedures for communication between regions and towards HQ. There are regional HR experts and a council structure that, cultural issues aside, allow for an integration of best practice and a

bottom-up approach for new developments. The reasons for Case E having considerable structure in its HR are first, because of its bigger size, in HQ as well as in the three countries where subsidiaries have been studied and second, because the process of internationalising HR has started already five to seven years ago and finally, a philosophy emphasising structure over the belief in the individual. The perception from the embedded Cases E2, E3 and E4, is that more flexibility from HQ would be welcome.

**Case M** presents as a philosophy of the individual and trusts that the corporate culture will be transferred via the CEO who has HQ experience, and that the HR director in the region will find ways of getting help if needed. Very little structure is in place, only a few almost generic principles. When help is required from HQ it is provided, yet every country has its individual solutions. There is growing unease in HQ whether this can be maintained with a company committed more and more to globalisation and unease in the subsidiaries as to whether the HQ should not provide more guidance and structure, especially for new subsidiaries at start up time.

**Case C** has a sound theoretical and scientific approach to assess the cultural differences between HQ and the respective subsidiaries. However, having established the differences and the need to address them, HQ then leaves the individual subsidiaries on their own to establish their own processes, a situation that the subsidiaries are not content with because they expect more help and guidance from HQ, especially after the sound theoretical preparation. HQ is in the process of creating a team of international HR specialists and thus plans to provide more structure in the future.

To conclude, the three MNEs in Cases E, M and C have similar ideas on how the cooperation between HQ and subsidiaries should operate. From a HQ viewpoint, Case E is relying more on structure and processes, Case M is counting more on the individual and Case C is in the process of building the infrastructure needed for HR cooperation in Asia. The small and young subsidiaries welcome and demand guidance and practical help from HQ, with the understanding that HQ ought to be flexible in their demands concerning what to implement and what to modify, whereas

more mature subsidiaries feel that they know best how to operate and wish for more understanding on the part of HQ.

The **cross-case analysis** is incorporated in the discussions of the research issues when referring to countries rather than individual embedded cases. A short summary of the main points for each country is given below.

All interviews in HQ in **Germany** acknowledged the cultural, societal and legal differences between Germany and South East Asia, without being able, or seeing the need, to distinguish between the individual countries of Singapore, Thailand and Indonesia. Differences between these countries are regarded as irrelevant for the formulation of strategic policies and it is considered the responsibility of the individual subsidiary's management, specifically the HR director, to translate policies into local practices. Being caught in the midst of cultural differences in their dealings with respective subsidiaries, the HQ view is that an open platform for communication is offered but that '*they (the Asians) need time to understand and accept that*' (E1H).

The city state of **Singapore** bases its self image on efficiency rather than cultural heritage. It sets itself apart from Thailand and Indonesia by being more business minded and more attuned to Western practices, yet sets itself apart from Germany by being a gateway to Asia, a bridge between the East and the West. The use of the English language and the presence of many Asian HQs for multinational enterprises, position Singapore '*ahead of the others*' (E2H). The subsidiary respondents see Japanese MNEs as less effective in Singapore than German MNEs in terms of HR and they put US MNEs on a par with their own and other German MNEs.

The understanding of the interviewed parties is that **Thailand** is indeed very different from Germany, more so than Singapore or Indonesia. The non-colonial past of Thailand, the perceived lack of Western influence on the legal and education systems, and the weak spread of the English language, are stated to be the main reasons for this difference from the West. As a consequence, the culture of communication and the openness to deal with foreigners on their own terms is less visible in Thailand than in Singapore and Indonesia. All interviewed HR directors

have the impression that Japanese MNEs are less effective and US companies are more effective in HR in Thailand than their own and other German firms, stating that the US companies have a comprehensive 'how-to-run-HR' package and are less ambivalent about how things should be done, while at the same time being flexible enough to accommodate country specific details.

The respondents from the subsidiaries in **Indonesia** view their country as culturally close to Thailand, with respect to communication patterns and differences from Germany. Indonesia, being the only Muslim state in the study, sets itself apart because of religion and geography. Indeed, some of the interviews in Indonesia took place during the Ramadan period, which highlights differences from non-Muslim countries very visibly. Geographically, Indonesia is a state made up of many islands inhabited by many different tribes. This fact leads the interview partners to argue that a strong set of administrative rules is needed in Indonesia, rather than general policies. Therefore the HR function reports to the CFO, rather than to the CEO, in Cases M and C. As in Thailand, all interviewed HR directors have the impression that Japanese MNEs are less effective and US companies are more effective in HR in Indonesia than their own and other German firms, with the same arguments as stated above.

In other words, the differences between HQ and subsidiary in this study are perceived to be more an issue of national cultural differences between Germany, Singapore, Thailand and Indonesia rather than an organisational issue.

#### **4.10 Conclusion**

This chapter briefly outlined the data analysis strategy and procedures and then presented the gathered evidence of the cases along the lines of the five identified research issues, followed by a summary along the lines of within-case and cross-case analysis. In most instances the findings are congruent with expectations, thus producing literal replication. In some instances new insights emerge, particularly with respect to the role of the local HR director and the desire for guidance from HQ, expressed by the subsidiaries.

The data analysed and presented in this chapter stem from 24 in-depth interviews with eight managers of each main case or MNE, whereby two interviews are conducted with HR managers at HQ and two interviews with the HR director and the CEO or the CFO of each embedded case or subsidiary. Additional material, publicly available or handed to the researcher in the context of the interviews, is used to underline or crosscheck the answers given in the interviews.

Up until this point, the analysis of the data is presented and no interpretation of, or implications from, the results is discussed. The data is not yet contrasted to the literature discussed in Chapter 2, this being addressed in the next and final chapter on conclusions and implications from the findings.

## CHAPTER 5: CONCLUSIONS AND IMPLICATIONS

### 5.1 Introduction

The previous chapter presents the collected data, while this final chapter discusses conclusions and implications of the research. The aim of this study is to provide an answer to the research question, introduced in Section 1.2:

*How do German multinational companies transfer human resource policies and practices to and from their subsidiaries in South East Asia?*

This study seeks to answer the research question by establishing first, which IHRM approach is used by the MNEs under study; second, what the key cultural differences are between Germany, location of the HQ, and Singapore, Thailand and Indonesia, location of subsidiaries; third, whether there is a general climate of innovation of trust in the MNE in general; fourth, which HR issues need to be adapted locally and, finally, what the role of HQ and subsidiary staff in the MNEs is in transferring HR policies and practices from HQ to the Asian subsidiaries. Thus the five research issues, introduced in Section 1.2 and justified in Chapter 2, are:

- RI1: Which IHRM approach do MNEs headquarters versus subsidiaries currently follow, along a continuum from exportive to adaptive and integrative approaches?
- RI2: What key cultural, legal and societal differences between the countries Germany, Singapore, Thailand and Indonesia influence the transfer of HR policies and practices?
- RI3: Is there a climate of innovation and trust between HQ and subsidiary in general that facilitates organisational change?
- RI4: How do specific policies and practices, for example compensation, need to change, given the MNE's approach and the established country differences?
- RI5: What are the roles of HQ people and subsidiary staff in the transfer process?

The previous chapter presented and analysed the data along the lines of the five research issues, using within-case analysis and cross-case analysis. This chapter builds on the literature review of Chapter 2, the methodology in Chapter 3 and the data analysis of Chapter 4 to draw conclusions and discuss the implications of this study, again along the lines of the five identified research issues, also commenting on the confirmation or disconfirmation of the propositions formulated in Chapter 2. The research question is addressed and implications for theory and practice, as well as limitations are discussed. Finally, future research needs are identified and directions for further study are recommended.

## **5.2 Conclusions on the research issues**

This section discusses the conclusions reached on the five research issues and compares them to the literature discussed in Chapter 2. The conclusions of each research issue are discussed in more detail in the following sub-sections, 5.2.1-5.2.5. While all five research issues are important to this study, the first two and specifically research issue 2 ‘cultural differences’, provided more findings and conclusions than research issues three to five. The subsequent discussion of each individual research issue first summarises the main points of the findings of this study. Then, similarities and differences between the literature and the findings in this study are discussed. Contributions are summarised in Section **5.4 Implications for theory**. Next, the conclusions on research issue 1, ‘IHRM approach’ are discussed.

### 5.2.1 Conclusions on Research Issue 1: 'IHRM approach'

This section discusses the findings of this study with respect to research issue 1 and compares them to the existing literature. The research issue investigates:

**RI 1:** *Which IHRM approach do MNEs headquarters versus subsidiaries currently follow, along a continuum from exportive to adaptive and integrative approaches?*

**Summary of findings.** During the data gathering stage information is sought as to where, and by whom, HR policies are decided in the MNE, if and how country expertise is integrated into HQ and whether there is a network among subsidiaries. Furthermore, respondents from subsidiaries are asked to comment on their knowledge and perception of HR effectiveness of other German and non-German MNEs in their country.

The MNEs studied in Cases E, M and C are in the early stages of internationalising their HR. Case E is the most advanced, with an internationalised HR structure well in place, while Case M and especially Case C have put new HR structures in place in the last one or two years, and consequently their experience with these structures is still limited. HR policy formulations on a strategic level are made in and by HQ in an exportive way, and these strategic and general policies are then given to the subsidiaries to translate into locally appropriate practices. The subsidiaries in general and especially the newly established subsidiaries of Cases M and C would like more practical guidance from HQ, with respect to applying and implementing HR policies. Whether a specific HR issue is dealt with only locally in a subsidiary, or whether HQ establishes a global policy, depends on the strategic importance of the issue to the MNE overall, as defined by the HQ. Best practice integration in policy formulation, from best practices of the subsidiaries giving input to HQ, would be 'nice to have' according to HQ; however, such input is either not sought actively by HQ (Case M), or it is sought by using a process that the subsidiaries are not at ease with (Case E), or by going through the German expatriate CEO (Case C), thus bypassing the subsidiary HR. The subsidiaries, on the other hand, do not see the need to have their best practice incorporated in HQ policies and guidelines and consequently do not

push HQ towards best practice integration. While the HQ of Cases E and C wish for a high degree of standardisation, Case M is content with the practices being in line with general principles, as defined by HQ. Best practice sharing is considered a good way to achieve similar standards, and regional best practice sharing is facilitated by HQ. Such best practice sharing is achieved by encouraging and organising regional networking platforms for the HR directors of the subsidiaries in Asia. The actual networking itself takes place among the subsidiaries without involving HQ, that is the HR directors use the formal platform provided by HQ to get to know each other and then continue networking informally with each other. While all interviewed parties have very little actual knowledge of competitors' HR, the feeling in HQ is that HR is 'about average' and the subsidiaries have the impression that German MNEs' HR is more effective than the HR of Japanese MNEs and less effective than the HR of US MNEs. The main reason given for this impression is the applicability of the policies from HQ, which are regarded as more practice oriented from the US MNEs, as compared to the more strategic policies from German MNEs.

**HR policy decision making in the MNE.** The literature shows that companies in the stage of internationalisation of multinational enterprise usually have decisions relevant for a country subsidiary made either in the HQ or in that subsidiary (Adler 2001; Briscoe 1995; Rugman & Hodgetts 2000; Schuler, Budhwar & Florkowski 2002). A structure where decisions are made in various centres of competence across the globe is seen to indicate the next stage of internationalisation (Bartlett & Ghoshal 1998; Evans, Pucik & Barsoux 2002; Schuler, Budhwar & Florkowski 2002), yet as of today not many firms worldwide, and no German firms, have reached this stage (Rugman & Hodgetts 2000). The findings of this study confirm the literature in as much as in the three MNEs under study, the decisions on HR policies are made in the HQ, and the decisions on translating these policies into processes and practices are made between the HQ and the subsidiaries. In describing three different IHRM orientations in MNEs as exportive, adaptive and integrative (Briscoe 1995; Dowling, Schuler & Welch 1999; Taylor, Beechler & Napier 1996), the literature implies that the entire IHRM approach of a company is either one orientation or another. The findings of this study suggest that IHRM approaches of the same MNE differ according to how important the issue is to the MNE strategically. That is, some HR issues are pushed by HQ in an exportive way, while seeking or accepting an adaptive

approach for other issues. For example, an issue that has gained in strategic importance in recent years in all three MNEs is talent management. Consequently, the HQs are not only drawing up policies, but are pushing talent management processes in the subsidiaries where HQ has not focused on talent management before.

In other words, the findings confirm the theory that companies emphasise an IHRM approach in determining their company's HR strategy for managing the tension between integration or internal consistency and differentiation or external consistency (Dowling, Schuler & Welch 1999). The findings contribute to the existing literature by adding that companies seem to differentiate when they are implementing an IHRM approach by 'strategic importance per issue' and by describing concrete examples.

**Integration of country expertise into HQ.** The literature suggests that, despite statements of the MNEs to the contrary, country or subsidiary best practice is usually not integrated in HQ policies (Adler 2001; Briscoe 1995; Kostova 1999). The findings of this study partially confirm such a claim. On the other hand, the studied MNEs have been putting platforms and processes in place over recent years that are specifically designed to encourage and facilitate feedback and integration of best practices. While these platforms and processes are not yet widely used actually to integrate best practices into HQ policies, it is clear that the integration of country best practices is in a state of flux tending towards more integration. In other words, actions have followed the documented statements of the MNEs to have more integration, with the results not yet visible. One possible explanation is that, even though the companies under study are referred to as MNEs in their totality, the current IHRM approach more closely fits the description of international division, where the international dimension of business is isolated, or replicated in many countries, as opposed to a global company where resources are shared on a global basis to access the best process at the lowest cost (Adler 2001). That is, the observed state of flux tending towards more best practice integration confirms the literature about the internationalisation process as a whole (Adler 2001; Briscoe 1995; Fisher & Haertel 2003; Nankervis, Compton & Baird 2002) and the fact that the internationalisation of IHRM follows that of business rather than leading it (Briscoe

1995; Dowling, Schuler, Welch 1999; Evans, Pucik & Barsoux 2002; Napier & Vu 1998; Roberts, B. 2000). Furthermore, the findings expose a mental dependence of the subsidiaries on HQ (Covey 1990), wishing for more guidance from HQ and at the same time resisting that guidance when it is given too concretely. Drawing an analogy between the development of the internationalisation of the enterprise and the development stages of a human being, the findings suggest a stage of insufficient maturity and experience to handle things independently, coupled with a desire to expand its responsibilities.

**Networks among subsidiaries.** Poedenphant (2002), amongst other writers on knowledge management, states that the exchange of knowledge, such as best practice, needs both a platform, IT or physical, and a willingness and openness on the part of the concerned people to share knowledge (Bartlett & Ghoshal 1998; Roberts, J. 2000; Szulanski 1996). The findings of this study confirm the literature, as prior to organised regional meetings none of the MNEs had any measurable degree of interaction between the subsidiaries, whereas now the HR directors, having come to know each other, interact frequently, even outside the official meetings. That is, the regional meetings, organised by HQ, act as a platform for knowledge sharing. It has been pointed out that HRM studies in the literature remain largely insulated from earlier works on the international management and organisation literature (Clark, Grant & Heijltjes 2000; Evans, Pucik & Barsoux 2002) and the contribution of this study is to establish that knowledge transfer is a prerequisite for a more integrative IHRM approach of an MNE (Kostova 1999; Poedenphant 2002). In other words, knowledge management and transfer of knowledge between subsidiaries is necessary first, before the IHRM approach of the MNE can be more integrative, rather than exportive or adaptive.

**HR effectiveness of other German and non-German MNEs.** While the literature on IHRM is often describing an Anglo-Saxon point of view (Clark, Grant & Heijltjes 2000), nationality of the MNE's origin is recognised as an important factor in determining MNEs' IHRM (Briscoe 1995; Chew & Horwitz 2004; Rowley & Benson 2002). This importance is confirmed by the findings, thus disconfirming Kostova (1999) who claims national boundaries to be less relevant than industry. The findings further seem to confirm the literature in that the US approach tends to be

more exportive than the European approach (Adler 2001; Briscoe 1995; Brodbeck, Frese & Javidan 2002), though this study is only concerned with German MNEs, as a subset of European MNEs. However, the findings disagree with the existing literature on two points. First, Japanese MNEs are considered by the respondents to be the least effective in their IHRM approach. This finding indirectly disconfirms **proposition 1** on transfer success, Section 2.6.1, which states that transfer success is negatively associated with the cultural distance between the countries of the parent company and the subsidiary (Adler 2001; Hofstede 1983a; Herkenhoff 2000). All cultural models (Herkenhoff 2000; Hofstede 1980; Ronen & Shenkar 1985; Trompenaars 1993) list Japan as culturally closer to Singapore, Thailand and Indonesia than to Germany or the US. All other things being equal, the proposition seems intuitively correct, yet the findings suggest that the degree to which Japanese MNEs are perceived to be exportive, ethnocentric and therefore closed to cultural adaptation, outweigh the significance of cultural distance between HQ and subsidiaries. The findings are indirect, however, because they are based on the perception of the respondents in German firms, rather than on direct study of Japanese firms.

Second, the underlying assumption in the literature, confirmed by the above finding on Japanese MNEs, seems to be that an exportive approach is ethnocentric and undesirable (Adler 2001; Briscoe 1995) while the respondents of this study actually prefer the US approach that tells the subsidiaries clearly what to do, that is, a more exportive approach than the German approach. German MNEs may use a more adaptive or integrative approach than US firms, yet are considered less effective in their IHRM approach. The appeal of the US exportive approach lies in its providing clear guidance, combined with an understanding of, and readiness to adapt to, local conditions when necessary. While the German approach seems to lack clear guidance on a practical level, the understanding of, and readiness to adapt to, local conditions is seen missing in the Japanese MNEs approach. In other words, a firm, practical yet flexible approach is preferred by the subsidiaries. Another possible explanation for the finding that the US approach is preferred over the German approach is that the German MNEs under study expect a level of sophistication and responsibility of the local HR which is not currently there. It may be easier for the subsidiaries, and more in line with present abilities, to follow practical rules rather than developing these

rules from somewhat abstract policies. Another conclusion is that the respondents of German MNEs, more so at the HQ than in the subsidiaries, have not actively gathered specific information about what other competitors or non-German companies are doing in international HR in Singapore, Thailand or Indonesia. This is in contrast to the basic rule for strategic analysis and IHRM, that competitor analysis and benchmarking are essential first steps in strategy formulation (Bartlett & Ghoshal 1992, 1998; Porter 1990; Schuler, Dowling & De Cieri 1993).

Overall, the findings on research issue 1 suggest that the German MNEs under study apply an exportive approach on a strategic level and an adaptive approach when translating HR policies into practices. The findings confirm the view that the IHRM system ‘establishes itself’ in the wake of business expansion, rather than being actively chosen or designed by the MNE (Napier & Vu 1998; Roberts, B. 2000). The realisation is only gradually dawning in these German MNEs that a more integrative approach is desired by HQ, and so the necessary infrastructure, such as regional meetings or IT platforms, is put in place to achieve more integration, however without taking competitors’ approaches into consideration. Next, the conclusions on research issue 2, ‘cultural differences’ are discussed.

### **5.2.2 Conclusions on Research Issue 2: ‘Cultural differences’**

This section discusses the findings of this study with respect to research issue 2 and compares them to the existing literature. The research issue investigates:

**RI 2:** *What key cultural, legal and societal differences between the countries Germany, Singapore, Thailand and Indonesia influence the transfer of HR policies and practices?*

**Summary of findings.** Data are gathered on perceived cultural, legal and societal differences between Germany and the respective Asian country under study and on the perceived cultural, legal and societal differences between one Asian country and the other two countries. Furthermore, data are gathered regarding local versus an

expatriate HR manager being the better choice as HR director, as well as on cultural awareness of HQ staff.

There is widespread agreement among the respondents that cultural, societal and legal differences between Germany, Singapore, Thailand and Indonesia do exist. What they are specifically, and how they influence HR, is not very much at the forefront of thinking in either HQ or subsidiary respondents. While the existence of differences such as different styles of communication is acknowledged, they are not being closely examined and are seen as a responsibility of the local HR staff to manage. Only one company is mapping cultural differences systematically and plans to formulate a different approach towards each country in the future. This finding has a major impact on the level of sophistication of the HR strategy, policies and practices of each of the MNEs, because the local HR directors lack the international experience and intercultural ability to manage these differences well.

A local HR manager as HR director is preferred over an expatriate by all respondents; in Indonesia this is actually a legal requirement. To be culturally more aware is desirable both in HQ and subsidiaries and the most common solution applied to overcome the lack of cultural awareness is to exchange expatriate managers within the MNE, or employ people who have previously gathered international experience.

**Impact of cultural differences.** In the discussion about cultural differences the literature is almost unanimous in stating that organisations accept the existence of cultural differences and the need to take them into account in international business (Adler 2001; Bartlett & Ghoshal 1998; Briscoe 1995; Hofstede 1997). When researching the transfer of HR policies and practices, cultural differences between the countries have a two-fold impact. The first impact is well documented in the IHRM literature (Briscoe 1995; Dowling, Schuler, Welch 1999; Nankervis, Compton & Baird 2002) and deals with the differences of culture, values, attitudes and behaviour of the employees to whom the respective policies are meant to apply. The second impact comes from the cultural differences of managers involved in the transfer of knowledge, policies and procedures, and this impact is addressed in the literature of knowledge management and organisational behaviour (Adler 2001; Kostova 1999;

Poedenphant 2002). It is the combination of these two impacts that constitutes the discussion of research issue 2 on cultural differences.

The findings seem to confirm the literature which states that most societies, managers and employees are parochial or **ethnocentric** and that acknowledged differences between national cultures focus predominantly on communication styles, whereas value differences have to be observed or deducted (Adler 2001).

Furthermore, the findings contrast with the literature (Dowling, Schuler & Welch 1999; Nankervis, Compton & Baird 2002) which states that cultural differences and sensibility are at the forefront of IHRM. Rather, the managers in the HQ and in subsidiaries of the German MNEs of this study have little awareness or in-depth knowledge of cultural differences between the four countries in the study. They assume that their local HR departments, fulfilling all HR functions, absolve them from the need for a more in-depth investigation and knowledge gathering or sharing about cultural differences. Transfer of HR policies and practices is routed via these local HR departments and it is the responsibility of the local HR director to adapt the proposed policies to obtain a locally legal and applicable practice solution. It is this reliance on the intercultural sensitivity of the local HR director that for a number of reasons influences the outcomes, that is the quality, of IHRM at the studied MNEs in a negative way. First, a continuation with the traditional German ways might bring substandard solutions to the subsidiaries (Adler 2001; Dickmann 2004), resulting in substandard performance. Second, with the German workforce being a minority in the MNEs, more integrative ways have to be sought (Chew & Horwitz 2004; Rugman & Hodgetts 2000). Third, in times of economic upswings the workforce will choose more culturally attuned employers, thus leaving the MNEs under study at an economic disadvantage (Briscoe 1995). Finally and most significantly, German HQs only assume that the local HR director adapts the global policies in a culturally sensitive way; this assumption is neither followed up by the HQs, nor do the findings of this study justify this assumption.

To conclude, referring to the two impacts from cultural differences addressed above, it is the second, that is, the cultural differences of the managers involved in international transfer of HR policies and practices, rather than the cultural differences of the workforces at large, that sometimes pose a challenge for the MNEs. Cultural

challenges in the transfer of HR policies are rarely attributable to content and more often to the cultural values of the people involved in the transfer itself.

**Convergence versus divergence.** Relating the findings to the discussion of convergence versus divergence (Section 2.5.2), the findings confirm the literature that macro-level variables, policies, global strategies and principles seem to converge (Adler, Doktor & Redding 1986), the ‘five principles of HR of Case M’ being one example, while practices continue to be shaped by the local, national circumstances and as such may even diverge between countries (Chew & Horwitz 2004; Pauly & Reich 1997; Rowley & Benson 2002). The interface between converging policies and diverging practices is the local HR director whose role consequently grows in importance. By establishing regional platforms and exchange of practices between the local subsidiaries, a blend towards crossvergence (McGaughey & DeCieri 1999) can take place on a process level, such as in the case of compensation across Asia (Herkenhoff 2000). The regional platforms, exchange of practices and the helping of new subsidiaries by others that are a few years old, create an ‘Asia HR’ community and spirit in all three MNEs, which fosters the development of an Asian way of processing reports, or integrating line management in HR reporting, for example. Rather than seeing a development towards a truly global company, where resources and practices are shared globally, an intermediate step towards the Asian company, where resources and practices are shared in the region, takes place. At this point it is too early to tell if that development will prove a positive first step or an obstacle on the road towards the global or transnational company (Adler 2001; Bartlett & Ghoshal 1998).

**Difference between Germany and subsidiary, or host, countries.** Even though there are recognised differences between Singapore, Thailand and Indonesia, the findings confirm that compared to Germany, the three countries can be clustered as the Asian cluster (Ronen & Shenkar 1985), with Singapore being somewhat distanced from Thailand and Indonesia and closer to the German, that is, Western culture. The results of this study can be subjected to further analysis using the frameworks about national cultures in the literature (Chapter 2, tables 2.4.4 and 2.4.5). Specifically, applying the criteria of the models of Hofstede (1997) and Trompenaars (1993) can help to understand the observed behaviour better. For

example, a low power distance and extensive use of technology in Germany lead to a regional communication platform designed by HQ and the expectation from HQ that regional HR directors, regardless of rank and seniority, will contribute knowledge. German respondents, high on individualism, call for contribution from the subsidiaries in the form of best practice, assuming that participants would like to show their individual achievements. Asian respondents on the other hand, high on power distance and low on individualism, need a more social network and prefer collective practice discussions, rather than individual best practice listings. One can generalise from that example on two levels and on the first level two conclusions can be drawn. These are first, it is positive that HQ takes the initiative and creates platforms for the individual country HR directors to create a network, because eventually it will help the MNE to have less isolated subsidiary HR systems (Bartlett & Ghoshal 1998; Poedenphant 2002). Second, however, the impact could be much more significant and faster if HQ paid more attention to analysing cultural differences, and were to design systems and processes accordingly (Adler 2001; Dowling, Schuler & Welch 1999; Evans, Pucik & Barsoux 2002). Such adapted systems need neither be more complex nor more expensive. For example, changing the approach or concepts from *best practice* to *good practice* or encouraging group input over individual input are no-cost adaptations that would make a system more readily accepted. On the second level of generalisation from the example, the MNEs under study could map cultural distances and differences between HQ and subsidiaries, when designing policies or platforms in HQ to be applied in the subsidiaries. A further implementation strategy would be to have such designs developed and tested by international teams (Adler 2001).

The findings are somewhat inconclusive with respect to the question whether Germany is part of a Western cultural cluster, or whether it is distinctly different from the US, that is, the Anglo-Saxon culture (Ronen & Shenkar 1985). While the previous discussion of research issue 1, 'IHRM approach', finds significant differences in the ways of US versus German MNEs operating in Singapore, Thailand and Indonesia, the questions aiming at cultural differences directly, mostly understood and answered on a level referring to individuals, find little differentiation among the respondents between German and 'other western' cultures. Germans are found to be as Western as Americans, yet operate their respective companies

differently. One possible explanation can be the inverse of why it is possible to cluster the Asian countries together when comparing to Germany; the cultural distance between the Asian countries on the one hand and Germany and the US on the other hand is so large from the Asian perspective, that differences between Germany and the US seem small in comparison (Nankervis, Compton & Baird 2002).

**Difference between subsidiary countries.** While it is possible to cluster the three countries under study in comparison to Germany, there are still significant differences among the three countries' cultural and legal norms. These differences are based on history, religion and geography, confirming the literature (Hofstede 1997; Rowley & Lewis 1996) that national differences outweigh industry or organisational issues. The researcher is a founding member of the HR chapter of the German Business Association in Singapore. All represented German MNEs in that association share the view that, because of the legal and cultural differences between countries, a local HR manager is essential in each country, which in turn means that for the issue of internationalisation over and above the local issues, legal differences do not play a significant role, again confirming the point that the local HR director is the key in translating HQ policies into subsidiary practices.

**Local versus expatriate HR manager.** The findings confirm the literature, namely that a common trend at a certain stage of internationalisation is to have an expatriate CEO and a local HR director (Chew & Horwitz 2004; Dowling, Schuler, Welch 1999). The expatriate CEO is selected for his business experience and proximity to HQ, and the local HR director is selected because of his or her familiarity with the subsidiary country's language, culture and legal environment (Dowling, Schuler, Welch 1999). The next expected step of internationalisation would be that of a 'truly' multinational company, that is, an expected decrease in expatriate managers and then towards a global or transnational company an increase in expatriates from various different countries including, but not limited to, expatriates to and from Germany, the HQ location (Briscoe 1995).

It is argued here that the **role of the local HR director** becomes increasingly important for the German MNEs under study, given their philosophy of first, having

the local HR director adapt policies from HQ, second, taking on more HR issues in HQ with a rising interest in influencing the business in Asia, and finally, expecting the local HR director to contribute to regional knowledge sharing and giving feedback to HQ. In other words, the German MNEs under study continuously expand the role and responsibilities of the local HR director, without at this stage visibly upgrading the quality or international experience of these local HR directors. Therefore the MNEs under study should focus on the international qualifications of the local HR director, a postulate supported in the literature on IHRM (Adler 2001; Dowling, Schuler & Welch 1999; Nankervis, Compton & Baird 2002).

**Cultural awareness of HQ staff.** One of the findings is the perception among the respondents that Singapore, Thailand and Indonesia are ‘different’, yet there is little actual knowledge or attempt at cross-cultural research among the German and other managers in this study and they believe that knowledge of differences between the countries is professionally unimportant for international HR in a German MNE. This is in stark contrast to the IHRM literature on training and development efforts (Black & Mendenhall 1991), where intercultural sensitivity is considered to be not only useful but essential to be successful as an individual, and for the MNE. While such a lack of insight into the impact and importance of cultural differences is typical of companies in the early phases of internationalisation (Briscoe 1995), it confirms again that in the studied MNEs IHRM lags behind the business development, rather than being a driver of competitive advantage (Dowling, Schuler & Welch 1999; Nankervis, Compton & Baird 2002).

Amongst others, Adler (2001) and Nankervis, Compton and Baird (2002) report an almost common lack of international experience at MNEs HQ. The literature established that managers of global companies need more international experience to be more internationally, that is, culturally, versatile (Adler 2001; Bartlett, Ghoshal 1998; Briscoe 1995). The findings of this study confirm both the lack of cultural sensitivity at HQ and the need to address this lack by having more internationally experienced staff in HQ. Strategies employed varied among the main cases between hiring new staff with international experience and sending their own staff abroad to gain the required experience. In addition to the literature’s preoccupation with top managers (Adler 2001; Bartlett & Ghoshal 1998), this study argues that the middle

management concerned with international coordination at HQ needs to have international experience. Sending own staff abroad is preferable to buying experience on the market for two reasons. First, it offers a perspective to the current staff, thus increasing motivation and second, in addition to the cultural experience of the individual for future work at HQ, there is a beneficial learning effect for the subsidiary as a whole. The same argument holds for sending subsidiary staff to HQ, offering again a learning experience for HQ and a future benefit for the subsidiary. In other words, exchanging staff between HQ and subsidiary has a long term benefit for all parties involved and should be a priority for the MNEs despite difficulties such as language skill or cost (Adler 2001; Dowling, Schuler, Welch 1999). Next, the conclusions on research issue 3, ‘innovation and trust’, are discussed.

### **5.2.3 Conclusions on Research Issue 3: ‘Innovation and Trust’**

This section discusses the findings of this study with respect to research issue 3 and compares them to the existing literature. The research issue investigates:

**RI 3:** *Is there a climate of innovation and trust between HQ and subsidiary in general that facilitates organisational change?*

**Summary of findings.** Data are gathered on cooperation between HQ and subsidiary in areas other than HR and specifically on HQ initiatives and programs and their value to the subsidiaries. Furthermore, respondents are asked about frequency of, and their opinion on, job rotation between HQ and subsidiary, and also to what extent the climate in the MNE could be described as innovative and trusting.

The three researched MNEs choose a different approach to become more global and integrate their subsidiaries in Singapore, Thailand and Indonesia. While Case E relies on a company-wide initiative of streamlining, Case M believes in individual actions and specific projects. Job rotation, other than expatriates from HQ managing the subsidiaries, is regarded as important and still underdeveloped, with two out of three cases designing a process to increase international job rotation. The relationship between HQ and subsidiaries is perceived as very trusting in Case C, less so in Case

M and only neutral in Case E. The relationship between HQ and subsidiaries is seen as very innovative in Case M, less so in Case E and only neutral in Case C.

**Relational context.** Relations on an individual level, for example whether an individual regards himself or herself to be working in a trustworthy, benevolent organisation are found to influence transfer procedures and success (Kostova 1999; O'Reilly & Chatman 1986; Szulanski 1996). The findings confirm the literature. Comparison across cases shows that Case C is more trusting and relies less on checks and controls, while Case E, lower on trust, has or needs more procedures and still achieves less cooperation between HQ and subsidiaries on HR issues. This finding suggests that both theory and practice can benefit greatly by focusing more on attitudinal relationships, again reinforcing the literature (Kostova 1999). It is acknowledged in the literature and in this study that cooperation between HQ and subsidiaries is of paramount importance to successful business and that there is no one best way to manage growth, tradition and local customer focus among other things (Bartlett & Ghoshal 1998). Yet the findings in this study suggest that process and structure should not come before trust in the hierarchy of management.

**Job rotation between HQ and subsidiary.** There is almost unanimous agreement that job rotation in MNEs across borders is beneficial, though costly, for the organisation as a whole (Adler 2001; Bartlett & Ghoshal 1998; Briscoe 1995; Dowling, Schuler & Welch 1999) and that job rotation is the preferred way of knowledge transfer (Poedenphant 2002). The findings of this study are ambiguous; the MNEs under study are aware of the importance of international job rotation, indeed are designing processes towards having more international job rotation, yet have so far not achieved much in this respect, over and above transferring HQ expatriates to subsidiaries and sending local employees to HQ for training. Having such an ethnocentric job rotation practice is an acknowledged way of doing business in a company in the initial stages of multinational enterprise, as opposed to a global enterprise (Bartlett & Ghoshal 1989, 1992; Briscoe 1995; Rugman & Hodgetts 2000). While this practice can produce solid results over an extended period of time (Adler 2001), companies that adhere to an ethnocentric approach while expanding their business globally are not making use of their best talent and are losing one competitive edge that others exploit (Adler 2001; Briscoe 1995; Evans, Pucik &

Barsoux 2002). Bartlett and Ghoshal (1998, preface) quote one manager describing this practice as *'trying to implement third-generation strategies through second-generation organisations run by first-generation managers'*. In other words, job rotation and international assignments are essential to be at the forefront of international business. It is a strong indication of IHRM not being at the forefront of management's thinking in the three MNEs under study, that none of the 9 studied subsidiaries had an HR director with international experience. Neither had any of the HR directors been to HQ for an extended period of training. In conjunction with the finding of German MNEs placing more importance than US MNEs on the local HR director to translate universal policies into local practices, the findings expose problems in the MNEs' practice of job rotation.

**Perceived level of innovation and trust.** The discussion of implications at this point focuses on the relationship aspect between HQ and subsidiaries, whereas forms of control that HQ uses to manage its subsidiaries (Bartlett & Ghoshal 1998; Dowling, Schuler & Welch 1999) are addressed in the discussion of research issue 5, 'roles of HQ people'. The literature on attitudinal relationships emphasises the need for trusting relationships (Kostova 1999), on both individual and organisational levels for successful transfer of processes and practices. Bartlett and Ghoshal (1989, 1998) described the need for openness towards learning, change and innovation, as discussed in Chapter 2. In particular the transfer coalition (Kostova 1999), members of which are interview partners for this study, needs trust in the approach and previous positive experience towards change. This study does not find a case where perceived trust and innovation strongly coincide; neither do the findings rate one MNE's approach as more successful than the other. Therefore the findings are ambiguous on trust and innovation. In the three MNEs under study, trust and innovation, as indicated by the relationship between HQ and subsidiaries of Cases M and C, are not strongly related. Next, the conclusions on research issue 4, 'need for adaptation', are discussed.

#### **5.2.4 Conclusions on Research Issue 4: ‘Need for Adaptation’**

This section discusses the findings of this study with respect to research issue 4 and compares them to the existing literature. The research issue investigates:

**RI 4:** *How do specific policies and practices, for example compensation, need to change, given the MNE’s approach and the established country differences?*

**Summary of findings.** Data are gathered on HR issues that needed adaptation to fit the subsidiary and specifically why this adaptation should occur. Another question addresses whether a subsidiary feels unique in comparison to others and to what extent HR issues ought to be standardised globally in the MNE.

The expectation from HQ is that the subsidiaries adapt HR standards that are passed on from HQ in the form of policies, principles and guidelines and translate them into practices, or state clearly where no practices can be derived from the policies. The possibility of this very expectation being culturally biased is acknowledged, yet the need for clear communication is regarded as overriding such a concern. There is a shared understanding that company values and principles are to be applied, and that the form of actual implementation of rules or processes, for example for variable compensation, rests to a large extent with the subsidiary. That is, HQ and subsidiaries agree that almost all practices need to be adapted individually.

Furthermore, the subsidiaries regard themselves as unique in their MNE because of general national differences, not because of hard business reasons such as market size or the legal situation. Where HQ sees a need, not only to set a principle, but to define the practice down to the detail of the language used and the date of review for example, there is a feeling in the subsidiaries that the German HQ system cannot be applied and needs to be modified. In short, general company policies and principles are welcome, whereas the possibility of adapting the process locally is regarded as a necessary right in the subsidiaries.

**Which HR issues to adapt and why.** The findings support the previous discussion that on a practice level almost all HR issues seem local (Herkenhoff 2000);

Nankervis, Compton & Baird 2002). The subsidiaries claim and reserve the right to adapt any policy and guideline to their local needs. This assertion has as much to do with real differences between the countries as with the power dynamics in the MNEs (Kostova 1999; Szulanski 1996). For example, in one case the opinion whether a specific practice of variable income payout should be adapted locally or be universally applied, a difference of opinion between HR director and CEO emerges. Further investigation brings to light that while adaptation is positive and a sign of independence for the HR director, the CEO, the only non German CEO in the sample, has the underlying belief that adaptation of this issue is equal to denying his subsidiary the same rights as the employees in HQ have. Thus, differences of opinion exist when it comes to defining in detail whether the adaptation of a practice is a sign of independence and power, or whether it is a disguised attempt to create a multiple class system of employees, whereby the HQ employees would get a benefit that the subsidiary does not get. This finding again reinforces the need for trust in the relationship between HQ and subsidiary on an individual level (Kostova 1999).

**HR issues standardised globally.** The opposite of the question which issues are to be adapted locally, is which issues should be standardised globally. Section 2.6.4 discusses levels of HR, such as policy, guideline, process and practice, and the discussion until this point establishes the consensus among the investigated MNEs that policies and guidelines should be standardised, while processes and practices need to be locally adapted. The findings confirm the literature (Briscoe 1995; Nankervis, Compton & Baird 2002) by way of verbal commitment of the involved people to this hierarchy of levels. In day to day operations, however, this study finds a grey zone of various interpretations of exactly what constitutes a policy, a guideline, a process or a practice. This grey zone leads to differences of opinion regarding whether a certain issue needs to be adapted because it constitutes a practice, or needs to be standardised because it constitutes a guideline. Of course, the balance of power between HQ and subsidiaries is directly affected when designing systems with the aim of standardisation (Bartlett & Ghoshal 1998; Kostova 1999). One example is the increased concern of the three MNEs to manage international talents. While HQ insists on standardisation, the subsidiaries want to follow local practice. The main reason for the insistence of HQ on standardisation may be the trend towards looking at the talent pool on a global basis, rather than a purely

national one, which requires the MNEs to develop some standards to have a common language on competency and leadership capabilities (Brodbeck, Frese & Javidan 2002; Schuler, Dowling & De Cieri 1993). Indeed, if the transnational or global company is the next step of development, then staffing procedures need to change from ethnocentric and relationship driven, towards geocentric driven by objective criteria (Bartlett & Ghoshal 1998; Briscoe 1995; Dowling, Schuler & Welch 1999; Schuler, Budhwar & Florkowski 2002). Hence a need for standardisation of the talent management globally is in line with the literature and current thinking. The subsidiaries, however, regard this drive towards standardisation as not necessarily advantageous for themselves, especially if they feel this is a bureaucratic exercise or worse, an attempt to steal their talented staff (Adler 2001). It is now the task of HQ and senior management to make the subsidiaries accept standardised talent management as an opportunity rather than a threat. To achieve this, outstanding talent management examples as pilot cases are required, rather than HQ directives, which is yet another example of the importance of the relationship between HQ and subsidiaries being based on trust and innovation.

Referring to the challenges that arise when local systems are too strongly influenced by HQ views, Herkenhoff (2000) quotes Dostoevsky:

*"Reforms when the ground has not been prepared for them, especially if they are institutions copied from abroad, do nothing but mischief."*

In the three MNEs under study the 'preparation of the ground' is carried out by and through the HR director, whose key role in the transfer process is highlighted once more.

**Perceived uniqueness of subsidiary.** National culture and history are found to be stronger factors for differentiation between subsidiaries than business factors. This not only confirms the literature on cultural differences (Hofstede 1997; Herkenhoff 2000), it also supports, by way of not mentioning business factors, the notion that HR policies to be transferred need not be differentiated between the countries under study, given that subsidiary size is comparable, and that local translation into practice

is to be carried out by the subsidiaries themselves, based on cultural and legal differences in each country. Next, the conclusions on research issue 5, 'roles of HQ people', are discussed.

### **5.2.5 Conclusions on Research Issue 5: 'Roles of HQ People'**

This section discusses the findings of this study with respect to research issue 5 and compares them to the existing literature. The research issue investigates:

**RI 5:** *What are the roles of HQ people and subsidiary staff in the transfer process?*

**Summary of findings.** The respondents are asked to give examples of HQ people assigned to their subsidiary, by region or issue and specifically if these people are perceived as helpful or controlling, and if they took the subsidiary concern into account. Another question asks more generally how the subsidiary ensures a feedback process to HQ.

The findings indicate that HQ staff with global or regional HR responsibilities are perceived as helpful, rather than controlling or threatening. However, the HQ staff are seen as not very effective, basically lacking the skill to adapt to local ways of doing things, with one case also focusing on selecting new staff in the subsidiaries based on their readiness to accept Western ways. The CEOs of the subsidiaries have a role in giving feedback to HQ on HR matters. This role is due both to their position and their extensive network and cultural fit in HQ.

**Form of control.** MNEs have a need to control and coordinate their subsidiaries either formally, that is through reporting systems and targets, or informally through relationships or the bonds of corporate culture (Bartlett & Ghoshal 1998; Dowling, Schuler & Welch 1999). With both forms of control, more so with the informal control, trust between the parties involved is a key element (Bartlett & Ghoshal 1998). The MNEs under study chose a more formal approach to control and coordination in finance and business planning, and a more informal approach in HR

matters. Differences between the three MNEs exist, that is Case E generally has a more formal approach and Case C a more informal approach to HR matters. The informal approach to control and coordination is most likely the best choice with respect to HR matters, because HR is viewed as a soft issue and as being of secondary importance with respect to business target achievement (Dowling, Schuler & Welch 1999; Evans, Pucik & Barsoux 2002). For the informal control and coordination to work effectively, strong interpersonal relationships and managers with international experience are essential. A regional approach with an outpost of HQ to form a regional HR competence centre, as in Case E, increases the possibility of forming interpersonal relationships, also of forming a regional cluster that combines its weight when interacting with HQ, as well as providing opportunities for HQ staff to gain international experience when transferred to the regional competence centre.

**HQ staff assigned to subsidiary, helpful versus controlling.** Being helpful rather than controlling, that is following an informal approach, is generally regarded as positive. However, assigning specialists in specific HR issues with global responsibility, such as a compensation specialist or a training specialist, as occurs in all three cases, undermines the opportunity of the assigned specialist to develop personal relationships or a deep understanding, of a country or region (Adler 2001; Dowling, Schuler & Welch 1999). Consequently, the assigned HQ specialist is regarded as not very effective, which suggests that the informal control mechanism does not work well and renders the HR HQ staff assigned to the subsidiary virtually powerless and without impact. Rather than having topic specialists with a global scope, the informal approach calls for *regional partners* in HQ who can then in turn get their expertise from HQ specialists, if needed (Dowling, Schuler & Welch 1999; Evans, Pucik & Barsoux 2002). The findings reveal a lack on the part of the three MNEs to ensure international experience, for both the HR staff in the subsidiaries, and the HQ HR staff assigned to the subsidiary. Furthermore, the regional partners in HQ are working in parallel to the global specialists, adding to confusion rather than clarity in all three MNEs.

**Feedback from subsidiary to HQ.** Bartlett and Ghoshal (1992) define the ‘transnational’ manager as a manager who is well versed in many languages and

cultures and with an ability to transcend national culture. While this study finds no such individual, it emerges quite clearly that the CEOs and CFOs of the MNEs' subsidiaries have working experience from many countries, as well as a strong network in the HQ, and therefore they form the backbone of the formal and informal feedback routes from subsidiaries to HQ and vice versa. Both the HQ staff assigned to the subsidiaries and the subsidiaries' HR directors lack the international experience and the network in the MNE, which unnecessarily inflates the role of the CEO in the feedback process. This finding confirms the literature which states that personal relationships and international experience are critical in international business (Bartlett & Ghoshal 1998; Evans, Pucik & Barsoux 2002). It also highlights again that the MNEs under study need to increase the HQ network and international experience of their HR directors, to have a more direct feedback route of HR issues from the subsidiaries to HQ.

**Corporate language.** The business language of most MNEs at least on an international level is English, and often language training is not considered vital for international business (Adler 2001). However, it is often the lack of language skill that makes true exchanges between HQ and subsidiaries difficult (Evans, Pucik & Barsoux 2002; Marschan, Welch & Welch 1997). None of the interviewed people in this study are native English speakers, and for many Asians and Germans, conversing in English is an additional challenge. None of the HR directors of the subsidiaries are fluent in German, which keeps them effectively out of the inner circle of communication, again unnecessarily inflating the role of the CEO as the messenger to HQ. In situations where trust is required and an informal form of control is exercised, a thorough knowledge of the 'insider' language of a company is particularly necessary. The MNEs under study have a disadvantage against US companies, where English language skills are by definition not a problem in HQ. Overcoming this deficit and ensuring that HQ staff have more than a working level of English would be a first step towards deeper communication between subsidiaries and HQ.

This section discusses the conclusions on research issue 5, 'roles of people' and ends the discussion of the conclusions along the lines of the five research issues of this

study. Next, the conclusions on the propositions formulated in Chapter 2 are discussed.

### **5.2.6 Conclusions on propositions**

Chapter 2, literature review, establishes four propositions that are used to formulate the research issues of this study. While the indirect disconfirmation of **proposition 1** is discussed in Section 5.2.1, this section discusses the confirmation or disconfirmation of propositions 2-4 from the findings of this study.

The findings of this study are inconclusive with respect to **proposition 2**, which states that the success of transfer of a practice from a parent company to a subsidiary is positively associated with the degree to which the unit's organisational culture is generally supportive of learning, change, and innovation. While Case M has a higher self perception of innovation than Cases E and C, the differences in both organisational openness towards change, and transfer success are not distinct enough to either confirm or disconfirm proposition 2.

The findings of this study indirectly confirm **proposition 3**, which states that the success of transfer of a practice from a parent company to a subsidiary is positively associated with the degree of compatibility between the values implied by the practice and the values underlying that unit's organisational culture. One of the main findings in this study is that the German MNEs under study do not transfer HR practices; rather, because of underlying value differences, these MNEs transfer policies and leave the translation into practices to the local HR director. In other words, underlying value differences stemming from legal, societal or cultural differences are considered significant enough to avoid direct transfer of practice.

The findings of this study confirm **proposition 4**, which states that the success of transfer is positively associated with the identity of the transfer coalition with the parent company. In one MNE, Case M, the same HQ approach and policies are perceived as well-meaning in the subsidiaries in Thailand and Indonesia, and as malevolent and restrictive in the subsidiary in Singapore, with the only observable

difference between them being the general belief among the subsidiaries' CEOs in the good intentions of HQ. Next, the conclusions on the research question are discussed.

### **5.3 Conclusions on the research question**

Based on the discussion of the five research issues in sections 5.2.1-5.2.5, this section proposes an answer to the research question:

*How do German multinational companies transfer human resource policies and practices to and from their subsidiaries in South East Asia?*

The literature review of Chapter 2 finds a two-fold gap in the literature concerning international transfer of HR policies in MNEs. First, a general lack of description and practical insight keep the discussion on an abstract level. Second, the literature addresses issues mainly from the Anglo-Saxon perspective, leaving a gap in understanding of how other HQ countries, in this case German MNEs, organise their transfer of HR policies and practices.

The findings establish that the German MNEs under study do indeed transfer HR policies and guidelines with a *universal, high level and culture free content* and expect the local HR organisation, namely the local HR director, to *translate* these policies and guidelines into practices. In cases where an attempt is made to transfer a practice directly, resistance is met from the subsidiaries. In other words, the studied *MNEs do not transfer HR practices* per se. As a consequence of such an approach the discussion of implementation versus internalisation becomes purely local in the subsidiaries, again depending on how the local HR director implements the practice that he or she derives from the transferred policy. This already considerable responsibility of the local HR director is continually augmented by the MNEs, through the creation of regional platforms and feedback routes to HQ, expecting the local HR director to contribute actively to HR development of the MNE outside his or her own country. However, the reality of the qualifications and experience of the local HR directors does not enable them to fulfil their expected role, which is

presumably why the efficiency of HR transfer in the studied German MNEs is not perceived as being as high as the efficiency of US MNEs who do not rely to such a degree on the local HR director. Thus, the transfer coalition as defined in Section 2.6.2, consisting of HQ, CEO and HR director has its weakest links in the HR director and the lack of cultural awareness of HQ. Sensing the inefficiency of their respective approaches, the three MNEs employ various strategies to enhance the transfer process. First, Case E has a regional competence centre with one face to the local HR directors as an interface to HQ, and a mentor if necessary to enhance the experience of the existing local HR directors. Second, Case M is upgrading its local HR directors by selecting strong personalities and giving them additional 'weight' in the company. Third, Case C is upgrading its local HR directors by selecting academically qualified HR professionals. Cases M and C consequently have a higher turnover of local HR directors than Case E. All three MNEs have installed a HQ person to be the 'Asia partner of HR', thus assigning a face to HQ HR.

With respect to the **stages of internationalisation** (Bartlett & Ghoshal 1998; Briscoe 1995), the studied German MNEs are found to be *lagging* rather than *leading* in implementing organisational changes, on the way from an export driven German company towards a transnational or global company (Bartlett & Ghoshal 1998). The ethnocentric staffing approach of line management, the exportive IHRM approach and the lack of international experience in both HQ and subsidiary HR directors more closely fit the description of having an international division than being truly multinational. While initiatives and programs are being designed to have more job rotation and consequently more internationally experienced managers, there are no results at the time of study. In other words, on the path from ethnocentric staffing, to polycentric and then finally geocentric staffing, the studied MNEs are taking their first steps only. That is, the MNEs under study, HQ and subsidiaries, do not use and apply the knowledge in the field of international human resources and are as a consequence not as effective as they could be in consciously managing policies, practices and processes.

In brief, this study answers the research question by giving a comprehensive description of the transfer of HR policies of the studied MNEs. Next, the implications for theory are discussed.

## **5.4 Implications for theory**

Chapter 2, literature review, establishes that several conceptual models seek to describe and predict how MNEs might conduct IHRM on an abstract level from a strategic perspective and from an Anglo-Saxon point of view (Adler & Ghadar 1990; Evans & Lorange 1989; Milliman, Von Glinow & Nathan 1991; Schuler, Budhwar & Florkowski 2002; Schuler, Dowling & De Cieri 1993; Taylor, Beechler & Napier 1996; Welch 1994). The analysis, or even the mere description of the implementation, is found to be still in its infancy (Briscoe 1995; Chew & Horwitz 2004; Napier & Vu 1998; Janssens 2001). This study aims at closing this gap by adding an analysis and description of the IHRM approaches of the studied German MNEs. The findings from this study are presented in the context of the five research issues and the research question. Academic research that is beneficial and relevant for academia and for practitioners is desired, yet is not the norm (Rynes, Bartunek & Daft 2001). This study's main contribution lies in offering recommendations for managerial practice as discussed in the Section 5.5.

The main contribution to theory of this study, over and above adding a description of the transfer from German MNEs to subsidiaries in Singapore, Thailand and Indonesia, thus extending or adding to the existing literature, is in the field of international human resource management. Specifically, current theory development relating to international transfer of HR policies and practices focuses on cultural and national differences of the countries in question (Adler 2001; Dowling, Schuler & Welch 1999; Schuler, Dowling & De Cieri 1993). This study, however, makes the transfer process with the pivotal role assigned to the local HR director explicitly identified, and thus shifts and extends the focus of this field of theory. Next, the contributions of this study are discussed, first in general, then along the lines of the five research issues.

#### 5.4.1 Contributions of this study

Three levels of contribution are distinguished, whereby the first, extending previous research through confirmation, is the largest block of contribution of this study. The three levels of contribution are:

- First, **confirmation of the literature** is considered an extension of previous research, because this study has extended the research to German MNEs transferring HR policies and practices to Singapore, Thailand and Indonesia and has done so in the form of a description and an analysis.
- Second, **combining aspects of the existing literature** of various disciplines and applying them to the field of HR. The addition of a new perspective is considered an addition to knowledge, because HR literature has mainly been isolated from other fields (Clark, Grant & Heijltjes 2000).
- Third, contributions based on the findings, either not researched before or disconfirming the literature are the **new contributions** to the body of knowledge.

**Table 5.4.1: Summary of the research conclusions and contribution to knowledge**

	<b>Conclusions based on data analysis</b>	<b>Knowledge contribution</b>
<b>RI1: IHRM approach</b>	<ul style="list-style-type: none"> <li>• IHRM approach not strategic, but varying by issue</li> <li>• Cultural distance between HQ and subsidiary not a predictor of transfer success.</li> <li>• Link of Knowledge Management to HR field</li> <li>• Exportive approach welcomed by subsidiaries</li> </ul>	<p>New</p> <p>Addition</p> <p>Addition</p> <p>Addition</p>
<b>RI2: Cultural differences</b>	<ul style="list-style-type: none"> <li>• Significant importance of local HR director</li> <li>• Cultural differences of transfer coalition more significant than national differences for transfer</li> <li>• Crossvergence on a regional platform level</li> </ul>	<p>New</p> <p>New</p> <p>Extension</p>
<b>RI3: Innovation and trust</b>	<ul style="list-style-type: none"> <li>• Significance of attitudinal relationships</li> <li>• Discrepancy between theory and practice in job rotation</li> </ul>	<p>Extension</p> <p>Addition</p>
<b>RI4: Need for adaptation</b>	<ul style="list-style-type: none"> <li>• Link of power dynamics to strategy</li> </ul>	<p>Addition</p>
<b>RI5: Roles of HQ people</b>	<ul style="list-style-type: none"> <li>• Informal control mode and HQ organisation are incompatible</li> </ul>	<p>Addition</p>
<b>Overall</b>	<ul style="list-style-type: none"> <li>• Confirmation of issues extended to German MNEs</li> </ul>	<p>Extension</p>

(Source: Developed for this study)

**RI 1 Contribution.** Additions to the body of knowledge are the differentiation of the total IHRM approach by issues, and linking knowledge management literature to IHRM. The findings disconfirm the literature insofar as cultural proximity between HQ and subsidiaries is not found to be specifically related to transfer success. Furthermore, the findings disconfirm the assumption in the literature that an exportive IHRM approach could be viewed as negative. The IHRM approach of Cases E, M and C is found to be different from the literature on Anglo-Saxon MNEs, thus justifying the research on German MNEs.

**RI 2 Contribution.** Additions to the body of knowledge are the differentiation of cultural differences with respect to the content of a policy or practice, versus the cultural differences of the people involved in the transfer itself, with the latter being more important. Convergence is confirmed on a policy level with crossvergence taking place on a process level via regional platforms. The growing role of the

subsidiary HR director as a cultural translator and regional team player is found to be a key element in the transfer process.

**RI 3 Contribution.** Additions to the body of knowledge are the highlighting of the importance of attitudinal relationships to the transfer process. Furthermore, the discrepancy between the theoretical emphasis on job rotation and its level of implementation are described.

**RI 4 Contribution.** Additions to the body of knowledge are the blending of strategic reasoning and power dynamics with respect to local adaptation, in addition to global standardisation of HR policies.

**RI 5 Contribution.** Additions to the body of knowledge are the description of the control approaches of HR and the finding that organisation according to topic in HQ is counterproductive to the chosen control and coordination approach. Furthermore, the findings confirm the notion that language skill is important.

In brief, this study contributes to the fields of international human resource management by extending the boundaries of the existing literature. Having discussed the implications for theory, the implications for managerial practice are discussed next.

## **5.5 Implications for Managerial Practice**

The nature and intention of this study, in addition to contributing to theory, is to gain insights that are of practical relevance for managers designing their international HR in a German MNE. The transfer of HR policies and practices from German MNEs to their subsidiaries receives little attention in the literature, and the available models and frameworks, as discussed in Chapter 2, are often more helpful for academics than for practitioners. This section therefore discusses the findings of this study from a practical perspective and offers *recommendations* that practitioners in MNEs might consider within their international HR, and the dealings with their subsidiaries, to enhance the quality of the transfer process in their MNEs.

The main finding is that the studied German MNEs attempt a high level transfer of HR policies, expecting the local HR director to adapt these policies, translate them into practices, and give qualified high level input and feedback to the German HQ. These attempts are only moderately successful because the HR directors cannot live up to these high expectations. The recommendations for practice are two-fold; on the one hand there are recommendations regarding how to make the task of the HR director easier, and on the other hand there are recommendations regarding how to enable HR directors to better fulfil their roles. Where appropriate, the recommendations are divided into short term and long term recommendations.

**Five key factors** for successful transfer of HR policies of these MNEs in their current phase of internationalisation are drawn from the findings and they form the basis for the short term and long term recommendations (Rec. short term; Rec. long term). These five key success factors are now discussed.

Success factor 1: **International experience of local HR director**

Explanation: As the key figure in the transfer process, the local HR director needs to deal effectively with the HQ staff, the foreign CEO and the colleagues from other countries. It is desirable that the local HR director have international experience from working and living abroad.

Rec. short term: Encourage participation of local HR director in international training, short cross border projects, language training.

Rec. long term: Recruit people with international experience, transfer potential successors abroad.

Success factor 2: **International experience of HQ HR staff**

Explanation: HQ staff needs to have the experience of ‘the other side’ to be a valuable partner to the subsidiary. The necessary experience, in addition to subject expertise, includes cultural sensitivity and a keen sense for the daily business challenges in the subsidiaries.

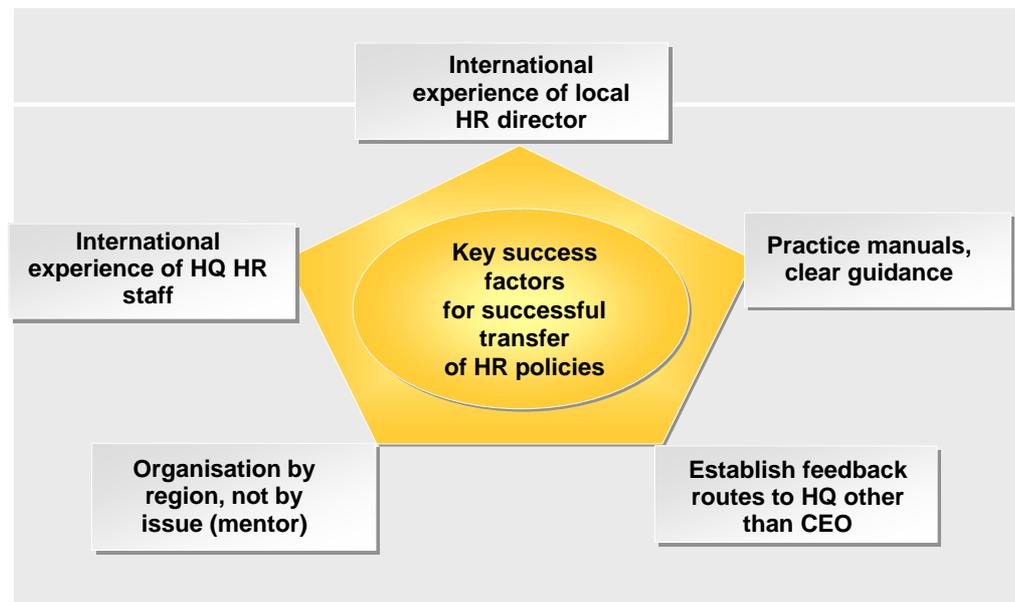
Rec. short term: Encourage participation of HQ staff in international training, short cross border projects, language training.

- Rec. long term: Recruit people with international experience, transfer potential successors abroad.
- Success factor 3: **Practice manuals, clear guidance**
- Explanation: The interviewed HR directors find it hard to receive generic policies and then translate these into practices which they must then justify to management. They would rather have clear practice manuals and directives, with the freedom to deviate if appropriate. As a simple example consider a policy that says ‘performance review is mandatory’ versus a manual that says ‘in April each year every employee gets to speak face to face with his or her manager about past performance and expected future performance’.
- Rec. short term: Be more specific in the policies and highlight practice examples from other countries. If there is a choice, give a preferred or default option. If room is left for deviation and other options, this is not equivalent to imposing a practice, which would be inappropriate and met with resistance.
- Rec. long term: Create a company specific, possibly regional, practice manual for HR, very ‘down to earth’. The regional platforms and above recommended job rotations can help to create this. For MNEs with both large and small subsidiaries there should be a basic manual, and for bigger and more mature subsidiaries a more sophisticated manual is recommended.
- Success factor 4: **Establish feedback routes to HQ other than the CEO**
- Explanation: Using the CEO as a feedback route to HQ for HR matters is a ‘short term fix’ that prevents the long term solution of having a more versatile and internationally functioning HR, both in HQ and in the subsidiaries.
- Recommendation: Encourage at least one annual trip for the local HR director to HQ, as well as meetings between HQ staff and local HR staff, possibly at company HR conferences. Have one local HR director represent Asia to HQ as a regional spokesperson.

- Success factor 5: **Organisation by region, not by issue (mentor)**
- Explanation: In the studied subsidiaries the personal familiarity between the HR partners and their long term relationship is far more important than the detailed expertise of a global expert. Cultural barriers are reduced and a more direct communication is possible if responsibilities in HQ are organised by region rather than issue. If every country has ‘their’ HR generalist in HQ as a partner, there will not only be fewer misunderstandings but also the HQ tendencies to have very theoretical, or Germany specific, policies will decrease.
- Rec. short term: Assign a mentor for each country who takes the role of interface and translator towards HQ. Have the mentor for the region placed in the region rather than in HQ.
- Rec. long term: Organise HQ international HR by region rather than topic, using more generalists rather than expert people as partners for the region.

Figure 5.5.1 gives a graphic and comprehensive overview of the five identified key success factors that are drawn from the findings and discussed above.

**Figure 5.5.1: Key success factors for successful transfer of HR policies**



(Source: Developed for this study)

**Language.** It is often the lack of language skill that makes true exchanges between HQ and subsidiaries difficult (Marschan, Welch & Welch 1997). While it is unrealistic to expect local HR directors to be fluent in German, or HQ staff to be bilingual in German and English, a realistic assessment of language skills and appropriate training measures can make a difference. Basic German language courses for local HR directors are recommended, because with a ‘feel’ for the language comes a more profound cultural understanding, an argument that also holds true for HQ staff learning Asian languages. Furthermore, English skills in HQ, both oral and written, need improvement, either through training or practice and, long term, by making fluent English proficiency a prerequisite for work in HQ.

In short, German MNEs can benefit from applying the above recommendations based on the findings of this study in their design of transfer of HR policies and practices. Next, limitations of the study are discussed.

## 5.6 Limitations

Section 1.7 outlines major delimitations of the research. This study investigates the transfer of human resource policies and practices by three German multinational companies, active in the electrical, mechanical, and chemical industries respectively, to and from their subsidiaries in Singapore, Thailand and Indonesia. As such the findings from this study are only valid for these three MNEs in the respective countries and industries.

The chief limitations in this study relate to the research methodology (Yin 2003), as discussed in Chapter 3. This study is an exploratory case study with a limited sample size, involving 3 main cases with 12 embedded cases. Therefore, the findings cannot be generalised beyond the context of this study. As an exploratory study, the goal of this study effort is to seek greater understanding that could lead to building a foundation for more extensive research in the future.

Furthermore, when interviewing people about their roles a potential bias risk exists, as people might try to create a positive, or in case of frustration, negative, image of their own role or company. Diverse cultural backgrounds and nationalities can amplify the risk if respondents, consciously or unconsciously, defend their country 'against' the others. On the one hand this is part of the study in the first place, as exemplified by research issue 2, 'cultural differences'. On the other hand care is taken that the interview partners should be at ease with the project and that multiple views be taken into consideration before a result is documented. A further way of dealing with potential bias is using the practice of triangulation of data, as discussed in Chapter 3.

In brief, this study has certain limitations, and measures are taken to address and overcome these limitations, to maximise the overall value of the study and its findings. Next, the implications for the methodology are discussed.

## 5.7 Implications for Methodology

This study has methodological implications; the study shows that a multiple case study within the paradigm of scientific realism can be a credible alternative to the more frequently found positive-deductive research approaches adopted when studying international human resource management issues (Dowling, Schuler & Welch 1999). Within the scope of the case study, rich data are collected from in-depth interviews with both HR directors and line managers of three MNEs in the HQ in Germany, as well as in the subsidiaries in Singapore, Thailand and Indonesia. Furthermore, triangulated data are collected from documents, websites and archival records. The analysis of this data provides a thorough understanding of how the three studied MNEs transfer HR policies and practices from HQ to their subsidiaries.

The case study research methodology proves to be especially beneficial for the investigation, allowing open questions which facilitate exploration of the dynamics of the transfer processes on an individual level with all its subtleties. In brief, the case study is an appropriate methodology for this kind of qualitative study. Next, the implications of this study for further research are discussed.

## 5.8 Further research

Three implications for further research originate from this study. First, *replication* of this study is needed to further substantiate the findings of this study. The inclusion of other industries besides manufacturing, such as finance for example, and increasing the number of MNEs under study will help to generalise the findings further.

Second, the present study researches the transfer of HR policies and practices in German MNEs only. Expanding future studies towards including other *European* MNEs, such as French or British companies, would provide an additional contribution to the existing literature. The same argument can be made for including more countries than Singapore, Thailand and Indonesia, possibly China and India as the biggest economies of Asia.

Finally, this study employs the case study methodology, which relies mainly on an inductive approach to obtain data for analytical, rather than statistical generalisation. Thus, the focus of the research is analytical generalisation. Given the expected growth of Asia as an economic region, transfer of HR policies and practices will be growing in the future. The findings of this study can be tested and gain further credibility by conducting a quantitative survey, employing statistical methods, operating in the positivist paradigm.

In brief, this study provides an understanding of the transfer of human resource policies and practices by German multinational companies to and from their subsidiaries in Singapore, Thailand and Indonesia. It is hoped that the findings from this study may serve as the basis for further research.

## **5.9 Conclusion**

This chapter concludes this study by presenting the findings and implications from the five research issues compared to the existing literature, with the aim of answering the research question of how German multinational companies transfer human resource policies and practices to and from their subsidiaries in South East Asia. This study contributes towards an answer to this question, and adds new knowledge with respect to the transfer process of HR policies and practices using the case study research methodology.

The main finding focuses on the gap between what is expected of the local HR director of a subsidiary and how well he or she is equipped to fulfil these expectations. The findings lead to recommendations for practitioners to enhance their organisations' effectiveness in managing the transfer process. Furthermore, the findings may serve future researchers as useful references for expanded studies.

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## APPENDIX A: CASE STUDY INTERVIEW PROTOCOL FOR HQ IN GERMANY

**Research Project:** How do German multinational companies transfer human resource policies and practices to and from their subsidiaries in South East Asia?

**Country:** *Germany*                      **Date and time:** \_\_\_\_\_

**Name of organisation:** \_\_\_\_\_

**Interviewee's name:** \_\_\_\_\_

**Position:** \_\_\_\_\_                      **Nationality:** \_\_\_\_\_

**Internal code:** \_\_\_\_\_

### **Part A**

**Introduction.** Thank you for your time to contribute to this research. Let me briefly outline my role and how this interview is designed to fit in this research.

**Purpose of this research.** To find out how German multinational companies transfer human resource policies and practices to and from their subsidiaries in South East Asia, namely Singapore, Thailand and Indonesia.

**Relevance of this research.** This research seeks to close the gap in existing knowledge about the transfer practices of German MNEs which has practical implications for management

**Personal relevance.** My role is that of the researcher as a 'Doctor of Business Administration' (DBA) candidate. This research is an essential part of the requirements for the DBA degree at the University of Southern Queensland, Australia and is not connected to my professional role.

**Ethical considerations.** The information obtained from this interview is strictly confidential. Your company's name, your name, and any other information to identify you or your organisation will be coded or changed to keep it confidential. The data obtained in this study will exclusively be used for this study and not passed on to third parties. The content of this interview guide has been approved by the ethical clearance committee of the University of Southern Queensland (<http://www.usq.edu.au/dvc/ethics/>) Do you have any questions from your side with respect to purpose and setting of this interview?

I, the undersigned, have read and understood the above and agree that the data obtained from this interview is integrated in a doctoral thesis and published following the ethical considerations listed above.

Name:

Signature:

Date:

If you so wish I will share the final analysis, expected in 2004, with you. Meanwhile, you can reach me per telephone or e-mail:

Tel.: +65 96656235

e-mail: [Wolfgang.Stehle@alumni.insead.edu](mailto:Wolfgang.Stehle@alumni.insead.edu)

**Part B – opening questions**

**B1** Please tell me briefly about your professional and cultural background?

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**B2** How long have you personally been involved in HR aspects in your organisation?

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**B3** What is your current role in your organisation?

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How much are you involved in HR issues?

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**B4** Who are other HR players in your local organisation?

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How are the reporting structures?

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**B5** Is there anything in particular about the HR organisation or processes in your organisation that you would like to state upfront?

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**Part C – Research Issue 1: Which IHRM approach do MNEs headquarters versus subsidiaries currently follow, along a continuum from exportive to adaptive and integrative approaches?**

**C1** Please tell me where and by who are HR policies and practices decided in your organisation?

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How free are the subsidiaries locally to take or adapt these decisions?

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**C2** Are country expertise and best practices from the subsidiaries integrated in the HQ HR policies and processes? How is that achieved? *(also relevant for RI 5)*

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**C3** How do the subsidiaries in different countries work together to align HR and to network?

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Does HQ facilitate that? *(also relevant for RI 5)*

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**C4** What do other German companies in Singapore, Thailand and Indonesia do differently in terms of HR?

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How would you rate their HR effectiveness in your country?

*much worse      worse      same as yours      better      far better*

**C5** What do other non-German companies –where are they from- in Singapore, Thailand and Indonesia do differently in terms of HR?

---

---

---

---

How would you rate their HR effectiveness in your country?

*much worse      worse      same as yours      better      far better*

**Part D – Research Issue 2: What key cultural, legal and societal differences between the countries Germany, Thailand, Singapore and Indonesia influence the transfer of HR policies and practices?**

**D1** Please tell me what you consider the main differences in culture/society/legal system between Germany and (Singapore/Thailand/Indonesia) that are relevant for HR?

culture: \_\_\_\_\_

society: \_\_\_\_\_

legal: \_\_\_\_\_

**D2** Do you think there are big differences between Singapore, Thailand and Indonesia in culture/society/legal system?

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What would these be and how do they affect HR?

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**D3** In your view is it better to have a local or an expatriate HR director? Why?

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If cost was not an issue?

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**D4** To what extent is your HR staff in HQ and the subsidiary aware of cultural differences and how do they manage these?

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What could be improved? How so? (*also relevant for RI 5*)

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**Part E – Research Issue 3: Is there a climate of innovation and trust between HQ and subsidiary in general that facilitates organisational change?**

**E1** How does your subsidiary cooperate with HQ in areas other than HR? Please give examples.

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**E2** Please tell me about general (non HR) HQ initiatives/programs designed to help the subsidiary. Do they help in your view? Why or why not?

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**E3** Could these initiatives/programs be improved? How?

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**E4** In your view is there sufficient job rotation between HQ and subsidiary?

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Why or why not is job rotation between HQ and subsidiary positive?

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**E5** Would you describe the relationship between HQ and your subsidiary as trusting?

*not at all*      *somewhat*      *neutral*      *rather*      *very*

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Why is that, do you have examples?

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Would you describe the practices of HQ and your subsidiary as innovative?

*not at all*      *somewhat*      *neutral*      *rather*      *very*

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Why is that, do you have examples?

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**Part F – Research Issue 4:** How do specific policies and practices, for example compensation, need to change– given the MNE’s approach and the established country differences?

**F1** Are there specific HR issues (*if prompted interviewer gives examples, i.e. variable compensation*) where you feel the HQ rules should be modified to fit the subsidiary? Please give examples.

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**F2** Why do you think these processes or policies ought to be modified?

National culture? \_\_\_\_\_

Size of organisation? \_\_\_\_\_

Complexity of operation? \_\_\_\_\_

**F3** In your opinion, is this situation unique to one country or do similar conditions exist in many countries in the region / worldwide?

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**F4** Are there specific HR issues (*if prompted interviewer gives examples, i.e. leadership principles*) where you feel the HQ policies and processes should be applied in all countries? Please give examples.

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**Part G – Research Issue 5: What are the roles of HQ people and subsidiary staff in the transfer process?**

**G1** Are there HQ people assigned/responsible for your subsidiary. Are they clustered by region or by issue?

Non HR: \_\_\_\_\_

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HR: \_\_\_\_\_  
\_\_\_\_\_

**G2** Do you see these HQ-people as being more helpful to or more controlling of your subsidiary staff?

\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

**G3** Do you feel that the subsidiary's' concerns are adequately addressed by the HQ staff?

\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

**G4** How do you ensure that the subsidiaries' concerns are being fed back to HQ?

\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

**Part H – open questions:**

**H1** How relevant are cost issues to what we have discussed?

\_\_\_\_\_  
\_\_\_\_\_

What could be achieved if changes to internal costing were made? How so?

\_\_\_\_\_  
\_\_\_\_\_

**H2** Are there any other things that you feel might be relevant and I did not ask?

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**H3** If you could change one thing about HR in your organisation at large, what would it be?

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**Thank you for contributing to this research project!**

**APPENDIX A: CASE STUDY INTERVIEW PROTOCOL FOR  
SUBSIDIARIES IN SINGAPORE, THAILAND AND  
INDONESIA**

**Research Project:** How do German multinational companies transfer  
human resource policies and practices to and from their  
subsidiaries in South East Asia?

**Country:**\_\_\_\_\_ **Date and time:**\_\_\_\_\_

**Name of organisation:**\_\_\_\_\_

**Interviewee's name:**\_\_\_\_\_

**Position:**\_\_\_\_\_ **Nationality:**\_\_\_\_\_

**Internal code:**\_\_\_\_\_

**Part A**

**Introduction.** Thank you for your time to contribute to this research. Let me briefly outline my role and how this interview is designed to fit in this research.

**Purpose of this research.** To find out how German multinational companies transfer human resource policies and practices to and from their subsidiaries in South East Asia, namely Singapore, Thailand and Indonesia.

**Relevance of this research.** This research seeks to close the gap in existing knowledge about the transfer practices of German MNEs which has practical implications for management

**Personal relevance.** My role is that of the researcher as a 'Doctor of Business Administration' (DBA) candidate. This research is an essential part of the requirements for the DBA degree at the University of Southern Queensland, Australia and is not connected to my professional role.

**Ethical considerations.** The information obtained from this interview is strictly confidential. Your company's name, your name, and any other information to identify you or your organisation will be coded or changed to keep it confidential. The data obtained in this study will exclusively be used for this study and not passed on to third parties. The content of this interview guide has been approved by the ethical clearance committee of the University of Southern Queensland (<http://www.usq.edu.au/dvc/ethics/>) Do you have any questions from your side with respect to purpose and setting of this interview?

I, the undersigned, have read and understood the above and agree that the data obtained from this interview is integrated in a doctoral thesis and published following the ethical considerations listed above.

Name:

Signature:

Date:

If you so wish I will share the final analysis, expected in 2004, with you. Meanwhile, you can reach me per telephone or e-mail:

Tel.: +65 96656235

e-mail: [Wolfgang.Stehle@alumni.insead.edu](mailto:Wolfgang.Stehle@alumni.insead.edu)

**Part B – opening questions**

**B1** Please tell me briefly about your professional and cultural background?

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**B2** How long have you personally been involved in HR aspects in your organisation?

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**B3** What is your current role in your organisation?

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How much are you involved in HR issues?

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**B4** Who are other HR players in your local organisation?

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How are the reporting structures?

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**B5** Is there anything in particular about the HR organisation or processes in your organisation that you would like to state upfront?

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**Part C – Research Issue 1: Which IHRM approach do MNEs headquarters versus subsidiaries currently follow, along a continuum from exportive to adaptive and integrative approaches?**

**C1** Please tell me where and by who are HR policies and practices decided in your organisation?

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How free are you locally to take or adapt these decisions?

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**C2** Are your country expertise and best practices integrated in the HQ HR policies and processes? How is that achieved? (*also relevant for RI 5*)

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**C3** How do the subsidiaries in different countries work together to align HR and to network?

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Does HQ facilitate that? (*also relevant for RI 5*)

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**C4** What do other German companies in your country (i.e. Singapore, Thailand, Indonesia) do differently in terms of HR?

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How would you rate their HR effectiveness in your country?

*much worse      worse      same as yours      better      far better*

**C5** What do other non-German companies –where are they from- in your country (i.e. Singapore, Thailand, Indonesia) do differently in terms of HR?

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How would you rate their HR effectiveness in your country?

*much worse      worse      same as yours      better      far better*

**Part D – Research Issue 2: What key cultural, legal and societal differences between the countries Germany, Thailand, Singapore and Indonesia influence the transfer of HR policies and practices?**

**D1** Please tell me what you consider the main differences in culture/society/legal system between Germany and (Singapore/Thailand/Indonesia) that are relevant for HR?

culture: \_\_\_\_\_

society: \_\_\_\_\_

legal: \_\_\_\_\_

**D2** Do you think there are big differences between Singapore, Thailand and Indonesia in culture/society/legal system?

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What would these be and how do they affect HR?

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**D3** In your view is it better to have a local or an expatriate HR director? Why?

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If cost was not an issue?

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**D4** To what extent is your HR staff in HQ and the subsidiary aware of cultural differences and how do they manage these?

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What could be improved? How so? (*also relevant for RI 5*)

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**Part E – Research Issue 3: Is there a climate of innovation and trust between HQ and subsidiary in general that facilitates organisational change?**

**E1** How does your subsidiary cooperate with HQ in areas other than HR? Please give examples.

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**E2** Please tell me about general (non HR) HQ initiatives/programs designed to help the subsidiary. Do they help in your view? Why or why not?

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**E3** Could these initiatives/programs be improved? How?

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**E4** In your view is there sufficient job rotation between HQ and subsidiary?

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Why or why not is job rotation between HQ and subsidiary positive?

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**E5** Would you describe the relationship between HQ and your subsidiary as trusting?

*not at all*      *somewhat*      *neutral*      *rather*      *very*

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Why is that, do you have examples?

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Would you describe the practices of HQ and your subsidiary as innovative?

*not at all*      *somewhat*      *neutral*      *rather*      *very*

---

Why is that, do you have examples?

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**Part F – Research Issue 4: How do specific policies and practices, for example compensation, need to change– given the MNE’s approach and the established country differences?**

**F1** Are there specific HR issues (*if prompted interviewer gives examples, i.e. variable compensation*) where you feel the HQ rules should be modified to fit the subsidiary? Please give examples.

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**F2** Why do you think these processes or policies ought to be modified?

National culture? \_\_\_\_\_

Size of organisation? \_\_\_\_\_

Complexity of operation? \_\_\_\_\_

**F3** In your opinion, is your situation unique to your country or do similar conditions exist in many countries in the region / worldwide?

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**F4** Are there specific HR issues (*if prompted interviewer gives examples, i.e. leadership principles*) where you feel the HQ policies and processes should be applied in all countries? Please give examples.

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**Part G – Research Issue 5: What are the roles of HQ people and subsidiary staff in the transfer process?**

**G1** Are there HQ people assigned/responsible for your subsidiary. Are they clustered by region or by issue?

Non HR : \_\_\_\_\_

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HR: \_\_\_\_\_

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**G2** Do you see these HQ-people as being more helpful to or more controlling of your subsidiary staff?

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**G3** Do you feel that your subsidiary's concerns are adequately addressed by the HQ staff?

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**G4** How do you ensure that your concerns are being fed back to HQ?

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**Part H – open questions:**

**H1** How relevant are cost issues to what we have discussed?

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What could be achieved if changes to internal costing were made? How so?

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**H2** Are there any other things that you feel might be relevant and I did not ask?

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**H3** If you could change one thing about HR in your organisation at large, what would it be?

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**Thank you for contributing to this research project!**