The Role of the „Human Organization“ in the Success of Japanese and American Affiliates Overseas

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As competition has intensified and become global in more and more industries, multinational corporations (MNCs) and their overseas affiliates have become more important and visible players in the world economic arena. Moreover, the fortunes of entire nations are increasingly linked to the success or failure of their largest firms. It is therefore not surprising that politicians, businessmen, and scholars alike are all searching for the answer to the question: What is the key to international competitiveness and global business success?

Some argue that this success is a function of low costs, aided by right-sizing, outsourcing, and flexible production that can be moved from country to country to take advantage of the lowest labor costs. Others point to an organization's ability to innovate and nurture an entrepreneurial spirit. Still others focus on production techniques such as just-in-time inventory systems, quality control, or automated production technology. Finally, there are those who believe that the key to success in international business is not a characteristic of a particular company, but lies in the nature of government and industry relationships in the company's home country.

While all these factors undoubtedly play a role in MNC success, a study we conducted recently among more than 200 Japanese and American affiliates suggested that what distinguishes the highest-performing firms from all others is the „human“ side of the organization – its corporate culture and human resource management practices. We believe that this is because the „soft“ side of the organization is the only system that is flexible and complex enough to enable MNCs to balance the competing demands to be both globally integrated and locally responsive.

Global integration, through the sharing of information and centralization of many activities and decisions, allows firms to benefit from worldwide economies of scale and scope and to use resources most efficiently across the organization. At the same time, however, decentralization allows individual affiliates to be locally responsive – to best meet the demands and needs of local markets and customer preferences. As industries globalize, the level of intense international competition increases, putting demands on MNCs to be simultaneously globally efficient, nationally responsive, and capable of worldwide learning. However, the organizational capability to balance global integration and local responsiveness is not easily developed or sustained by MNCs.

Furthermore, while many people have argued that the ability to be both globally integrated and locally responsive leads to higher levels of success internationally, we actually have very little data on whether this is true. In addition, we really do not know what management characteristics separate the global winners and losers. This article addresses these questions by describing some of the major findings on the key differences distinguishing very successful from less successful affiliates in a study of well-established American and Japanese multinational corporations in the electronics, automotive, and chemicals/pharmaceuticals industries. The results presented in this article are based on information gathered in personal interviews at 69 Japanese and 91 American manufacturing affiliates in Malaysia, Singapore, Thailand, Indonesia, and the Philippines. The firms studied include Ajinomoto, General Electric, Honda, IBM, Johnson & Johnson, Matsushita, Mobil, Motorola, Sony, and Toyota. On average, these MNCs were founded over 80 years ago and have more than 67,000 employees and average sales of nearly $18 billion. Their affiliates included in the study have an average of $997 million in sales and 981 full-time employees and are majority-owned by their parent companies.

Achieving Global Integration and Local Responsiveness

Simultaneously achieving high levels of global integration and local responsiveness requires a dynamic rather than a static process and depends on a number of mechanisms within the firm. In the following section, we outline some of the major mechanisms that can be used by MNCs to achieve global integration and local responsiveness.

Resource Flows. As a number of authors have noted, one measure of the level of global integration versus local responsiveness of an MNC is the level of resources exchanged across the MNC network. These resources can be classified into three types; capital, product, and knowledge. In our study, we measured all three types of resources by asking executives to tell us the degree to which affiliates receive and send the following resources to the rest of the MNC: money, management expertise, access to markets and customers, consultation and technical assistance, public visibility, goodwill or prestige, physical equipment or space, information about the business environment, product information, information on quality control, market information, management personnel, technical personnel, parts, raw materials, finished goods, unfinished goods, and distribution channels. The more resources that are exchanged back and forth between the affiliate and the rest of the MNC, the higher the level of global integration. Locally responsive affiliates have relatively low levels of resource flows back and forth between themselves and the rest of the MNC and are fairly independent.

Corporate Culture. In addition to the exchange of resources between the MNC and the overseas affiliate, corporate culture can play an important role in integrating the local affiliates into the MNC network. Culture can be thought of as a social control system based on shared norms and values that set expectations about the appropriate attitudes and behaviors for members of a group. Therefore, corporate culture can act as an important mechanism for integrating or binding individuals together, regardless of their geographic locations.

While the empirical results are somewhat mixed, a number of previous studies have shown that both the strength of a corporate culture and its content can have an impact on organizational performance. In this study we used relatively simple measures of corporate culture, asking managers to tell us how strong or weak their culture is, how well understood it is by employees, how widely accepted it is by employees, how open or closed it is, how Japanese or American it is, and how HQ- or affiliate-focused it is.

Staffing. As described above, a common corporate culture – and the socialization of employees into this corporate culture – can be an important means of globally integrating geographically dispersed operations through influencing the mindset of employees in key decision-making positions. Another way to influence the mindset of decision-makers is by selecting personnel on the basis of their nationality. For example, if an MNC staffs the top positions in all its overseas affiliates with expatriates dispatched from headquarters, it may facilitate global integration through a cadre of executives around the world who speak a common language, who may know each other from overlapping tours at the head office, and who likely identify with the parent company rather than with the local operation. At the same time, these expatriates, unless they have spent considerable time in the region, are likely to lack knowledge of, and therefore ignore, local customer and market requirements in favor of centrally mandated objectives. Expatriates therefore generally act as mechanisms for global integration but may hinder local responsiveness.

Globalization versus Localization of Management Systems. The characteristics of the general management and human resource management systems of the affiliate can also affect its level of global integration versus localization. These systems both initially determine and subsequently influence the qualifications and mindsets of individuals in the organization through selection, training, and promotion practices, as well as through the values and norms embodied in a wide variety of management practices.

For example, a common management approach and HR management system provide a way to integrate the global MNC network by standardizing key activities. In this study, we asked executives to tell us how much their overall management style and their overall human resource management systems resembled those in place at the parent company and how much they resembled those systems in place in indigenous companies in the host country. We also looked at a number of specific management policies and practices to determine if there were systematic differences between the highest- and lower-performing firms.

Study Results

In order to see what factors are most important in distinguishing the highest-performing affiliates from the others in our study, we first looked at the influence of some of the most obvious explanations of differences in affiliate performance, such as parent company nationality, affiliate location, industry, age of the affiliate, international experience of the parent company, business strategy, and a large number of other factors. To our surprise, however, we found very few differences between the high and low performers on the basis of these dimensions. For example, there are no differences in performance between the Japanese and the American affiliates across any of the many performance measures used in this study. In addition, we found high performers and low performers in each of the three industries, although, in general, the electronics industry affiliates performed less well than the automotive or chemical/pharmaceutical affiliates in the study. There were no strong differences in affiliate performance depending on which country the affiliate was located in, the parent company's experience in the host country, or the affiliate's age. The only significant finding we uncovered is that the highest-performing affiliates tend to be larger. It is unclear, however, whether large size leads to better performance or whether good performance allows firms to grow.

Next, we wanted to test whether the relative levels of global integration and decentralization in the high- and low-performing affiliates have an impact on performance. Looking first at resource flows, we found that few resource flows seem to make a difference to performance. Of all the capital-based, knowledge-based, and product-based resource flows we asked about, only technical assistance and technical personnel from the parent companies to the affiliates distinguish the highest performers from the others. Transfer of technical information appears to both integrate the overseas operation and enhance its performance. At the same time, the exchange of other resources, including capital, products, parts, and other types of information, help to globally integrate the affiliate with the rest of the MNC but do not necessarily provide a source of competitive advantage reflected in affiliate performance.

In addition, if we compare the lower-performing affiliates with the higher-performing affiliates, we do not find any significant differences in their percentage of expatriates. Both high- and low-performing affiliates have approximately 3 percent of their positions staffed by expatriates. We found that while expatriates may positively influence the performance of affiliates by transferring technology overseas and by performing other important integrating functions, they can also have a negative impact on affiliate performance by preventing local responsiveness and limiting the contributions of local managers. We interviewed a Filipino managing director of a Japanese consumer electronics affiliate, who described the situation at his company:

„Between 1971 and 1978 we had a Japanese expert factory manager who helped to set up our factory, ensured high levels of quality control, and enhanced the training of our workers.... We learned things in strict accordance with our parent company. At that time, we had only one Japanese worker because we couldn't afford any more. The compensation of an expat was 10 times that of a local. We learned a lot from the expat, but after seven years, I realized that our people were restless. They didn't feel their ideas were allowed to flourish with an expat above them. I went to the head office and appealed to them not to have the expatriate factory manager replaced with another expatriate. They agreed, and in six months productivity shot up 3 5 percent and we continued to live up to the parent company's expectations....“

We find that moderately high levels of standardization of the affiliate's management and human resource management systems and the parent company's systems permits greater levels of global integration and has a positive effect on the affiliate's performance. In addition, we find that similarity between the affiliate and the parent company in terms of their corporate cultures generally has a positive impact on affiliate performance. In contrast, localization of HR management, corporate culture, and overall management style are all associated with lower performance levels in the affiliates in this study, although the results are not statistically significant.

These results seem to contradict the assumption that simultaneously high levels of both global integration and decentralization should lead to higher levels of performance. We find that the relationship is more complex than we originally thought. Interviews with top executives in our study suggest that decentralization and localization are often carried out because „it's the right thing to do“ or because it is company policy. Under these circumstances, the results can be disastrous. As the managing director for an American computer firm stated: „[Our company] is moving away from a standardized, centralized approach, but it's tough to do without losing our competitive advantage.“ Time and again, executives told us that decentralization for the sake of decentralization does not work. Rather, managers must consider whether particular policies and practices fit with the strategic objectives of the affiliate before deciding to either centralize or decentralize the activity. We found that in those affiliates in which decentralization fits with strategy, performance is heightened, while in those affiliates in which decentralization is in conflict with strategy, performance suffers.

These results indicate that while higher levels of global integration tend to be associated with higher levels of affiliate performance – decentralization and localization of management and HR policies and practices and corporate culture (particularly when it undermines implementation of the strategy of the affiliate) can lead to lower levels of affiliate performance. So far, however, we have looked at only part of the picture. We will now explore the more subtle mechanisms that organizations can use to decentralize and globally integrate their operations simultaneously.

Investment in Human Resources. We find strong evidence in our study that specific human resource management policies and practices are more important than whether systems are localized or standardized. In fact, these policies and practices separate the highest-performing from the lower-performing firms in our study. First, the results show that at a broad, strategic level, high performers put more focus on managing human resources in their business strategy than do low performers. While high and low performers in the sample all focus on producing high-quality products, customer service, and operational efficiency, high performers (but not low performers) equally stress managing human resources as a key strategic focus. Nowhere is this emphasis clearer than in the amount of training affiliates give both their new and existing employees. For example, while low performers give their new blue-collar workers an average of 24 hours of training in their first year of employment, high performers offer 129 hours. Similarly, new managers in low performers receive an average of 33 hours of training in their first year with the affiliate, while new managers in high performers receive three rimes as much training – an average of 97 hours. In one high-performing American electronics company, for which 40 to 50 percent of new business is coming from Asia, the MNC has set up a company university branch in Singapore to train employees throughout the region.

Another distinguishing factor was experience. When we compare the backgrounds of executives we interviewed, we find that those in the high-performing affiliates have significantly longer tenures with their organizations and have much greater experience working for other parts of the MNC than do executives in the low-performing affiliates. For example, in one high-performing American company's international development program for local managers, the employee's boss chooses a 6-12 month assignment in another host country for the employee, so that he or she can both learn and contribute to the company.

Managers in the highest-performing affiliates also more often report that they have mentors at headquarters, indicating close interpersonal connections with individuals located in various locations throughout the organization. Overall, the web of relationships among the individuals in the human network appear to be much stronger in the highest-performing firms. This is a particularly important finding given our earlier discovery that knowledge is the critical resource binding the MNCs together.

Corporate Culture. Finally, we looked at how corporate culture affected the performance of affiliates. What we found is that while it does not matter how „American" or „Japanese" the corporate culture is, there is a strong relationship between the strength of the corporate culture in the MNC and affiliate performance. High-performing affiliates have stronger corporate cultures than low performers, and at times the corporate culture can overcome other company weaknesses. According to the managing director at one American affiliate: „Our global human resources system is disorganized, but our value system permeates the organization. It is our value system, which we all understand, that provides the glue that holds the organization together." The corporate culture, this organizational glue, can enable firms to be simultaneously highly integrated and locally responsive and flexible.

In addition to strength of corporate culture, we found that affiliates with „open" corporate cultures achieved significantly better performance than those with „closed" cultures. Open cultures allow individuals to share information and learn from others' experiences both within and across organizational boundaries. For example, one Japanese manufacturing plant that we visited held weekly showings in the employee cafeteria of videotaped messages produced at the parent company. The tapes, which convey general information about the MNC, facilitated open communications and global sharing of information.

Finally, the highest-performing affiliates have more balance between a corporate focus and an affiliate focus and between a home-country focus and a host-country focus than do the other affiliates in our study. Thus, global integration in the highest performers is achieved through a strong and open corporate culture, but it is not necessarily a culture that is dominated by the parent company.

Conclusions

The results of this study indicate that in the management of overseas affiliates, over-localizing and decentralizing can be dangerous to your health. At the same time, trying to force an „American" or „Japanese" way of doing things down the throats of local employees can have equally poor results. Our study results point to the importance of making decisions about which kinds of management policies and practices to put in place on the basis of strategic considerations, rather than on whether or not it is the „right thing to do." In addition, while high-performing companies have strong corporate cultures, the parent company does not dominate the affiliate. The openness of the culture to new ideas and different ways of doing things also appears to be critically important to affiliate performance, probably through its positive impact on organizational learning and the organization's adaptability and flexibility.

In addition, the results point to the importance of transferring technical expertise from the parent company to the affiliate in creating high levels of organizational performance. While technology transfer has long been a goal of host country governments, many companies have been reluctant to transfer know-how overseas for fear of information leaks, resulting in a loss of competitive advantage. Fostering a loyal workforce and reducing employee turnover may enable MNCs to overcome this dilemma.

We also found that putting mechanisms in place to align the mindset of managers is critically important to the success of the firm. More formal organizational mechanisms – such as centralization of decision-making, staffing with expatriates, the exchange of resources between the parent company and the affiliate – are no doubt important. However, the more subtle mechanisms, such as the strength and openness of corporate culture and investment in training and development, give the MNC the multidimensional management perspectives and the flexible coordination processes it needs to balance the conflicting demands of global integration and local responsiveness and to continuously learn and adapt to the changing environment. As the training director at a well-known American electronics affiliate noted: „At [our company] the focus is moving away from ROI to a continuous process improvement mentality. Learning to learn is critical to the company's success...."

These results underscore the important strategic role that human resources and a supporting corporate culture play in successfully implementing the strategies of MNCs. Human resource management decisions such as staffing and training therefore become key strategic decisions for the firm. As a managing director of an American chemicals affiliate said: „We are matrixed all the way down the organization – it's very complicated, but it works.... What holds it all together is the network of people, the contacts.... Our businesses aren't worth anything outside of the network."

It is simply impossible to simultaneously globally integrate the MNC's operations and decentralize activities and decisions through formal mechanisms. Only individuals with the ability to appreciate and balance local and global considerations should occupy the key decision-making positions throughout the organization. The managing director of a Philippines affiliate of one of the largest American electronics companies stated his company's greatest strength moving into the 21st century: „Human resources. That has been our strength in the past and it will continue that way." As the results from our study clearly show, while the impact of investments in human resources may be difficult to quantify, the careful management and nurturing of human resources – and a strong and open corporate culture – ultimately separate the winners from the losers in the global marketplace.

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