Controlled Variety: A Challenge for Human Resource Management in the MNC

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INTRODUCTION

Freer trade and freer investment, and the resulting intensification of global competition, now call for growing strategic control for multinational corporations (MNCs). All operations must contribute consistently to the firm's success in a coordinated fashion. Over the last decade, MNCs have had to come to terms with the process of strategic control—how the resource commitment decisions of multiple subsidiaries and headquarters are brought together into a consistent pattern that increases the competitive advantage of the firm over time. During the same period, the variety of conditions challenging MNCs has increased: product diversification has taken them to increasingly different businesses and geographic expansion to increasingly different countries (often to modes of market participation where strategic control is problematic, such as in joint ventures and consortia). Further, while industry globalization has called for centrally planned and coordinated strategic actions, intensified competition has demanded increased adaptation and responsiveness to local market, regulatory, and cultural conditions.

Thus, the challenge facing MNCs is one of controlled variety: internal variety needed to match the growing external variety calls for flexibility and adaptiveness; strategic control is needed for purposeful competitive actions across markets and businesses, and over time, to maintain or enhance the competitive advantage of the multinational firm. Yet, combining strategic variety and strategic control is difficult at best.

In this article, we examine some of the issues facing human resource management and the contribution that it can make to help diversified MNCs meet the challenge of controlled variety. We start by analyzing the most critical dimensions along which strategic variety must be maintained in a diversified MNC, in order for it to remain responsive to environmental and competitive demands. We then briefly discuss the

Human Resource Management, Spring 1986, Vol. 25, Number 1, Pp. 55–71
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nature of the need for strategic control and the difficulties of maintaining such control in a complex, diversified MNC. In a second section we discuss what capabilities managers in these companies must develop in order to maintain both strategic variety and strategic control. In particular, we discuss the need for individual managers to be sensitive to both the local idiosyncracies and the global priorities in reaching strategic decisions. We then discuss several complementary approaches to developing such managers. Finally, we outline tentative implications for human resource management in diversified MNCs, both for human resource professionals and for top management.

STRATEGIC VARIETY AND STRATEGIC CONTROL

Strategic control in a diversified MNC does not have a single predetermined pattern: not all operations require equal strategic control, nor can strategic control be achieved in the same way for all of them. Strategic control must, therefore, be differentiated to match the variety of conditions faced in the various operations. While, in specifics, such variety can be endless, strategic variety can be captured along three main axes: between countries, between businesses, and between modes of market participation.

First, individual countries offer different strategic opportunities for MNCs, and the latters' subsidiaries are thus likely to be different. Differences in size, resource endowment, economic development, political regime, national development and industrial policies, among others, play major roles in differentiating the opportunities offered to MNCs by individual countries. The roles of various countries in a global MNC strategy thus differ. Singapore, Germany, and India offer a very different mix of opportunities and constraints for MNCs. We can classify subsidiaries as:

1. Export platforms that are an integral part of a global manufacturing network for a business (e.g., Singapore for General Electric, Austria for Philips). Typically, these subsidiaries require extensive strategic control, they need to be managed as part of a global business from a planning, budgeting, logistics, and even operating standpoint.

2. Large integrated subsidiaries, which contain significant research, product development, and manufacturing capabilities and which also constitute a large market for goods produced in other countries (Great Britain for Ford, Germany for IBM or Hewlett-Packard, the United States for CIBA-GEIGY). While such subsidiaries may require substantial strategic control, they may also be the locus of strategic initiatives. The corporate management issue, therefore, is not to exercise tight headquarters control over such operations—

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which might stifle their entrepreneurial and innovative capability and make them less responsive to the local market and policy conditions. Instead, the challenge is to ensure active and effective participation of these subsidiaries into the formulation of global strategies and the transfer and sharing of their information, knowledge, and expertise. For a company such as Philips, Germany consitutes a more vibrant, more advanced market for a number of "professional electronics" products and systems than the Dutch domestic market. Not sharing the experience gained in Germany would be a missed opportunity. Many European firms face a similar situation vis-à-vis the U.S. market: the most sophisticated users may be located there and their inputs may be key to successful product development.

3. Large self-contained subsidiaries which are prevented by protectionism from being fully part of a global network (e.g., Philips). For these subsidiaries strategic control may not be critical: so long as they remain protected and isolated they can hardly be part of a global strategy, nor are they usually exposed to severe competitive threats from other global competitors.

4. Small importing subsidiaries, many of which act as internal agents for the MNC. While their small size may make strategic control look unimportant, these subsidiaries may still be strategically critical if new global competitors nibble away market positions there* and they become part of a global defense perimeter. Conversely, although small, and even with small market share, they may allow competitive retaliation against competitors.

This classification highlights the differences in the need for and nature of strategic control between subsidiaries within the same business. It also suggests that the managerial competencies demanded from subsidiary management may differ considerably from subsidiary to subsidiary and that simple-minded criteria, like size or regional location, may not always capture these differences (Bartlett and Ghoshal, 1986). Consequently, the type of experience gained by managers varies a great deal from location to location. Having managed the Singaporian subsidiary (a key manufacturing location), or the Belgian one (often a hotly contested European "test" market for global competitors) may usefully prepare one to run a global business unit. By contrast, having run South Africa, or even India or Brazil—typically large complex operations—may develop the skills for managing a domestic business, but not a global one.

* The European automobile industry's overcapacity is partly the result of the Japanese competitors nibbling away at European manufacturers' export markets in South East Asia, Africa, and in smaller European markets with no local producers (Finland, Ireland, the Netherlands.).

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A second axis which creates variety between strategic control requirements is the rather obvious one of interbusiness differences. Some global businesses can be seen, for strategic management purposes, as a loose federation of nationally self-contained operations. This has, by and large, been the approach of numerous MNCs in the consumer goods industries (e.g., CPC in prepared food, Heineken in beer, Unilever in various non-durable goods). Some other businesses can be seen only as global, with the world as a single market (e.g., computer memory chips, civilian airliners. Most global businesses though, fall between these extremes. In these businesses forces of local responsiveness and forces of global integration are both at work, and they affect specific functions and decisions differently, as we analyze in detail elsewhere (Prahalad and Doz, 1986). For instance in pharmaceutical companies, research and development may be best managed with very strong central strategic control, while marketing is best delegated to subsidiaries, the managers of which have a keen sense for local market and regulatory conditions.

These differences between businesses obviously call for a differentiated extent and nature of strategic control. While essentially global or local businesses can be submitted to much and to little strategic control respectively, in all key functions and decisions, multifocal businesses for which global and local concerns need to be traded-off raise more difficult issues (Prahalad and Doz, 1984). Too tight control may lead to missed opportunities, while too little also creates difficulties. Let us look, for example, at when R&D expenditures increase, as for instance in the pharmaceutical business. Autonomy of subsidiaries in product choices (deciding to take on and sell or turn down products developed at headquarters) when heavy development costs have already been incurred, can be very costly and dysfunctional, as several European MNCs have discovered at their great expense. Conversely, forcing a relatively small subsidiary to carry a full corporate product range—almost as a matter of policy—may also be highly dysfunctional: the scarce marketing and sales resources of the subsidiary may be stretched thinly and wasted on too many products. Many similar trade-offs exist in all aspects of the business. Strategic control, under such conditions, cannot be a set of centrally edicted policies. Sensitivity to both local responsiveness demands and global integration opportunities is needed.

Despite the difficult trade-offs mentioned above, more and more multinational businesses are drawn into this middle ground where multifocal approaches are needed. Few multinational businesses can be run with a purely local orientation. Even when the product characteristics make the business local—as for instance for liquid oxygen, flatglass, or cement— global competitive rivalry may take place, forcing strategic decisions to be made in a global perspective. Once such a perspective is shared by several competitors, a number of decisions, such as for instance pricing, can no longer be made locally, despite the business being essentially local in its customer base. Global competitors compete

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against each other across national markets. Conversely, few businesses can be run as purely global. When the economic conditions of an industry favor globally run businesses, political conditions often mitigate against such globalization. It follows that while differences across businesses remain significant, no simple "either or" choice can fit the requirements—elements of global integration and elements of local responsiveness need to be blended.

This suggests that the categories of expatriate vs. local managers, of ethnocentric vs. geocentric management, of international mobility vs. localism in career paths are probably too simple to answer the need to blend global and local priorities in running a business. We need a way to develop flexible individuals, who can successfully face ambiguous situations, where priorities are not clear and where complex trade-offs have to be considered.

A third dimension of variety is the differences in types of ownership and relationships. MNCs traditionally have engaged in joint ventures with local partners, and these already created difficuities: MNC employees seconded to the joint venture already felt tensions and divided loyalties. The more MNCs engage in more complex forms of collaboration among themselves (from North Sea oil development to joint product programs) and in collaboration with very different types of firms (e.g., large MNCs entering partnerships with small entrepreneurial ventures in new technological fields such as biotechnology, software development, and micro electronics), the greater the variety of strategic control they face. At the extreme, what is the meaning of strategic control in a large, multigovernment funded effort which receives a lot of public opinion and political attention such as new breeder nuclear reactors or new combat planes? (Horwitch, 1981) Such new forms of partly collaborative, partly competitive relations raise difficult issues of loyalty, career path, respect for the interests of multiple parties, and integrity of project or venture management. When large MNCs cooperate with small ones, for instance, the MNC managers and scientists most closely associated with the small firms run the risk of being ostracised by their own peers (Doz, 1985). Managing such diversity of strategic control conditions probably requires MNCs to develop multiple modes of managing people and to be able to blend them according to the needs of the various operations. In some cases conventional hierarchical employment relationships still predominate, in others quasi-market ones may be more appropriate; in yet others, clan or network relationships may prevail. Even internally, within the MNC, such differentiation in relationships may be useful, to be adaptive, or to manage innovation (Lawrence and Dyer, 1983).

In conclusion, the concept of strategic control needs to be differentiated along at least three dimensions, as sketched below in Figure 1, with usually decreasing extents of strategic control as we move away from the origin.

While a differentiated approach to strategic control is becoming in-

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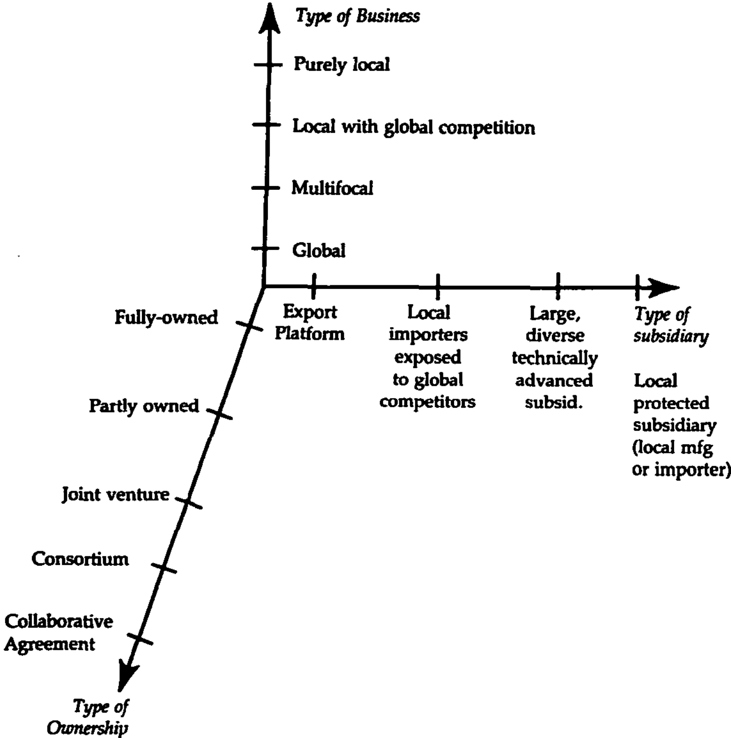

Figure 1. Required differentiation of Strategic Control by type of business, type of subsidiary, and type of ownership.

creasingly important, traditional tools of control typically used by MNC headquarters over their subsidiaries are becoming less relevant. The most crude and widespread tool for strategic control is resource dependency. It is an obvious way for headquarters to secure power over subsidiaries (Pfeffer and Salancik, 1978). Yet, as the subsidiary matures and becomes bigger, the need for financial and technical resources to be provided from headquarters decreases. The subsidiary can afford a larger base of technical, manufacturing, and financial resources, and its success may depend more on how well it fits in its local environment than on how much support it needs from headquarters (Prahalad and Doz, 1981; Doz and Prahalad, 1981). Another usual tool for control, systems, and procedures such as planning, budgeting, measurement,

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and evaluation also becomes less useful as variety and complexity of the strategic control tasks increase. A single standard set of management systems and procedures can hardly cope with such diversity; either it becomes a straightjacket or it becomes irrelevant. Yet, modifying and differentiating the systems to fit specific requirements makes them less and less easy to use as a control tool for top management. Establishing a very rich standard set of systems, but selectively exempting operations from them (on grounds of size, local responsiveness, joint ownership, etc.) helps some, but also represents an admission of inability to deal with variety.

A third approach to strategic control, reliance on key individuals, in particular where resource dependency and systems and procedures fail, is not new. In fact, it predates the other two outlined above; eighteenth century trading companies, and colonial empires, relied on such an approach (Brandel, in process). Our proposition is that as the required variety of strategic control configurations increases, MNCs will be less and less able to rely on resource dependence and standard systems and procedures to achieve the required level of strategic control over their operations. Consequently human resource management has a key role to play in the continuation of the success of MNCs as institutions. While this is broadly recognized, the conflicts and difficulties of using human resource management as a strategic control method are often left implicit. The rest of this article will explore some of these issues and trade-offs, from the standpoint of strategic management, not from that of specialized human resource management function. We will review first typical orientations of individual managers and the pros and cons of having them develop a global or a local primary orientation. We will also discuss the need for developing balanced individuals, sensitive to both orientations. In particular, we will review what breeds balanced individuals, who can balance conflicting demands for local sensitivity and for loyalty to the headquarters, and at the same time be competent in their tasks. Finally we will briefly discuss the issues faced by firms in creating an institutionalized system to identify, develop, and effectively use balanced individuals.

KEY ORIENTATIONS FOR MNC MANAGERS: SENSITIVITY TO LOCAL CONDITIONS AND LOYALTY TO THE CORPORATION

Sensitivity to Local Conditions

Sensitivity to local conditions and differences is required for various reasons. First, in order to be credible to local members of their organization, senior managers have to demonstrate such sensitivity to local differences as needed to defend convincingly local interests vis-a-vis headquarters. If they are not sufficiently sensitive to effectively represent a local point of view to headquarters when needed, they will lack credibil-

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ity in the eyes of local employees and, therefore, will not be able to elicit their loyalty and commitment. This, ultimately, is detrimental to the efficiency of the MNC, no matter what its strategy may be.

Sensitivity to local conditions is also required for success in the external environment, not just for credibility within the subsidiary operations. It implies accepting the "rules of the game" as played in the local market; and understanding them well enough to be able to play successfully. This involves, first, an intellectual understanding of constraints and rules, such as the working of price controls in France and Italy, union participation in Germany and the Netherlands, the nature of distribution networks in Germany and the Netherlands, tne nature of distribution networks in Japan, and so on. Compared to the home country of the MNC, these rules may translate into lost degrees of managerial freedom, particularly when the home country of the MNC is the U.S. Second, this involves sufficient empathy with the local environment to develop an emotional acceptance of these rules as a way to conduct business. The more peculiar and idiosyncratic the rules, the more important it is for executives to accept them, and to understand their rationale in the local environment. A lack of understanding of, or a neglect for local labor relation conditions and practices, for instance, may be a major disadvantage for MNCs.

Such sensitivity to local conditions has both advantages ana disadvantages. The main advantages usually are:

1. *To provide a visible local face,* rather than a foreign one. This has been a critical strength of such companies as Brown Boveri or Philips in Europe, particularly when Europe was divided into rival (or ever warring) countries.

2. *To allow easier acceptance in the local community,* which involves not only providing a local face, but also behaving sufficiently like a domestic firm to allow its foreigners to be forgotten. Again this has historically been a strength of such companies as Brown Boveri and Philips.

3. *To maximize the number of available options in the local environment.* The MNC can easily vary the level of strategic coordination between headquarters and subsidiaries. In some sense it can be "Janusfaced," leaving autonomy to the various subsidiaries to adjust to local conditions when appropriate, and to act in globally coordinated fashion when needed. This allows the use of multiple approaches to success in the local environment and yet to best leverage, in the context of that environment, the worldwide resources of the MNC.

4. *To be recognized as a legitimate participant to the local economy,* and be able to exercise an influence in the shaping of new policies and regulations, by participation in industry and trade associations, and to be

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eligible for government support (e.g., foreign export credit and insurance, preferential foreign exchange regulations, etc.)

5. *To effectively represent, in the decision making processes within the MNC, local considerations and constraints,* so that local priorities and global demands can be balanced with due consideration given to the various relevant perspectives.

6. *To be enough of an insider,* locally, to be privy to local information and gain the opportunity to participate in local deals.

The benefits of genuine sensitivity to local conditions are therefore particularly important, no matter what the strategy of the MNC is. Yet, there are some potentially significant drawbacks to exercising local sensitivity as briefly summarized below:

1. *It makes balancing advocacy between local demands and global priorities more difficult.* Managers committed to the local environment may also see their knowledge of this environment, and the credibility it gives them with their own employees, as a power base to be protected and to be used to bargain with the local environment. They may easily shift from representing a point of view to becoming blind partisans of autonomy of the subsidiaries, in an undiscriminating way. Their credibility to local employees and others is rooted in their successfully defending local autonomy against headquarters.
2. *To put off difficult local decisions,* such as layoffs, until they are unavoidable in a crisis situation and are even more difficult, costly, and painful than if they had been implemented earlier. In our research, examples abound of difficult decisions being postponed rather than faced. Paradoxically, it may be easier for local national executives to carry out such decisions since they do not prove their commitment to local employees as much as expatriate managers, whose credibility constantly has to be bolstered by tangible action which demonstrates commitment to local interest.
3. *To create delays in identifying and accepting a global role* for subsidiaries, when such a role entails compromising local interests for global priorities. First, global competitive threats may not be easily identified early, since they are perceived piecemeal, country by country, rather than globally. Second, accepting the reality of such threats requires that managers make a cognitive shift that is particularly slow and difficult since it implies an acceptance of more global consideration and a concurrent loss of strategic autonomy on the part of the subsidiaries.

Sensitivity to local conditions therefore needs to be counterbalanced by other demands and priorities. Loyalty to corporate interests is another critical dimension.

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Loyalty to Corporate Interests

Loyalty to corporate interests can be defined as an understanding of corporate priorities and an acceptance of headquarter-determined rules, motivated by a commitment to corporate goals, not only to local subgoals. It assumes that, somehow, subsidiary managers see themselves as instruments of headquarters in managing subsidiaries, not as advocates of subsidiary interests bargaining with headquarters. This also implies that subsidiary managers see themselves as contributing to a global optimum, not to a local one, and are willing to make difficult trade-offs to the benefit of the whole corporation, even at the cost of their short-term personal interest. They are committed to overall corporate performance, rather than local results.

Stiong loyalty to corporate interests, as sensitivity to local conditions, has both advantages and disadvantages. The advantages are clear:

- *To allow strong implict strategic control over strategic objectives,* since their managers will on their own, pursue courses of action most in line with corporate priorities and not favoring local interests to the detriment of overall corporate interests.
- *To make subsidiaries pliable parts* of a global network which can easily be centrally managed.
- *To speed up the responses from subsidiaries to headquarters,* and to be able to quickly mobilize the subsidiaries for globally coordinated competitive actions.

The disadvantages are clear:

- *Too much visible loyalty to head office may make it difficult to elicit commitment from local employees.* This may adversely affect local performance and alternatively result in a loss of strategic control by severing critical communications between the top management of the subsidiaries (who are often expatriates) and their subordinates (local employees).
- *Inability to articulate and represent effectively local needs,* opportunities, and threats to headquarters since management may not devote sufficient efforts to understanding local conditions and may be more preoccupied with successfully interfacing with headquarters than with dealing with the local environment.
- *Weakness in negotiating locally,* since the necessary credibility will be lacking.

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The Dilemma

Sensitivity to local conditions and corporate loyalty represent complementary rather than mutually exclusive orientations. Each corresponds to important but fundamentally different strategic requirements in the running of various businesses. As we argued in the first section, most businesses require that their managers provide a blending of sensitivity to local interests and loyalty to overall corporate interests.

The adoption of matrix organizations by a significant number of American and European companies in the 1970s, and the subsequent disappointment of many managers with this organization form, witness the need for such blending and the difficulties in achieving it. Multinational matrix organizations are based on the premise that both managers sensitive to local interests (usually local subsidiary managers) and managers imbued with the overall corporate interest (usually in the form of central product division managers and corporate staffs) participate jointly in decision making on key aspects of business strategy. Yet, in many cases, the results have been disappointing. Part of the disappointment stems from undermanagement of the matrix: too often, top management adopted the matrix as if it were merely another organizational hierarchy, without recognizing its intrinsic instability, and, therefore, the need for active top management involvement in running it.

Part of the disappointment with matrix organizations also stems from the lack of preparation of middle and senior managers for an advocacy process—or as sometimes put by matrix managers for "constructive conflict" —that confronts sensitivity to local interests and loyalty to overall corporate interest. In our view, managers who can easily understand and relate to both sets of interests are much better prepared to deal with the complexity of managing varying levels of strategic control or strategic autonomy, whether in a formal matrix organization, or via informal matrixlike overlays in a global business. A critical issue, therefore, for human *resource management in MNCs is to develop* "balanced" individuals who are not only equally comfortable defending global corporate interests and local ones, but who can also transcend these conflicts to search for solutions that are better than weak compromises between both sets of interests. While we fully recognize that this is not an easy task, we turn in the next section to a few tentative propositions on how "balanced" individuals can be developed, based on our observation of several MNCs struggling with this issue.

PROVIDING FOR BALANCE

Human resource management can make a major contribution to meeting the requirements outlined in the preceding section. As we argued, mere resource dependence, or the imposition of centrally designed sys-

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tems and procedures, cannot cope with the variety of strategic control conditions faced by most diversified multinational companies. Diversified MNCs need individuals who are sensitive to the complexity of responsiveness—integration tradeoffs, and to how these tradeoffs contribute to or preclude the competitive advantage. "Balanced" individuals are needed.

The most usual response by MNCs to the need for balanced individuals, is to provide career paths for high potential executives where globally-oriented and locally-oriented positions alternate. Someone may start as assistant product manager for a global product line at headquarters, move to a marketing management job in a small subsidiary, to a regional coordinator staff assistant position, to a larger subsidiary, to product division management, and so forth. While this approach is attractive, and often works, it has some potential drawbacks. First, it faces the usual problems of moving people from one hierarchical line to another: bosses are likely to be tempted to hide their best people for too long, because they are concerned with replacement. Second, speed of movement involves a difficult tradeoff. Too many, too fast moves may encourage a short-term management orientation, deter from a strategic focus (particularly when new managers can freely change the strategies they inherit), and also make management evaluation difficult, for lack of continuity in responsibilities. Fast moves may lead to superficiality and to the local subsidiary managers or the lower level technical product executives (who see themselves as the repositories of in-depth market and product knowledge) not relying seriously on their (temporary) bosses. As a result, these highly mobile managers may be discouraged from making the indepth investments needed to understand either industry and product or country environments and thus from developing a truly grounded balanced view. A veneer of internationalism may not be enough to make complex tradeoffs sensibly. Yet, too few, too slow moves may delay the promotion of managers to senior levels to an age where they can only contemplate short tenures, particularly with mandatory retirement ages. This creates its own instability, often even more disruptive than instability at lower levels. A slow pace of moves also requires that each promotion involves a big step upward, a move that many firms see as too risky. Obviously, as observed by researchers, short-term job filling priorities often take precedence over the concern for longer-term development and socialization of individuals (Galbraith and Edstrom, 1977; Edstrom and Galbraith, 1977).

Further, as most companies start from a global integration focus (usually reflected in the organization by the primacy of product-oriented executive positions) or from one of national responsiveness (usually reflected by the primacy of country managers positions), initiating a process leading to a balance in career paths may be difficult unless top management, itself a product of the dominant orientation, takes steps which may be seen as turning against its own following—or its own

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basis of power. Thus, changes towards balanced career paths tend to lag, rather than lead, strategic redirection and organizational transitions. Career path management, as a tool to develop balanced individuals is thus fraught wih difficulties, and is seldom sufficient.*

Some companies, while providing for the alternations mentioned above, make balanced career development easier. Some use regional headquarters deliberately as mixing grounds for home country expatriates and executives seconded from the subsidiaries in the region. It allows the local subsidiaries to be staffed almost totally by local nationals, providing for a sensitivity to local conditions, and the corporate and divisional headquarters to be staffed mainly by home country nationals. IBM, for example, used this approach (Salter, 1974). Some companies also create positions of "assistant-to" for very senior executives at headquarters which are staffed systematically by young promising executives from foreign subsidiaries, as a way to acquaint them with the workings of corporate headquarters. Such practices range from numerous young executives being provided to several corporate vice presidents (e.g., at IBM) to a very selective detachment of the already senior managers about to be promoted to head major subidiaries as deputy to the company president or chairman (e.g., at EXXON).

Beyond this, diversified MNCs may also structure management systems and decision-making processes in such a way as to require a balanced perspective from executives who want to use them successfully. At CIBA-GEIGY for instance, the decision making process for management appointments in the product-geography-function matrix structure requires key individuals such as subsidiary managers and functional managers of divisions to develop and evidence a balanced perspective to have an effective say in such decisions (Doz and Van den Poel, 1983). Subsidiary executives must know headquarters well and understand their concerns, and headquarter executives must be sensitive to the national idiosyncracies affecting the operations of their subsidiaries. In other words, exercising influence in favor of integration and responsiveness requires an understanding of, and empathy with, the other perspective—homeostatic characteristic which means that the most successful executives are themselves balanced individuals.

Other companies institute "key country" teams to advise product and divisional management, or, in some cases, to run the business collegially. Yet, this works only if the "debating society" syndrome is overcome. This assumes that measurement and reward systems are based on contribution to the collective interest, not just on goodwill, or worse,

* We have not mentioned the well-known more, operational, set of difficulties which active career path management faces, such as the added compensation costs for expatriates, the difficulties faced by dual-career couples, the problems faced by mothers raising children through multiple school systems, or the seemingly different propensity of national cultures for international moves.

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individual subsidiary results. In other words, unless the measurement and reward systems are themselves balanced, balanced individuals are unlikely to develop. This was, for instance, the major problem faced by companies such as Brown Boveri in Europe or Corning in the U.S. when they tried to move away from national responsiveness and develop a concern for global competition and for integration requirements (Doz, 1983; Prahalad and Doz, 1981). Product teams, or key country teams in a business, can work only if participants in these teams are rewarded for contributing to their success, not for blocking or stalling their decisions.

Strongly held corporate beliefs, independent from specific configurations of strategic control and from positions in terms of responsiveness and integration, can also help develop a set of priorities that transcend parochial interests (Prahalad, 1983; 1986). The priorities may be set in a relatively concrete style, but leave room for much interpretation. "Service to customers" or being a "responsible partner in the provision of health care" (to host governments) can be interpreted in several ways, and leaves room for orientations that privilege responsiveness or integration, but are unlikely to be achieved by making one orientation so dominant as to exclude the other. Corporate ideology, itself, may thus contribute to nurture a balanced perspective that encourages management to consider complex tradeoffs between integration and responsiveness and to be willing not only to accept differences in strategic control but also to actively seek to match strategic control with the requirements of businesses, subsidiaries, and varied ownership patterns.

SOME IMPLICATIONS; TOWARDS AN AGENDA FOR HRM AND TOP MANAGEMENT

A strong, well-established, institutionalized HRM and management development process is a key contribution to providing balance. Such a system faces limitations, however, particularly in dealing with the most senior executives. Let us review the contributions first.

The HRM system can ensure the planned development of a large enough pool of young potential executives to allow flexibility in staffing positions. This avoids "position-filling" being—perforce—the only consideration guiding executive appointments. A large enough pool allows to bring considerations of balanced development into the choice of executive appointments in various subsidiary and headquarter positions.

A well-structured system can also provide safeguards against idiosyncracies in appointments. It may prevent good potential managers from being "forgotten" in positions with low visibility to top management (such as product managers in the bowels of large divisions vs. managers in small subsidiaries who at least can draw the attention of visiting senior executives). It may also provide, through checks and balances,

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limits to the risks of nepotism or of informal "cliques" developing. Middle managers risk seeing their future better assured by attaching themselves to that of a particular senior executive or board member, than by developing a sense of corporate, rather than personal, loyalty. In a company afflicted by such a process, this was described to us as the "wolfpack syndrome."

By providing structure and discipline to the management succession process, a well developed HRM system may limit the risk of such syndromes. This is all the more important in the complex matrix structures often adopted by diversified MNCs as these structures no longer provide the hierarchical "one person–one boss" simplicity but allow, or even encourage, political behavior and coalition games.

A strongly established system also allows an explicit linkage of strategic control configurations with executive appointments. Individuals, with their own varied personality characteristics and leadership skills may function more or less effectively under this or that configuration of strategic control (as, for instance, structured in Figure 1) . While this tends to be often overlooked it is, in fact, a leverage point to provide strategic directions for a business in a complex diversified MNC matrix structure (Prahalad and Doz, 1986).

An HRM system can only be strong, though, with extensive top management support and involvement. First, from a certain level up (usually that of the top few hundred managers in a large diversified MNC) only top management can credibly make appointment decisions. Second, to avoid the "wolfpack syndrome" such decisions must be made—and seen by the organization—as collective decisions of the top management team, not as a compromise resulting from power plays among top managers. The role of the HRM professionals may be to help prepare key decisions—and encourage discipline on the part of top management in making decisions—but in no way to be seen as favoring this or that outcome.

Top management faces several challenges. The first, already alluded to earlier, results from the long lead times involved in human resource management. Developing balanced individuals takes time, and may require top management to recognize early that the pattern of personal development that brought them to the top may no longer be functional. To draw top management from the ranks of subsidiary managers may have been perfectly appropriate in the 1960s when market fragmentation and protection made a nationally responsive approach mandatory, but such an approach may become totally dysfunctional in the 1980s with global markets and global competitors. Yet, unless steps have been taken early to develop balanced executives, there may not be much choice but to continue chosing top managers from the ranks of subsidiary managing directors. Early identification of needed changes, and early implementation of changes requires vision and courage on the part of top management. One challenge for both HRM professionals and top

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management is to speedup the development of individuals with balanced orientations, particularly in companies whose historical growth pattern has privileged one single orientation strongly.

Second, top management must blend multiple tools for strategic control, ranging from resource dependence in some situations where this is applicable, to management systems tailored to strategic control configurations, and to the selective matching of individuals' characteristics with strategic control configuration described above. Combining these various approaches is a critical challenge for top management.

Third, top managers must exercise personal and collective discipline in key appointments—probably the single most important decision they frequently make—and in interpreting patterns of key appointments for the members of the organization. In European firms with collegial decision making bodies (management board, executive committees, and the like) this requires consistency and coherence in the group, a statesman's rather than an entrepreneur's attitude on the part of each member, and a sense for organizational interpretation processes. Again, this may be a major challenge, particularly for individual managers who have acceded to top management through individual success and visible prowess as subsidiary or division manager. This calls for senior managers making difficult role transitions that successful middle-aged individuals do not necessarily find easy to accomplish.

In conclusion, we see the implications outlined above as raising major challenges for the quality of the HRM process and for the responsibilities of top managers in making the HRM process effective in addressing the need for controlled variety faced by most diversified MNCs.

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