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INTERNATIONAL HRM
DEVELOPING HR PRACTICES IN AN ITALIAN
POCKET MULTINATIONAL: SIRMAX CASE STUDY

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This dissertation is dedicated to my family, my girlfriend and my friends that helped me in achieving my life goals. Moreover, it is dedicated to the University of Padua that made me grow as a person through its opportunities and for providing me the basis for my professional career.

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INTRODUCTION & SUMMARY

ANDERSON, INDIANA (USA), JUNE 2015. Mike Pence, now vice-president of United States, at that time was Governor of Indiana and said these words when Massimo Pavin, CEO of Sirmax, inaugurated the new American plant:

“The greatest thanks go to a man who probably did not know this community up to twenty-four months ago, but who will now love you all: Massimo. Massimo's commitment is not only financial, it comes from the trust in the skills of our workers and in our educational institutions like the University of Anderson, but it is also a declaration of trust towards our entire community (Mike Pence, 2015)”

This speech includes important implications that allow to understand the growth path implemented by Sirmax and the effects on human resource management (HRM) that will be explained in this dissertation.

THE PURPOSE OF MY DISSERTATION. The purpose of this work is to demonstrate the dynamic relationship between strategic development, organizational adaptation and human resource management. Specifically, it was demonstrated how an Italian pocket multinational enterprise, Sirmax, in a rapid growth phase succeeds in increasing turnover and organizational size without formalizing HR practices. Examining the firm's organizational evolution, were analysed theoretical and practical factors that contributed to manage the increasing complexity. According to the centralization model typical of small and medium enterprises (SMEs), the firm centralized all key decisions in the headquarters and controlled carefully international operations through an intense information system. It is demonstrated that performance control and frequent interactions with local managers allowed the company to carry on its business in the international arena without having the need to implement HR practices.

However, organizational complexity runs in parallel with organizational growth. Thus, operating more different environments entails the company should address local institutional and cultural influences and it should design an appropriate set of practices: it means that the firm can entirely or partially transfer practices as they are or adapt them to the local context granting autonomy in decision-making. In doing so, it is essential to have an IHRM strategy that includes policies and general guidelines on how to manage effectively parent-country nationals (PCNs) and host-country nationals (HCNs). To this purpose, it is proposed an initial set of cross-cultural practices that can be implemented by the company in order to foster human resource attraction, motivation and retention.

CHAPTER 1. The first chapter introduce the theoretical framework from which it is described the international human resource management (IHRM)'s field. The firms' challenge is to understand when HRM is prepared to assume a larger role in the organization's business strategy and contribute to informed decisions about business growth (Suttapong et al., 2014). There is increasing diversity between domestic and international HRM regarding what constitutes international work, the type and length of international assignments and the increasingly strategic role of the HR function in many organizations, which in turn influences the nature of some expatriates' roles (Dowling et al., 2017). International HR practices include all HR programmes and decisions conducted across national borders concerning global staffing (i.e. PCNs, TCNs and HCNs), international training and development programmes, performance management and international compensation. There is recognized evidence of the critical role played by the international corporate HR function in supporting global strategies through these activities. Moreover, despite the difficulties in measuring the contribution of international HR practices on the overall firm performance, there is evidence that human resources can contribute to the long-term success of a business. Building on the resource-based perspective, it is shown how it is possible to extract value from HR practices.

CHAPTER 2. The second chapter introduces the concept of pocket multinational enterprise and analyses how human resources are managed. Given the fact that it is neither a small enterprise nor a multinational corporation (MNC), there is little academic literature on this firm category. Therefore, the attempt was to address how these entities de-

financed in the middle used to manage their human resource. Operating at international level, IHRM becomes critical even for relatively small companies. Most of the pocket multinational shows a tendency to extend their family values as reference point to orient HR policies: they tend to check this proximity in non-family managers which are selected on the base of technical skills, but also evaluating their values. In the internationalization process, complexities are much more accentuated for small and medium enterprises (SMEs) which face harder challenges than the ones faced by large MNCs. As the nature of the firms changes and the number of activities grows, most firms pass through several stages of organizational development. The organizational structure is likely to change on the firm's evolutionary path: for instance, when two separate organizations are combined into one is very tough to integrate organizational culture and national culture values. Cultural clashes can cause serious damages to the overall organization and can lead to employees' misconducts. Thus, in cross-border alliances, it is necessary to carefully manage the post-merge integration phase with particular emphasis on human resources and on not losing human capital. Virtuous pocket-sized multinationals that have developed original business models capable of combining different traits of entrepreneurship, might become important player in the international competitive arena as Sirmax became recently: combining creativity, product and management culture, and relational capabilities, Sirmax was able to define technological solutions and business strategies in a growing and complex organizational structure (Coltorti et al., 2013). The company experienced a rapid internationalization process entering in many countries in few years: the greenfield investments (Poland, Brazil, USA) and the international joint venture (India) allowed the company to almost double its turnover. Although its organizational structure had to change substantially, they succeed in their international operations without formalizing any HR practice for managing both PCNs and HCNs. Subsidiary managers formally report all the information to the various functional heads and the human resource management is up to the CEO of the company.

CHAPTER 3. Since the purpose of this work is to look at the relationship between corporate strategy, organizational adaptation and human resources, in the third chapter will be analysed the elements which gave a substantial contribution to sustain the company. A key process of internationalization is the systematic transfer of practices and knowledge in which information and skills flow from one organization to another and

complete an organized exchange of practices between entities. In Sirmax there was not a formalized exchange of practices, but this transfer was made indirectly from the headquarters to every subsidiary. All of these became a sort of headquarters' replication. In the organizational strategy, Sirmax did not find many institutional pressures to gain stakeholders' legitimacy and so the headquarters highly influenced subsidiaries' operations imposing its way of doing things. Although employees and managers may view negatively the rigid imposition of the headquarters and feel not trusted, this choice was proved successful. Four key integration modes were critical. First, key decisions were centralized in the headquarters with the administrative office always ready to solve problems; Second, the formal control was made with the implementation of an operational excellence system and a rigid control on operational and financial performance. Third, frequent interactions between headquarters and local managers and visits enabled the company to identify and solve whatever type of problem and inefficiency. In addition, at the hearth of the organization, the CEO coordinates all the processes and decides on all matters as a last resort. Finally, the implementation of S.A.P. software in all the plants allowed the company to strengthen its information system and to standardize administrative practices using a common codified language. In the future, with the increasing production capacity and the increasing of the organizational size, it may be not enough have such organization. As every multinational enterprise, Sirmax will face the trade-off between global integration and local responsiveness. This latter is driven by the influence of the institutional and cultural environment which requires to carefully manage not only the business itself, but also human resources. The entry mode and the role of the subsidiary are other two important factors that influence firm's decisions. The issue for the company is deciding the extent to which the subsidiary should adopt internal practices and/or practices deriving from the host-country environment. To implement or integrate HR practices, the firm needs to balance the internal and external pressures and find the appropriate and efficient organizational fit.

CHAPTER 4. The fourth chapter proves how cultural differences impact on MNEs' decisions: it provides important implications about the organizational management practices when firms operates in different cultural environments. Performance and behaviours connected to the specific HR practice are likely to vary on the base of the employees' internalization process of such practice. HRM systems vary across the world and

these are seen and conceptualized differently rather than as universalistic dimension applicable to all contexts. Building on the Hofstede's dimensions it was possible to identify relevant differences in the countries where Sirmax operates. Thus, on the base of national culture's specificities it is showed how staffing, performance appraisals, compensation, training and leadership and work design are likely to vary. Having a diverse workforce entails that Sirmax must cope with both formal and informal institutions: the former refers to the local legislation, whereas the latter are cultural constraints rooted in the shared norms, values and beliefs of a society that are not formally codified. Every firm is characterized by an organizational culture that includes all the values and beliefs of the organization. These influence the way employees think, feel and behave toward one another and toward people outside the organization. In crafting an organizational strategy and in setting the related goals, the firm should evaluate their cultural fit (alignment or misalignment). Strategies will be translated in effective and consistent (or inconsistent) HRM strategies and actions. Finally, firms adopting a transnational strategy should place emphasis on the development and management of four types of human capital (HC), albeit in different proportions for each country: a strong bond between corporate HC and subsidiary HC needs to be supported by both local HC and international HC. The role of the headquarters is to enable, encourage and facilitate the exchange of knowledge and information in order to activate a mutual-learning process based on general principle. This process is achievable through the implementation of integrative work practices and integrative employment practices. Organizational ambidexterity helps to balance the trade-off integration-localization through the development of a strong common frame of reference. In this way the firm can enhance efficiency (short-term performance) and flexibility (long-term performance).

MANAGERIAL IMPLICATIONS. As far as managerial implications are concerned, these can be deduced from the analysis of the actual context in which the analysed firm is going to operate. Although the firm highly invested in information systems and organize precisely managers, this case study helps to recognize internal and external influences that an emergent medium-sized enterprise is going to deal with in the next future. In addition to the already implemented HR practices, to prevent the risk of misconducts, dissatisfaction and information asymmetries, a growing pocket multinational must formalize its HR strategy and design appropriate HR practices for that specific context. In this

way, it is possible to directly address all the issues related to human resources. On the base of its organizational values, the firm must implement HR practices that motivates discretionary behaviours that contribute to organizational performance. A high-performance HR system includes recruitment and selection, training and development, performance appraisals, information and knowledge sharing and career opportunities. Such practices contribute in attracting, motivating and retaining employees.

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MANAGING PEOPLE IN MULTINATIONAL ENTERPRISES

1.1 Introduction

In the 21st century companies should aspire to become an industry leader in the global market, rather than in the domestic one as it was in the past.

The world economy has been globalizing at an accelerating pace: global economic policies were directed to an increased openness of the market; the development of information technologies allows to reduce the geographical distance; while, growth-minded companies strives to build strong competitive positions in the different markets and in different countries.

In this scenario, more and more enterprises started to operate beyond their national borders, reason why researchers started to use the name “Multinational Enterprises” with the acronym *MNEs* to indicate this category of firms.

Many researchers stated that managers’ ability to conceive, identify and then exploit opportunities outside the firm’s domestic market may lead the firm to achieve a competitive advantage over competitors (Knight & Liesch, 2016). Hence, managers should understand how to make a cross-national combination of resources and market conditions which may benefit the firm.

Most of the big corporations that dominate the international landscape began as small business and in many cases the growth of these companies was due to their founders’ radical new skills, knowledge and information (Acs *et al.*, 1997). The strategies of multinational firms are therefore crucial to the future causes and consequences of the firms operating in a global environment (Buckley, 2009).

Certainly, a full explanation of a company’s performance includes many factors. Some come from the external environment, but other from the firm’s abilities. Nevertheless, a

competitive advantage derives from the great strategy execution that is conceived on key internal success factors and on the firm organizational structure.

The objective for the firm is to find additional tangible and intangible resources which can be combined in innovative ways. The international environment provides these companies the opportunity to have a broader access to these resources and to exploit successfully synergies.

Not all the environments are similar and neither provide equal resources and prospects. Indeed, an *MNE* behaves differently according to the country in which it operates.

In this opening chapter it is provided an overview of the facts that influence how a company behaves when it crosses the national borders and how these influences can be managed using international human resources.

In the following paragraph will be analysed the relevance of the different national contexts in determining how *MNEs* organize themselves and operate in a specific market. Thereafter, the next paragraph introduces the field related to the international human resource management (IHRM) proposing a framework which delineates the various important aspects in managing an international organization. Here, will be described the function of the HR department, including the roles played and the general practices used internationally. Finally, the chapter concludes with the measurement of the financial and social contribution of the HR department on *MNEs'* performance.

1.2 Cultural environment and management of *MNEs*

Every *MNE* is an open and social system that operates in an environment characterized by diverse institution and different social, cultural and economic systems.

Researchers reported that value creating activities within *MNEs* have become increasingly diversified and complex in terms of cultures, values, norms, beliefs (Kawai & Strange, 2014). International firms competing in more than one country face higher level of complexity and more variable challenges in doing business.

While small- and medium-sized enterprises strive to gain advantages from a larger market due to resource constraints, the largest multinational enterprises are already perfectly placed to exploit national differences (Buckley, 1996; in Buckley 2009, p.132) even integrating them in their international strategy.

At the hearth of every global business lies a tension on which researchers are still debating about how fully resolve the issue between integration (standardization) and adapta-

tion (localization) of worldwide operations. This kind of terminology is commonly used referring to functional areas such as marketing and human resource management (HRM) (Pudelko & Harzing, 2007). *MNE*'s executives need to understand how it is more appropriate to align cross-border coordination mechanisms in the headquarters-subsidiary relationship with the growing dual pressures for customization in the host market and overall strategic efficiency (Kawai & Strange, 2014). When an *MNE* serves diverse regional and national markets, it may be required to adapt its products, services and business models to local conditions. This is particularly important when *MNEs* look for customers in emerging economies where the need for global scale and for local differentiation increases.

On the one hand, *MNEs* seek to achieve global efficiency through economies of scale and scope which demands a certain degree of uniformity and integration of activities across markets (Hong & Doz, 2013). On the other hand, *MNEs* are influenced by the strategic and operational decisions made by their subsidiaries in order to ensure responsiveness to local conditions in terms of product and strategies (Pudelko & Harzing, 2007).

Often there are important variations in the way people use products like commodities as for example washing machines that include specific country variations.

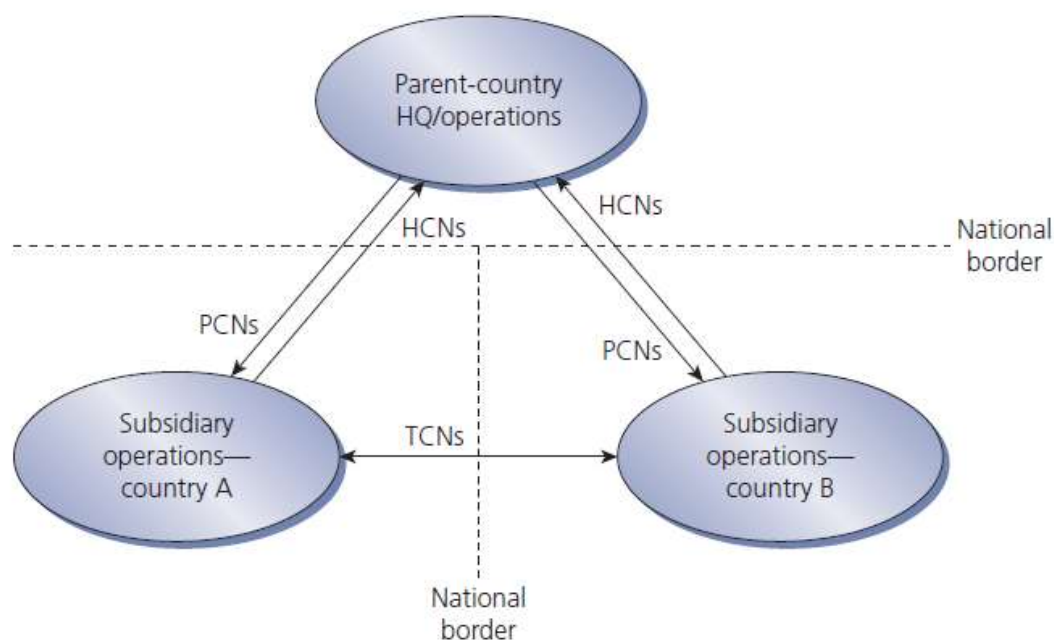
The example could be extended to the Ho.Re.Ca. (hotel, restaurants, cafés) sector where global franchises such as McDonald's and Starbucks even if they have standardized both products and management practices across the world (Pudelko & Harzing, 2007), they have some local variations (i.e. Starbucks entered just recently in the Italian market through a particular shop-formula). For instance, many *MNEs* localize promotion and distribution of practices even if they have a global advertising strategy (*ibidem*).

Another example regards the French cosmetics giant L'Oréal: having built a portfolio of brands from many cultures and operating in more than 130 countries, it based its remarkable success on a multicultural organizational structure. Given the fact that the main key success factor of the company is the product development function, the organizational strategy to cope with the global-local tension, includes the deployment of professionals with multicultural backgrounds. Therefore, L'Oréal started to recruit internationally for positions at headquarters where the employees will develop their skills. Teams are composed by managers who are familiar to norms and behaviours of multiple

cultures and consequently can switch easily among them being moved to other subsidiaries (Hong & Doz, 2013). *MNEs* seek to combine right people with local practices to manage and operate their businesses in an appropriate way for that specific context. This combination has been considered a constant critical success factor for international businesses (Dowling *et al.*, 2017).

A *MNEs* may employ managers and employees of several nationalities and ethnic groups (Maimone, 2018) that can be moved and transferred according to the needs of the organization as in the L'Oréal example. As showed in Figure 1, three categories of employees can be recognized: parent-country nationals (PCNs), host-country nationals (HCNs) and third-country nationals (TCNs).

Figure 1 International operations and human resources



Source: Dowling *et al.*, 2017

Traditionally, the PCN employee with a specific talent-set can be transferred to the firm's operations in another country and he/she is called "*expatriate*" (Dowling *et al.*, 2017; Stokes *et al.*, 2016). This terminology is used as well for HCN and TCN when are transferred into parent country operations (Dowling *et al.*, 2017). They are sourced from a specific country or cultural context and then are brought into a different one (Stokes *et al.*, 2016). On the contrary, when talented employees are transferred to the operations established in its country of origin, they are called "*inpatriates*". They are sourced from

within a given cultural context to work in that setting (Reiche, 2006; in Stokes *et al.*, 2016).

Typically, in multi-domestic organization (Bartlett & Goshal, 1989), both headquarters and subsidiaries employ mainly local staff, except for the top management positions (Maimone, 2018).

Over the past two decades, the increased globalization of businesses has led the HR function to assume and perform a strategic role in the development of systems for leadership, staffing and coordination (Morris *et al.*, 2009; De Cieri & Dowling, 2012). Managers must understand and take into consideration the essential differences in managing human resources at all levels, especially in foreign environments, to prevent failures. This requires that global HR policies are managed by the corporate HR in the *MNE* headquarters and balanced with local implementation of HR practices (Morris *et al.*, 2009; De Cieri & Dowling, 2012).

To conclude, a research carried out by Czinkota and Ronkainen (2008) demonstrates that the HR function is the third most important function within an organization that will be able to influence global businesses in the future (logistics was ranked first and marketing second). In addition, they recognized education and training for workers as crucial factors that allow countries “to move up on the globalization chain”. From the next paragraph, it is provided a deeper analysis on the strategic relevance of international human resource management.

1.3 What International Human Resource Management is?

In a globalized world, with the rising of emerging countries and with the easier access to capital and technologies, firms need to build their competitive advantages on catching innovations first, on speed, especially in the time-to-market, and adaptability with the external context.

Nowadays, business leaders have recognized the importance of human resource management (HRM) as a great influence on the company's performance. For whatever company, the challenge is to understand when HRM is prepared to assume a larger role in the organization's business strategy and contribute to informed decisions about business growth (Suttapong *et al.*, 2014). Indeed, for SMEs, especially those established in only one country, HRM aims to hire, plan and organize employees, finding the perfect fit in the organization and manage wages and policies for them.

In reality, HR activities include also training and development, recruitment and selection, performance management and industrial relations. As a result, HRM is a complex task for any organization. It is particularly demanding for multinational companies, which face heightened levels of complexity since they operate across countries with diverse institutional and cultural environments (Lazarova *et al.*, 2017). Competing in different environments presents indeed additional activities and challenges for companies: managing more subsidiaries and employing different national categories of workers are key variables that differentiates domestic and international HRM. IHRM involves the same elements of domestic HRM, yet with the added complexity attributed to six factors (Dowling, 1988; in Dowling *et al.*, 2017):

- More HR activities: the HR department, indeed, must engage in a higher number of activities such as international taxation and administrative services for expatriates;
- The need for a broader perspective: HR managers working in an international environment face the problem of designing and administering programs for more than one national group of employees.
- A greater degree of involvement in employees' personal lives: especially for managing services and supports for the expatriates and for the selection, training and effective management of parent-country nationals (PCNs) and third-country nationals (TCNs);
- The need to change emphasis in HR operations: as a foreign subsidiary matures would broaden the responsibilities of local HR activities such as HR planning, staffing, training, development and compensation;
- Higher risk exposure: in case of failure in terms of under-performance or return of the expatriate, the company would have had an impact on direct costs (salary, training costs, travel costs, relocation expenses) and on indirect costs (loss of foreign market share or damages to key host-country relationships);
- Broader external influences: IHRM is influenced by external factors such as government regulations, the state of the economy and compliance with general guidelines and accepted practices. HR manager must spend more time in learning and interpreting the local ways of doing business and the general code of conduct. This topic will be addressed in Chapter 3.

Briefly, there is increasing diversity between domestic and international HRM regarding what constitutes international work, the type and length of international assignments and the increasingly strategic role of the HR function in many organizations, which in turn influences the nature of some expatriates' roles (Dowling *et al.*, 2017).

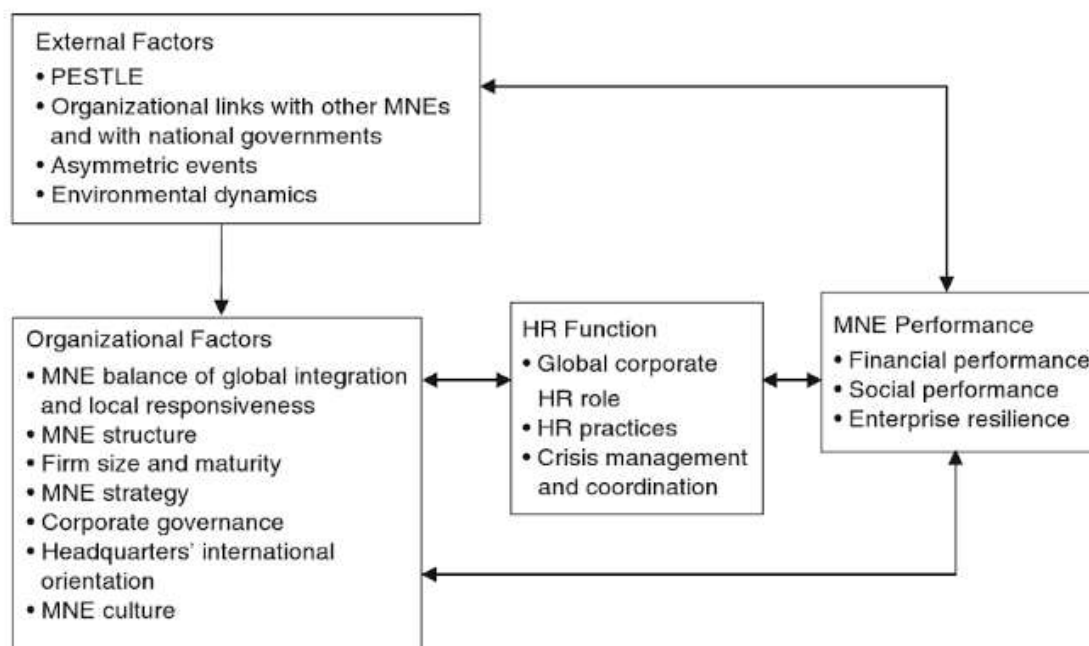
These factors are moderated by other variables which might diminish or accentuate the complexity: the cultural environment, the industry, the extent of reliance of the multinational on its home-country domestic market and attitudes of senior managers are the main variables that are likely to affect decisions (*ibidem*).

The starting point is provided by De Cieri and Dowling (2012) that explained through the strategic framework depicted in Figure 2, the complexities and challenges that firms face moving internationally: assuming that *MNEs* operate in the context of worldwide conditions, as indicated by arrows in the framework, the authors propose that external factors have direct influence on both internal organizational factors, including practices and on the strategic human resource management (SHRM) strategy and consequently on *MNE's* goals and performance.

Starting from a macro-environment analysis of the (external) factors, the firm can have a general overview of what is the context in which it is going to operate.

The proposed analytic tool is the PESTLE analysis (Political, Economic, Sociological, Technological, Legal and Environmental analysis) which is generally used in consulting and management practice.

Figure 2 IHRM framework



Source: De Cieri & Dowling, 2012, p. 17

In addition, to complete the contents of the international overview, the firm must identify also the volatility and uncertainty related to *MNE* organizational links, environmental dynamics and asymmetric events (De Cieri & Dowling, 2012).

The internal organizational factors are firm specific and are shown in order from the most tangible to the most intangible. Therefore, the framework firstly analyses the coordination mechanisms which refers to the possibility to integrate all units into a cohesive global organization or to give a certain degree of local responsiveness in replicating HR practices across subsidiaries due to the influence of external factors (Morris *et al.*, 2009; Dowling *et al.*, 2017). The organizational structure analysis includes not only the mere international operations, but also entry modes in foreign markets (see Chapter 2) and mechanism of coordination (see Chapter 3). Firm' size and maturity refer to the influence of both parent company and subsidiaries in the decision-making process (De Cieri & Dowling, 2012). Finally, it describes intangible factors such as international experience, international orientation and organizational culture.

The HR activities are considered as support function in the firm's value chain but become primary and critical during the formulation and implementation of a strategy.

As main HR practices, *MNEs* attract, motivate and retain staff in order to support business goals and objectives (Dowling *et al.*, 2017; De Cieri & Dowling, 2012).

Global HR programmes are implemented across national borders and usually include global staffing, worldwide training programmes, global performance management.

Academic researches over the past decade have shown that HR practices, including expatriate management, are influenced by both internal and external factors and have positive implications for organizational performance (Dowling *et al.*, 2013).

So, what is important for the *MNE* is to pinpoint the relevant corporate HR role played by the different actors in the global HR strategy's implementation.

As a result, there is supported evidence that high-performance HR practices will contribute to the organizational performance. Although the literature's focus on this field was mainly about large *MNEs*, researches recognized that also small and medium enterprises (SMEs) competing in international markets face significant HRM challenges (Dowling *et al.*, 2017).

However, the firm performance can be monitored via social and financial modes and each aspect may vary across industry and organizations. Thus, formal objectives are not only related to economic efficiency, including organizational performance which is related and result from each factor described by the framework (De Cieri & Dowling, 2012), but also to social efficiency on the individual and societal level which result from motivation and well-being (Andresen, 2015).

1.4 IHRM function

Building on the IHRM framework provided by De Cieri and Dowling (2012), the focus moves on the roles played by the international HR department and on the international HR practices.

1.4.1 HR department's roles

With reference to Figure 2, the focus moves on the strategic role played by the HR department and on the different approaches towards the organization.

In the past, reviews of HR department development consider administration and industrial/employee relations issues as primary department's function. The concept of "personnel department" grew after World War I and with the parallel development of trade unions with the rationale of improving workers' conditions and jobs and social envi-

ronment (Stiles & Trevor, 2006). Over time, under the increasing pressure of the business globalization, the HRM function has expanded performing more roles at strategic level.

The objective is to influence and to enable systems for global leadership development, diversity management and global mobility management (De Cieri & Dowling, 2012).

There is recognized evidence of the critical role played by the international corporate HR function in supporting the globalizing strategy through recruitment, training and management development of managers that leads to MNEs' success (Stiles & Trevor, 2006).

Furthermore, given the complexity of international organization, the HR department can be involved in key issues within the business as for example it facilitates the collaboration and knowledge sharing between units, creates and sustains transactional HR processes for effective HR deliveries and develops global talents (Stiles, 2012)

However, HR department is a multi-role unit which serves simultaneously multiple constituencies (Stiles & Trevor, 2006; Stiles, 2012; Ulrich, 1997). Thus, department's efforts are reflected in more strategic roles that are described by Ulrich (1997) along two axes: strategic/future focus (long-term focus) versus day-to-day/operational focus (short-term focus), and processes (HR tools and systems) versus people (Figure 3).

Figure 3 HR department's roles



Source: Ulrich (1997)

The objective of this framework is to make HR professionals understand that they should not concentrate just on HR (basic) activities, but also on deliverables of their work. Strategic partner, administrative expert, employee champion, and change agent are the four key roles of the HR department. Table 1 describes the characteristics of each one.

Table 1 HR department's roles

ROLES	GENERAL TASK	DELIVERABLES /OUTCOMES	ACTIVITIES
<i>Strategic partner</i>	Management of strategic human resources	Defining and executing strategy and accomplishing to business objectives.	<ul style="list-style-type: none"> - Identify HR priorities and align HR practices with the business strategy; - "Organizational diagnosis" to determine organization's strength and weaknesses
<i>Administrative Expert</i>	Management of firm infrastructure	Building efficient HR processes, policies and practices	<ul style="list-style-type: none"> - Design and deliver efficient HR processes for staffing, training, appraisal, rewards; - Reengineering organization processes; - Ensure coordination ("shared services")
<i>Employee Champion</i>	Management of employee contribution	Increasing employee commitment and capability.	<ul style="list-style-type: none"> - Listening and responding to employees' issues - Providing resources to employees' changing demands - Link employee contributions to organization's success
<i>Change Agent</i>	Management of transformation and change	Ensuring the capacity for change and creating a renewed organization	<ul style="list-style-type: none"> - Transformation entails cultural changes; - Change refers to the ability to improve the design and implementation of processes and to reduce cycle time in all the organizational activities.

Source: Ulrich, 1997

The author argues that human resources are the "dominant lever for creating value" and both employees and HR managers must work together as a team to achieve this overarching goal. Although Ulrich argues that every role is important and these should not be viewed as hierarchical, though this model has become pervasive and it is likely that arise conflicts between these roles: for instance, becoming a strategic partner can increase the sense of the HR function as a consultancy role, but it lose in the traditional power base and influence as an employee champion and administrator (Stiles & Trevor, 2006). Furthermore, the simultaneous presence of multiple divergent and potentially inconsistent objectives and constituencies make HR performance measurement problematic (Tsui, 2000; in Stiles & Trevor, 2006).

1.4.2 International HR practices

The general roles played by the international HR department inside an organization can specifically support international business operations and growth through specific activities and decisions.

The HRM system is the overall configuration or aggregation of a firm's HR activities which include formal policies and daily practices for managing people and addressing HR issues. HR issues are relevant organizational concerns and problems for which HR managers are required to provide effective solutions. The means used by *MNEs* are HR policies which are general statements concerning how people will be managed, and HR practices which provide a more specific statement of how workforce will be managed (Schuler & Tarique, 2012a). In brief, HR policies are the guidelines and HR practices are actually implemented procedures and conduct.

Practice related to the organization is also called “*organizational practice*” and is defined as

“an organization's routine use of knowledge for conducting a particular function that has evolved over time under the influence of the organization's history, people, interests and actions” (Kostova & Roth, 2002).

HRM practices, indeed, differ according to their levels of institutional embeddedness in local and parent systems (Rosenzweig & Nohria, 1994; in Smale *et al.*, 2013).

Organizational practices can be further distinguished into two categories, namely work practices and employment practices: the former refers collectively to the various ways in which work is organized within a firm (e.g. through super-vised work groups or self-managed teams) and to the ways in which employees are able to participate in organizational decision-making (e.g. through Kaizen programs, quality circles and so on) (Garaus *et al.*, 2016); whereas, employment practices include the practices that a firm employs to recruit, deploy, motivate, develop or retain employees (Garaus *et al.*, 2016) for the purpose of supporting business goals and objectives (Dowling *et al.*, 2017). Designing an appropriate bundle of HR practices is essential to achieve employees' high-involvement and high-commitment in their jobs.

Alternatively, other authors outline HR practices for their scope at individual level which consequently affect organizational performance. One model is called “ability-motivation-opportunity model (AMO)” and attempts to address the HR practices that

impact on employees' attitudes and behaviours and consequently to operational performance (Pauwee & Ferndale, 2012). This model includes:

- Ability- or skill-enhancing HRM practices such as staffing, recruitment and selection, and development practices;
- Motivation-enhancing HRM practices such as compensation systems, career-enhancing practices and performance and development programs that help the firm to retain managers and employees and to align capabilities;
- Opportunity-enhancing HRM practices are context-based practices developed by the company to empower and inspire personnel to build on their knowledge, skills and abilities as well as their ambitions to advance interfirm objectives, processes and outcomes. At the end, they form opportunity-spawning contexts and infrastructures. Some examples are decentralized structures, information-sharing protocols, engagement programs, networking programs, flexible job design, coaching and rotational assignments. In this way, individuals can further develop and accelerate their organizational learning (Brueller *et al.*, 2018).

For *MNEs*, these practices include all HR programmes and decisions conducted across national borders concerning global staffing (i.e. PCNs, TCNs and HCNs), international training and development programmes, performance management and international compensation.

Global staffing approaches

As concern the organization, a firm can have different approaches toward their affiliates depending on their cognitive schemas, knowledge and experience.

The first author that wrote about IHRM was Perlmutter (1969) who in his seminal article "*The tortuous evolution of multinational corporation*" claimed the possibility to identify among international executives three primary attitudes – ethnocentric (or home-country oriented), polycentric (or host-country oriented) and geocentric (or world oriented) – toward building a multinational enterprise. A fourth attitude, region centric, was added later.

With his work, Perlmutter introduced a classification of multinationals differentiated on the basis of their attitude toward organizational design and geographic sourcing of management teams. He used organizational aspects such as decision making (including

product, functional and geographical decisions), evaluation and control, information flows and complexity of the organization. First, in ethnocentric firms, few foreign subsidiaries have any autonomy in strategic decision-making which is up to the headquarters. Managers from the home-country (PCNs) cover key positions in domestic operations as well as foreign operations managing subsidiaries. Second, the polycentric approach is based on employing host-country nationals (HCNs) in foreign subsidiaries. In this way, *MNE* treats each subsidiary as a distinct national entity with some decision-making autonomy. Rarely, HCN managers are promoted to positions at headquarters as well as unlikely PCN managers are transferred to the foreign subsidiary. Third, with the geocentric approach every position at both HQ and subsidiary level is filled by the “best person for the job” regardless of nationality. So, nationality is less important than ability in a worldwide integrated business. *MNE* takes a global approach to its operations recognizing that each part makes a unique and competent contribution (Dowling *et al.*, 2017; Perlmutter, 1969). The fourth and last approach, the regiocentric, reflects the geographic strategy and structure of the *MNE*: organizations are conceptualized on a regional basis and managers are generally selected on the basis of “the best in the region” with restrictions in international transfers of managers (Heenan & Perlmutter, 1979; in Collings & Scullion, 2012). Similar to the geocentric approach, a wider pool of managers is used, but in a limited way: staff may move outside their home countries but only within the specific geographic region. A geographic region for example may be EMEA (Europe, Middle-East and Africa), Asia-Pacific, America (jointly or separately Latin America and North America). Rarely, regional managers are promoted to headquarters position, but conversely, enjoy a degree of regional autonomy in decision-making (Heenan & Perlmutter, 1979; in Dowling *et al.*, 2017).

It is important to underline that this attitudes’ distinction is primarily concerned with staffing policies for key positions within the MNE, and thus its focus is on top management team (TMT) positions at HQ and subsidiary level (Collings & Scullion, 2012). Each attitude is an ideal type of organizational design and it is unlikely that an organization will exactly fit in any of the ideal types; on the contrary, most organizations will display different aspects related to more than one type (Collings and Scullion, 2012) and may use a combination of approaches.

In summary, based in part on top management attitudes, a multinational can pursue one of several approaches to international staffing. Having a standard policy without considering the diverse aspects of each country is the result of corporate inertia and/or inexperience which result from a reactive response rather than proactive and consistent with the overall strategy (Dowling et al., 2013). Furthermore, staffing decisions might be forced by the nature of the business or by the environment regardless management attitudes. For instance, a host government may impose constraints requiring the appointment of HCNs and consequently depriving a firm to implement an ethnocentric approach. In other words, this can severely limit the *MNE*'s ability to select the right person (Dowling et al., 2017).

Table 2 Advantages and disadvantages of using PCNs, TCNs and HCNs

EMPLOYEES	ADVANTAGES	DISADVANTAGES
<i>Parent-country nationals (PCN)</i>	<ul style="list-style-type: none"> • They facilitate organizational control and coordination; • If talented, they are rewarded with international experience; • They may have special skills and experiences; • They ensure subsidiary's compliance with <i>MNE</i> objectives, strategies and policies. 	<ul style="list-style-type: none"> • Limited promotional opportunities for HCNs; • Adaptation to the host-country may take a long time; • They may impose inappropriate HQ style; • Their compensation is different (usually higher)
<i>Third-country nationals (TCN)</i>	<ul style="list-style-type: none"> • Salary and benefit requirements may be lower than PCNs; • May be better informed than PCNs about the host-country environment. 	<ul style="list-style-type: none"> • Transfers must consider possible national hostilities (e.g. India and Pakistan); • The host government may resent hiring of TCNs; • They may not want to return to their home country after the assignment.
<i>Host-country nationals (HCN)</i>	<ul style="list-style-type: none"> • Language and other host-country barriers are eliminated; • Hiring costs are reduced and no work permit is required; • Continuity of management improves (they stay longer in their positions); • Government policy may impose to hire them; • Morale may improve as they see future career potential. 	<ul style="list-style-type: none"> • Control and coordination of HQ may be more difficult; • They have limited career opportunities outside the subsidiary; • Limited opportunities for PCNs to gain foreign experience; • Encourage a federation of national rather than global units.

Source: Adapted from Dowling et al., 2017

Global staffing (recruitment and selection)

The goal of most organization is to hire and to deploy people to positions where they can perform effectively (Dowling et al., 2017). Nowadays, multinational firms compete on the effectiveness and competence of their core human talent around the world. The war of talent is played firstly with the processes of recruitment and selection. Here,

MNEs rely on their employer branding's ability to attract talent, especially in emerging countries such as China or India where it may be difficult to find enough qualified personnel for foreign companies. The strong growth rates of these economies and the competition for talent have impact on the labour market. However, recruitment is defined by Dowling, Festing and Engle (2017) as

“searching for and obtaining potential job candidates in sufficient numbers and quality so that the organization can select the most appropriate people to fill its job needs” (p.123).

The authors provided also a definition of selection process in which the firm gathers information “for the purposes of evaluating and deciding who should be employed in particular jobs” (Dowling *et al.*, 2017, p. 123).

To prevent the risk of a poor selection decision which might have serious consequences on performances, often *MNEs* opt for the recruitment of internal hires for international assignments. In this way, the company is able to reduce this risk and minimize uncertainty. This kind of employee, traditionally called expatriate, moves across national borders and is transferred temporarily into another area of the firm's foreign operations (Dowling *et al.*, 2017) to manage critical needs: handle key projects, transfer knowledge, spread corporate culture, work on multinational teams and perform many other critical tasks for their firms (Caligiuri & Tarique, 2012).

Since assuming this role, living and working in another country is very challenging and have a strong impact on the person, the firm must develop appropriate selection criteria. There may be different international assignments (Figure 4) in terms of international work, length and strategic role. Employees are transferred internationally for varying lengths of time depending on the purpose of the transfer and the nature of the task to be performed: short-term (up to three months), extended (up to one year) or long-term (from one to five years). This is going to influence the nature and the tasks of the expatriate (Dowling *et al.*, 2017).

Figure 4 Expatriate's assignment

Assignment Duration	Long	Corporate Agency Control/knowledge transfer	Competence Development
	Short	Problem Solving	Career Enhancement
		Demand-driven	Learning-driven
Assignment Purpose			

Source: Evans *et al.*, 2011, p.140; in Collings & Scullion, 2012, p. 146

A potential candidate may reject the expatriate assignment, either for individual reasons such as family considerations, or for situational factors such as toughness of a particular culture (Dowling *et al.*, 2017).

The selection criteria must evaluate aspects of both individual and organizational dimensions. On the individual side, the criteria should consider the technical abilities and the cross-cultural suitability (included soft skills and intercultural competence) of the perspective candidate, and finally family issues and requirements. On the organizational side, the firm should consider the country and cultural requirements, including law requirements, the operations involved and the language skills, including the common corporate language (Dowling *et al.*, 2017).

To sum up, from a strategic perspective, HR department must determine appropriate selection criteria to ensure cross-national effectiveness of international assignees. This has become an increasingly important HR function (Caligiuri & Tarique, 2012).

International training and development

Regardless of the selection's mode, expatriates may be helped in their mission providing them training and development of cross-national competencies (for example, cross-cultural knowledge, skills and abilities).

Since international assignments can be very challenging personally (Caligiuri & Tarique, 2012), effective cultural training is advocated to assist individuals and to adjust more rapidly to the new culture (Dowling *et al.*, 2017), trying to prevent unexpected events.

In the new cultural environment, the expatriate faces a variety of challenges such as the inability to speak the host national language, the inability to cope with the stress of the culture shock, the inability to interact effectively with host nationals. So, as suggested by past researches, expatriates should not be left alone because if not predisposed or prepared to confront such challenges, they may perform poorly and fail in their objectives (Caligiuri & Tarique, 2012). Therefore, the *MNEs* should provide a pre-departure training.

Knowledge of general dimensions on which the new culture differs, including norms and behaviours, and the impact of these differences on the work environment and on the general life should be well-explained to the selected expatriate. In addition, the training programme includes preliminary visits, language instructions, assistance with practical day-to-day matters and security briefings (Dowling *et al.*, 2017).

The main objective is to provide awareness to reduce anxiety, limit the culture shock and encourage the person to undertake the assignment (Caligiuri & Tarique, 2012). This is particularly important when the destination country is considered culturally tough.

In short, providing a suitable training for international assignments is a critical step. This assistance and preparation are increasingly provided also to the accompanying family members.

Finally, the international assignment itself may be considered an important training and development tool for the expatriate because he/she assumes the function of trainer of HCNs transferring them knowledge and competences. Moving in another international area is also useful to gain a broader perspective for the future (management development and career enhancement). Furthermore, firms expect that expatriates ensure the adoption of systems and processes in the subsidiary and monitor the effective performance of HCNs (Dowling *et al.*, 2017).

International compensation

As in other IHRM matters, international compensation entails that HR managers must take into consideration many factors when they have to design a compensation package

for expatriates: the nationality of the individual, its family situation (including number and ages of their children, work situation of the spouse), floating exchange rates and inflation rates which might influence the amount of compensation, differences in living costs (Bonache & Stirpe, 2012). Furthermore, to successfully manage this issue and to conform with local customs, it is required to know employment and taxation law in both home- and host-country, and then environment and employment practices. So, managers must understand which allowances are necessary in that specific country considering shifting in political, economic and social conditions, and why and when special allowances must be supplied to the individual (Dowling *et al.*, 2017).

Often, to overcome the uncertainty and difficulties in getting familiar with legal and economic policies, *MNEs* turn to specialist advice and consultant which provide a broad range of specialized services related to HRM in multinational contexts (*ibidem*).

Differently from the domestic pay system, designing the compensation for an expatriate is more challenging and demanding. The firm must satisfy several objectives required by the internal offices and expected by the expatriate. Firstly, the expatriate expects that the compensation package includes a valuation of all the aspects described above that ensure financial and social protection in the foreign location and expects advancement opportunities in the future career. Obviously, the incentives are basically used as tools to encourage employees to take international assignments and to pursue headquarters' goals (Bonache & Stirpe, 2012) avoiding agency-theory's problems (Roth & O'Donnell, 1996).

From the internal point of view, the policy should be consistent with the overall strategy, structure and business needs of the multinational. It must attract and retain staff in the areas where the *MNE* has the greatest needs and opportunities.

Lastly, it must be the most cost-efficient policy, meaning that despite all the reimbursement, allowances and incentives, it must be straightforward to administrate and as cheap as possible (Dowling *et al.*, 2017).

In conclusion, designing a satisfactory compensation policy which is at the same time attractive and cost-efficient is very demanding and sometimes there are conflicting objectives that the firm needs to achieve. Managers may decide which pursue to the detriment of others.

International performance management

A significant and important field of study for researchers is policies and practices about performance management with which *MNE* evaluates subsidiaries' performance and rewards managers and employees for their results in the international arena.

Performance management is in part included in the *MNE*'s control system that will be analysed in Chapter 3.

MNEs hire individuals with the aim to reach personal and organizational objectives.

At its most basic level, the firm assesses and evaluates behaviours and performance of individuals and/or teams which lead to potential development of competences and continuous improvements (Cascio, 2012).

In this regard, a set of decisions on dimensions and level of performance criteria, task and role definitions, and the timing of the formal and informal aspects of the appraisal must be included in the individual performance management (Dowling *et al.*, 2017).

Generally, according to Cascio (2012), in performance management process, managers should define, facilitate and encourage performance.

First, managers must define what is expected from the individual employees, either PCNs, TCNs or HCNs, setting goals for improving performance in a variety of settings and cultures. Then they must be able to measure the extent to which an employee has accomplished them. In an international context, this includes not only tangible goals like reduction of defective parts produced, but might involve establishing relationships with new customers, union leaders and local government institution, and improving the working conditions and morale of the local workforce.

At the end, it is very important that managers receive a feedback from the assessment of individual and team performance, especially considering cross-cultural differences. In short, performance appraisal comprises a formal process of goal setting, performance appraisal and feedback.

In doing this process, *MNE* should firstly facilitate performance through the elimination of barriers and providing the adequate capital, material and human resources.

Furthermore, to encourage employees to repeat and possibly improve the good performances, successful managers should give fair rewards to the employee value.

The assessment of the individual contribution to the overall performance and the consequent human capital contribution to the strategic progress is a frequent and complex topic studied by researchers (Dowling *et al.*, 2017).

“They need to meet parent-company standards and they need to do it within the international and local cultural contexts. So, the evaluation system needs to take both sets of standards into account. The problem is criteria, roles and performance expectations are typically defined in the home country but performed in the host country, and the cultural norms that define performance in the parent country may not be the same as those considered appropriate in the foreign locale. This can cause significant role conflict for the international assignee” (Briscoe *et al.*, 2009, p.299; in Cascio, 2012, p.198).

The criteria to establish if an employee is performing good should not be the same for the diverse subsidiaries. On the contrary, *MNE* should establish criteria that respect the unique situation of each subsidiary: severe inflation, currency devaluations, local requirements, pay norms, for example, may not be issues in the domestic context.

Therefore, there is the need to recognize that hard, soft and contextual goals are often used as the basis for performance criteria. The former, hard goals (or objective goals or criteria), are objective, quantifiable and can be directly measured – such as return-on-investment (ROI), gross revenues, market share, etc. Secondly, soft goals (or subjective goals or criteria) tend to be relationship or trait-based, such as leadership style or interpersonal skills.

Contextual goals (or criteria) attempt to take into consideration factors that result from the situation in which performance occurs (Dowling *et al.*, 2017; Cascio, 2012).

Using just objective criteria may lead to problems in measuring accurately the performance because of shifting in currency fluctuations and of specific government regulations that limits repatriation of profits. Moreover, in this way employees’ behaviours are not considered in the result generation (Cascio, 2012). Therefore, such results should not be exclusively used as a primary input in performance appraisal.

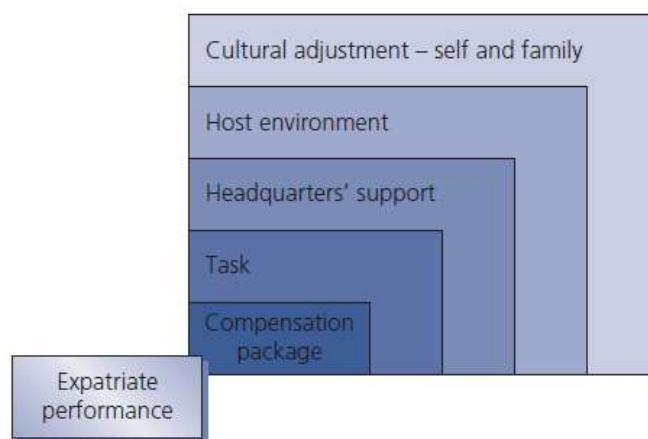
As a result, it is widely suggested that additional measurement criteria, including subjective and contextual criteria, should be used to have a fuller understanding of the expatriate performance. Those criteria include judgments, usually by local executives, of factors such as the expatriate’s leadership style and interpersonal skills.

Sometimes it is considered and more accurate the evaluation of the expatriate’s performance given by local managers with their cultural frame of reference (Cascio, 2012).

Janssens (1994) suggests that in the performance appraisal of subsidiary managers, objective criteria are often supplemented by frequent visits by HQ staff and meetings with executives from the parent company. Subjective criteria can be used to complement objective goals and consider areas that are difficult to quantify such as integrity, leadership style, customer orientation and teamwork. Indeed, their appraisal is more complicated due to cultural exchanges and clashes.

According to Dowling *et al.* (2017), the expatriate performance is influenced by several factors (Figure 5): compensation package, types of tasks, headquarters support, general environment and cultural adjustments are the most influential.

Figure 5 Influential variables on expatriate performance



Source: Dowling *et al.*, 2017, p. 155

As concern HCNs performance, *MNEs* should consider four broad constraints on the achievement of goals in the international context. First, differences in local accounting rules or labour laws, may make it difficult to compare the relative performance of host-country managers of subsidiaries in different countries. Second, in unstable international environments, long-term objectives need to be flexible. Third, separation by time and distance may make it difficult for performance management systems to take account of country-specific factors. Fourth, market development in foreign subsidiaries is generally slower and more difficult than at home. Hence, host-country managers of *MNEs* need more time to achieve results (Dowling *et al.*, 2017; Cascio, 2012).

1.5 Measuring performance in MNEs

In this last paragraph of Chapter 1, after having defined IHRM and having analysed the main variables that can influence the MNE's behaviour, the focus moves on the measurement of the IHRM strategy's contribution on the overall MNE performance.

In the last two decades, many academic researchers were increasingly interested in finding the aspects that link management of people with firm performance (Paauwe & Ferndale, 2012) in globally distributed facilities.

1.5.1 Best practices and firm performance

Building on resource-based view, human resources can contribute to the long-term success of a business. MNEs can achieve sustainable competitive advantage through the effective and efficient utilization of organizational resources which are valuable, rare, imperfectly imitable and imperfectly substitutable (Paauwe & Ferndale, 2012). To sustain competitive advantage(s), many HR professionals state that the company needs to implement high-performance HR practices such as the provision of job security, extensive skill training, promotion from within, result-oriented appraisal and broad career-path (Suttapong *et al.*, 2014). In doing so, the MNE is able to distinguish itself from competitors and provides to the organization positive benefits that cannot be readily replicated by other organizations (Pfeffer, 1995; in Paauwe & Ferndale, 2012). Furthermore, this approach fosters employees' shared perceptions of a supportive organizational environment. In turn, it motivates discretionary behaviours that contribute to organizational performance (Suttapong *et al.*, 2014). It might be spread in the various geographical areas in which the company is present.

Human resources are valuable resources with a special characteristic: they can lead to a superior performance if, and only if, are managed adequately (Becker *et al.*, 2015).

Their performance cannot be compared with that of machines, but it needs to be identified, initiated and finally realized (*ibidem*).

Regardless subsidiaries' location, MNEs strive to apply most familiar management practices or at least the ones that are expected to provide high returns in performance (Gooderham & Nordhaug, 2003; in Paauwe & Ferndale, 2012).

Even if MNEs achieve strategic fit aligning practices internally, issues arise for operational legitimacy (environmental fit) across multiple locations (Paauwe & Ferndale, 2012).

According to the universalistic perspective, best practices are associated by scholars with high-performance work system (HPWS) in which there is a unique way of performing a certain process in order to achieve the maximum economic gain (*ibidem*).

This viewpoint was considered more valid in the domestic context rather than in an international one (Brewster, 2012). Moreover, best practices for one organization may differ from the ones of another organization (Harrison & Bassy, 2017).

A certain degree of contextuality is necessary to apply for each situation, especially because there is a great distance between corporate's transfer intentions and subsidiary's implementations: often HQ policies are transferred to regional and divisional levels and are then passed in an adapted version on operational level (Paauwe & Ferndale, 2012).

Alongside the RBV, academic literature has been using different theories to hypothesize relationships between IHRM and performance, including contingency theory, expectancy theory, social exchange theory, psychological contract and AMO framework (ability, motivation, opportunity) (Paauwe & Ferndale, 2012).

Most of the studies were carried out in the US, and only after the geographical spread occurred, the issue about how best practices can improve performance was extended worldwide. On an international scale, commentators were asking why all firms did not implement the same identical practice system in different countries around the world.

The answer is that different business systems and cultures of different countries have an impact on both specific combination and outcomes of HRM practices (Whitley, 1992; in Paauwe & Ferndale, 2012). Overall, on an international scale there is increasing evidence that best practices are difficult to uphold. Institutional diversity and strategic decisions are likely to shape HRM policies and practices which in turn impact on their contribution to the overall performance (Paauwe & Ferndale, 2012).

To sum up, it is widely suggested to adopt a contingency-based approach to observe the relationship between HRM and firm performance as well as taking into consideration corporate strategic choices (*ibidem*) and "best fit" practices of the organization.

1.5.2 Issues in comparing data

The majority of studies focuses on “best practices”, either individual or bundles, and on the replication of these in the different subsidiaries. As already mentioned in the section about expatriate performance management, it is complicated to find a global standard approach with which compare the various subsidiaries’ performance. *MNEs* may vary in different internal and external aspects and all of them should be included in the measurement of the performance.

With a great variety of contexts, it is difficult to see *MNEs* implementing exactly the same HRM practices in the same way in all their subsidiaries around the world, hoping to generate the same kind of firm performance gains (Paauwe & Ferndale, 2012). Even in this case, the measurement would differ due to difficulties in comparing data (Dowling *et al.*, 2013). Indeed, important issues must be considered in the future development of IHRM and firm performance.

First, HRM outcomes depend on the attitudes and behaviours of workers, including the willingness to communicate with the headquarters. Different employee groupings, especially multicultural teams, may have divergent views on the nature and intentions of HRM activities. Practices may be differently accepted and implemented by line management and employees (Kostova & Roth, 2002).

As concern the evaluation of HRM performance, HR activities may be subject to inter-ventions by other areas such as R&D and marketing, that affects the outcomes. For this reason, it is preferable to use outcome variables such as attitudinal outcomes (i.e. employee satisfaction, motivation, commitment, trust), behavioural outcomes (i.e. employee turnover, absence, organizational citizenship behaviour), productivity outcomes (i.e. output per unit effort) and quality outcomes (of services or products). In this way, IHRM outcomes and firm performance indicators (i.e. profit and market value) become closer each other.

Another issue concerns financial indicators: *MNEs*, facing and confronting simultaneously differing national environments, decide which appropriate organizational level of analysis prioritize to confirm an accurate relationship between strategy, HRM and firm performance. For instance, when a firm establishes a joint-venture to be present in a specific market, given the low expectations, it may provide few resources and then, the

judgement of the poor performances must take into account also this global strategic decision.

Furthermore, it is important to distinguish two types of HRM practices which differ in time-lag between HRM intervention and its effect on firm performance: on the one hand, there are practices with short-term effects on firm performance as for example individual performance-related pay clause may help to increase productivity; on the other hand there are many practices like training and development, participation, teamwork and decentralization, that necessitate some years to show effects on results and might be indirectly noted (Paauwe & Ferndale, 2012)

1.5.3 Best-fit model of HRM and firm performance

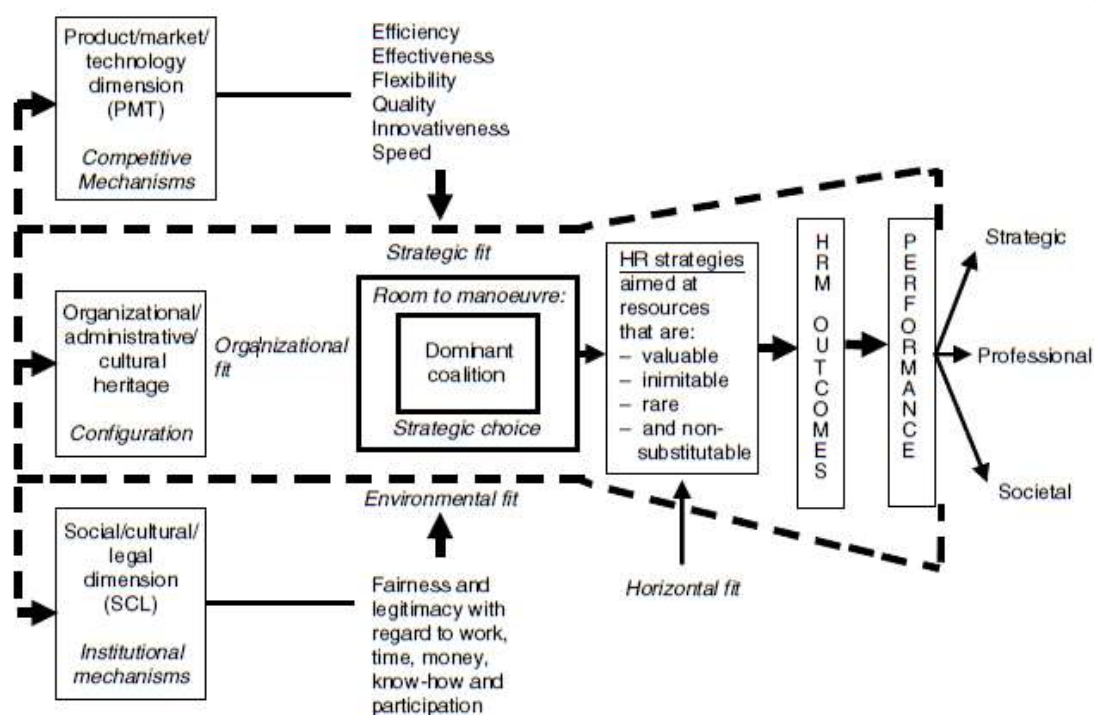
Taking into consideration all the variables explained previously, this paragraph proposes a practical framework that *MNEs* can use in the performance appraisal.

Despite the lack of empirical evidence, HRM is a key factor that contributes to the success of the firm. The challenge is to assess a monetary value to the implemented HR measures, given the difficulty in translating this intangible asset in quantitative data (Becker *et al.*, 2015).

The main problem is to measure the net present value (NPV) resulting from both ex-ante value and ex-post value that is delivered by the bundle of HR practices. Ex-ante and ex-post cash outflows can be relatively easily assigned and quantified with accuracy, whereas neither ex-ante nor ex-post cash inflows are straightforward to assign and quantify accurately (Becker *et al.*, 2015).

The framework developed by Paauwe (2004) is called Contextually Based HR Theory and it is an example of “best fit” framework incorporating both contingency and configurational aspects in the exploration of the linkage between HRM and performance (Figure 6).

Figure 6 A contextually based human resource theory (Paauwe, 2004)



Source: Adapted from Paauwe, 2004, p. 91; see also Paauwe & Ferndale, 2012, p. 109.

It includes four dimensions of fit: strategic fit, horizontal fit, organizational fit and environmental fit.

- The “strategic fit” is affected primarily by the choice of corporate or business strategy given changing developments in the product or service being delivered, the markets in which the company is operating and the technologies available to carry out corporate activities. In other words, it is the vertical fit between HRM practices and the competitive or corporate strategy in terms of product, market and technology (P.M.T. dimensions).
- The “horizontal fit” dimension is based on resource-based view and describes the internal fit between HRM practices as coherent and consistent bundles.
- The “organizational fit” is between HRM practices and other internal systems such as the unique historical heritage and configuration of the organization which have a role to play in terms of organizational, administrative and cultural legacies.
- The “environmental fit” dimension describes how local culture, institutions and legislation affects corporate activities. It constitutes the institutional fit between HRM practices and the social, cultural and legal environment (S.C.L. dimensions).

HRM practices are therefore shaped by both external and internal contingency factors. *MNE* needs to develop an integrative strategic balance in order to distinguish itself from their international competitors and at the same time to be alike to gain legitimacy (Paauwe & Ferndale, 2012). The *MNE* must trade-off competitive (P.M.T. dimensions) against institutional pressures (S.C.L. dimensions). For instance, when a company conforms to institutional pressures it is likely to perform well with regard to societal factors like internal equity fairness and legitimacy, which will enhance company's reputation. Yet at the same time, the company risks lower financial returns because of this conformity and being less able to differentiate itself from its competitors (*ibidem*).

In the middle of the framework, Pauwee (2004) introduces the notion of leeway by adopting an actor's perspective denoting the impact of the dominant coalition of the organization on strategic choices. This coalition may include top management, supervisory boards, works councils, shop stewards and the HR department. This element moderates both internal and external factors in shaping HRM policies and practices and the outcome depends on the (power) relationships between members of the coalition.

The Balance-Scorecard

In the second-right part of Figure 6, it is possible to integrate the framework with the model proposed by Becker and colleagues (2015).

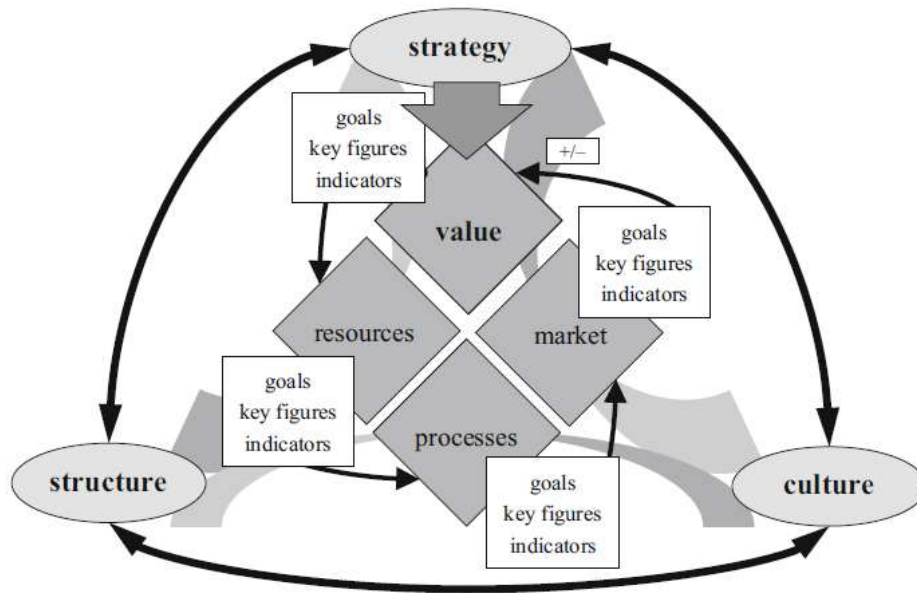
To overcome the difficulties in the measurement, the proposed integrative tool that better describes and shows the cause-effect relationships, is the Balance Scorecard (Figure 7).

In addition to the traditional financial key figures, this instrument delivers information on the mechanism of value formation by connecting resources, markets, internal processes and value: on the one hand, there are the strategic aims based on customer and market segments; on the other hand, there are internal processes which aim to improve financial and organizational performance. These latter include investments in human resources related to employees' education, effectiveness of information system and employees' motivation.

By taking intangible aspects into account, the Balance Scorecard is useful to identify the right point of view that helps the *MNE* to measure the contribution of HR activities to the business success and to the value creation.

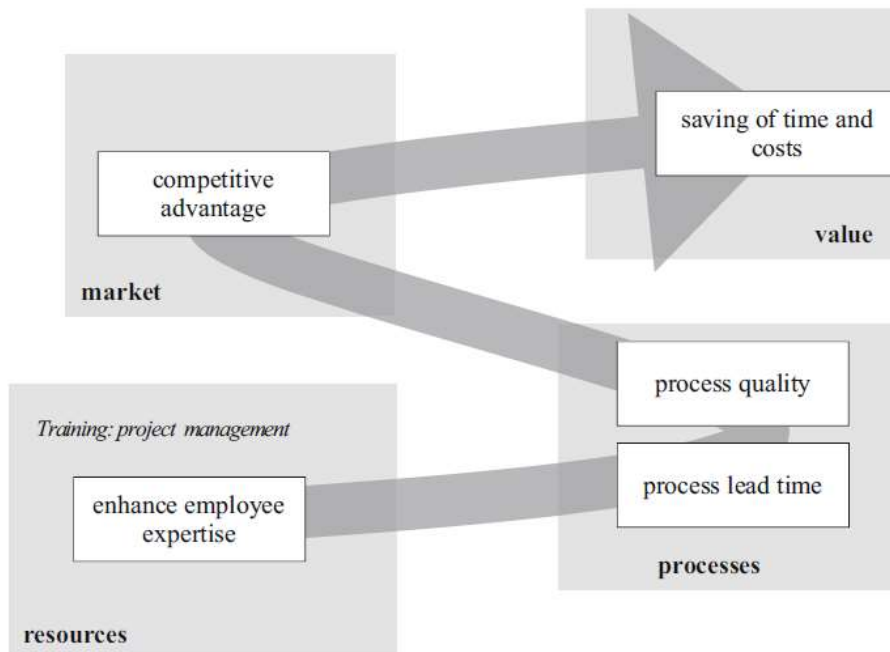
For instance, Figure 8 exhibits how a project management training as HR measure can contribute to the *MNE* performance.

Figure 7 Balance Scorecard



Source: Becker *et al.*, 2015, p. 229

Figure 8 HR activity's outcome



Source: Becker *et al.*, 2015, p. 230.

As it is possible to note, there is an interaction between the four perspectives: starting from the resource perspective as a basis for the other dimensions, internal process per-

spective targets have an immediate influence on the market perspective, which affects the financial perspective.

In the example this process is showed starting from the role of project management training in nurturing employee's skills (learning and development as resource perspective); this can lead to better process' quality and shorter lead times (internal processes perspective); as a result, having a more expert project manager can create a competitive advantage over competitors (customer perspective), if the firm deals with projects more efficiently; finally, analysing the impacts on the value perspective the firm is able to save time and costs, thus reducing cash outflow.

However, the validity of the example is subject to the stability of other conditions. Indeed, it is conceivable that the improvements may be due to other factors such as changes in team membership or new IT instruments that are likely to influence performance and for this reason need to be taken into consideration.

Nevertheless, remains the fact that this tool does not provide quantitative data and it is recommended to accompany the analysis with complementary instruments.

The challenge for the company, therefore, is to elaborate adequate indicators for the value creation; this process will require familiarity with the chains of cause and effect mentioned earlier. Moreover, the defined indicators must be mutually correlated in order to understand through which mechanism the specific value is created. The underlying risk is to be wrong in this estimation.

Relevant variables

In measuring the contribution of HR practices, the company should consider also other important variables proposed by Paauwe and Ferndale (2012). These includes:

- Presence: whether a specific practice already exists in a firm or not;
- Coverage: the percentage of employees covered by a practice, that is how many employees are deployed in that practice;
- Use: a scale of extent to which employees are satisfied with a practice
- Fairness: a scale of the extent to which a practice is considered fair
- Effectiveness: a scale of the extent to which a practice is considered effective.

Once the practices have been selected and the form of measurement has been decided, the company should decide which sources are going to be used to gather the necessary

information: company literature, documents, website information; HR professionals; senior and line managers; employees themselves are the most common source used.

1.6 Conclusion

In this chapter, it was provided an overview of international human resource management's field. Starting from the identification of the context in which IHRM may apply, it was defined the IHRM's concept and the elements that it comprehends.

Then, drawing on the De Cieri and Dowling's framework, the role of the HR department in an *MNE* and the most relevant international HR practices were addressed. In particular, the focus was on the contribution that each practice gives to the overall organizational performance.

Finally, since it is very difficult to measure HRM contribution to financial performance, it was proposed a model from which it is possible to extract and understand the value provided by such practices.

In the next chapter, will be linked the HRM function with the internationalization process of a company which aspire to become an *MNE*.

INTERNATIONALIZATION PROCESSES & ORGANIZATIONAL FORMS

2.1 Introduction

As it was already stated in the first chapter, the dissertation is now moving toward the comprehension of the link between the HRM functions and the internationalization process of a company which aspire to become an *MNE*.

Since the late 1980s, there was a significant evolution of multinational corporations (MNCs). Most researchers have been focusing their studies on the management and changes of these big growing companies.

According to Buckley (2011), “the global factory” is the key to understand the changes in and configuration of the global economy. These global factories are the initiators of the process of global economic change with the development and implementation of internal and external strategies pointed towards a global context. This process involves many other firms that operate in the background as “*hidden champions*” (Garaus *et al.*, 2016): the operations of these firms are exposed to global dynamics which require to reconsider internationalization models, approaches and variables.

Internationalization process is not a matter of size anymore, but rather it is a matter of method. In the last two decade many SMEs started to follow an international path implementing an international supply network, delocalizing production or developing sales and marketing strategies in different markets.

Given the competitive pressures, internationalization is no longer an unlikely option for most SMEs, rather nowadays it is necessary to act proactively looking for new opportunities rather than as a reaction to unexpected events. For instance, sometimes SMEs support global factories in their global operations through the co-creation of business

models based on this bond and on external relationships of both organizations. This situation characterizes not just small innovative companies like innovative start-ups, but foremost medium-sized enterprises which become strategic partner of big corporations. It is important to underline that these firms cannot be considered as small versions of large MNCs, but mainly due to size they tend to interact differently with the environment (Brouther and Nakos, 2004). Indeed, their benefits stem from their being “structurally but flexibly in the middle” and from their international orientation.

However, the big challenge for these companies consists of finding a proper adaptation of their organizational structure in the international arena.

Literature on this firm category placed in the middle is very poor, thus, in the first paragraph will be defined and analysed this topic and the involvement of human resources in the organization. Then, in the second paragraph will be analysed their internationalization path under the organizational lens and the ways in which human resources are used to manage this expansion. Finally, the third chapter introduces the case of one medium-sized enterprise named Sirmax S.p.A. focusing on its international growth and on its organizational structure’s evolution.

2.2 International SMEs or MNCs? Defining the pocket multinational

Generally, the international management literature has been mostly focused on large multinational corporations or on small- and medium-sized enterprises as a unique category defined by the acronym “SMEs”. The former is characterized by the study of big, complex organizations whereas the latter is characterized by the study of entrepreneurship, innovation, and network.

In this paragraph, will be analysed firms which have already started the internationalization process and have the possibility to develop a global organization. Thus, differently from the large part of the literature, the medium-sized enterprises (MSEs) are considered as autonomous entities.

Literature on this type of companies is very limited since it has been often included in the undistinguishable notion of SMEs, considering them as organization “in transition” from a small size to a larger one (Tunisini & Resciniti, 2013a; Coltorti *et al.*, 2013).

In the book “*Mid-sized manufacturing companies: the new driver of Italian competitiveness*” Coltorti and colleagues (2013) recognized and drew boundaries between the

different types of organization: on the one side, there are small and micro businesses and on the other the large multinationals.

The autonomous identity that is defined “in the middle” is a consequence of the management’s ability to virtuously combine the operating flexibility of small companies, with the capabilities of large enterprises. For this reason, it is also possible to call these entities as “*pocket-sized multinationals*” (Barbaresco & Salerno, 2013; Coltorti *et al.*, 2013). Alternatively, some authors call these firms “hidden champions” because they are world-market leaders in niche-markets, but are relatively unknown to the general public (Garaus *et al.*, 2016)

This organizational form could be considered the previous stage to become a multinational corporation. In terms of size, pocket multinationals are small compared to the large companies dominating international markets in an oligopolistic way, but these are big if compared to majority of competitors in the same specific domestic sector.

“SME” is not a homogeneous concept and there is no common worldwide accepted definition. Medium-sized companies, as well, have seen some difficulties in finding a definition.

Barbaresco and colleagues (2018) decided to fix qualitative and quantitative parameters in part based on the American perspective rather than the European one. To be identified as a pocket multinational, a firm must respect these limits:

- 50-499 employees;
- 16-355 million euro of turnover (consolidated, if available);
- Independent property (the authors added also the Italian property, but it is not considered here).

The objective of this distinction between small and medium enterprises is to find and understand an entrepreneurship model which includes homogeneous organizational, governance, productive and commercial aspects (Barbaresco *et al.*, 2018).

However, a study of Confindustria R&S and Unioncamere (Garofoli, 2013) demonstrates that pocket-sized multinationals are becoming increasingly important in Europe in terms of employment and performance. These firms are mainly concentrated in the most industrialized regions and contribute to increase the national competitiveness.

Pocket multinationals' success is partially due to their operations beyond the domestic market. Most of these companies are also present in other countries with at least a subsidiary or a sales office.

Although Kogut (2001) described multinational corporations (MNC) as “business organizations whose activities are located in more than two countries” and have the effective control of operations, pocket multinationals are different. Even if the definition is still valid, it needs some clarifications. The main reason is that every multinational enterprise can vary in terms of organizational form and behaviours across borders (Knight & Liesch, 2016). The difference between a pocket multinational and an MNC is that this latter varies in the extent of their multinational activities and of number of countries in which it operates. MNCs have a different organizational form due to their huge investments in many international activities such as production and marketing, but also increasingly in support business function as R&D, finance and human resources. Pocket multinationals invest abroad, but not to the extent that an MNCs do so. Indeed, the main international activity for MSEs still remains the direct export of their goods and services: European MSEs have a considerable weight in the export of European countries counting the 30.9% of the direct export (Saporiti, 2017).

Despite the increasing size due to the passage from a small to a medium sized company, the advantages for this type of organization remain the flexibility and responsiveness to market changes. The bureaucratic structure is not as big as a corporation, but some issues arises as well.

However, Barbaresco and colleagues (2018) identified also the main features of the MSE's organizational model:

- *Specialized production*: many companies operates in deeply specialized markets, typically B2B markets. Size is not considered anymore to be a critical variable to achieve production efficiency, indeed, many medium manufacturing companies are highly specialized and apply lean production principles. They have sometimes oligopolistic international market share whose growth forecasts depend on the evolution of the reference market (unless engagement in M&A). Medium-sized enterprise usually developed their business creating small niches within huge markets by distinguishing between goods that will preferably be sold to brackets of customers which comprise both high- and medium-income consumers (customers fide-

ty/loyalty) and quality producers. In this scenario, the company is likely to be specialized and tends to be identified with a main product, from which it generates large part of its turnover (Barbaresco & Salerno, 2013; Coltorti *et al.*, 2013).

- *Technology and innovation*: the level of technology and innovation had a relevant impact on sectors like chemistry and mechanical, providing productivity advantages. Usually they improve their capabilities and resources through continuous R&D investments, learning processes and a strategic orientation to continuous innovation (Resciniti & Tunisini, 2013b).
- *International presence*: their international presence is close to end markets (market-seeking) or is due to the willingness to incorporate new sets of knowledge and competencies through cross-border alliances (technology-seeking). Companies with a niche product is not likely to delocalize production, except some lower-value activities, to not lose technical and tacit know-how. Next chapter will focus on this topic.
- *Transformation activities and services*: nowadays, large companies are turning their attention away from production to sales, building commercial networks to capture demand. It was found a trend towards the “third sector” for the business models. This means that firms are more concentrated in including services and value-added activities along the value chain, specifically in the upstream and downstream of the transformation process.

In the origins, many companies, especially from Italy, emerged from the joint development of cluster or industrial district areas, usually where no large companies were present. In these industrial districts, firms were predominantly small, but over time, some of them shaped its lucrative niches moving from artisanal to small and then to medium-sized dimensions. Such firms gave its contribution in the development of the whole district, becoming important actors for the district economy (Barbaresco & Salerno, 2013).

Human resources in pocket multinationals

Most of the medium-sized companies are family owned (Barbaresco *et al.*, 2018; Coltorti *et al.*, 2013). Family businesses established and maintained strong benevolent social ties with the local environment and community. Sometimes results to be an important employer in the area and to provide benefits for the local community.

A peculiarity of pocket multinationals is that it follows an original philosophy to manage human resources which is oriented to the value creation (Serio, 2017).

They tend to establish strong, direct and personal ties with the employees since the beginning of the working relationship. It is very appreciated the loyalty and responsiveness of people at all levels that put strong commitment in their job respecting the firm priorities and the family-business balance.

Human resources assume the function of “organizational glue” and for this reason are more and more managed in a personalized and innovative manner. This includes, for example, managers’ ongoing training and development on management topics through personalized, institutional and technical ways that make individual interests and organizational objectives converge (Serio, 2017).

In this regard, the positive relationship between social players has been the key factor in the flexible method by which companies tackled the crisis adopting pro-active strategies for new markets and new products (Garofoli, 2013).

In various firms, human resources are treated differently depending on the size: on larger MSEs there are bigger and more complex dedicated functions and systems, whereas in the smaller ones, considering also the strong institutional presence of the family, this function is limited to administrative, contractual and industrial-relationships practices (Serio, 2017).

Despite the different types of formalization and structures, in HRM processes, most of the MSEs shows a tendency to extend their family values as reference point to orient HR policies: they tend to check this proximity in non-family managers which are selected on the base of technical skills, but also evaluating their values. Indeed, those values will be transmitted and spread in the whole organization managed by them.

Differently from large and structured organizations, pocket multinationals are characterized by some HR issues. For instance, there is the need to manage the widely spread problem of skill shortage in terms of technical skills which represent vital nourishment for the firm. Here, it is important for the firm to develop relationships with the education institutions (universities and technical high schools).

Obviously, it may be not enough. The firm’s dimension and visibility have a critical role: while larger firms can attract people and to start efficient partnerships with the education system, for smaller firms this process remains difficult to implement.

MSEs are less visible in the market and often have attraction and retain problems of young human resources. Furthermore, sometimes the presence of the family prevents management power expectations (Serio, 2017). Recently, however, many family firms started to insert in top management positions also people not belonging to the family.

Finally, in the most recent years, globalization made competition more demanding given the increased number of competitors, especially from emerging countries. Internationalization became a “strategic must” to survive for most of the companies and it is required also a repositioning in the market segments that best-suits the medium size.

The next paragraph analyses how organizations, starting from a small-enterprise position, develop and grow thanks to their internationalization process.

2.3 Internationalization and organizational evolution

In the evolutionary path towards the creation of a global organization, a firm is involved in different internationalization stages which can be faced differently. Although this process is common for most of the firms, it varies from firm to firm: some of them evolve slowly over time whereas others go through the various steps rapidly (Dowling *et al.*, 2017) like the so-called “*born global*” (Knight & Liesch, 2016; Dowling *et al.*, 2017) that pass over all the phases because they are formed with the international market in mind.

In the internationalization process, the foremost complex issues are how to do business abroad, how to select the right country where to compete and how to establish mechanism to achieve a quick and not dispersive transfer of know-how.

Typically, a company starts its internationalization process entering in just one country or perhaps in a selection of few foreign markets. The firm’s international strategy continues along its path seeking to exploit more and more countries’ advantages.

Porter (1990) argues that each country has different home-country advantages in diverse industries. In his Diamond Framework, he exhibits a set of variables which can be analysed to work towards a competitive advantage: factors conditions (availability and prices of inputs), demand conditions (market size, growth, preferences), related and supporting industries (suppliers, complementary industries) and firm strategy, structure and rivalry.

In crafting an internationalization strategy, a company must consider not only the different home-country advantages, but also the surrounding environment. Indeed, some

countries offer a more favourable general business climate in which the government provides policies, tax rates, inflation rates and other economic conditions. Moreover, adverse shifts in currency exchange might be a risk for companies operating in foreign markets. Last, buyers and final consumers have often different and evolving preferences and tastes which present a challenge for companies concerning the customization or the standardization of their products and services.

All conditions must be taken into consideration when deciding in which country the firm should establish.

Alongside the market where to enter, a key decision is the selection of the entry mode in the international market (Ahi *et al.*, 2017): it involves companies of whatever size that want to start an international expansion or to keep investing on the international path.

Certainly, this issue is more accentuated in the context of small and medium-sized enterprises (SMEs). SMEs experience different and harder challenges than large multinationals: they have less experience with different environmental contexts, less power to withstand the demand of host governments, less reputation and financial resources as well as fewer resources for managing international operations (Acs *et al.*, 1997).

Previous studies have found that resource-constrained SMEs often tend to prefer countries which are geographically close and socially, culturally and/or economically similar, to avoid risks and reduce uncertainty (Johnson & Tellis, 2008; in Cui *et al.*, 2014).

In this regard, the “experiential market knowledge” of the managers is likely to directly influence the choice of foreign markets and thus, the internationalization process of the company (Dowling *et al.*, 2017). As experience increases, it is more likely they move towards more distant markets.

To accomplish the international expansion, organizations may use different entry modes. This implies the assessment of uncertainty and risk, control, commitment, estimated returns and other strategic objectives that give a sense to the international expansion.

Managers must use “method and logic” to analyse and decide about the expansion in new markets (Ahi *et al.*, 2017) and the related entry strategy. As a result, company’s products, technologies, human skills and styles can enter effectively in a foreign country.

The decision is influenced by the manager's (or entrepreneur's) backgrounds, characteristics and skills which have an impact on their cognitive schemas (Ahi *et al.*, 2017).

The attitudes of senior managers toward international activities are significantly influenced also by the domestic market in which they operate: in case of a large domestic market, a larger number of managers is likely to predominantly or even exclusively have domestic market experience. Thus, multinationals from small countries (e.g. Switzerland) are in quite different position compared to multinationals based in large countries (e.g. United States) which is the largest advanced economy (Van Den Bulke, 2009; in Dowling *et al.*, 2017). More dynamic capabilities are built and nurtured by managers, more will be the support to the internationalization process.

Obviously, crafting a strategy to compete in foreign markets is inherently more complex than doing it in the domestic one. Indeed, in general, a manufacturing firm entering in international operation undertakes an export strategy as initial and "easiest" internationalization stage.

As the nature of the firms changes and the number of activities grows, most firms pass through several stages of organizational development. In this way, an *MNE* would be better able to deal with difficulties and complex trade-offs related to the business development strategy. For instance, when the export sales reach a critical point, a further step is to invest in another country establishing a sales office or a directly a subsidiary locating some activities of the value chain there. Foreign direct investments (FDI) may take the shape of a "greenfield investment" in which the company builds its own plant or a "brownfield investment" in which the company purchases or merge with an existing company. Another possibility is the establishment of an international joint venture (IJV) with a partner. The main reason to engage in cross-border alliances is that it facilitates a rapid entry into new markets.

According to Dowling, Festing and Engle (2017), the organizational structure is likely to change on the evolutionary path because of:

- The efforts imposed by growth and geographical spread;
- The increasing need for coordination and control across business units;
- The constraints imposed by host-government regulations on ownership and equity.

However, whatever is the internationalization strategy that the company is going to pursue, it is going to affect the organizational structure and the human resources involved.

2.3.1 HRM in international Mergers & Acquisitions

The strategic importance of cross-border alliances, especially mergers and acquisitions (M&A) has increased over the last two decades in part because of the globalization phenomenon (Dowling *et al.*, 2013).

Although numerous studies attempted to classify the typologies of M&A strategies, the distinction is not widely defined and accepted because each M&A case is diverse: different purposes, context specificity, processes, capabilities are likely to influence the realization of the strategy (Brueller *et al.*, 2018).

Recently, with the rapid and frequent technological change, innovative industries have required firms to be flexible and to acquire new technologies from other firms like innovative start-ups (Sears *et al.*, 2012). This process enables firms to accelerate their growth, seize and expand on valuable capabilities acquiring intangible assets such as human capital which is costly to imitate (Brueller *et al.*, 2018). In its essence, the process incorporates not only strategic and financial dimensions, but also psychological and human components.

Combining two separate organizations into one is very challenging, in particular because of the cultural clashes at the team, organizational and national level (Teerikangas & Very, 2006; Stahl & Voigt, 2008; in Teerikangas *et al.*, 2015).

Human components emerge when there is a change in ownership which has a relevant impact on the employees' perceptions (Teerikangas *et al.*, 2015): it proved to be critical the management's ability to create an environment that supports organizational interaction and organizational change (Goulet & Schweiger, 2006).

First, during negotiation and due diligent phases, it is important to assess cultural differences in approaches and behaviours of the target in order to determine which alternative integration strategy is more effective. An integration manager, preferably an acquirer executive, with strong communication and networking skills should be selected to follow the M&A processes: having a deep understanding of the firm's resources, he/she can refine vision and can identify all the potential synergies together with acquirer's middle managers (Goulet & Schweiger, 2006). To realize successful synergies, acquirers need to clearly understand the acquisition rationale which allows to determine and align the HRM role with the strategy (Sears *et al.*, 2012).

In the second phase, the acquirer should carefully and honestly communicate the logics behind the M&A in order to make both firms' employees understand and reduce anxiety (Goulet & Schweiger, 2006).

For the employees, a change of ownership represents not only a change in employer, but a change in their psychological contract. Uncertainty, stress and turnover rates contribute to make the firm environment less pleasant (Teerikangas *et al.*, 2015). Neglecting this issue may lead to failures in meeting strategic and organizational objectives (Bruegger *et al.*, 2018).

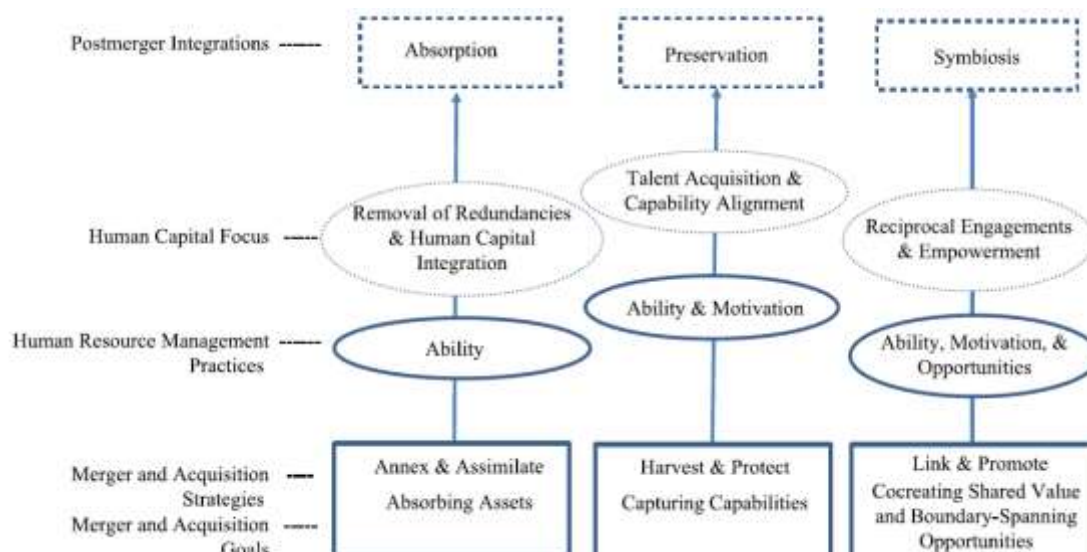
Cultural differences will be perceived more clearly and will be more accurately assessed during the period of post-M&A management, when the company is going to reconcile organizational culture differences and develop best practices (Goulet & Schweiger, 2006).

Apart from administrative tasks such as labour relations, payrolls and compliance, the HR challenge consists of creating new or shared HR practices and strategies that meet the requirements of the M&A (Dowling *et al.*, 2017).

The similarity between the management styles of the two organizations, the type of cross-border combination, the prospective efficiency gains and the extent of organizational integration are the main influencing variables that affect the quality of employee relations, ranging from employee support to employee resistance (Dowling *et al.*, 2017). If human resources are managed adequately in M&As, they are likely to have a long-standing impact on the performance of the acquirer.

Bruegger, Carmeli and Markman (2018) developed a framework in which identified the typologies of post-merger/post-acquisition integrations resulting from different types of M&A strategies and goals: annex & assimilate, harvest & protect and link & promote acquisitions are mediated through the use of the ability-motivation-opportunity (AMO) model (Figure 9).

Figure 9 M&A strategies, post-merger integrations and HRM practices



Source: Adapted from Brueller *et al.*, 2018. p. 1801

In the first case, annex & assimilate, the M&A's goal is to absorb the entire set of target's assets, except for redundant units, dated assets and/or unneeded personnel. Naturally, the absorption of personnel is a delicate and time-consuming process due to time pressure and budget constraints. It requires HRM managers carefully screen and then decide which employees to retain and integrate and which ones to dismiss. Thus, according to the AMO model, the authors suggest that the acquirer should adopt ability-enhancing HRM practices: HR managers should recruit and select (from each firm) who have the right skills and attitudes needed for a certain position; moreover, retraining programs and skill-enhancing training help the selected employees to be better integrated in the new system and to improve their morale and the general human capital base.

In the second case, harvest & protect M&As, acquirers are willing to seize new capabilities, processes and key personnel in order to expand their product offerings, enhance asset utilization, leverage on talent (including improve R&D performance) and gain access to new markets.

Given the fact that most of the times critical capabilities are embedded in human capital, it is crucial to take care of human resources in order to preserve and keep intact their capabilities.

Since for managers and employees it is a stressful period full of anxiety and uncertainty, the acquirer should start soon a more interpersonal dialogue and should evaluate how

and where target's capabilities might complement or conflict with the acquirer's process and how the acquired human capital can be deployed.

In this case, as well as the previous one, the authors suggest adopting ability-enhancing HRM practices, but combined with motivation-enhancing HRM practices: staffing and training programs should be supported by career development plans, competitive pay and benefits, flexible work design and job security to motivate people. This combination is likely to develop positive attitudes (e.g. job satisfaction, commitment, organizational support) and improve organizational citizenship behaviours.

Finally, the link & promote M&A aims to co-create boundary-spanning and interfirm shared value creation that stimulate growth and strengthen both acquirer and target companies. In other words, it aims to accelerate the interfirm learning and renewal combining and leveraging complementary assets, capabilities and know-how in order to improve knowledge exchange, innovation and cross-operational agility.

Remaining operationally and strategically autonomous the two entities will act in symbiosis in the post-merger integration phase.

In this scenario, it is fundamental to implement all the three types of HRM practices, ability-, motivation- and opportunity-enhancing HRM practices. The first two practices inspire personnel to develop new competencies that, in turn, increase their career and promotion opportunities. Thus, having the opportunity to enhance their human capital and the possibility to contribute to wider-reaching organizational objectives, employees may increase their commitment to pursue more challenging goals and to engage at a higher level (Ryan & Deci, 2000; in Brueller *et al.*, 2018).

However, in all three cases, although AMO-enhancing HRM practices are costly and legally and operationally complex, it is recommended to maximize the efficiency and effectiveness of all of them in every M&A event (Brueller *et al.*, 2018).

2.3.2 HRM in International Joint Venture

International Joint Ventures (IJVs) are the second type of equity-based cross border alliance which have become an important entry mode especially in some country such as China and India where it is difficult to entry due to internal regulations.

The IHRM topics are similar to the ones presented for M&A. For instance, in both cases, partners have different institutional, cultural and national backgrounds and they must balance their interests (Dowling *et al.*, 2017).

The academic literature still attempts to provide further reasons why most of IJVs fail in meeting their objectives and lead to a costly crumble. On the one hand, failures may be related to external environmental forces like legal and political systems, economy and organizational forces like divergent interests in the negotiation of contractual terms or incompatibility between the partners. On the other hand, a large proportion of failures can be attributed to inefficient management of human resources.

However, it is critical for the formation and the durability of the IJV the compatibility between the two (or more) partners, especially when there are mutual learning opportunities (Dowling *et al.* 2017).

The main problem of managing human resources is that IJV's formation involves the alignment and management of goals of two or more organizations and at the same time maintain competitive strength in multiple global markets. HR issues are critical to the success of equity-based JV since the formation process. In this scenario, these HR issues must be managed effectively with an active commitment (Schuler & Tarique, 2012a), otherwise it is likely that the collaborative strategy will not last long.

Furthermore, complexity increases when the number of partners involved increases as well as when increase the number of countries and cultures involved in the IJV (Dowling *et al.*, 2017; Schuler & Tarique, 2012a).

The development of an IJV encompasses all activities of the HR function including recruitment, selection, training and development, performance management and compensation which must be compatible with strategic approach of both partners. These activities must be implemented at the IJV level (Dowling *et al.* 2017).

Moreover, as in other situations, HR managers may assume a more strategic roles in order to meet the challenges of interaction (*ibidem*):

- *Partnership role*: HR managers should consider the needs of all the stakeholders;
- *Change facilitator and strategy implementer*: HR managers help to implement new strategies and to facilitate trust-based communication and cooperation;
- *Innovator*: HR managers should identify the right people to follow and to manage the IJV stages and they should provide flexibility in adapting to changes;
- *Collaborator*: HR managers should strive for generating win-win situations characterized by sharing rather than competing attitudes.

The phases for the creation of the IJV, including HR issues and implications are displayed in Table 3.

Table 3 The four phases of the IJV creation

PHASES	ORGANIZATIONAL / HR ISSUES	HR IMPLICATIONS
<i>Phase 1 – Formation of the partnership</i>	<ul style="list-style-type: none"> Identifying reasons; Planning for utilization; Selecting dedicated managers; Finding and selecting potential partners; Handling issues of control, trust and conflict; Negotiating the arrangement. 	<ul style="list-style-type: none"> Communicate reasons to employees; Address differences in cultural and management styles; Cooperative partners may increase the chance of success and learning process; Acquisition, interpretation and dissemination of information Trust makes the need of formal control decrease; The quality of the contract can have an impact on satisfaction and performance; HRM is supported and rewarded by the cultural similarities, personality and skills and loyalty.
<i>Phase 2 – Development of the IJV</i>	<ul style="list-style-type: none"> Locating IJV in the one of the home-country or third country? Establishing the right structure; Selecting the right senior managers 	<ul style="list-style-type: none"> A third country may increase complexity since it needs more information gathering and broader expertise given the several local stakeholders (long-term viability and legitimacy) One of the home-country may provide local knowledge and control advantage; If both partners are interested in the JV, they will be involved in key decisions; The structure will impact the learning and knowledge management processes It is likely that the chief operating officer will be selected for its experience.
<i>Phase 3 – Implementation</i>	<ul style="list-style-type: none"> Establishing vision, mission, values, strategy and structure; Developing HR policies and practices; Dealing with unfolding issues; Staffing and managing employees. 	<ul style="list-style-type: none"> Supporting, encouraging and rewarding learning and knowledge sharing; Supporting the needs of the partners and of all the stakeholders; Providing meaning, direction and orientation to the IJV and employees; Trust top management team for pursuing IJV and partners' goals is critical; HR practices should consider both needs for global integration and local responsiveness, partners' culture, labour market and legal restrictions (more countries involved, more HR policies variation); Some HR policies may be not negotiable (i.e. ethical, environmental, safety), while others locally adaptable (i.e. working hours, compensation, benefits); Each partner may have different priorities;
<i>Phase 4 – Advancement & Beyond</i>	<ul style="list-style-type: none"> Learning from the partner(s) Transferring the new knowledge to the parent companies and to other locations 	<ul style="list-style-type: none"> Learning and adjustments are necessary for the long-lasting relationship; HRM system including top management support, staff rotation, staff training and development, site visits, rewards and recognition can stimulate knowledge and information flows.

Source: Adapted from Schuler & Tarique, 2012a, p.398

2.4 Sirmax's international path

Sirmax is an international supplier of plastic compounds and resins, which produces mostly polypropylene (PP) and engineering plastics (EP) that are supplied in a variety of markets such as automotive, power tools, electrical and appliances. For instance, to name a few, Sirmax serves FCA, Mercedes, Peugeot, Whirlpool, Electrolux, Bosch.

It was born in 1999 in Cittadella (Italy) from the merger between two companies, Maxplast and Sirte.

Today, Sirmax counts 300 million euros of turnover, 70% of this abroad, and more than 400 employees. Having also an independent property, it is possible to state that Sirmax recently became a pocket-multinational.

Since the first sales office's opening in Milan, Sirmax tended to diversify end markets for its products and to catch opportunities from the internationalization process which is the key factor of the successful growth of the company.

The firm's competitive advantage is based on its flexibility and its focus on the customer's requirements, as the firm tries to be a local supplier on a global scale, its continuous investments in R&D which lead to a wide range of high tier materials, and its financial stability which allows to tackle opportunities in the market¹.

2.4.1 Strategy

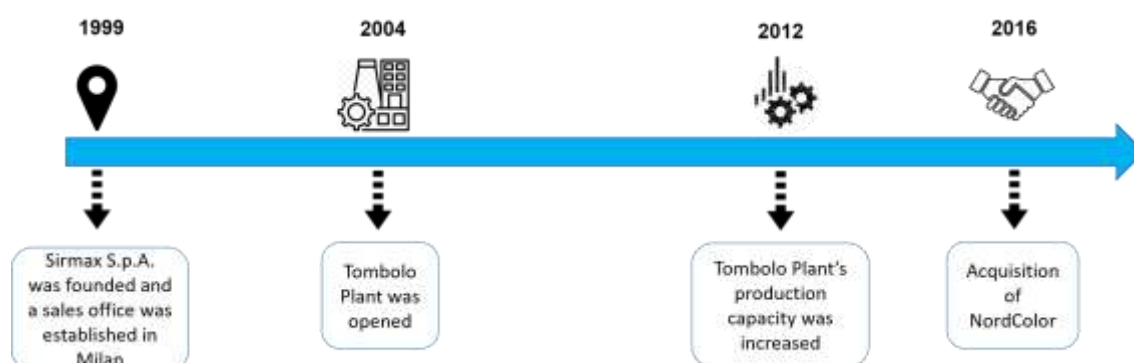
The internationalization process which Sirmax is still facing derives directly from the evolution of the industry: as it is not going to vertically integrate, in order to thrive in the market and pursue its global presence strategy, the company has developed during the last decade a broad expansion.

Two different phases stand out in the firm's path. The first involves the establishment of production facilities and the development of distribution channels. This process allowed the company to increase production capacity and to develop organizational capabilities. In the second phase, once the company evaluated the potentiality of new markets, it undertook a rapid global expansion through mergers and acquisitions and alliances. Both national acquisitions (as showed in Figure 10) and cross-border alliances (Figure 11) allowed the company to expand its business and the presence in different countries.

It is possible to state that the firm's strategy is "multi-country" and "multi-product".

¹ Source: www.sirmax.com

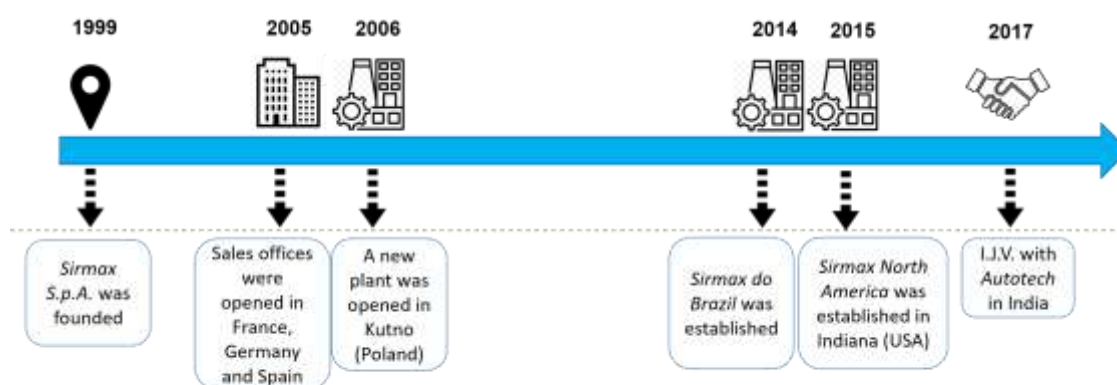
Figure 10 Timeline of national expansion



Source: Personal elaboration; see Sirmax's website

Firstly, the company established sales offices in Milan (Italy), Frankfurt (Germany), Lyon (France) and Barcelona (Spain) and then established an own plant in Kutno (Poland) to serve the Eastern Europe market. There were a multiple reasons for the company to engage in these first international operations: first, sales offices, even if more costly than indirect export, allowed the company to get rapidly market information and to get in touch with important clients with which make deals; second, Poland was expected to grow rapidly due to the presence of a district in which were present big Sirmax's clients; third, Poland was culturally closer to Italy than Russia or Turkey (other two important areas served by the firm) and was functional to identify new emergent markets. Thus, Sirmax proactively moved to that country.

Figure 11 Timeline of international expansion



Source: Personal elaboration; see Sirmax's website

More recently, in addition to the acquisition of Nordcolor, an Italian company that produce polymers and tailor-made compounds, the firm started to expand beyond the Euro-

pean borders. The lack of strong legal restrictions and the cultural similarities allowed Sirmax to perform greenfield investments in Brazil and Indiana (United States) instead of alliances. Finally, in 2017 established an equity joint venture in India with an Indian partner, Autotech, an Indian compound producer.

While in the US and in Poland the company exploited tax-incentives provided respectively by the US government and by European Union, in India it was not possible to make a greenfield investment due to legal restrictions on foreign companies.

The various locations where Sirmax established were decided on the base of the equal distance between suppliers (procurement source) and clients (end market) in order to save money from transportation costs.

Despite the wide expansion, Sirmax decided to centralise the all the strategic functions in order to consolidate its competitive advantage as well as the R&D department established in the headquarters. On the contrary, production and distribution activities are spread in all the key market areas.

However, this expansion entailed not only strategic movements, but also organizational developments. Indeed, the company needs to understand how to organize its worldwide operations in order to be sustainable over time. Efficiency and effectiveness can be reached through the appropriate management of human resources and through a functional coordination system of operations.

2.4.2 Organizational Structure

In Figure 12 and in Figure 13 are exhibited the organizational chart respectively of 2012 and 2017.

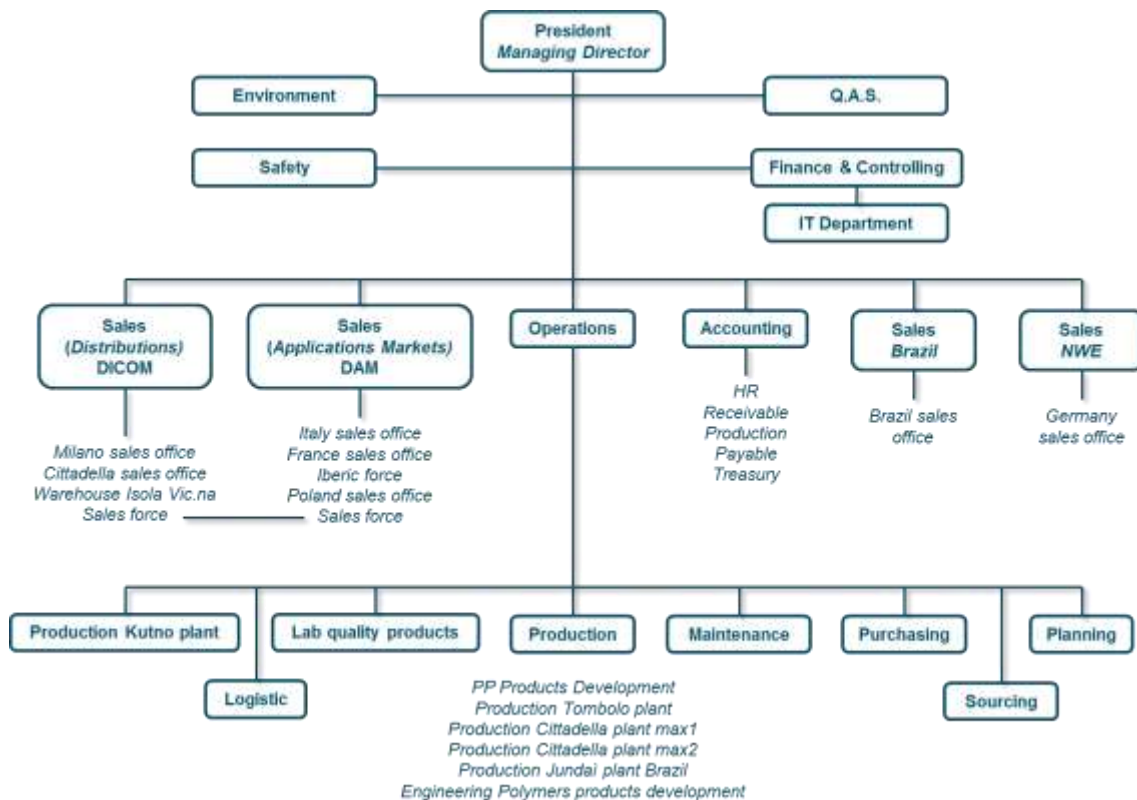
In the first picture, it is straightforward to note that Sirmax adopted an organizational chart based on a functional structure. Only the sales function is divided in different geographical areas where each branch manages and controls a specific market or usage of the firm's products.

Regardless of the entry modes, foreign production operations could trigger the grouping of all international activities into separate international divisions (Dowling *et al.*, 2017). Sirmax did not need to organize operations in such way.

Gradually, even increasing production capacity and operations abroad, the company's structure has remained mostly the same. All international activities were up to each

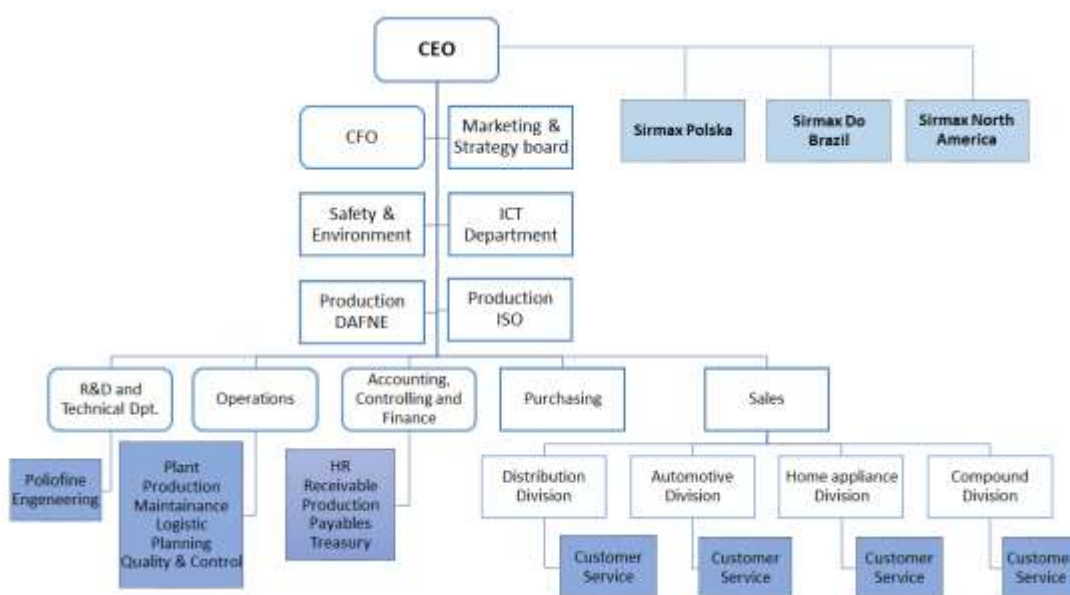
functional manager that worked together with the local managers of the diverse subsidiaries.

Figure 12 Sirmax's organizational chart in 2012



Source: Sirmax's website

Figure 13 Sirmax's organizational chart in 2017



Source: Sirmax's interview; Personal elaboration

Basically, at the end of 2017, the production function and the sales function changed. In the former, were introduced new products and the function was divided in two product categories. In the second function, instead, the firm divided the business in four end-use divisions: automotive, home appliance, compound and general distribution divisions have an own customer service and at lower level there is a further distinction related to the served geographical areas.

While the first figure represents the organization at the end of the first expansion phase, the second represents the organization after the second one: the greenfield investment in Indiana, the acquisition of Nordcolor and the joint venture with Autotech in India are three different operations that contributed to increase firm size, but also organizational complexity.

Comparing the two organizational charts, it is straightforward to note that the firm's organization has rapidly and considerably broadened in few years with completely different operations and with different managerial, institutional and cultural implications.

Sirmax in its international operations tended to structure its subsidiaries as "miniature replicas" of the domestic organization (Dowling *et al.*, 2017).

However, both organizational charts lack of the HR function: each manager organizes and manages their team on the base of their activities and needs.

Until 2013, the organizational complexity faced by the company was much lower than the one presented in Figure 13. The international operations gave a considerable contribution to the actual organizational issues.

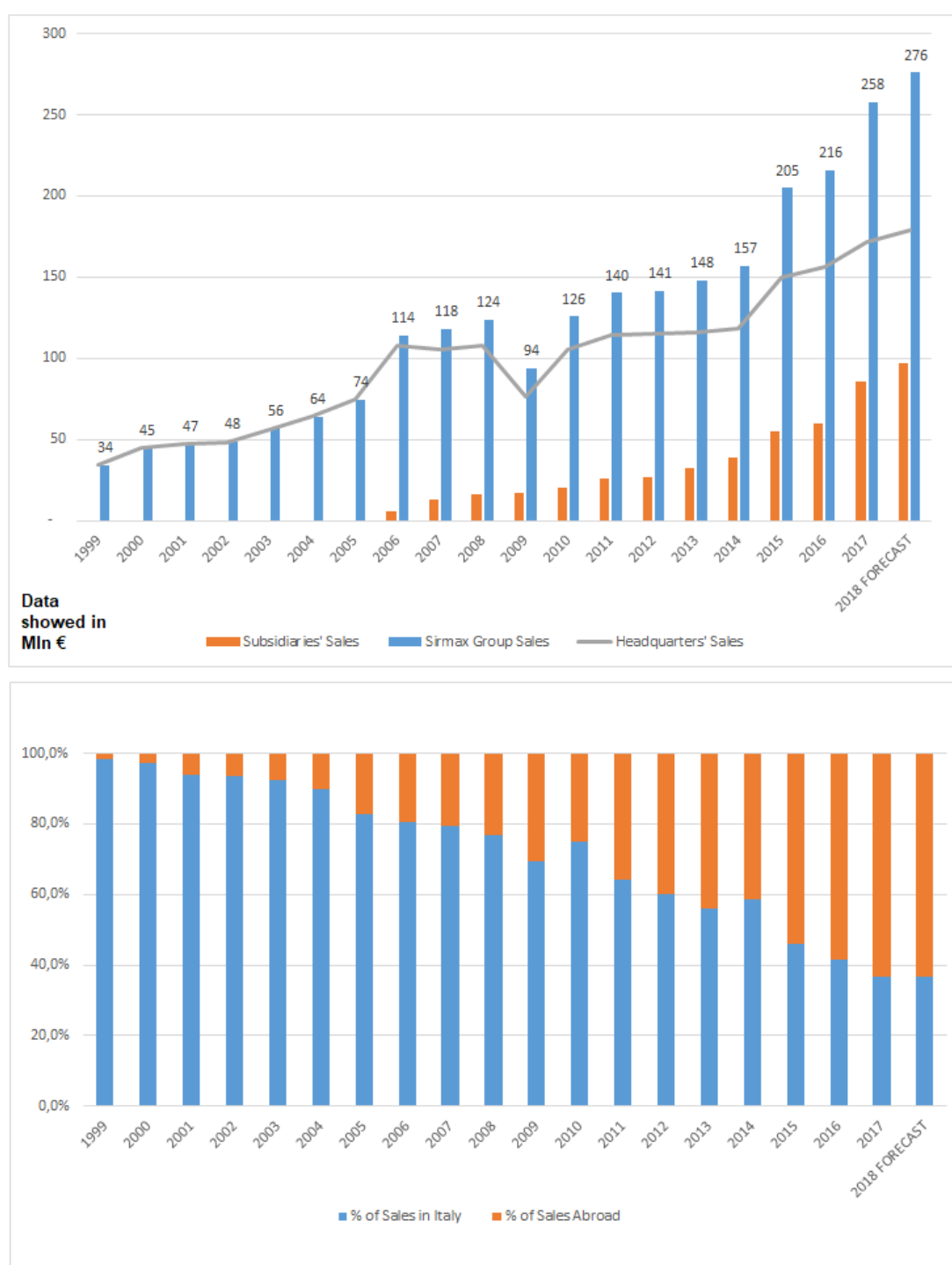
Even from the turnover (Figure 14a) it is possible to highlight the change and the growth that the company experienced. From 2013, the Sirmax Group's turnover is expected to almost double in 2018. Within few years the company became a stronger player in the global market. Foreign subsidiaries are expected to contribute for 1/3 of the Group's sales. Moreover, from 2015 the sales in foreign markets have had more weight than sales in the domestic one. This means that while in the past the company sold its product mainly in the domestic market, now it is going to sell them more throughout the world.

Although the company is capital intensive, it is highly automated and does not require much workforce. In other words, it is not mainly labour-cost dependent.

However, it is interesting to understand why and how the company succeeded in managing such complexity without formalizing HR practices.

In the next paragraph will be presented the actual organization of human resources and the implemented HR practices.

Figure 14 Sirmax's turnover



Source: Sirmax's interview

2.4.3 Human Resource Management Practices

At this moment, as an emergent medium enterprise, Sirmax is managing its human resources using an ethnocentric approach and so, centralising all the decisions at headquarters level.

Even if it became a pocket multinational, HR practices are not formalized, yet. Just administrative tasks (i.e. workforce's compensation) are formally performed on a regular basis.

The management of each functional team is up to the senior manager that organize and coordinate his/her members according to the specific needs of the function. In case of variations or requests, especially regarding career promotions, increase of salaries, and/or increase/reduction of workforce, senior managers should discuss the matter and propose how to organize the department with the Chief Financial Officer (CFO) and/or with the Chief Executive Officer (CEO).

The general human resource management is up to the CEO. At the hearth of this company there is indeed the figure of the entrepreneur that decides in general on all the matters, including for the management of its workforce. However, the CEO focuses on how best organize the company and sometimes delegates practices to other colleagues. Then, each functional senior manager is responsible of its functional teams and the administrative office cares about administrative tasks, as exhibited in Figure 12 and 13.

While variations happen few times per year, every trimester it is evaluated the possibility to increase or decrease staff on the base of market forecasts and conditions.

As long as the firm grew over time, the number of international activities increased substantially. These were grouped in a matrix which integrate more than one dimension (i.e. function and area): every employee or line manager respond to both HQ's functional senior-manager and to the local manager.

Increasing in size, the firm was characterized by difficulties in the communication and information flow, and in reaching operations' efficiency. For example, the number of emails that each senior manager receives are much higher than before.

Sirmax does not have currently an HR department and an HR strategy that configures how HR practices should be formalized and how people should be organized.

Some HR practices like compensation calculations are outsourced to consultant (or to online platforms in the United States) that collects data of the workforce.

Career advancements are suggested by local managers and decided together with the HQ senior managers according to their feelings and perceptions after a co-worker achieved its objectives.

Objectives are set on the base of the function: for example, a sales manager is evaluated according to how many clients he/she brought, or for their goods sold; other parameters are savings for procurement managers, product quality and stock turnover for production managers, or number of prototypes created for R&D managers.

Having not such a big structure, career advancements cannot be done to many individuals, but just to the ones that deserve it or at least, in an evolution phase, an employee/manager may be rewarded becoming team-leader.

Thus, without an HR strategy it is not possible neither to implement a systematic performance appraisal to give a feedback on employees' actions because in this case they would expect something in exchange as an increase of their salary or a promotion. Moreover, executive managers may place other priorities before these objectives according to circumstances.

Nevertheless, to some individuals was given the possibility to contribute to the organizational and financial performance of the company through international assignments.

At international level, Sirmax wants to maintain control over its newly established subsidiaries through staffing PCNs in key positions.

Now, the expatriates are 4 in Poland (over 75 employees), 5 in Indiana (over 25 employees) and 2 in Brazil (over 15 employees). Only in Brazil, expatriates are not placed as head of the subsidiary due to the lower contribution of that affiliate and to the contextualities of the country. Thus, a qualified PCN is the head there.

Usually these assignments last 3 years. Most of the times, who takes part of an international assignment are from 2 to 5 people, including a production manager, a sales manager, an employee, a quality manager and/or a financial manager. Expatriates contribute to organizational performance having a support and training function for host-country nationals, especially for what concerns the utilization of technologies, and gaining knowledge of the foreign market and national culture.

Subsidiary managers formally report all the information to the various functional heads. The organizational baggage evolves over time based on collective understanding and experience from past actions undertaken. Indeed, their knowledge contributes to the

output of the organizational learning capability of the firm: they help the firm to anticipate and understand better the customer needs and the competitive situation. Moreover, they are useful to process information faster and to develop new products, processes or systems which allow the firm to achieve a competitive advantage.

Furthermore, frequent visits by HQ managers as well as expatriates favoured the integration of the Italian mindset and organizational culture in the host country.

As concerns training and development, sporadically the firm provides programmes for their managers who are considered to be excellent and to have potentiality. For instance, the company financed a master in the United States to Lorenzo Ferro, the actual local manager of the plant in Indiana.

However, English-language courses are provided for Italian and Polish employees and training programmes are made for new entrants. Since train many people is not an easy task, the company prefers to hire one or few individuals in different time lag. Moreover, the employees are mostly selected for their skills and experience and they are likely to learn on the field (i.e. learning by doing). For instance, a sales manager is likely to start becoming familiar with the market, clients and products.

To conclude, Sirmax needs to create an HR department which implement HR practices for its workforce in order to be more and more attractive for new employees, to provide a pleasant internal environment and finally to retain people with the design of career path.

2.5 Conclusion

This chapter introduced firstly a new firm category, the pocket multinational, that is neither a small enterprise nor a large multinational corporation. It stands in a middle position and human resource management is not yet fully considered as a key functional area.

Then, the chapter retraced the path that small firms experienced in terms of organizational structure and design. It highlighted how these firms can grow pursuing its business strategy and change becoming firstly medium enterprises (i.e. pocket multinationals) and, in general, multinational enterprises, until to become large multinational corporations.

Therefore, since the beginning, these firms experience many different organizational stages with a diverse pace. Organizational structures are likely to vary for many reasons

(Dowling *et al.*, 2017) and human resources need to be managed differently, but carefully, in the growth phases and in the international operations, including M&As and international joint ventures.

Virtuous pocket-sized multinationals that have developed original business models capable of combining different traits of entrepreneurship, might become important player in the international competitive arena as Sirmax became recently: combining creativity, product and management culture, and relational capabilities, Sirmax was able to define technological solutions and business strategies in a growing and complex organizational structure (Coltorti *et al.*, 2013).

The latest events experienced by Sirmax contributed in increasing the organizational complexity. They constitute a point of no return because the company increased its production capacity through horizontal integration and greenfield investments.

Surprisingly, Sirmax faced this evolutionary path and was able to grow and succeed in its strategy just structuring a high-skilled management team. Indeed, so far, the firm did not have the need to implement and control HR policies and the human resource management correspond to the figure of the entrepreneur.

Increasing in size, the organizational form varied substantially, and it needed more and more to coordinate and control its international operations through formalized coordination mechanisms. Next chapter will analyse the factors that allowed the company to sustain such a big and complex organization even without formalizing human resource policies and practices.

COORDINATION MECHANISMS HEADQUARTERS-SUBSIDIARIES

3.1 Introduction

Companies that compete on an international arena can have an additional source of competitive advantage relative to their purely domestic rivals: they can benefit from coordinating activities across different countries domains.

Building a plant in another country is not enough to state that the parent company has full control over the subsidiary's operations because this latter must be linked to the headquarters and to the other units in certain way.

In general, an international manufacturer can shift production from a plant in one country to a plant in another to take advantage of exchange rate fluctuations, to cope with components shortages or to profit from changing wage rates or energy costs. Production schedules can be coordinated worldwide, and efficiencies can also be achieved by shifting workloads from where they are unusually heavy to locations where personnel are underutilized.

As explained in the previous chapter, Sirmax moved abroad to be closer to its big customers and to benefit especially from transportation-cost savings.

A key process of internationalization is the systematic transfer of practices and knowledge in which information and skills flow from one organization to another and complete an organized exchange of practices between entities.

In Sirmax there was not a formalized exchange of practices, but this transfer was made indirectly from the headquarters to every subsidiary.

So far, Sirmax has organized its internal functions giving human resources responsibility and functional practices implementation to each senior manager who organizes international activities with an international team.

Nevertheless, a critical role was played by trust: to sustain its organization, it was crucial for Sirmax's headquarters to have on the other side trusted and reliable people who control local operations and communicate all the information. In some subsidiaries (i.e. USA and Poland) expatriates PCNs were used as reliable figure, while in others (i.e. Brazil and India) the company trusted HCNs that have proved to be reliable too. As a whole, the variety of relationships with subsidiaries' managers follow different logics.

However, this chapter analyses the factors that allowed Sirmax to not collapse managing such a big organization without formalizing policies and practices for its human resources. Three main elements helped the firm to move forward in its business strategy without complex issues: centralization of decision-making process, control of operations ex-post through the alignment of information systems and human resources' decisions made by the entrepreneur

In the chapter, these elements will be analysed using a lens that allow to identify internal and external variables that influence the way in which *MNEs* carry on their internationalization process after the initial investments.

In the first paragraph will be introduced the forces that influence the *MNEs*' decision-making process at international level and the need to carefully balance the trade-off between global integration and local responsiveness. In doing so the firm must take into account many elements, including home- and host-country effects on decision-making. Then, in the second paragraph, it will be clarified the extent and the manner by which the headquarters is going to transfer and replicate its organizational practices inside the diverse entities. Finally, the firm must evaluate methods and logics behind the trade-off integration-localization. It must find an appropriate balance between the drivers that allows to coordinate and control international activities, processes and human resources.

3.2 The global challenge in transferring HR practices

In a complex global scenario characterized by more diverse environments, HR department plays a crucial role in facilitating knowledge transfer and exchange inside and outside local communities and on a global scale. The ability to transfer knowledge and organizational practices across multiple locations is a potential source of competitive advantage for *MNEs* because it provides consistency throughout the organization. The utilization and replication of knowledge and practices depend on the context, history and people (Maimone, 2018).

This attitude, converge into the high-performance work system (HPWS) which delineate a set of horizontally and vertically aligned work practices and employment practices that stimulate the abilities and motivation of employees (Becker & Huselid, 1998; Evans & Davis 2005; in Garaus *et al.*, 2016): horizontal alignment refers to coordination between HR practices, whereas vertical alignment refers to coordination between HR practices and firm strategy (Garaus *et al.*, 2016).

As concerns HR practices coordination, researchers have been focused on the complexity related to the trade-off between centralization and decentralization of HRM practices (Ahlvik *et al.*, 2016). Multinational firms often struggle to transfer practices among their culturally and geographically dispersed subsidiaries.

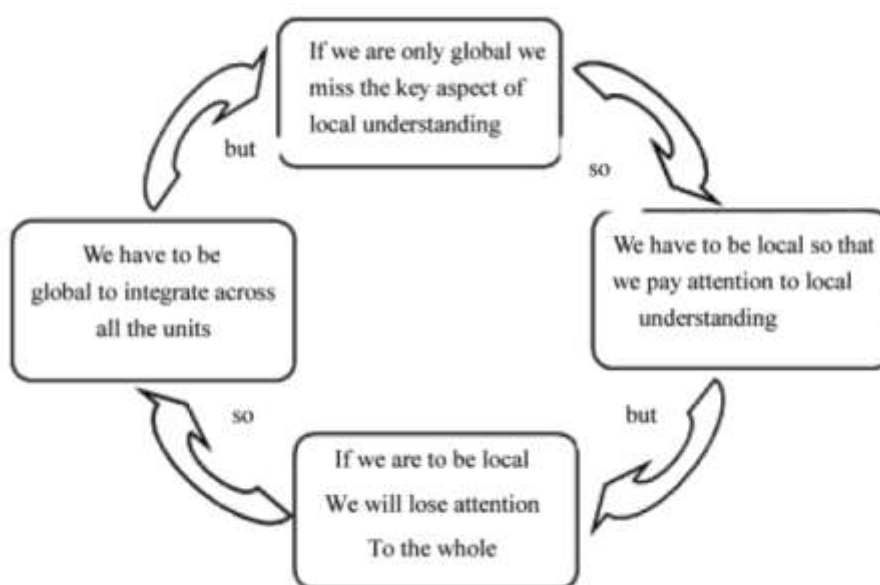
Typically, when a company established subsidiaries in more foreign countries, tensions on decision-making and on practice transfer will emerge between the parent company and its subsidiaries. The core issue for a company is whether a subsidiary has the possibility to decide and manage autonomously human resources or whether it is bound by the headquarters' decisions (Smale *et al.*, 2013; Lazarova *et al.*, 2017). In other words, since a foreign subsidiary is not an independent entity and resides in a host country, it is confronted with isomorphic pressures from both HQ and local institutions (Kostova & Roth, 2002) and the firm needs to solve the trade-off between local responsiveness at the subsidiary unit and global integration imperatives at parent headquarters.

On the one hand, the demand for local responsiveness at subsidiary unit stems from factors such as differences in market structures, distribution channels, customer needs, local culture and pressure from the host government. On the other hand, the headquarters needs a more centralized global integration because the firm has multinational customers, global competitors, an increasingly rapid flow of information and qualifying tech-

nologies that allow to achieve economies of scale through large production volumes (Dowling *et al.*, 2017).

Nevertheless, the tension concerns not only market strategies with which approach local customers, but also organizational strategies which entail the organization of *MNE* international structure and the implementation of HR practices. Complexity arises and become evident when *MNEs* attempt to integrate HRM practices in the various units regardless of their geographical location. Tensions and the related dilemma are briefly described by Oppong's (2018) construct showed in Figure 15.

Figure 15 Cross-border dilemma



Source: Oppong, 2018

Nowadays, there is an active debate on this topic and many authors concentrated their attention in how country-of-origin business system and host-country business system affect decision on international HRM policies and practices (Ferner *et al.*, 2001).

Coordinating and controlling cross-border operations became crucial for *MNEs* which have to transfer abroad a certain extent of HRM practices and policies which in turn may meet country-specific requirements during their implementation.

Since HRM implementation in foreign subsidiaries still represent a managerial challenge (Evans *et al.*, 2011; in Ahlvik *et al.*, 2016), it is important to address the drivers that support global integration or local responsiveness, including some backgrounds that are at the base of the dilemma.

Before doing that, analysing the different aspects of this trade-off, it is important to take into consideration the real intentions of the parent company in transferring and implementing HRM practices into foreign units.

3.2.1 Aligning people, processes and systems and corporate intentions

Regardless of the market strategy, *MNEs* may have heterogeneous corporate intentions about the manner and the extent of transferring HRM practices in foreign units. It may vary depending on type and role of subsidiary (Ahlvik *et al.*, 2016).

In the international context it is important for an *MNE* to foster the interunit coordination and alignment. This challenge can be overcome through the alignment of all the internal factors related to HRM, including people, processes and systems, with the overall corporate intentions of the parent company.

Morris *et al.* (2009) conceptualize “*alignment*” as the willingness of the company to share common goals and vision (people alignment), to provide shared phases or guidelines in how work needs to be done (processes alignment), and to have integrated or common technologies and platforms (systems alignment). These internal alignments are necessary for the organizational growth. Moreover, these have positive effects on a subsidiary’s replication capability because uniformity makes replication easier: before aligning people, the firm must align formal systems and processes which allow information to flow rapidly and makes subsidiary understand how to efficiently replicate practices (Morris *et al.*, 2009).

Here, the extent to which the subsidiary will be able to relate to and absorb the knowledge embedded in practices transferred from the headquarters depends on the operational and HRM capabilities (Cohen & Levinthal, 1990; in Ahlvik & Björkman, 2015). These are crucial for the implementation of practices given the fact that may decrease lead time. Therefore, the firm should first align processes developing common templates, platforms, informal norms and guidelines about how HR should be carried out. Furthermore, it is very helpful having aligned or integrated information systems which allow to transfer and share information and knowledge efficiently (Morris *et al.*, 2009).

In the second instance, people must be involved in the process and in the discussion providing them all the information. They share cognitive schemas of the overall firm objectives and the nature of internalization is more personal and attitudinal. So, they

need to be motivated and they must understand why it is useful to adopt a set of common practices in the firm. It requires a different approach, such as building relational social capital, which facilitates integration and implementation of practices (Ahlvik & Björkman, 2015; Morris *et al.*, 2009).

The overall alignment of people, processes and systems leads to the alignment between the implemented HR practices in the subsidiary and the corresponding corporate intentions. Moreover, the alignment is the result of corporate adjustments in order to accommodate specific needs of the subsidiary (Ahlvik *et al.*, 2016). Indeed, the headquarters should operate as an active player: local HR managers should communicate needs and constraints effectively whereas corporate HR managers should interpret carefully the stages of transfer (Ahlvik *et al.*, 2016) and should provide a helpful compromise to determine how the practice should be done and/or how to satisfy local needs.

Administrative heritage

According to Bartlett and Beamish (2011, p.218-219), *MNE* managers found increasingly difficult to define organizational structures that reflected their more complex international strategies: they recognize that formal structure was a powerful but blunt instrument of strategic change. Therefore, managers should be reoriented by the firm in thinking and reshaping its core decision-making capabilities.

Furthermore, an industry analysis can point company's external competitive challenges and market needs. The *MNE*'s ability to meet those external opportunities and threats will depend on and will be greatly influenced – sometimes positively, sometimes negatively – by its existing internal world. It is exactly in this last element that it is essential to focus in order to understand how internationalization changes the organization.

The authors suggest examining how firm's internal factors influence its ability and willingness to change: each company is influenced by the path by which it developed its organization (its organizational history) and the values, norms and practices of its management (its management culture). Collectively, these factors constitute what the authors call company's "*administrative heritage*" (Bartlett & Beamish, 2011).

Even when companies compete in the same industry, their different heritages usually led them to adopt very different strategic and organizational models.

For global firms, focus on its heritage is much more critical as the international organization will operate across a wide variety of competitive environments and yet somehow

balance these diverse social, political, and economic contexts with the requirements of the original home context (Dowling *et al.*, 2017).

To the same extent, *MNEs* that are now expanding from developing countries are characterized by management mentalities shaped by cultural norms of their home countries, in addition to the host-environments into which they are expanding (Bartlett and Beamish, 2011). However, any organizational transformation must focus at least as much on the company's home country as on which host-country it wants to expand.

3.2.2 Drivers for global integration and centralised decision-making

MNEs' headquarters wish to reduce the degree of asymmetry between subsidiary's implementation of certain HRM practices and corporate intentions (Ahlvik *et al.*, 2016) and to reach consistency and transparency in the overall structure.

In pursuing global integration strategy (or standardization) in human resource management, *MNEs* aims to foster the feeling of an equal treatment among geographically and socially distant managers and employees involved in cross-border activities.

Global integration is seen as an attempt of the *MNE* "to control the HRM policies and practices of their subsidiaries and to ensure coordination of the policies and practices across their subsidiaries" (Smale *et al.*, 2013). So, control and coordination are the key elements that mark the global integration strategy. The former is a process in which a person, team or organization determines or intentionally affects the actions of the others (Baliga & Jaeger, 1984; in Smale *et al.*, 2013). Headquarters regulates and defines *MNEs'* activities with its authority in order to align them with the headquarters' expectations (Belizón *et al.*, 2016; Smale *et al.*, 2013; Ahlvik *et al.*, 2016).

Coordination, instead, refers to the means by which

"different parts of an organization are integrated or linked together to accomplish a collective goal" (Martinez & Jarrillo, 1989; Van de Ven *et al.*, 1976; in Smale *et al.*, 2013).

It may vary significantly between the different subsidiaries around the world (Wolf, 1997; in Lazarova *et al.*, 2017)

Control and coordination mechanisms are used jointly to achieve consistency in international business activities across borders (Kim *et al.*, 2003; in Smale *et al.*, 2013) and a uniform system facilitates administration processes by increasing operations efficiencies (Morris *et al.*, 2009)

In the expansion of international activities, foreign subsidiaries are often structured as exact reproduction of the domestic organization or of another subsidiary.

In case of a large multinationals, it is plausible that cross-border operations are managed at least similarly in order to pursue an ongoing multinational or transnational corporate strategy supported by the related organizational structure and culture (Dowling *et al.*, 2017). For example, American MNCs such as Procter & Gamble or IBM usually tend to have standardized HRM practices like recruitment and training (Pudelko & Harzing, 2007).

A global integration strategy entails a centralized HR decision-making process which secures an alignment of practices and procedures around the world. Centralization facilitates communication and knowledge transfer and enhances continuous learning from the network of subsidiaries (Bartlett and Ghoshal, 1989; in Lazarova *et al.*, 2017).

The major advantage of developing highly internally consistent HR practices can lead to increased efficiency and enhanced subsidiary performance because the company has no duplication efforts and can achieve economies of scale and synergies learning from one another (Morris *et al.*, 2009; Janssens, 2001; Lazarova *et al.*, 2017).

As concern control mechanisms, the headquarters must establish whether to adopt uniform or diversified control's mechanisms taking into consideration the international organizational structure (i.e. functional, global product division, national and/or regional divisions or matrix). Headquarters can choose the appropriate mechanisms through which communicate the desired intentions and facilitate implementation.

Kim *et al.* (2003) provided a useful classification of the different modes of integration mechanisms used by *MNEs* to coordinate with the various subsidiaries: centralization, formalization, people and information (Figure 16).

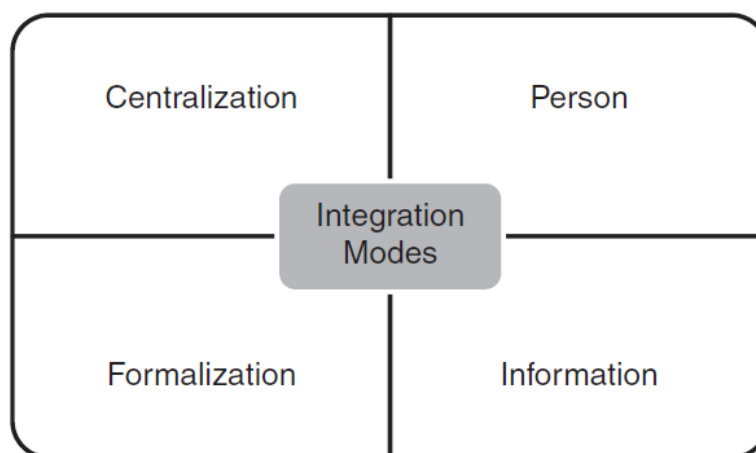
Formal HRM control includes the first two control mechanisms, namely formalization and centralization. Both refers to

“the extent to which headquarters places emphasis on standardized HRM processes and procedures and enforces formalized HRM rules and policies in the subsidiary” (Ahlvik *et al.*, 2016, pp. 344-345).

These mechanisms are recalled and analysed by authors such as Smale *et al.* (2013) and Belizón *et al.* (2016) who identified the different uses of these integration modes across a set of different HRM practices, including financial compensation, performance ap-

praisal systems, recruitment and selection, training and development, employee involvement and industrial relations.

Figure 16 Integration modes



Source: Belizón et al., 2016, p.541; see also Kim et al., 2003.

Centralization

The first mechanism is the “centralization-based integration mechanism” (or “centralized strategy of control”) that refers to circumstances where decision-making authority is centralized and resides at MNE’s headquarters (Kim *et al.*, 2003; Smale *et al.*, 2013; Child, 1972, p. 163; in Belizón *et al.*, 2016). It can operate from the central HQ or from other top levels as regional or divisional HQs, where there is a clearer understanding of needs and goals of the business (Kim *et al.*, 2003; Belizón *et al.*, 2016). The objective of this mode is to limit the HR decision autonomy of the subsidiary, since MNEs wish to align HRM strategy with corporate strategy, regardless of complex institutional and cultural arrangements (Smale *et al.*, 2013).

Centralized decision-making is likely to be used in HRM issues that are less influenced by the social and cultural context and are financially sensitive having a closer link with performance. For instance, differently from salaries for professionals and managers that are subject to local labour market rates, criteria and methods to assign financial rewards and compensation, including the ones for expatriates, are less local-context bound (Smale *et al.*, 2013; Ahlvik *et al.*, 2016).

As concerns Sirmax, the centralization of decision-making process was the first mechanism that allowed the firm to manage human resources in the

growth. The firm use the nickname “*Cittadello centrico*” deriving from the name of the headquarters’ city, Cittadella, to express that the firm adopted an ethnocentric approach: the firm centralizes all the functions and decisions in the headquarters and from there it coordinates with the other units.

Its administrative office centralizes all the decisions regarding compensations, benefits and rewards for all the employees around the world. Moreover, controlling function of subsidiaries’ activities is centralized there, too: every trimester each subsidiary must draft and update their balance sheets, income statements and cash flow statements.

Formalization

“Formalization-based integration mechanisms” (or “bureaucratic control mechanisms”) are informal/bureaucratic means by which standardized work procedures, rules, policies and manuals are codified and transmitted to/from subsidiaries and to/from the headquarters.

The awareness of the technical nature of implementation and integration processes improves the ability of the parent company to transfer practices. These can be transferred as integrated wholes or broken down and transferred separately (Ahlvik & Björkman, 2015).

To support the transfer, the HQs can give detailed instructions regarding how the transferred practices should be integrated with existing practices (*ibidem*).

Formalization modifies and binds behaviours and restrict subsidiary’s discretion in decision-making (Ouchi, 1977, 1979; in Ahlvik *et al.*, 2016): uniform expected individual behaviours and organizational processes facilitate vertical control (headquarters-subsidiary) as well as the horizontal one (between subsidiaries) (Smale *et al.*, 2013). Often, headquarters wants to keep informed about HR activities and issues on a regular and on-going basis. HRM issues can be directly reported through cost-efficient information channels (e.g. HR shared services centres (HRSSC) or electronic HRM (e-HRM)) or an extensive use of reporting systems or check lists (Ahlvik & Björkman, 2015; Smale *et al.*, 2013). In this way, routines, practices and policies can be transferred, checked and implemented by the headquarters (Belizón *et al.*, 2016). In the case

of performance appraisal, for example, it is important for the company to have similar and coherent procedures and criteria across different subsidiaries (Smale *et al.*, 2013).

Every day in Sirmax data regarding for example sales, new orders, handled orders but not recorded, and so on, coming from the various subsidiaries are summarized in standardized report. These data are extracted through a Business Intelligence (BI) system and analysed by the HQ managers who monthly check the margins in terms of products, clients, markets and so on.

Moreover, working in teams and with a matrix configuration, it is important for the headquarters to ensure control over subsidiaries. Thus, it is necessary to have expertise in every matter that once defined standards and guidelines, they are responsible and care about internal issues of each country. For instance, Sirmax is introducing an “*operational excellence system*” that allows the headquarters to control the activities that are delegated. In the production process would mean having standardized practices and ways of doing things with the HQ staff available for any request or forthcoming need.

People

The third mode involves the use of people and for this reason is called “people-based integration mechanisms”. In the centre of this mode there are international assignees: expatriates, in addition to transmit corporate values to the local employees, are means by which the headquarters can closely supervise subsidiaries’ activities (Belizón *et al.*, 2016), even allowing a certain degree of local responsiveness for the diverse HR practices under their control (Smale *et al.*, 2013). Indeed, it is the only mechanism that does not tend exclusively to the integration of processes, but, encompassing both HQs’ and subsidiary’s perspective (Ahlvik *et al.*, 2016), they act to large extent as a key moderator of the tension (Kawai & Strange, 2014). Expatriates are the key figures that experience more deeply the tension in the implementation of practices, since they have a more long-standing social ties with HQs and fewer communication problems than HCNs (Gupta & Govindarajan, 2000; in Ahlvik *et al.*, 2016). For instance, when host-country factors come to light and cannot be ignored during the implementation, expatriates may

become very worried and find difficulties in managing and sustain the tension as the headquarters demands are equally difficult to ignore (Oppong, 2018).

Furthermore, *MNEs* are increasingly using internal HR networks, HR communities of practice (Smale *et al.*, 2013) and HRM international committees (Belizón *et al.*, 2016) to reduce distance among HR managers and to foster a uniform integration of international HR practices.

In Sirmax, this kind of integration is not yet formalized, but the informal contacts between HQ's managers and subsidiaries' ones are almost daily, except with the Indian joint venture with which relates more rarely. In telephone calls or video-calls the HQ managers are interested in understanding problems, contingencies and differences from the HQ standards and guidelines that the local manager observed in the short and medium period.

The management of people is important also to facilitate the transfer of knowledge, know-how and best practices across units, especially at the beginning.

Therefore, frequent visits of the HQ managers to the subsidiary help local managers to learn and understand the ways of doing things and to feel closer to the parent company. Moreover, corporate staff creates value for the firm involving themselves in subsidiaries' affairs. HQ' staff assists local staff and is directly engaged in day-by-day subsidiaries' operations and find solutions to potential local problems.

From the HQ manager perspective, visits are necessary to identify local issues and address feelings of local employees (Cheng & Yu, 2012). Not always advancements can be noted through video-conferences: face-to-face contacts between subsidiary managers and corporate staff help to understand the perception, satisfaction and problems of local managers (Dowling *et al.*, 2017). In doing so, it is crucial for the HQ manager to have a flexible mindset when facing different points of view in order to bring shared thoughts back to concerted schemas.

While traditional contingency logic emphasizes the separation of the different levels of an organization, this kind of organization emphasizes a greater interdependence between corporate and subsidiary activities (Decreton *et al.*, 2017).

Although most of the activities are performed by managers, in case of important issues, the CEO and the owners decide on the matter. According to the centralised decision-making model typical of SME, the authority to take decisions is up to the parent-firm executives who determine the likelihood of adopting an internal practice in a subsidiary (Chang & Yu, 2012). Indeed, a second important element in the management of human resources in Sirmax is the fact that having not the need to formalize policies and practices, the owners, especially the CEO, were central to the decision-making process. In other words, they delegate activities to other colleagues, but in case an issue arises, including a HR issue, they are the ones that decide as a last resort. Incorporating all the assessments into their judgements, executives finally decide on the alternative practices avoiding internal conflicts and resistance from the subsidiary (Chang & Yu, 2012) and overcoming (HR) inefficiencies and.

Information-systems

Given the fact that people are separated by geographical distances, “information-based integration mechanisms” are powerful means that enable the firm to codify knowledge and practice and make it easier to understand for the workforce (Morris *et al.* 2009). This category includes databases, employee intranet, electronic manuals and storages, messaging systems and other technological systems with which it is possible to communicate, to share information and collect data (Belizón *et al.*, 2016; Morris *et al.* 2009). Moreover, having standard platforms, each subsidiary can understand objectives and preferences of the other ones (*ibidem*). This mode is used to integrate performance appraisal systems and compensation systems (Belizón *et al.*, 2016).

As concerns Sirmax, information systems are established just for administrative tasks and not for the management of human resources.

Despite the lack of a formal HR system, it was crucial for the firm invested on and installed the software S.A.P. in the headquarters and, even with some difficulties in its subsidiaries.

The overall alignment of the information system in diverse units allowed the firm to codify and standardize administrative practices in a common language. In this way, the headquarters can reduce the likelihood the subsidiary come upon problems and it can centralize control reducing subsidiaries' autonomy. Most importantly, in this way the headquarters has the overall management control of all the activities from the performance audit. In other words, thanks to information systems, the firm, looking at financial results and key performance indicators (KPI), has the indirect control on workforce performance.

Country-of-origin effects

There is evidence that *MNEs* are embedded in their home-country business system which influences their behaviour and their conduct of human resources and industrial relations issues at an international level (Ferner *et al.*, 2001).

Country of origin effects and senior managers attitudes are likely to influence the way in which the parent company behaves. *MNEs* are shaped by their country-of-origin's institutions and they attempt to introduce parent-country based HRM practices in their foreign subsidiaries. This is especially the case in an ethnocentric firm (Dowling *et al.*, 2017). For instance, in a parent firm with many years of experience operating in the home-country ("old firm"), the executives with little international experience may assume similarity between countries and transfer HR practices regardless the context (Cheng & Yu, 2012; Dowling *et al.*, 2017); alternatively, executives, under uncertainty, may replicate internal standard practices also in their affiliates as a way to repeat past successful experiences outside the home-country institution (Cheng & Yu, 2012).

Country of origin effects are stronger when *MNEs* enter in non-restrictive local environments than in very restrictive countries. For instance, a country might be more strictly regulated such as Spain or Germany, or less regulated such as UK, and *MNEs* are likely to behave differently in these countries (Ferner *et al.*, 2001; Dowling *et al.*, 2017).

3.2.3 Drivers for local responsiveness and autonomy in decision-making

Multinational companies face significant challenges in the attempt to replicate domestic HRM practices. These challenges are particularly visible when the company operates in different institutional and socio-cultural contexts. There is evidence that HR is the organizational function that is most closely linked to the local environment and most likely to employ local practices (Rosenzweig & Singh, 1991; Rosenzweig, 1994; in Lazarova *et al.*, 2017).

MNEs may be more willing to respect and conform to local cultural values, traditions and legislation, including government regulations, education system and work practices. In this way, it is possible to realize local responsiveness (Dowling *et al.*, 2017)

Potential contingencies in local standards requirements and restrictions on on-site manufacturing may force parent-firm executives to not adopt exclusively standardised practices (Cheng & Yu, 2012). HR practices can be designed aligning with locally accepted practices and with expectations of local workers and complying with local regulations and legislation.

For example, German MNCs such as BMW or Mercedes, even if in their home country work in close cooperation with labour unions, in their American subsidiaries tend to cluster in non-unionized areas. Conversely, American subsidiaries in Germany adapt their practices in respect of local regulations (Pudelko & Harzing, 2007). Thus, they will behave differently in the various countries to get congruency.

Furthermore, subsidiary HR managers have to recruit, develop and engage local workers, primarily from local labour markets. They must respect constraints imposed by local labour legislation and they must act in accordance to social and cultural customs (Lazarova *et al.*, 2017).

Local responsiveness implies the decentralization of HR decision-making process. In other words, manging HR practices locally gives decision autonomy to the local HR department (Lazarova *et al.*, 2017). Subsidiary HR autonomy is defined as

“the extent to which subsidiaries are free to make decisions independent of HQ with regards to the nature or HR policies and the content of practices deployed at the subsidiary” (Lazarova *et al.*, 2017).

In this way, delegation gives more managerial discretion and responsibilities to subsidiary’s managers. Thus, they are able to leverage firm-specific human resources (Kawai & Strange, 2014).

It is important to distinguish strategic autonomy and operational autonomy: the former refers to the possibility for subsidiaries to make and implement strategic business decisions and/or to set an individual agenda (for example, setting HR policies); whereas the latter refers to the freedom to make daily decisions or how certain activities should be designed and managed (HR management) (Lazarova *et al.*, 2017).

Sirmax's headquarters reserves the right to take strategic decisions internally and to give just operational autonomy to subsidiaries in Poland and United States. The reasons are that HQ managers figure as consultant of local managers and they are available to help them in solving problems.

The Indian Joint Venture and the Brazilian subsidiary, instead, are treated different giving them both strategic and operational autonomy: in the former, local managers have just to follow the guidelines provided by the joint venture agreement, whereas in the latter, autonomy is due to seniority, diversity in communication system (there is not S.A.P. yet), strict tax system and other country-specificities.

However, involving local managers in decision-making process make them feel important part of the organization. More they feel confident and responsible with their job, and more they grow professionally and are motivated to work in the company.

Localization strategies potentially foster creativity, customization and innovation across the entire firm and allow to generate new best practices that might be transferred or might be helpful to solve problems or catch opportunities (Morris *et al.*, 2016).

The extent of local responsiveness (or localization strategy or customization) depends on many factors, including: institutional environment, national culture, entry mode, and role of subsidiary.

Mode of operation abroad

As already explained in Chapter 2, IHRM is directly linked with the internationalization process of a company and to the way in which the same will enter in the foreign country. For instance, acquired subsidiaries with pre-existing policies, practices and norms

are likely to present greater challenges in terms of adopting practices that resemble those of the acquiring firm (Ahlvik et al., 2016)

Conversely to the approach used in the other FDIs, in the international joint venture Sirmax gave up ex-ante to impose its organizational culture and fully delegates the management of HR practices to the Indian partner that must do it on the base of a commonly-agreed business plan. In this situation, trust in the other partner is crucial.

In this scenario, it is important to understand how the company can attain more synergies exploiting the Indian JV. First, the firm may propose international assignments not only for PCNs, but also for HCNs. This means that while PCNs may transfer to a certain extent organizational practices and the organizational culture, HCNs may understand the Italian parent company's culture and procedures through a cross-cultural training and an inter-firm training on practices and activities that in the future might be implemented as "best practice", once they come back in India.

The role of subsidiaries

MNE's subsidiaries can take different roles inside the organization. Each unit assumes a certain complementary position with specific functions in the organizational structure. The subsidiary's role defines the expected contribution to the efficiency of the whole company and identifies how and when the organization is divided up (differentiated) and/or it is united (integrated). Some subsidiaries may have a stronger bargain power in negotiating its position with the headquarters and may balance at its favour the tension getting more autonomy. The main reasons may be that it operates in significant markets or provide to the whole company function-specific skills that allow it to play a strong influential role (Dowling *et al.*, 2017). Thus, subsidiaries' role can differ depending upon its function, power and resource relationship, but also initiative-taking, host-country environment, predisposition of top management and the active championing of subsidiary managers.

The role of subsidiaries depends on its ability to absorb and to create knowledge (Gupta & Govindarajan, 1991; in Dowling *et al.* 2017). Four types of subsidiaries are identified and are displayed in Table 4.

Table 4 *Subsidiary's role*

KNOWLEDGE ABSORPTION AND CREATION	LOW OUTFLOW	HIGH OUTFLOW
LOW INFLOW	Local innovator: Complete local responsiveness (weak ties with the HQ). Creation of specific local knowledge.	Global innovator (transnational strategy): provide valuable knowledge and HR practices and policies are developed and transferred to other subsidiaries.
HIGH INFLOW	Implementer: Relies heavily on other subsidiaries' knowledge. Centralized HRM decision-making to HQ.	Integrated player: Important knowledge node in the MNE's network. Great extent of global integration with some exception of localization when it is needed.

Source: Adapted from Gupta & Govindarajan, 1991, see Dowling *et al.*, 2017, p.55

Sirmax's subsidiaries are in part local innovator and in part implementer: they absorb the knowledge from the headquarters through expatriates and strategic guidelines provided by each function, but it is given complete local responsiveness in HRM decisions.

Experiments on new products and test on new practices are made in the headquarters. Indeed, for example, the R&D department is centralized in the headquarters and from there new knowledge is spread across subsidiaries.

Although headquarters in general centralizes the development of capabilities, subsidiaries have stood out as initiator and producer of critical competencies and capabilities.

Sometimes can be observed a *reverse diffusion* where talented subsidiaries act as new economic centres for developing best practices and new knowledge and capabilities (Pudelko & Harzing, 2007). Jimenéz-Jimenéz *et al.* (2014), found that learning orientation performs the mediating role between reverse knowledge transfer (RKT) and MNE's innovation: exploiting and assimilating the knowledge generated into subsidiaries allow the firm to foster its learning orientation and as consequence, enhance and facilitate its innovation propensity.

Cultural environment

In this globalized world, where companies can reach places and resources through intense logistic and transportation systems, cultural and psychological distances between countries are probably smaller than before, even if they still are not negligible (Benito & Gripsrud, 1992). National culture has an impact on the decision of the firm and has a moderating function in international HRM. People have different way of life and have different attitudes and behaviours in the workplace. HR managers should take into consideration these elements when are developing HR practices in subsidiaries.

Neglecting the link between HR practices and host-country's culture may lead to negative consequences in the form of lack of employee commitment and high turnover rate. Chapter 4 will address this issue.

Host-country effects and Institutional Legitimacy

Many different elements of the institutional environment such as culture and legal systems are often specific of a nation, thus, organizational practices are expected to vary across countries.

MNEs would like to have a common imported HRM policies and practices across their foreign subsidiaries, but it may be difficult to achieve due to stringent local customs and employment regulations (Oppong, 2018).

Institutional theory has been widely used for studying organizational practices among organizations in different environments. Institutional theory considers the firm as a social and open system which operates, interacts and competes under the influence of the external environment (Kostova & Roth, 2002; Cheng & Yu, 2012).

Firms' practices result from values, norms and beliefs originating in the context of an environment (i.e., an institution) (Cheng & Yu, 2012). Companies from different countries operate according to different institutional principles and display different interorganizational structures.

Applying this theory, it is possible to highlight the institutional complexities that organizations face during their growth and the potential opportunities for further development. To this concern, the national economic policies play an important role in supporting innovation and internationalization. For instance, favourable policies for R&D have been introduced in France, Germany and Spain, in the last years, such as tax credits on research expenditure, financing schemes to encourage companies to invest, measures to

strengthen non-price competition and penetration of international markets (Garofoli, 2013).

Apart from this, it is vital for an international company to achieve and maintain legitimacy in all the environments where it is present.

Legitimacy may assume a sociological meaning and it is achieved when

“program, policies and procedures are enforced by public opinion, by important constituents’ views, by knowledge legitimated through the education system, by social prestige and by law” (Meyer & Rowan, 1977, p.343).

In their international operations, firms must conform and meet the expectations of most stakeholders. Get and maintain this legitimacy constitute a challenge that is not always straightforward to overcome, especially for companies with few international experiences.

Unlike large multinationals, SMEs have fewer tangible and intangible resources and are thus more vulnerable to challenges and shocks. Besides, SMEs are more susceptible than large-sized firms to the demands of stakeholders from external environments (Vachani, 2005; in Cheng & Yu, 2012). For instance, in the manufacturing sector, production scheduling and workforce staffing are considered two primary activities that are generally based on strict legitimate restrictions and social expectations (Roth & O’Donnel, 1996; in Cheng & Yu, 2012).

Consequently, to comply with the different requests and to face external challenges, SMEs should have the right capabilities to get legitimacy.

As concerns Sirmax, the firm gives operational autonomy to subsidiaries about recruitment and selection. One Sirmax’s issue is that its American subsidiary hires people that are selected by an external consultant and by an expatriate sales manager. The problem is that there is a tension between the management of economic resources and human resources and at the end, without an HR manager, it is likely to put the former first.

Thus, with the increasing complexity it is necessary to know all the legal and administrative processes, including topics such as security, cultural and gender discrimination, that prevent the rise of problems.

Being aware on cross-cultural topics, Sirmax can face issues with employees through a direct confrontation. In this way, the firm can overcome social pressures from their stakeholders and avoid satisfying employees with monetary incentives in order to gain legitimacy.

The institutional environment can strongly influence the development of formal structures in an organization: as organizational practices become institutionalized, they tend to be accepted and approved by organizational members.

Organizations which share the same environment will employ similar practices and thus become isomorphic with each other (Cheng & Yu, 2012; Kostova & Roth, 2002; Meyer & Rowan, 1977).

The adoption of the same or similar practices is explained by the organizations' conformity to institutional pressures driven by legitimacy motives (DiMaggio & Powell, 1983; in Kostova & Roth, 2002), rather than solely and purely efficiency reasons.

Therefore, some practices, after being tested by many early adopters and considered legitimate by key stakeholders, will be broadly imitated by other late adopters (Meyer & Rowan, 1977).

Certainly, being present in several countries, the organization will experience institutional pressures to adopt different local practices and become isomorphic with each local institutional context. The greater the variance of the environments in which the company operates, in terms of geography, market, technology, and culture, the higher will be the rate of internal diversity inside the organization that triggers the effective functioning and coordination of all the processes.

3.3 Balancing the drivers

3.3.1 Institutional Duality

The issue for the company is deciding the extent to which the subsidiary should adopt internal practices and/or practices deriving from the host-country environment.

It is possible to distinguish two sources of institutional pressures that influence the firm development. The first is about the "macro environment": having more than one subsidiary located in different countries, the multinational company needs to maintain legitimacy within the institutional context of the different host-countries. Firms should fol-

low the institutional pattern of the host country adopting practices that are common among competitors and that respect regulations, laws and public opinion.

The second, instead, concerns the “relational context” of the *MNE*, including relationships with affiliates and “intra-firm relationships” with suppliers, peers, customers, unions and other stakeholders. The subsidiary should conform and comply with the internally prevalent and standard practices given by the headquarters or the ones collectively enforced by norms and policies agreed with stakeholders (Cheng & Yu, 2012). Therefore, it implies that pressures come from direct collaborative relationships with different entities, not only within the company itself, but also horizontally with other partners.

For instance, customers in a host country may be a source of information to which practices can be adopted to better serve them or relationships with local suppliers may influence the adoption of certain production practices (Cheng & Yu, 2012).

As a result, the multinational firm needs to leverage practices on a worldwide basis, considering all the tensions that lie between the need for a global integration and local adaptation. Kostova and Roth (2002) call this situation “*institutional duality*”.

According to the authors, in a large and developed *MNE*, a subsidiary executive may unilaterally direct an autonomous subsidiary’s adoption of practices.

The allocation of decision rights from the parent company to the subsidiaries varies in environmental uncertainty as well as across industries (Kawai & Strange, 2014): for example, transportation and public services industries tend to be more decentralized whereas the mining and construction industries have a more centralized structure. Companies operating in a volatile and uncertain environment tend to allocate more decision rights to their subsidiaries, given the importance of local information and knowledge in such situations (Liu *et al.*, 2018). This confirms also what Andersen (2004) as well as Kawai and Strange (2014) found: in such situation they emphasize a stronger positive relationship between subsidiary’s autonomy and performance.

According to Cheng & Yu (2012), this idea does not apply in SMEs because of the lacks in efficient cross-border control and information systems. In this case, indeed, parent-firm’s executives are deeply involved in subsidiary operations to ensure that their subsidiary prospers. Since SMEs generally have few foreign affiliates, parents-firms may lack the willingness and capability to build an intra-firm relational network to influence subsidiaries operations (Chang & Yu, 2012). In emergent pocket multinationals

coordination systems are established for those practices that are considered essential for the strategy. For instance, the priority is given to production and sales functions.

This category is placed in a position in the middle where some forms of control system are already implemented (e.g. in Sirmax there is a fundamental IT network) and the executives assume a function of consultant of line managers and ultimately are involved in solving problems, in addition to strategic decisions.

Since relevant issues have not appeared, the coordination of human resources, instead, is not yet taken into account and these companies figure as very small enterprises on this matter.

However, in a growing process, firms should take into consideration not only headquarter-specificities, but also the requirements of the macro-environment and of important stakeholders. In addition to the country-specificities, some stakeholders exert pressures at the beginning of the internationalization process as well as at the end.

3.3.2 Transfer of knowledge and practices

Given the evidence that context matters when it comes to transferring knowledge and practices, Lupton and Beamish (2014) found that knowledge-based practices (related to innovation) tend to be transferred within *MNE* via a variety of modes: central administration, brokering and organic diffusion. The first, *central administration* is like the formal HRM control and in fact refers to the transfer of “best practices” initiated and implemented by the corporate HQ with a highly coordinated assessment structure. The second, *organic diffusion* entails a regular communication about practices between managers and employees of different organizational subunits. Thereby, each subunit is made aware of the existence and recognize the value of practices implemented in other subsidiaries. Sharing practices within the *MNE* network in periodic meetings of specific departments, helps the firm to align the different subsidiaries on the same path. For instance, boards and councils may be established. Finally, *brokering* occurs when a third-party act as a knowledge transfer intermediary from one subsidiary to another. The intermediary, sometimes called “international business traveller”, identifies valuable practices in one subsidiary and attempts to initiate transfer to another facilitating the communication flow between subsidiaries.

Although traditionally knowledge has flowed from headquarters to subsidiaries, with globalization, knowledge transfer takes place across multiple dimensions as well as in multiple directions (forward, backward and lateral) (Jiménez-Jiménez *et al.*, 2014).

Obviously, the recipient is likely to adopt that practice if predicts valuable outcomes for its own organization and consequently it may actively seek advice for the implementation (Lupton & Beamish, 2014).

As concern the transferring process, Kostova and Roth (2002) conceptualized the pattern of practice adoption with two dimensions, namely implementation and internalization. Both vary across foreign subsidiaries according to the institutional environment in the host country and the relational context within the organization.

The first dimension, *implementation*, is seen as a behavioural dimension expressed by the “external and objective behaviours” as well as the “actions required, or implied, by the practice”. It refers to the extent to which the transferred practice from the headquarters is in use in the subsidiary, and how similar is to the headquarters’ one (Kostova & Roth, 2002; Ahlvik & Björkman, 2015).

Second, *internalization* refers to the extent to which subsidiary’ managers value the implemented practice in the unit and attaches symbolic meaning and commitment. This dimension, instead, is seen as an attitudinal dimension that facilitate the initial adoption and then the sustainability of the practice over time through the constant motivation of employees (Kostova & Roth, 2002; Ahlvik & Björkman, 2015). Important prerequisites for practice adoption are the perceived value of knowledge practices, their fit to subsidiary business requirements, path dependencies and availability of resources (Kostova & Roth, 2002). The adoption of an organizational practice of a subsidiary is thus subject to the previous development of patterned behaviours and to the consensus of the organization members concerning the value of the practice (Tolbert & Zucker, 1996, p. 182; in Kostova & Roth, 2002, p.217).

When institutional and cultural environments of both home-country and host-country are similar to each other, the relationship between autonomy and performance is stronger because practices’ internalization leads to lower absenteeism levels and higher performances (Lazarova *et al.*, 2017)

A third dimension was later added by Ahlvik & Björkman (2015) to describe the degree to which practices transferred by the headquarter are linked with other HRM practices

of the subsidiary and it is called “*integration*”. This dimension is consistent with the configurational HRM view which consider human resource management as a system that produce effects or strength (Bowen & Ostroff, 2004; in Ferndale & Sanders, 2017). It is more difficult to put in practice than implementation because managers need to create viable linkages with other parts of the HRM system (Ahlvik & Björkman, 2015).

For instance, in the Indian joint venture, Sirmax may integrate its practices with the ones of the Indian partner adapting them to the local context.

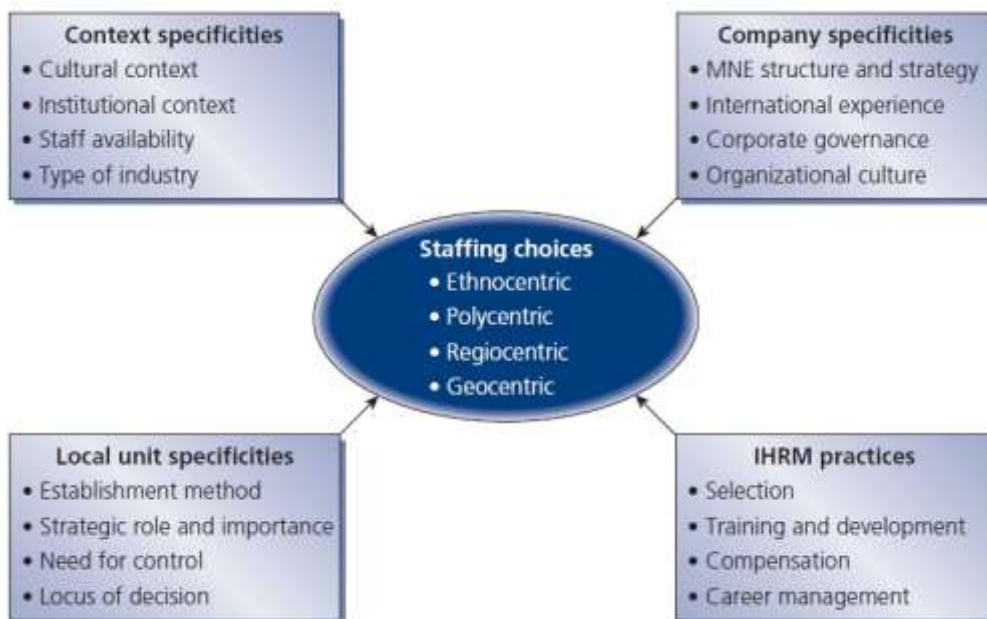
In this case, the international transfer of practices does not necessarily entail a convergence of business systems, but innovations may be assimilated into a strong pre-existing business culture in which their significance can be subtly changed. (Ferner et al., 2001)

3.3.3 Best-fit model

The main variables at the base of the firm’s trade-off between integration and localization, will influence the decision-making process of every function, especially HRM.

On the one hand, there are factor such as strategy structure, firm size and maturity that support the standardization of practices as well as corporate culture have a considerable weight. On the other hand, there is a counterbalance provided by cultural and institutional environment, including features of the local entity such as entry mode and subsidiary’s role. In Figure 17 there are the main variables that influence the staffing choices across subsidiaries but determine also who is in charge to take decisions.

Figure 17 Determinants of staffing choices



Source: Dowling *et al.*, 2017, p. 114

In Sirmax the ethnocentric approach prevailed on the others. As already mentioned, the main reason is its centralized model in which the headquarters controls subsidiaries through formal mechanisms, people and information systems.

However, past studies provided conflicting results and thus the relationship between the degree of subsidiary's autonomy and performance may vary. Certain processes may benefit from global integration, whereas others are valuable with independent local decisions (Lazarova *et al.*, 2017).

The use of strict formal control mechanisms by the headquarters may be counterproductive because it is likely that will not stimulate local workforce's motivation and commitment toward organizational practices. So, it can be used to put pressure on subsidiary managers who see it as ceremonial adoption mean rather than a compulsion (Alhvik *et al.*, 2016; Ahlvik & Björkman, 2015; Kostova & Roth, 2002; Meyer & Rowan, 1977).

In managing multinational firms, it is difficult to use the same bundle of HRM practices in all the plans across the world (Oppong, 2018). In their study, Pudelko and Harzing (2007) found that given the increasing global competition, companies less and less tend to implement an ethnocentric approach with the transfer of headquarters' practices on a

global level. Having a strictly ethnocentric approach, imposing home-country practices and policies and in the meanwhile bypassing local constraints, may be possible, but it has a downside: the firm must invest heavily in doing so because the local business system may provide a high bargain power to local employees who demand greater incentives to forego eventual complaints and misconducts (Ferner *et al.*, 2001). So, this approach is not sustainable anymore. The exclusive dominance given by the parent company's control over subsidiaries, cannot overlook to the contextualities.

This implies that a strictly ethnocentric firm like Sirmax should consider other potential contingencies that may arise when operates globally.

Recent contributions argue that integration and localization are not mutually exclusive: there are situations in which *MNEs* can simultaneously pursue both strategies (Belizón *et al.*, 2016). A third mechanism can be activated by the *MNE*. Authors calls it differently: coordination (Stiles, 2012) or best-fit model (Oppong, 2018) or hybridisation (Yahiaoui, 2015; in Oppong, 2018). Here, the company will coordinate HRM decisions balancing all the drivers and will seek an equilibrium that works equally well in both HQ and subsidiaries. This best-fit model is a way to find HRM synergies and coordination among the different plants and a way to develop integrative HR practices that embrace both dominant HR practices, derived from the home-country environment, and host-country demands (Oppong, 2018).

As the value-creating activities become increasingly diversified and complex, to overcome the continuous pressure, Sirmax's executives need to configure and coordinate the headquarters-subsidiaries relationships by granting a certain extent of autonomy in decision making and influence central decisions or the ones of other subsidiaries. Therefore, key internal actors should jointly determine the appropriate degree of adoption of internal practices to ensure that the adoption can be still viewed as being "acceptably legitimate" in the eyes of most stakeholders (Cheng & Yu, 2012).

In decision-making process, companies may use the "*decentralized centralization*" model developed by Bartlett and Ghoshal (1989) to overcome the centralization versus

decentralization dilemma. For example, combining both ethnocentric and polycentric staffing approaches may help to prevent the risks of subsidiary's opportunistic behaviours or isolation from the global valuable practices defined by the headquarters (Kawai & Strange, 2014).

Therefore, multinational firms should take into consideration all the HR integration mechanisms they have at their disposal and determine the right mix of control and coordination. In this case, the headquarters can set strategic guidelines for the HRM practices' development in which are set broader parameters that subsidiaries must respect (Belizón *et al.*, 2016). Moreover, the headquarters should support local HR managers in their initiatives as they know better the specific needs and challenges in the host-country labour market (Tian & Slocum, 2014; in Lazarova *et al.*, 2017). Expatriate managers in top management teams may help the headquarters in doing so, providing greater intra-MNE coordination and reducing agency costs that arise from subsidiary autonomy (Kawai & Strange, 2014).

However, a hybrid organizational structure may have some drawbacks as higher costs: in managing expatriates there are higher compensation and relocation costs which can have a discouraging effect for host-country nationals looking the disparity; it is not easy to build trusted relationships with HCNs; finally, a hybrid decision-making process is not easy to manage and may create misunderstandings and mistrust between parent company (including expatriates) and local workforce (Kawai & Strange, 2014).

To conclude, there will always be advantages and disadvantages for both standardization and localization (Dowling *et al.*, 2017), but finding the right balance in a best-fit model will be firm-specific.

3.4 Conclusion

This chapter analyses the global challenge that a multinational enterprise faces during its global expansion. Specifically, it analysed the forces that influence international activities and the factors and in turn contribute to centralize or decentralize decision-making.

In its entirety, the international organization should align people, process and information systems in order to perform effectively and reduce the likelihood that potential issues arise.

The alignment of the organization allowed Sirmax to keep consistently an ethnocentric approach even without formalizing HR policies and practices. It was shown how formal control, information technologies and people's interactions allowed the firm to monitor international operations.

This approach was very efficient but became recently outdated with the last rapid expansion's operations: Sirmax has grown substantially with three diverse operations in terms of plant-, cultural- and institutional- specificities that hinder the management of the organization. Thus, the firm cannot sustain such approach anymore. As time goes on, some important country-specific and/or plant-specific contingencies are likely to arise. For instance, different labour market conditions and employment rate, different employees' cultural values and preferences, different ways of communication, different corporate cultures and so on, are important influencers of the way in which local employees should be managed and coordinated with HQ activities and push to go beyond a simple ethnocentric approach.

As shown in the third paragraph, the firm should address and assign weights to all these elements in order to be sustainable in the long-term. For this reason, it is widely recommended to formalize and implement HR policies and practices taking into consideration cross-cultural elements. In this way, these practices will be internalized, too (Kostova & Roth, 2002; Ahlvik & Björkman, 2015).

In the next chapter, some of these cross-cultural elements will be explained as well as how the firm can manage and coordinate a cross-cultural organization.

CROSS-CULTURAL IMPACT ON HR PRACTICES

4.1 Introduction

“The greatest thanks go to a man who probably did not know this community up to twenty-four months ago, but who will now love you all: Massimo. Massimo's commitment is not only financial, it comes from the trust in the skills of our workers and in our educational institutions like the University of Anderson, but it is also a declaration of trust towards our entire community (Mike Pence, 2015)”

In June 2015 Mike Pence, at that time Governor of Indiana (now vice-president of United States), thanked Sirmax's CEO, Mr. Massimo Pavin for investing in Indiana (United States) and establishing its first American plant.

The willingness of Sirmax is to localize its activities in places characterized by institutions that support business and where universities provide human capital. At the same time the location should be close enough to customers and suppliers.

This strategy is called “*smart-shoring*”. It seeks to establish activities not only where inputs or workforce are cheaper, but also where there are other convenient factors which may give a competitive advantage to the firm.

The production process of Sirmax, for example, is highly automatized and it is not highly influenced by the labour cost as other manufacturing industries. Thus, Sirmax looked for locations that provided other relevant and convenient factors.

However, Mike Pence wanted to highlight not only the fact that institutions provided incentives and attractiveness for foreign firms. Openly speaking to the local community, the new workforce that will be engaged by Sirmax in its local operations, his willingness was to make people understand the closeness in terms of values of Sirmax and its entrepreneur regardless the strategy pursued.

Similarly, before concluding the IJV agreement, the Indian partner wanted to meet the entire family of the entrepreneur in order to understand the organizational culture and trust the people with whom was going to ally. This means that the cultural values are very important, especially in alliances.

In terms of business organization, operations like these require the integration of managerial teams from different cultures and from different backgrounds. This diversity must be valued within the business model in order to prevent hostile behaviours of the workforce. The objective is to find synergies in the management of different cultures inside the diverse units: different managerial styles, knowledges and capabilities can be consistently put together to create value for the organization and nurture an increasingly evolving organizational culture.

The objective of this chapter is to identify and give value to country-specificities and plant-specificities in order to find appropriate coordination mechanisms.

The strategic fit or congruency, meaning the internal consistency or match of different factors, helps the firm to maximize the possibility of international success and avoid potential environmental risks (Cui *et al.*, 2014). In this context, researchers support this approach emphasizing the importance of taking this complexity into account, rather than adopting a rigid uniformity (Ahlvik *et al.*, 2016).

The first paragraph stands out the relevant differences in cultural values and how a cross-cultural team should be managed.

Then, the second paragraph introduce the concept of organizational culture and the possibility and implications of having different ones inside a unique *MNE*.

Finally, in the third paragraph, analysing the overall strategy and the organization of Sirmax, it is possible to propose some organizational solutions and how people can be managed adequately with the formalization of HR policies and practices.

4.2 Managing culture and diversity

4.2.1 Culture and dimensions

In the process of transferring HR systems and know-how, the role of people is critical (Dowling *et al.*, 2017). The globalization era is not characterized by a uniform global culture, but rather by the shape of diverse cultural practices, institutions and identities.

International businesses involve the interaction and movement of people across national boundaries which entails the encounter of important cultural differences.

In the IHRM context some environmental issues may emerge when a company operates in a new foreign country. Doing an environmental analysis would be useful to compare the different aspects related not only to the mere organizational structure and organizational practices, but also to identify differences in the people behaviour. Countries like Switzerland, Belgium and India embrace several linguistic, religious and national differences in their inhabitants (Brewster, 2012). The main reason stems from the culture of the individual.

The management of people is probably the most culture-bound capability that faces a high level of complexity because of the diverse cultural environment (Dowling *et al.*, 2017).

Over time culture has seen many definitions provided by different authors. The most accepted definition contains all the main features and is provided by Kluckhohn and Kroeber (1952; in Dowling *et al.*, 2017):

“Culture consists in patterned ways of thinking, feeling and reacting, acquired and transmitted mainly by symbols, constituting the distinctive achievements of human groups [...] including their embodiments in artefacts; the essential core of culture consists of traditional [...] ideas and especially their attached values [...]” (p. 181).

This concept was broadly used and developed with additional facets and constitute the base of cross-cultural management studies and organizational behaviours studies.

The main discussions on this topic emerge after the publication of the cross-cultural management studies of Hofstede (1980; 1984) and of the GLOBE study (House *et al.*, 2004).

Researches on HRM system were considered as universalistic studies that were possible to assume relevant and apply effectively regardless of the geographical location and of the social context. This is not always true because although every organization utilises and manage similarly both individual and bundles of HRM practices, there is evidence

that HRM systems vary across the world and these are seen and conceptualized differently (Brewster, 2012; Ferndale & Sanders, 2017).

As already mentioned in the previous chapters, there is not an optimal and universal approach because employees and organizations are affected by internal and external factors. It is crucial to address institutional factors that influence the decision-making process. Indeed, decision makers strive to align the organizational goals with the external environment conditions to achieve strategic fit and good performances.

In the international management field, the society incorporates national cultural values which are defined as “a set of beliefs and norms that are often anchored in the morals, laws, customs, and practices of a society” (Hofstede, 1980; Ferndale & Sanders, 2017). Obviously, cultural differences come to the fore when it is time to manage people within an organization (Brewster, 2012). For example, when Sirmax established a greenfield investment in the US, it found that, even though the managers’ values and attitudes are similar, the employees’ habits and behaviours were very different from the Italian ones and vary from company to company

National cultural values can play a significant role in determining how managers and employees interpret communication flows, information, messages, signals concerning HRM (Ferndale & Sanders, 2017). Leadership styles and negotiation strategies vary as well in the different contexts.

Culturally insensitive and inappropriate attitudes and behaviours stemming from ignorance or wrong mindsets like “my way is the best” or “in the home market I do so”, can lead to international business failures (Dowling *et al.*, 2017).

Increasing evidence confirms that despite the robustness of HRM practices’ effects on organizational performance across cultural settings (Rabl *et al.*, 2014), these effects may be different in diverse cultural settings (Ferndale & Sanders, 2017). This deviation occurs because values, motivations and emotions that are rooted in national culture values, influences inevitably the attitudes and behaviours of managers and employees (Hofstede, 1980; Ferndale & Sanders, 2017). Being aware of cultural differences is essential for the HR manager at both corporate and subsidiary levels (Dowling *et al.*, 2017).

As already mentioned, organizational HR practices can vary according to the organizational settings in a subsidiary: hiring, promoting, rewarding and dismissal are activities that are determined by the legal context, but are based on the country’s cultural value

system. On the one hand, HR practices refer to “what to do” and represent the contents of the HR system that are delivered to employees. The message makes them develop an understanding of what is valued, expected and rewarded. On the other hand, the HR process refers to “how carry out” the HR system (i.e. mechanisms) to deliver the message in an unambiguous manner. Thus, a strong HRM system includes process mechanisms that make the set of practices coherent, salient and distinctive. The objective is to build consensus among employees about the practices and to have shared perceptions about workplace climate (Ferndale & Sanders, 2017).

The Hofstede’s studies (1984) identified four main cultural dimension of country culture based on preliminary theoretical considerations and statistical analysis: power distance, uncertainty avoidance, masculinity vs. femininity and individualism vs collectivism. Later were added by the author other two dimensions, namely long-term orientation (derived from Confucianism) and indulgence, and other studies were carried out on and integrate this topic (e.g. GLOBE studies, Trompenaars dimensions).

Employees may perceive differently HRM practices and may not understand their importance and their value. Cultural values play a relevant role in determining employees’ perception (Ferndale & Sanders, 2017). For instance, the HRM system’s effect on employees’ innovative behaviour is likely to vary by country due to the cultural dimensions described by Hofstede (Sanders *et al.*, 2015; in Ferndale & Sanders, 2017).

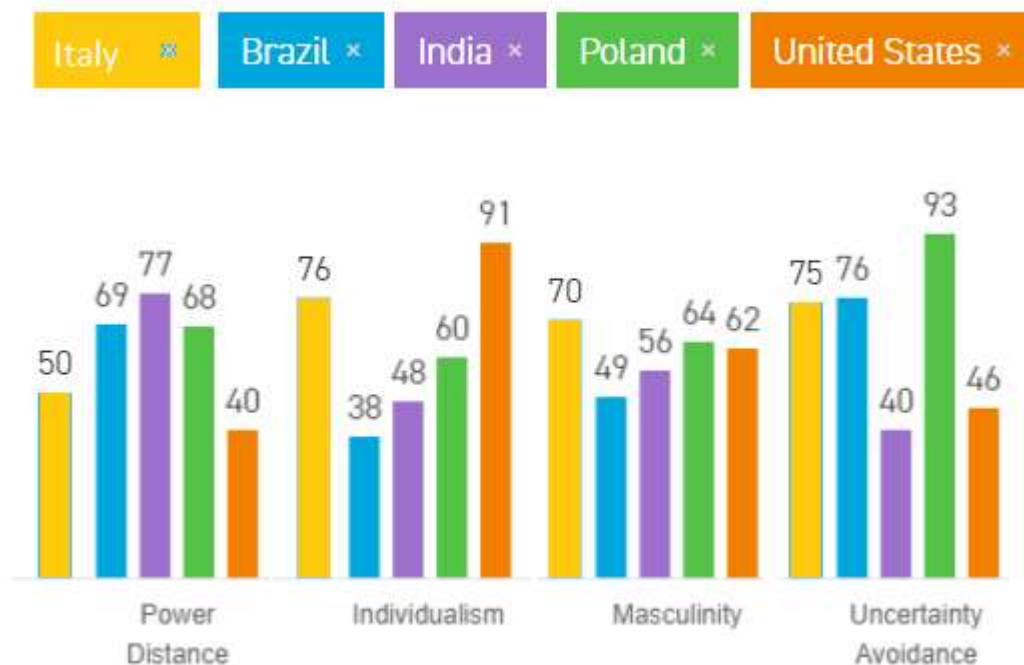
On the one hand, HR practices aims to send communications and signals to employees about developing an understanding of what is valued, expected, and rewarded in the organization. On the other hand, HR process represents the means through which this message can be delivered to make it unambiguous.

In addition to the implementation process, the *MNE* should emphasize the development of voluntary adherence to corporate behavioural norms and expectations through a process of internalization of corporate values and beliefs (Dowling *et al.*, 2017; Ahlvik & Björkman, 2015). It is crucial that practices are understood and well-perceived by all the employees. Thus, both HRM system and national culture should create and ensure consistency within norms: organization should send coherent messages to employees who share them and follow rules and practices with an appropriate behaviour (Ferndale & Sanders, 2017).

As concerns Sirmax, the countries where the firm operates (i.e. Brazil, India, Italy, Poland and United States) are culturally different and its employees tend to behave differently in the diverse subsidiaries.

Next, the Hofstede's dimensions will be analysed taking into consideration also the differences between the countries where Sirmax is present (Figure 18). Moreover, Table 5 reports how HR practices should be approximately designed in these countries to fit cultural requirements.

Figure 18 Hofstede's cultural dimensions in Italy, Brazil, India, Poland and United States



Source: Adapted from <https://www.hofstede-insights.com/country-comparison/brazil,india,poland,the-usa/>

Power Distance

Power distance, mainly measured through an index, represents the extent to which members of a culture accept that power is not equally distributed in institutions (Hofstede, 1980; Ferndale & Sanders, 2017). In other words, in high power distance societies like for example China, Mexico and Malaysia, the less powerful members of institutions and organizations expect and accept that power is distributed unequally (Dowling *et al.*, 2017). On the contrary, when power distance is low, for example in Scandinavian countries, Ireland and Israel, these members demand explanations for any instance of

formalized power inequality, employees expect to be consulted and managers rely on the experience of their team members².

This dimension is reflected in the relationship between managers and employees where these latter in high power distance societies expect more, and are more receptive to, one-way, top-down direction (House *et al.*, 2004; in Ferndale & Sanders, 2017) and communication than those from low power distance cultures. Indeed, they tend to be submissive to managers avoiding disagreements (Hofstede, 1980). For example, this is the case of India where hierarchy and centralized power is appreciated and respected in the organizations and employees obey to the managers' orders.

A strong HRM system ensures consistency and clarity in rules, practices and behaviours and employees should understand what is expected from them. This relationship between employee perceived HRM system and employees' attitudes and behaviours is stronger in low power distance societies rather than the high ones (Ferndale & Sanders, 2017). For instance, within American organisations, hierarchy is established for convenience, meaning that superiors are accessible, and managers rely on individual employees and teams for their expertise. Since communication is informal, direct and participative, both managers and employees expect to be consulted and informed.

Uncertainty avoidance

The second dimension, uncertainty avoidance, represents the way in which people face the fact that the future is unknown and have different time-pressures. Indeed, it is defined as the extent to which the members of a society or organization feel threatened by uncertain, ambiguous, unknown and/or unstructured situations and try to avoid them (Hofstede, 1980; Dowling *et al.*, 2017) by relying on social norms, rituals and bureaucratic practices (House *et al.*, 2004; in Ferndale & Sanders, 2017). High uncertainty avoidance characterizes countries like Poland, Spain and Greece where rigid codes of belief and behaviour are maintained, and people do not tolerate other deviant ideas and behaviours. So, there is an emotional need for detailed rules, security, punctuality and traditions (*ibidem*).

On the contrary, having low uncertainty avoidance, countries like India or United Kingdom, are comfortable in ambiguous situations, when planning is not detail oriented and

² <https://www.hofstede-insights.com/country-comparison>

when practice's significance exceeds the principles' significance allowing deviation (Dowling *et al.*, 2017). In India is often used the word "*adjust*" referring to the possibility to find a unique and inventive solution to a problem, to circumvent structures and rules.

Therefore, in the workplace, communication to employees should be consistent, distinctive and result in consensus in order to reduce the uncomfortable feeling of uncertainty. Thus, HRM system has a greater influence on the behaviours and attitudes of these people (Ferndale & Sanders, 2017).

Masculinity vs Femininity

Masculinity means that the society will be driven by competition, achievement and success. This include the orientation to pursuit financial success, heroism and strong performance. For instance, Americans show their masculine behaviour in the work environment striving to achieve the best results in order to obtain monetary rewards and consequently attain to and display a higher status based on successes. In high masculine societies women are expected to stay at home and raise a family.

On the other hand, femininity (low masculinity) comprises preferences for what the member is doing in the institution or society, including life quality, modesty, role flexibility and interpersonal relationships (Dowling *et al.*, 2017). So, dominant values in feminine societies are caring for others and life quality as a sign of success, while standing out from the crowd is not admirable.

It is fundamental to address the social roles attributed to gender by societies which result also in managing diversity.

Individualism vs collectivism

The cultural dimension of individualism vs collectivism describes the degree of interdependence a society maintains among its members. It has to do with whether people's self-image is defined in terms of "I" or "We"³.

In individualistic societies like Australia, United States and United Kingdom, people are supposed to look after themselves and their direct family. At work, relationships be-

³ <https://www.hofstede-insights.com/country-comparison>

tween the superior and employees are usually based on a relatively neutral, impersonal contractual foundation (Dowling *et al.*, 2017). For instance, Americans in doing business are not shy to take initiative, to work with unknown people or to approach counterparts asking information. Moreover, hiring, promotion and decisions are based on merit or evidence of what the individual has done or can do.

In collectivist societies like China, Turkey and Mexico, members that belong to an organization as a group (“in-group”), in exchange of their care, the members develop and express pride, cohesiveness and an unquestioning sense of loyalty (Hofstede website; House *et al.*, 2004; in Ferndale & Sanders, 2017). In Brazilian workplaces, for example, powerful members of a family are expected to “help” other younger family members to be hired for a job in his own company⁴.

In-group collectivism’s values are closely aligned with a strong and consistent HRM system because both attempts to give to employees a common and shared understanding of what is expected from them and how appropriately behave (Bowen & Ostroff, 2004; in Ferndale & Sanders, 2017). The objective is to create trustworthy and long-lasting relationships.

⁴ <https://www.hofstede-insights.com/country-comparison>

Table 5 Potential HR policies in Sirmax's subsidiaries

HR PRACTICES	ITALY	POLAND	BRAZIL	UNITED STATES	INDIA
<i>Staffing</i>	<ul style="list-style-type: none"> • Clear job descriptions; • Clear career paths; • Specific rules and policies; • Selection for individual contributions; • Desire to develop own career; • Take personal responsibility; • Ability to do job. 	<ul style="list-style-type: none"> • Select for a specific and clear job description and desire to develop a career; • Boss places and plans clear career paths and set specific rules and policies; • Selection for individual contribution; • Having the ability to do job, they take personal responsibility. 	<ul style="list-style-type: none"> • Select for specific job level and for a clear job description; • Boss places and plans clearly employees' careers; • Selection for team players; • Willingness to contribute to firm; • Specific rules and policies 	<ul style="list-style-type: none"> • Select for career progression; • Joint placemet and career decisions; • No job descriptions • General career guidelines; • Selection for individual contributions; • Desire to develop own career; • Take personal responsibility 	<ul style="list-style-type: none"> • No job description, but the boss provides general career guidelines; • Having the ability to do job, they take personal responsibility
<i>Peromrance appraisals</i>	<ul style="list-style-type: none"> • Set organizational and personal goals with low risk-taking; • Job tasks & goals; • Work action plans; • Performance feedback. 	<ul style="list-style-type: none"> • Set and assign easy goals with low risk-taking; • One-way communication; • Set personal goals and accomplishment of individual task; • Work action plans; • Performance feedback 	<ul style="list-style-type: none"> • Set and assign easy goals with low risk-taking; • One-way communication; • Not focus on task accomplishment as much as group membership and loyalty; 	<ul style="list-style-type: none"> • Joint problem solving; • Personal initiative in work action plans and execution; • 360° feedback; • Individual task accomplishment; • Set personal goals; • Set of difficult and specific goals which involve hish risk-taking; 	<ul style="list-style-type: none"> • Set and assign difficult goals with high risk-taking; • One-way communication; • Job tasks & goals • Work action plans • Performance feedback

HR PRACTICES	ITALY	POLAND	BRAZIL	UNITED STATES	INDIA
<i>Compensation</i>	<ul style="list-style-type: none"> • Individual-based contingent rewards; • Individual praise & recognition; • Partial use of performance-based pay • Predictability: pay consistency; • Competitive pay, promotion and recognition. 	<ul style="list-style-type: none"> • Little/no employee participation; • Status distinctions accepted • Partial use of performance-based (at risk) pay; • Predictability: partial pay consistency • Individual-based contingent rewards; • Individual praise & recognition 	<ul style="list-style-type: none"> • Little/no employee participation; • Status distinctions accepted; • Group-based contingent rewards and individual non-economic rewards that satisfy recognition needs • Limited use of performance-based (at risk) pay; • Predictability: pay consistency 	<ul style="list-style-type: none"> • Employee participation and involvement in reward techniques; • Profit-sharing and gain-sharing; • Individual-based contingent rewards; • Individual-praise and recognition; • Use performance-pay and competitive pay, promotion and recognition; • External equity, flexibility and broad banding. 	<ul style="list-style-type: none"> • No employee participation; • Status distinctions accepted; • Use performance-pay • Competitive pay, promotion and recognition; • External equity • Flexibility • Broad banding
<i>Training and leadership</i>	<ul style="list-style-type: none"> • Skills' improvements for self improvement; • Task specific training; • Structure and direction 	<ul style="list-style-type: none"> • Improvement of skills for self improvement and for the actual job; • Task specific training • Autonomy • Structure and direction 	<ul style="list-style-type: none"> • Improvement of skills for the actual job in order to contribute to the organization; • Task specific training • Structure and direction, 	<ul style="list-style-type: none"> • Skills' improvement for advancement and personal reasons; • Autonomy; General application and direction; • Participative; • Initiating structure 	<ul style="list-style-type: none"> • Develop task skills for present job; • General application; • General direction; • Participative; • Initiating structure.
<i>Work design</i>	<ul style="list-style-type: none"> • Simple job design with the use of task identity and important content; • Limited scope of responsibility; • Enable group interaction; • Autonomy and task accomplishment • Feedback from the job. 	<ul style="list-style-type: none"> • Simple job structure and design with important content; • Limited scope of responsibility; • Enable group interaction; • Challenge and task accomplishment • Feedback and direction by boss; 	<ul style="list-style-type: none"> • Job structure that facilitate work design (including, teamwork and task significance); • Feedback and direction by boss • Verbal communication 	<ul style="list-style-type: none"> • Provides freedom, discretion and participation; • Use of task identity, autonomy and feedback from job; • Challenge • Job enrichment • Important job content • Personal intrinsic gains. 	<ul style="list-style-type: none"> • Challenging job structure, feedback and direction by boss • Job enrichment; • Personal intrinsic gain. • Written and codified communication

Source: Personal elaboration; adapted from Schuler & Tarique, 2012a, pp. 402-403; see also <https://www.hofstede-insights.com/country-comparison/brazil,india,poland,the-usa/>

4.2.2 Diversity management

The basic premise of contingency theory is that performance is a function of the congruence of different factors related to the firm such as the nature of the environment with which it relates, the strategy pursued and firm characteristics (Cui et al., 2014).

MNEs may employ managers and employees of several nationalities and ethnic groups: while multi-domestic organizations are likely to employ mainly local staff, except for top management positions, transnational and global *MNEs* are likely to employ a multi-national and multi-ethnic workforce or organize multi-cultural teams that favour the intercultural knowledge sharing (Maimone, 2018).

Although cultural values are meaningful at the societal level, researchers have found that in organizations these values may vary even between individuals (e.g. subcultures) and there may be other factors that make the workforce heterogeneous such as gender equality, religious, political and sexual orientations and other potential discriminatory factors.

Diversity management aims to manage potential consequences, including risk of conflicts, that stem from having a diverse workforce. The HRM system has a crucial role in making the diverse factors co-exist within the organization.

Diversity management is defined as

“the voluntary organizational actions that are designed to create greater inclusion of employees from various backgrounds into the formal and informal organizational structures through deliberate policies and programs” (Mor Barak, 2010, p. 235; in Dietz *et al.* 2012)

Theory and researches have proved cultural differences are source of problems, misunderstanding and conflicts in cross-cultural management so much so the idea of cultural distance was developed (Stahl *et al.*, 2017).

Multinational and multicultural teams include groups of people with diverse functional, geographic, ethnic, and cultural backgrounds. For instance, in the USA, the proportion of Latino and Asian employees has grown substantially and in most industrialized countries women are increasingly represented in the workplace.

Clearly, both benefits and problems inherent in HRM system come to the fore when managing these teams.

This kind of approach can be an efficient and effective vehicle for tackling increasingly multidimensional business problems, but at the same time it may cause a lack of cohesion in taking concerted action and in being productive (Luthans & Doh, 2012).

Issues arise when people from different cultures work together having diverse mindsets and attitudes. For instance, some way of doing things like talking with other compatriots in native language can create situation of mistrust. Moreover, problems arise for inaccurate way to communicate, for wrong perceptions and inaccurate biases. For example, stereotypes can result in wrong-expectations and wrong actions, or in decision-making people may act with different time-urgency or may have an individual or collective thinking style (Luthans & Doh, 2012). As already mentioned above, individualistic people tend to perceive themselves as independent of the social context as well as their information. Collective people tend to perceive themselves as inter-dependent with their close social context and look for cues from their social environment.

Cultural differences have a double-edged sword nature: although diversity may be associated to negative biases and negative attributions leading to mistrust, dislike and resentment, the firm may obtain benefits from it such as enhanced creativity, superior decision-making quality, different perspectives and knowledge basis (Stahl *et al.*, 2017).

Diversity, in fact, can contribute to improve organizational performance by motivating people to adopt desired attitudes and behaviours which help to achieve strategic goals (Bowen & Ostroff, 2004; in Ferndale & Sanders, 2017).

Working in diverse team is likely to produce benefits such as the joint development of strategic capabilities, better decisions, the creation of synergies and knowledge sharing from cross-border alliances (Stahl *et al.*, 2017) that result in a more productive and effective performance (27). These benefits are developed through the provision of better ideas and diverse thoughts that prevent conformity pressures created by groupthink (Luthans & Doh, 2012).

Briefly, multicultural diverse teams can be highly effective if managed properly, otherwise, they are likely to hurt the firm. Thus, the objective for the *MNE* is to create and foster an inclusive and knowledge-friendly environment (Maimone, 2018) that facilitates the generation of benefits and knowledge.

Finding a good cultural mix will allow Sirmax to learn from other cultures and it will help them in forming a bond that may improve the sense of reciprocity. Besides, a compatible

culture helps to reduce information asymmetries, as the parties are more willing to cooperate and communicate with less misunderstandings.

Building a multicultural diverse workforce is sometimes subject to formal institutions such as local legislation about antidiscrimination, gender equality and other types of diversities (Mullins, 2018) and to informal institutions such as imposed restrictions to organizational managers (Alhejji *et al.*, 2018).

Formal institutions have been already discussed in the previous chapter. Informal institutions, instead, are cultural constraints rooted in the shared norms, values and beliefs of a society that are not formally codified (North, 1990; in Alhejji *et al.*, 2018). Even if norms and regulations claim what organization should or should not do, cognitive distance indicates on the base of managers interpretation of the environment, what the organization could or could not do (Alhejji *et al.*, 2018). For instance, in high power distance societies like Saudi Arabia, despite the pressures to integrate women into the workforce, stakeholders, customers and business partners jointly offer resistance and exert pressure to prevent women from being hired and especially from taking leadership (*ibidem*).

Mullins (2018) proposes that shareholders may consider the possibility to include the HR expertise in the board of directors so as to highlight stakeholder diversity and human capital. When the *MNE* is sensitive and strategically dependent on human capital, meaning that it needs to acquire and retain human resources to survive, it will put much more emphasis on internal development and on stakeholder diversity.

When an *MNE* operates in countries with large cultural distance, it is likely to decentralize decision-making and implementation of HR practices to local managers because it is difficult for outsiders to code and interpret local cultural norms and attitudes (Steer & Sen, 2010; in Alhejji *et al.*, 2018) and to maintain a pleasant organizational climate (Maimone, 2018).

To conclude, it is widely suggested to adopt an inclusive approach that truly values diversity considering it as an opportunity rather than a problem (Dietz *et al.*, 2012). Obviously, this initiative should be tailor-made according to the specific characteristics and needs of the people involved. A multicultural workplace is placed at the hearth of the organizational culture that values human dignity and respects the others (Maimone, 2018).

4.3 Organizational culture

IHRM's activities play a crucial role in fostering organizational culture and to control its development within the multinational enterprise (Dowling *et al.*, 2017).

Many authors attempted to describe *organizational culture* (alternatively called “*corporate culture*”), but, essentially, it refers to “a system of shared values and beliefs that enable members to understand their roles in and the norms of the organization” (Luthans & Doh, 2012) giving a sense of common identity and purpose across the whole organization (Dowling *et al.*, 2017). Values and beliefs influence the way employees think, feel and behave toward one another and toward people outside the organization.

Although it is heavily influenced by national culture, sometimes even imposed, it is a separated concept (Harrison & Bazy, 2017; Dowling *et al.*, 2017) that is well-established and influences HRM activities inside the organization (De Cieri & Dowling, 2012). This social process shapes the behaviours and perspectives of people and defines structures and control systems (Dowling *et al.*, 2017; Chow, 2012).

Primarily, corporate culture is outlined and affected by three aspects of organizational structure:

- The relationship between employees and their organization;
- The hierarchical system of authority that defines roles and positions;
- Views and perception of employees regarding *MNE*'s vision and goals and their place in them (Trompenaars & Hampden-Turner, 2011).

These three aspects are critical because organizational culture and its specific values should be the base of the acceptance and support of the overall implementation of the *MNE* strategy (Harrison & Bazy, 2017).

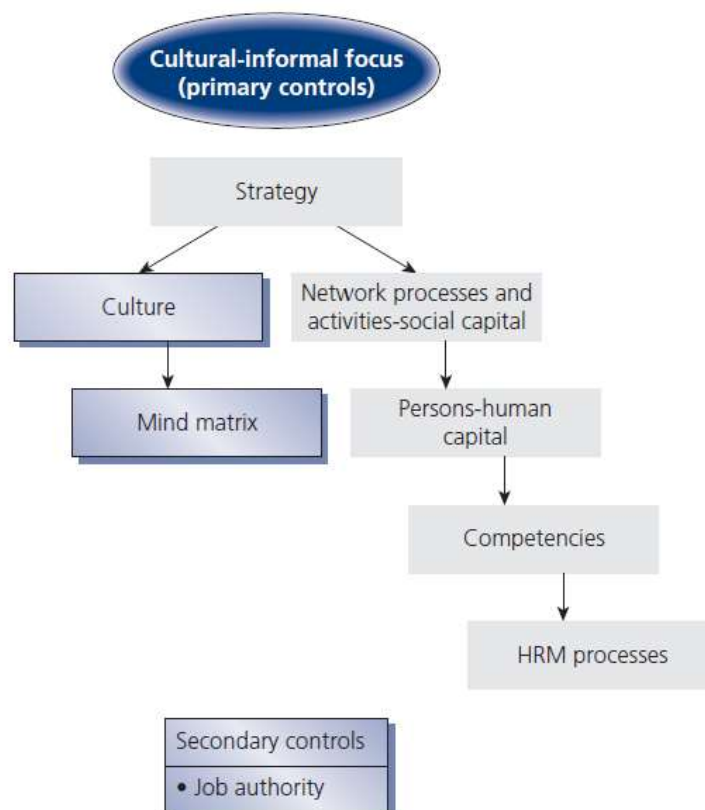
Sometimes, dealing with diverse individuals entails that it is not enough to build bureaucratic and structural control systems, but *MNEs* need also to establish other informal means of control.

A significant contribution to control systems is given by HR activities that reinforce the value structure of the company and allow to control employees' behaviour (Figure 19): for instance, firms tend to hire individuals who seem to hold similar values or to adopt training programs and reward systems to stimulate commitment and productivity of employees (Dowling *et al.*, 2017).

At the same time, the *MNE* can foster the development of informal social processes favouring informal communication, network relationships and personal ties. For instance, employees can work in cross-functional and/or cross-cultural teams (*ibidem*) or can be trained in one location (e.g. at the headquarter).

In this way, the need for formal control mechanisms is reduced thanks to other (informal) forms of control.

Figure 19 Cultural-informal control



Source: Adapted from Dowling *et al.*, 2017, p. 70

In Sirmax, informal relationships contribute to create a pleasant and trustworthy environment and make local employees feel closer to the headquarters when they come upon issues. The HQ manager should be the glue that holds both parent and subsidiary's employees together.

One of the major problems related to this topic is the fact that sometimes organizational culture differs across countries.

Organizational actors may share common attitudes, values and behaviours within the same organizational system, but at the same time, they may show very different traits

assembling sub-cultures and counter-cultures or may generate a fragmented picture in which people find difficulties in perceiving and interpreting a common cultural ground (Maimone, 2018). It is reflected in the possibility that managers' activities can be effective in one country, but ineffective in another. Thus, dealing with multiculturalism within an international organization represents a challenge (Luthans & Doh, 2012).

On the base of entry strategy, the firm must find the right coordination mechanisms with the diverse subsidiaries in order to avoid cultural problems. This is more accentuated in alliances when two companies bring together two organizational cultures that must co-exist or must be combined. The objective is to narrow the distance between the two firms, so that they could be able to manage uncertainty reducing asymmetries of information. This means that both firms should bring their best respective characteristics, that arose from the environment in which they operate, to create new customs and practices which should reflect both side

During an organizational change, the alignment of strategy, structures and cultures within an organization may not be desirable if corporate intentions do not agree with the culture and a strong organizational culture does not always support corporate strategy (Harrison & Bazy, 2017; Maheshwari & Vohra, 2015).

Neglecting its importance can create change-resistant group of people and it can be a self-destructive behaviour. Being aware of its current culture(s), the firm can work toward the removal of unwanted and unforeseen behaviours and it can create positive employees' perceptions working toward the desired future (Maheshwari & Vohra, 2015).

The organizational alignment works when the combination of strategy, structures and culture creates synergies for the accomplishment of goals (Harrison & Bazy, 2017; Chow, 2012). In addition to the external adaptation (i.e. reaching goals through certain tasks and methods), the function of organizational culture is to create a collective identity through shared ways of working and living together (internal integration).

Even in the same cultural context a company can face organizational change problems. In this case, Sirmax's organizational culture was subject to social pressures deriving from plant-specificities rather than national culture values: after the acquisition of NordColor, an Italian company, Sirmax had the difficult task to integrate two strong and different organizational cultures.

High-end products, people and practices from NordColor had to fit inside the new organization and some managers were resistant to change and left the company.

HR managers need to take a more proactive role and should focus on the consistency between intended and implemented HR policies (Chow, 2012).

Having different cultures in the workplace may create issues that overshadow the long-term success of the newly formed entity. Indeed, operating in different countries, in *MNEs* are formed many subcultures located throughout various divisions and/or geographic regions. Even if they can keep the firm aligned with stakeholders' needs, these may create internal conflicts and dissent among employees (i.e. countercultures).

However, managing properly the organization with managers that create, maintain and support a diverse environment is possible and contribute to the cross-border alliance's success (Luthans & Doh, 2012).

According to Harrison and Bazy (2017), organizational culture is a moderating variable between the selected strategy and the strategic HRM (Table 6). In crafting an organizational strategy and in setting the related goals, the firm should evaluate their cultural fit (alignment or misalignment). Strategies will be translated in effective and consistent (or inconsistent) HRM strategies and actions. In turn, HR managers should design a comprehensive set of HR practices that give their sustenance to the future development of supportive organizational culture and give its contribution to the overall organizational performance (Harrison & Bazy, 2017). Appropriate practices like hiring, training and rewards are going to affect positively the employees' perceptions (Maheshwari & Vohra, 2015).

Sirmax operates in a niche market where its strategy aims to provide a superior customer service to its customers. Thus, managers and employees must be extensively trained to satisfy clients for their needs and to communicate with suppliers. It is important that during negotiation with them, managers know the best tactics to bring to the firm the best agreement's value. Different geographical areas may imply different negotiation strategies as well as different needs.

The best managers may be rewarded for their quality and contribution in enhancing firm reputation towards customers.

Table 6 Supportive organizational culture and SHRM

STRATEGY	SUPPORTIVE ORGANIZATIONAL CULTURE AND VALUES	STRATEGIC HR PRACTICES
Low cost leadership	<ul style="list-style-type: none"> • Following rules; • Employment security; • Efficiency and productivity 	<ul style="list-style-type: none"> • Administrative/cost orientation; • Hire from within; • Internal training.
Differentiation	<ul style="list-style-type: none"> • Flexibility; • Risk-taking; • Innovation. 	<ul style="list-style-type: none"> • Creative orientation; • Hire from outside; • Less training.
Superior customer service	<ul style="list-style-type: none"> • Customer experience; • Quality; • Reputation. 	<ul style="list-style-type: none"> • Service-quality orientation; • Extensive training; • Rewards for service.
Innovation	<ul style="list-style-type: none"> • Entrepreneurial behaviours; • Knowledge workforce 	<ul style="list-style-type: none"> • Learning orientation; • Creativity coaching; • Risk-taking rewards.

Source: Adapted from Harrison & Bazzy, 2017, p. 1265

Corporate culture's dimensions

Trompenaars & Hampden-Turner (2011) attempted to describe organizational culture along two axes, namely equality versus hierarchy and people- versus task-orientation and identified four “ideal types” of organizational cultures (Figure 20): incubator, guided missile, family, Eiffel tower. This categorization is useful to explore why and how employees learn, change, resolve conflicts, reward, motivate and so on (Trompenaars & Hampden-Turner, 2011).

The first organizational culture identified by the authors, the *incubator culture*, is characterized by a strong emphasis on equality and personal orientation. It is typical of start-ups. Indeed, all participants work together toward the achievement of the same objective. Since this culture has little formal structure, leadership is achieved and not gained by the position.

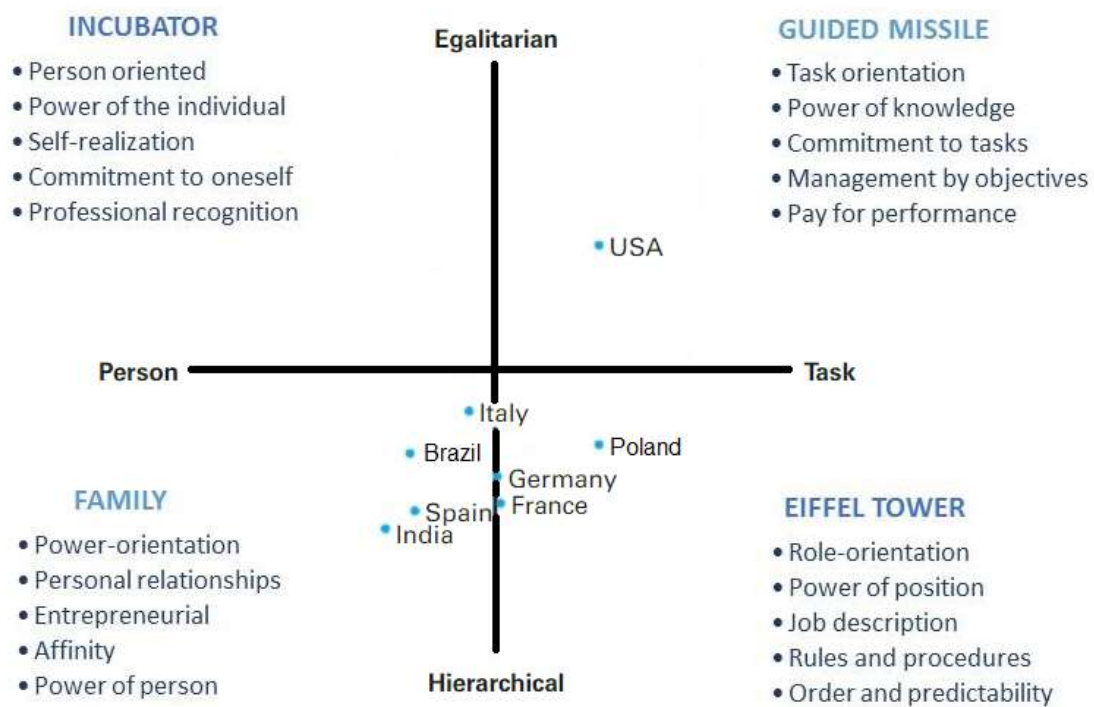
So, people perform their roles for self-expression and self-fulfilment and help each other to complete projects.

Second, the *guided missile culture* is characterized by a strong emphasis on equality in the workplace and orientation to task's accomplishment. Tasks are usually performed by teams or project groups and all members strive together to get the job completed. Their relative contributions are not very important and are not yet known, given the fact that they are treated equally and as a group. Different teams respect each other and can

ask for assistance when they need. This culture is typical of Anglo-Saxon countries such as United States and United Kingdom.

Third, *family culture* is characterized by a strong emphasis on hierarchy and orientation to the person. This means that leaders are respected for their power by employees and they figure as paternal guides from which members need approval. In exchange the leaders take care of them providing good policies and systems. Traditions, customs and associations that characterize this kind of corporate culture allow to establish binding relationships and strong ties. It is typical of Turkey, Venezuela, China, Hong Kong, and Singapore.

Figure 20 Organizational culture's dimensions



Source: Adapted from Trompenaars & Hampden-Turner 2011; see also Luthan & Doh, 2012, p. 179

Lastly, the *Eiffel Tower*, like the name itself, is characterized by steep, narrow at the top, and broad at the base form. There is a strong emphasis on hierarchy and on task's accomplishment. Therefore, people holding top positions can be replaced at any time without changing the organizational structure and the roles played the other members to achieve objectives. It is a formal, impersonal and efficient organizational culture in which each role is clearly outlined for responsibility, complexity and reward. The HR department will adopt rational measures: for instance, during the selection process, it

will treat everyone equally and neutrally, and will select the person that match skills and attitudes required by the job. So, it is considered the best person-job fit (Krishnan & Scullion, 2017); furthermore, it employs appraisal systems, training and development programs, and job rotation in managing its human resources. This is typical of countries such as Denmark, Germany, and the Netherlands (Trompenaars & Hampden-Turner, 2011; Luthans & Doh, 2012).

Sirmax' organization can be assimilated to both the "Family" and the "Incubator" models. Considering the former configuration, Sirmax is people-oriented and it gives relevance to the company's values and to the relationships among the people inside the company. It is not characterized, instead, by the presence of a leader which is regarded as a caring father and the differential status and powers are not seen as "natural", but they depend on the skills and abilities of the people.

Regarding the "Incubator" features, the most important characteristic is that leadership is achieved, not ascribed as in the family culture. Sirmax is an innovative company which gives opportunity to young people to develop their skills and to grow up inside the company. For example, the company hired 18 newly graduated in the last couple of years and the manager of the plant in US is a young thirty-year-old man; moreover, the company often collaborates with universities to find out talented students to hire.

4.4 Industry, strategy and human capital

4.4.1 Human capital management in international organizations

Over the past decades, *MNEs* have become much more international (or better, "global") and dependent on a global workforce that is highly talented, tightly coordinated, integrated and willing to share knowledge across borders (Schuler & Tarique, 2012b). Over time the global talent management topic has become more popular among researchers, but also within the organizations. The academic literature was mostly focused on the management of talent by large multinational enterprises, rather than international SME (Krishnan & Scullion, 2017; Stokes *et al.*, 2016).

Generally, this topic refers to the planning and anticipating how the firm meets human capital (Cappelli, 2008; in Krishnan & Scullion, 2017). It entails to find the best way to attract, retain and develop employees in strategic roles in order to help the *MNE* to effectively leverage its worldwide workforce and to better serve its multiple stakeholders (Schuler & Tarique, 2012b). While IHRM focuses on a broader range of employees, global talent management focuses on high-level managers, high-potential individuals and those with rare knowledge and skills. So, these figures are high-potential people who make valuable contributions to organizational objectives (Morris *et al.*, 2016; Schuler & Tarique, 2012b).

In *MNEs*, including pocket-multinationals, there is a common philosophy and approach towards the attraction, development and retention of talent which include the adoption of complementary and consistent HR practices (Krishnan & Scullion, 2017).

Moreover, the implementation of such practices is more critical in smaller enterprises than larger ones because the effects of poor selection decisions regarding the quality of the managers are amplified and are likely to influence the organizational performance (*ibidem*). Thus, senior managers and line manager should put much more commitment and leadership in designing and operationalizing TM activities in order to select the right people who add the best value for the organization (*ibidem*).

It is crucial for a multinational enterprise to have both line and senior managers who are reliable and are able to manage tasks independently.

Obviously, SMEs' organizations are different from the ones of large MNC and using the same approach of these latter would not automatically and appropriately fit inside a smaller organization (Krishnan & Scullion, 2017; Stokes *et al.*, 2016;). For instance, some functions inside the SME's organization become relevant at a certain point of the organizational life stage. Often the first focus of top managers concerns production and sales activities to run the business and they allocate there most of resources. At certain point other strategic activities are likely to arise like human resource management. Therefore, strategic jobs are identified and perceived as long as the organizational structure evolves (*ibidem*).

Differently from MNC-style, international SMEs do not generally establish complex, hierarchical and expansive organizational structures and this is a very important implication for talent management (Stokes *et al.*, 2016).

If *MNEs* do not pay explicit attention to their talent architecture along their path, their human capital portfolio may develop inconsistently (Morris *et al.*, 2016): initially, some small enterprises may remain flexible adopting informal work practices and centralised control over decision-making (Stokes *et al.*, 2016); whereas larger firms, although significant investments are required, can count on formalised and sometimes more sophisticated HR practices (Krishnan & Scullion, 2017).

The HR organization of Sirmax can be considered as the one of a small enterprise because it is unstructured and has not implemented some important HR practices yet.

For instance, there is not a designed career path for managers or a performance appraisal system for the entire workforce.

In the absence of such systems people may feel like having no personal objectives in order to enhance the own career opportunities and consequently may be more willing to leave the company. This is particularly relevant in the United States where people give value on their individual feedback.

Another drawback is that to retain managers and employees the firm needs to provide financial incentives to remain, but these do not ensure the company to come upon this situation again.

It is not just a matter of size, but employment relations are the result of the combination of size, industry and other contextual factors (Krishnan & Scullion, 2017). For instance, globalization and demographics increasingly affect the value of talented individuals and the complexity in obtaining and retaining them (Meyskens *et al.*, 2009; in Stokes *et al.*, 2016). This implies that any firm encounters considerable impediments toward talent management, especially SMEs that not commonly possess great economic resources and organizational operations to attract them (Krishnan & Scullion, 2017).

Difficulties in finding workforce stem from the low unemployment rate in countries such as United States and Poland, and the selection process of Sirmax is likely to be affected by these conditions. Indeed, the firm may be

forced to select people that are not skilled enough under a high wage pressure.

In this scenario, people are likely to prefer companies that provide a clean environment, better working-hours, benefits such as pension plan, health insurance and more vacation days payed,

In a growing phase, it is crucial to find new people willing to join the company, but also skilled people that teach the ways of doing things to these new entrants.

Moreover, operating in another country with a cross-border alliance entails that practices are likely to be more complex and variegated and consequently necessitate innovative management responses, especially in emerging countries (Stokes *et al.*, 2016).

According to Krishnan & Scullion (2017), firms vary widely in terms of size and complexity, even in the SME's category, and thus the management of talents depends on their fit with the context and on organizational life stage of the firm.

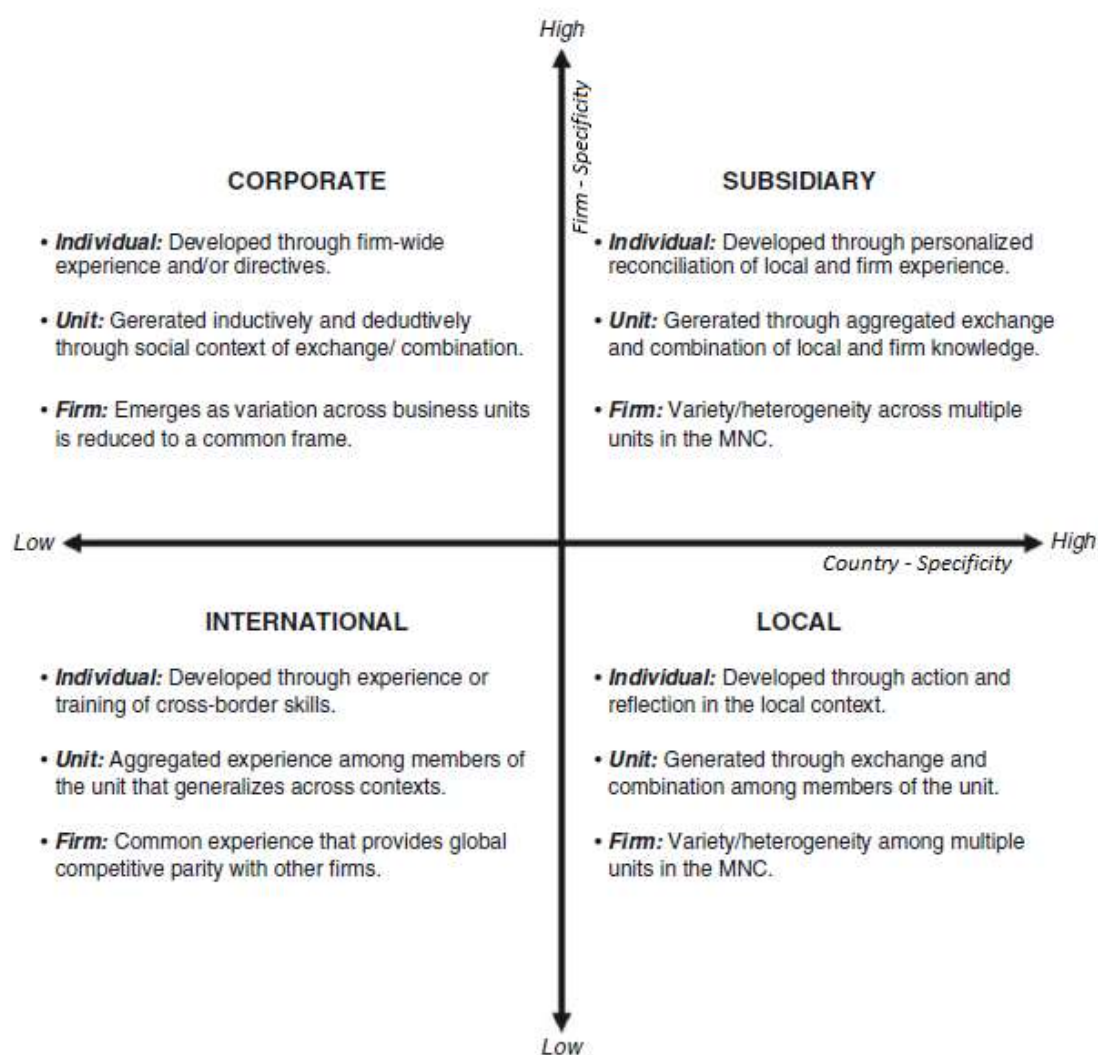
Generally, small enterprises prefer to adopt an informal approach to TM that better fit in a more egalitarian teamwork structure typical of this firm category. In pocket multinational enterprises is still difficult to identify practices for talent management because of the relative smaller organizational structure than large *MNEs*. However, differently from smaller SME, the authors consider talent the individuals that fit in the job ("Person-Job Fit") rather than in mere organization ("Person-Organization Fit"). This stems from the fact that as an organization becomes larger, employees and managers are not engaged in a multitude of roles anymore, but in a formal and specialized role defined by the related job description (Krishnan & Scullion, 2017).

For instance, in 2006, Sirmax hired some sales manager for the sales offices in Germany and France that fitted in the organization, but not in their jobs: indeed, they were not able to give the right and required customer service to their clients and their contribution to performance was very low. In that case, Sirmax understood that it was better assign that job to an expatriate with a flexible mindset able to satisfy all the customer's needs.

Within each internal function different forms of human capital can be developed and integrated across multiple levels through HR management.

Morris, Snell and Björkman (2016) developed a framework that shows the overall architecture (or theoretical structure) of the *MNE's* global portfolio of human capital (HC). Within the *MNE* there are mainly the firm context (*firm-specificity*) and the local context (*country-specificity*) that constitute the axes of the framework. The authors identified four types of human capital along the two axes: local, subsidiary, corporate and international human capital can be developed at the individual, unit and/or firm level (Figure 21).

Figure 21 Global talent portfolio



Source: Morris *et al.*, 2016, p. 725

The first dimension, the *local human capital*, describes knowledge, skills, abilities and other attributes that reflect the location-specific experiences of employees in a specific country or market. In this scenario, the employee develops an understanding of custom-

er needs, cultural traditions, institutional barriers, and political processes that may differ across countries (Doz & Santos, 1997; in Morris *et al.*, 2016).

Individuals gain local human capital when they interact with local institutions and stakeholders. Consequently, individual human capital become strategically valuable and not easily transferable to other country context. However, it is potentially transferable to other firms within the same context.

Moreover, when individuals in a unit interact, they combine knowledge and experiences that represent a more robust and socially complex, path-dependent form of human capital. In *MNEs* there may be various stocks of local human capital across the diverse units in different areas. These represent points of connection with and learning about the different local environments that can be transmitted using expatriates.

Second, the *subsidiary human capital* describes the knowledge relevant to the company in a specific country-context. For instance, in case of local responsiveness, such knowledge helps to adapt practices to the local environment respecting the firm's goals. Subsidiary HC is developed through bidirectional process that includes the reconciliation of local knowledge with the corporate requirements (bottom-up) and the adaptation of firm-specific knowledge to their local environment (top-down).

International assignees are very important because they help to combine home and host country knowledge that is effectively leveraged by the company when crafts its strategy. At unit level, it constitutes a source of competitive advantage because collective knowledge is aggregated through experiences, databases, communities of practice, after-action reviews and so on, and become embedded in the unit.

MNEs may let subsidiaries develop talents through HR practices and work methods that are adapted to local culture, while placing constraints on other ones.

Third, *corporate human capital* represents the shared value of firm-specific knowledge, skills and abilities regardless of the location. Individuals are informed about local experience and global concerns acquiring knowledge from the social and organization context. This knowledge is extracted from each unit and then tested in others. The firm obtains a knowledge set from which provides specific guidelines for action and/or leadership-development programs in order to make individuals contextualize best practices.

Lastly, the *international human capital* even if it provides no sustainable advantage for the firm (rivals can obtain it), it is essential because the firm can learn about global best

practices, global industry standards, international trade laws, modular systems and processes, cross-border industry networks and other forms of knowledge embedded in the individuals.

These individuals can develop international human capital through meaningful interactions with international experts and professional associations, closely observing global standards and new technologies, recognizing context-specificities. In this way, the firm learns and integrates knowledge coming from outside.

International assignments allow individual to acquire a strong international human capital because they make experience in different locations, subsidiaries and contexts and consequently understand how things work. These people may demand and negotiate a greater compensation and retention bonuses to not leave the company.

In the next section, human capital management will be linked to the corporate strategy pursued by Sirmax.

4.4.2 Transnational strategy and human capital management

The context in which Sirmax currently operates is characterized by a high degree of concentration of firms which is increasing every year due to continuous M&As performed by largest players. These players are usually highly integrated firms operating in the petrol-chemical industry, and thus they have less flexibility towards their customers.

Sirmax bases its competitive advantage on providing flexibility to its clients: usually, customers need products from both independent and integrated compounders and Sirmax provides respectively taylor-made and standardized products.

Working with a just-in-time logic, clients require a distribution channel which has to be very close to their own factories. Roberto Pavin, one of the three brothers that founded the company, describes in an interview the Sirmax's strategy with few words:

“We go where our clients go. If they go everywhere in the world, we are going, too, everywhere in the world!” (Corriere Imprese NordEst, 2018).

For instance, this was what happened in summer 2014 when Whirlpool, after a dismissal, needed one supplier in United States and Sirmax proposes itself to move there.

The goal for Sirmax is to increase efficiency and satisfy as soon as possible the needs of its clients becoming a strategic and reliable partner in terms of technologies, production and business organization.

To realize that Sirmax needs to have a flexible organizational structure that favours knowledge management between units. Effectively, new idea from local managers in subsidiaries may act as sources of creativity, best practice and global solutions that create value for clients (Morris *et al.*, 2016).

Knowledge management has been showed as a crucial process for majority of companies since it is required for the transmission and replication of knowledge and the adoption of right strategies and practices in specific contexts (Jiménez-Jiménez *et al.*, 2014). SMEs' international success depends, to a large extent, on the strategic fit between the organizational strategy pursued by the firm, namely exploration or exploitation strategies, and the market selection decisions. Broadly, *exploitation strategy* uses and refines existing knowledge, routines and capabilities in order to maximize efficiency (Levinthal & March, 1993; in Garaus *et al.*, 2016). Moreover, with this strategy firms learn via local search and experiential improvements (Cui *et al.*, 2014). *Exploration strategy* refers to activities that aim to pursue new potential knowledge and capabilities useful to enhance flexibility (Garaus *et al.*, 2016). In this case, the learning process stems from combined changes and planned experimentations (Cui *et al.*, 2014).

From a managerial point of view, pursuing an exploration strategy seems to be the most appropriate for SMEs that are more adept at adopting new processes as well as new products and services. Thus, these firms should look for and select host countries that are dissimilar from their home market, thereby enabling them to maximize their competitive advantage in terms of seeking new knowledge, exploring unknown and underserved markets and seizing overlooked opportunities (Cui *et al.*, 2014).

Equally, exploitation strategy should be adopted by SMEs that are capable of continuously improving their resources and processes when they approach the international market. Selecting host countries that are similar to their home market, allows the firm to

maximize their existing knowledge and achieve economies of scale from the extension of their current products/services to foreign markets (Cui *et al.*, 2014). The process is more effective when the knowledge provider and recipient share similar cultural systems. For instance, knowledge sharing is more difficult between individuals involved in the process that do not speak the same language (Maimone, 2018).

As corporate strategy, Sirmax adopted a transnational model in which it exploited and refined its existing knowledge and capabilities.

The transnational strategy enables the company to transfer and share resources, including human resources, and capabilities across borders. Furthermore, with a transnational strategy the company incorporates the “*think-global, act-local*” approach, addressing local customers’ requirements in an efficient and adaptive manner.

This approach is possible through the adoption of a governance structure that is both flexible and tightly integrated and that partially allows subsidiary discretion and autonomy to adapt and customize locally (Morris *et al.*, 2016).

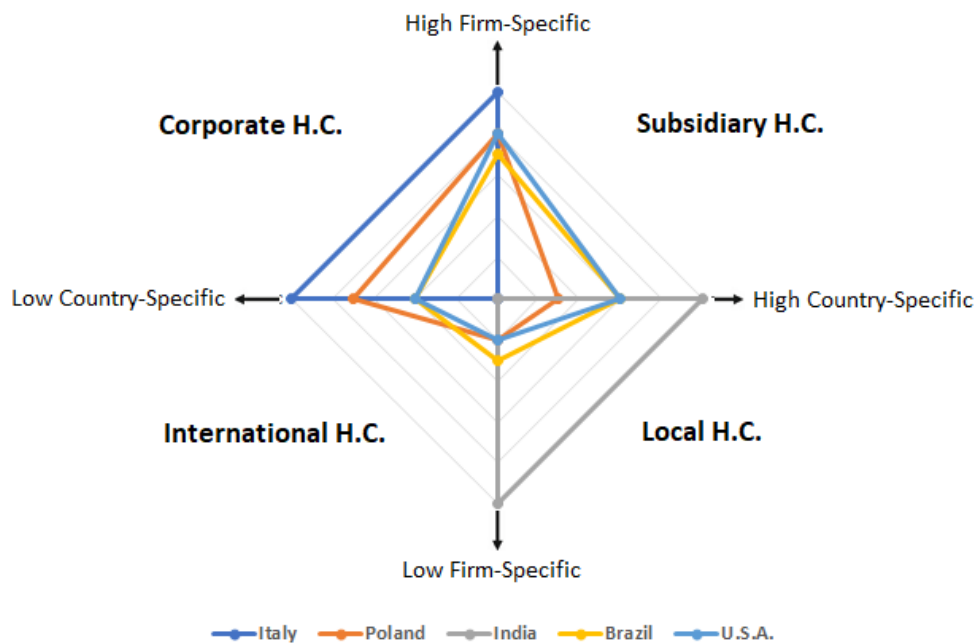
Pocket multinationals are neither large enough to consist of highly diversified exploratory and exploitative business units, nor small enough to establish a context where actors are supposed to perform exploratory and exploitative tasks concurrently (Garaus *et al.*, 2016).

Thus, if with this strategy a company attempts to benefit from both local responsiveness and global integration, it has to deal with the tensions, showed in Chapter 3, that lies between the trade-off integration-localization.

At a certain point, indeed, even a company operating in a niche market will face some challenges linked to this trade-off: on the one hand, in addition to simply transfer and share knowledge and practices in its affiliates, Sirmax should go beyond and ensure that this knowledge is well-integrated and creates more value for each location and for its customers; on the other hand, the firm should differentiate its human capital portfolio to address country-specificities and ensure at the same time global integration.

Adapting the framework of Morris *et al.* (2016) to Sirmax, it is possible to state that the company may adopt a multi-pronged approach towards human capital development.

Figure 22 Human Capital Management in Sirmax



Source: Personal elaboration; Adapted from Morris *et al.*, 2016, pp. 725-738

As exhibited in Figure 22, the company should place emphasis on all four types of human capital described by the authors, albeit in different proportions for each country.

Apart from Italy where there is exclusively corporate human capital due to no country specificities, the other plants encounter some local requirements as showed in the previous paragraph. Therefore, while Poland is more similar to the Italian context given the shorter geographical distance and the similar European culture, countries like United States, India, Brazil require a deep knowledge of the local context and local ways of doing things. For instance, United States are characterized by a different labour market in which young talents are firstly attracted by American *MNEs* and the rest of potential employees demands benefits and career path to not leave the company.

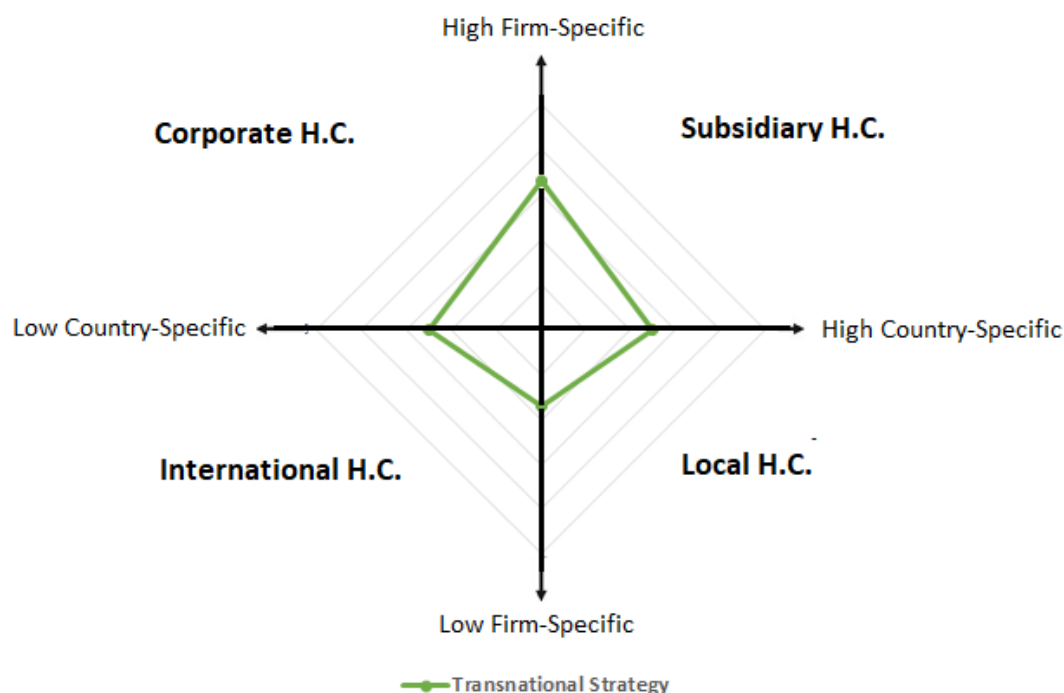
In Brazil, there is a different way of managing administrative and financial tasks that requires a specific knowledge of the system. Sometimes, to fill knowledge gaps, the company outsources the management of some practices to external consultants.

In India there is still a strong hierarchical system (“Caste System”) that influences business attitudes that differentiate people for social rights and privileges. Even working

daily aspects are subject to the hierarchy as for example different food-courts for employees and managers.

As a result, Figure 23 shows the overall transnational strategy of the company towards human capital management.

Figure 23 Sirmax's transnational strategy and human capital



Source: Personal elaboration; adapted from Morris et al., 2016, p. 738

Since both exploration and exploitation strategies are not mutually exclusive, they require the organizational capability to continuously pursue and integrate both. This organization's capability is called "ambidexterity" and needs to be combined with the HR practices in order to increase flexibility and efficiency (Garaus et al., 2016).

Organizational ambidexterity allows to reconcile the global-local tension, inherent to the transnational strategy, with the achievement of alignment and adaptability (Morris et al., 2016)

Although this may seem idealistic to realize, the firm should use a specific combination of HR practices: key actors are challenged with the development of a human capital profiles that work to simultaneously establish external ties that connect them to country- or plant-specificities as well as internal ties that connect them to the parent company.

In the transnational strategy subsidiary and corporate human capitals are the most critical because they are firm-specific, and their combination is both informed and contextualized by local and international human capitals.

As concerns decision-making, in the transnational model, Sirmax should grant a certain degree of autonomy to the units: they have the possibility to adapt practices to local conditions, but at the same time, the parent company still hold them accountable for sharing information through IT system and integrating knowledge through frequent interactions.

To ensure a higher degree of integration of practices, Sirmax may initially maintain its ethnocentric approach reinforcing coordination mechanisms analysed in Chapter 3.

Expatriates can still help local managers to implement the new HR practices and coach HCNs.

Similar to the multidomestic approach, HR systems tend to differ more across subsidiaries, reflecting local adaptation. The headquarters should provide broad HR policy directives and practices that are consistent across the whole *MNE* and should demonstrate enough resource flexibility. This latter refers to the extent to which HR practices or employees are adaptive to a larger range of alternative contexts.

Some firm-specific human capital or HR practice may apply and are valuable exclusively within one unit (country-specific). Others are more flexible and can be transferred and adapted more easily in other units (subsidiary human capital at firm level).

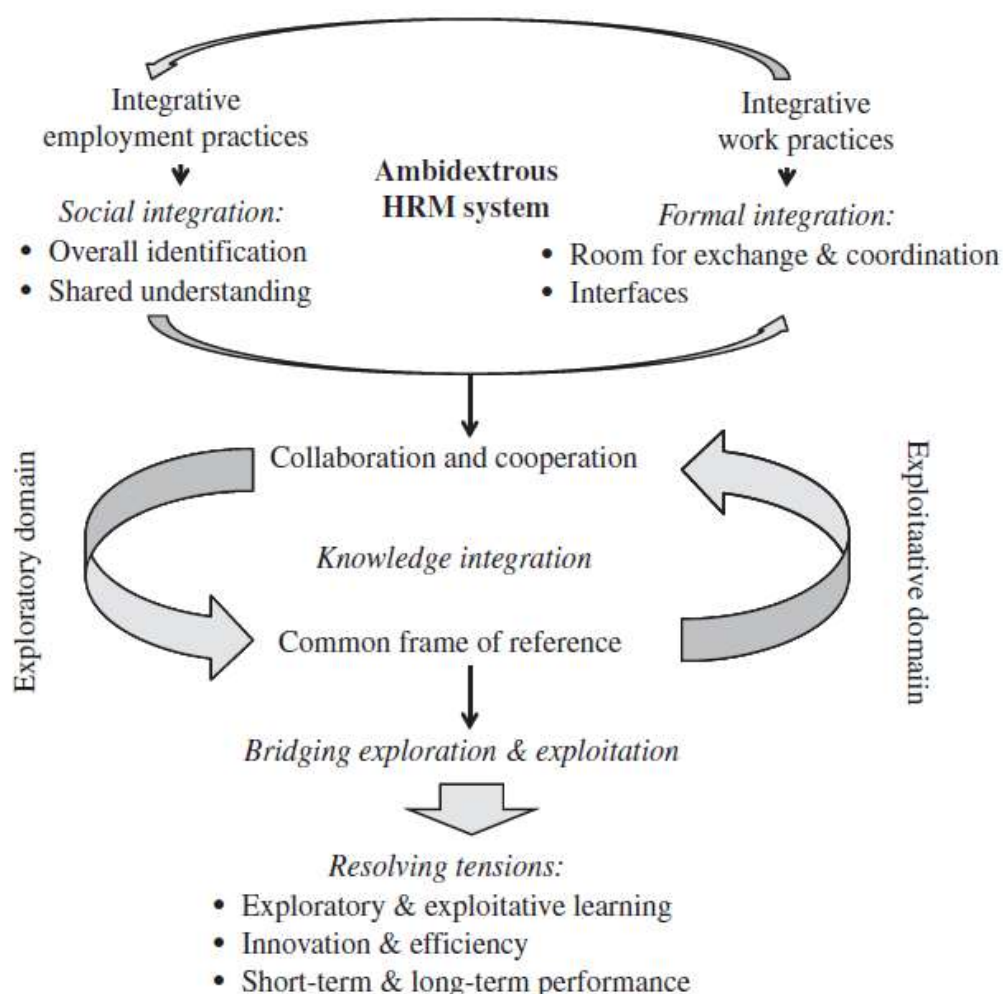
In other words, having connections with global policies or principles shared within the entire *MNE*, the knowledge developed in one location can be transferred and adapted in other contexts as local practice.

Furthermore, the firm's ability to configure its portfolio of flexible resources and to deploy them rapidly to alternative purposes constitutes the firm's coordination flexibility.

In this way, it is possible to integrate local and international human capital development.

Garaus and colleagues (2016), studying how HRM helps companies to attain organizational ambidexterity, suggest in their framework (Figure 24) to consider an integration of work practices and employment practices in order to balance the two strategies. In this way, the company strengthens its ability to adapt to changes in the environment.

Figure 24 Ambidextrous HRM system



Source: Garaus *et al.*, 2016, p. 375

On the one hand, the framework describes the role of integrative employment practices in enabling the company to create a common frame of reference. This is possible fostering social integration, meaning that the overall identification with shared values and a common understanding can facilitate a trustful knowledge exchange. Employees should recognize themselves in the overall organizational culture (Garaus *et al.*, 2016).

Useful HR tools may be specific recruitment, selection and onboarding practices which may favour collaboration and cooperation within the firm.

Sirmax should attempt to adopt a geocentric approach for as concern staffing positions worldwide. This result may come from the development of human resources that will be able to work in a certain context regardless ge-

ographical location. Thus, the firm should put emphasis on recruiting both PCNs and HCNs whose values are congruent with the ones of firm.

It is important to continuously hire young talents that are innovative team players and critical thinkers. Complementary competencies and soft skills are important, too.

However, candidates should have clear that Sirmax, in addition to be one of the top innovative company of the industry, gives value to deserving people offering technical and managerial competences in a dynamic and pleasant work environment.

In the recruitment process, establishing relationships with local universities can help to increase the chance to have more potential candidates and to find the right person that fit in both organization and job. Additionally, the firm can offer to master students the possibility to participate to business games or projects in order to find solutions for business challenges. Alternatively, it can collaborate with R&D institutes to find innovative solutions to satisfy evolving customer's needs.

Once they are selected, new entrants should be introduced inside the organization through social and technical training (e.g. mentoring, job rotation, welcome days) and they may spend a training period inside the corporate headquarters.

Training should not be provided just at the beginning of the working relationship but should be expected on an ongoing basis in which the managers or specialized employees further develop their capabilities. For instance, regular team competence training and management development may allow staff from various units to get to know and work with each other. Concurrently, marketing and sales managers (and other departments) may be trained on product development or sales negotiation.

To formalize training-systems, Sirmax may create an internal structure such as Sirmax Academy or Sirmax Corporate University in which employees and managers periodically have a training-space to enhance their knowledge and capabilities.

Furthermore, foreign managers may rotate across international locations to develop (corporate) human capital inferentially since they accumulate experience iteratively and learn which set of practices are generalizable to other locations (Morris *et al.*, 2016).

In cross-cultural environments international assignees can improve negotiations capability integrating local market knowledge and regulations with the knowledge of firm's products.

On the other hand, formal integration mechanisms, that is the exchange and coordination of knowledge, is favoured by integrative work practices: interaction-oriented structures, projects, meetings, networks, job design and task allocation enable to strengthen the frame of reference integrating the knowledge generated in different departments (Garaus *et al.*, 2016). For instance, the company may organize cross-functional and/or cross-cultural team-works for product development, coordination meetings, industry meetings and/or meetings with clients in order to understand their needs. Similarly, it can provide a specialized pool of technician that support sales and customer service.

At the same time, it can foster the development of informal ties between employees providing spare-time facilities.

The underlying objective of implementing integrative work practices is to create and build upon networks in order to combine information and knowledge coming from different sources. This would support the organization in generating new ideas which are evaluated for making decisions.

As a result, differently from large firms where HRM systems are highly differentiated and connected via top management teams, in pocket multinationals a strong common frame of reference is useful to enhance both efficiency (short-term performance) and flexibility (long-term performance) (Garaus *et al.*, 2016).

The role of the headquarters is to enable, encourage and facilitate the exchange of knowledge and information in order to activate a mutual-learning process based on general principles (Morris *et al.*, 2016). The means are for example the transfer of employees, sharing knowledge via social networks, shared portals, information systems or documented processes and best practices.

The transnational orientation requires a multitude of local knowledges that contributes in developing subsidiary human capital and the consistent mutual learning help the firm to learn from its subsidiaries and to leverage factors across the corporation.

Future HR Practices

The Sirmax Group's goal is to be prepared to become a multinational enterprise characterized by a more and more flexible organization and by a solid corporate culture.

Organizations seek to build high performance through HRM practices. Thus, they should provide job security, ongoing training, information and knowledge platforms to create a pleasant workplace in which skilled people work.

Moreover, to attract, motivate and retain these people, the company should conduct developmental performance appraisals that are the base of potential rewards: compensation, benefits and career opportunities are important means to reduce job turnover.

Having employees that are not motivated in what they are doing is like having not-valid or un-skilled employees. So, the ability to retain employees depends significantly on the ability to manage them.

An HR manager will help to find appropriate solutions in each context and will have the duty to constantly communicate with all the functional managers about team members and how to organize them in their activities.

Table 7 lists some potential HR practices that may be implemented by Sirmax, firstly in the headquarters and then its subsidiaries around the world with some local adaptation (see Table 5). The final goal is to find a strategic and organizational fit that balances the need for global integration with the need for local adaptation.

Table 7 Future potential HR practices

HR PRACTICE	POTENTIAL HR SOLUTIONS	UNDERLYING OBJECTIVE
<i>Staffing: recruitment and selection</i>	Merit is rewarded through managerial and technical competences <ul style="list-style-type: none"> • Focus on apprentices and local recruits whose values are similar to the organizational ones. • Establish and strengthen relationships with universities and R&D centres • Balance gender equality in management positions 	<ul style="list-style-type: none"> • Relationships with universities bring more potential candidates willing to work for the company and they are an important source of knowledge. They may have complementary competencies and soft-skills are useful to enhance organizational flexibility. • Recruiting innovative and critical-thinkers individuals prevent groupthinking and foster new ways of doing things. Remind to shape staff according to the company's norms and values that are congruent with the ones of the organization. • Diversity management related to gender equality may increase employer's reputation
<i>Onboarding practice</i>	<ul style="list-style-type: none"> • Evaluate if the organizational structure and the operations are able to support the potential increase of turnover; • Mentoring and job rotation for new entrants • Creation of a business intranet platform in which employees can continuously find news; • Establish an employee survey (every 2/3 years) • Establish organizational ceremonies for important business events (e.g. anniversaries, financial results, successful product development) and welcome days for new entrants • Possibility to develop an ethical statement in which are reported all the energy, water, material savings (evaluation of the B corp certification). 	<ul style="list-style-type: none"> • Introduce new entrants to the company and make them feel comfortable • Providing basic understanding of tasks and functions through job rotation, encourages the acquisition of new skills and enables staff to absorb and understand organizational processes and values accumulating experience iteratively • The intranet platform enables staff to be updated on the latest news about products, organization and market trends. • The employee survey measures workforce's satisfaction and the overall environment climate. It simplifies the way to understand employees and allows to build organizational commitment (promoting staff retention) • Environmental sustainability and clean workplace enhance workplace's reputation and help to retain employees. B Corp certification enhance firm's reputation through the promotion of positive impacts generated by sustainable products, safe workplace, environmental sustainability, governance and community. • Job security must be ensured also to increase job satisfaction
<i>Training and development</i>	Sirmax Accademy or Sirmax University <ul style="list-style-type: none"> • Cross-functional training • Team competence training • Cross-cultural training for managers and for international assignments' candidates • Language training 	<ul style="list-style-type: none"> • Enable employees to understand the business and to grasp the "overall picture". Basically, training prepare people for future job assignments and develops commitment to the market and to the product • Increase motivation and ability to collaborate and cooperate through team building. Managers may enhance their leadership capabilities, they are more willing to assume responsibilities and to take risks. Need to create a team of expertise. • Learn which set of practices are generalizable to other locations • Learning opportunities help attract and retain individuals • Reduce the communication barriers through language courses (especially English)

HR PRACTICE	POTENTIAL HR SOLUTIONS	UNDERLYING OBJECTIVE
<i>Performance appraisal</i>	<ul style="list-style-type: none"> • Evaluate if the MBO system is aligned with the actual Sirmax's organizational life stage and the future one (not implemented for administration and ICT). • Classic performance management system based on KPI of each function. • Assessments for managers and high-potential employees. 	<ul style="list-style-type: none"> • Make staff aware of what is expected in terms of behaviours and performance and which are the yardstick to measure and evaluate them • Enable the company to evaluate what employees need and what they deserve • Feedback encourage further managers' and employees' development
<i>Rewards and career advancements</i>	<p>The ability to retain employees depends significantly on the ability to manage them</p> <ul style="list-style-type: none"> • Creation of a long-term incentive linked to the industrial plan • Cross-functional career opportunities • Employees's participation in decision-making process (quality circles, autonomous teams, wok councils, consultative committees) 	<ul style="list-style-type: none"> • Simplifying the ways of building organizational commitment and promoting staff retention not through financial incentives, but clear career opportunities • People are no longer promoted on the basis of their level, position, or status, but rather on their actual or potential contribution to the firm • In participative DM, employees may identify and solve problems sooner and feel trusted. Participation provides opportunities and encourage individuals to extend discretionary effort and to acquire appropriate skills. • Rewards (both financial and non-financial) must be fair and must promote and support organizational goals, cooperation and teamwork and should be structured in a way that the size of job and individual performance are evaluated.
<i>Compensation & Benefits</i>	<ul style="list-style-type: none"> • Social benefits (e.g. health insurance, pension fund, laundry for employees) • Establish spare-time facilities • Work-life balance • Introduction of a badge for manager and employees • Evaluate the introduction of pension plans, health insurance, more paid vacations 	<ul style="list-style-type: none"> • Contribute to increase the employee's work environment satisfaction • Spare-time facilities offer the possibility to get to know people from other function and/or units and to reinforce the concept of Sirmax community • Work-life balance make the firm closer to employee's needs and promote employee's welfare • Calculation of the base salaries looking at the monthly hours worked by the employees • Benefits help to reduce social pressures and to attract and retain employees (especially in the USA)

Source: Personal elaboration

4.4.3 Institutional interaction

Once the company has found the right bundle of practices, some authors argue that HRM practices can converge into uniform way of doing things around the world and can be transferred as exactly they are in different countries (Oppong, 2018). Unless culture imposes strong constraints, standardization is possible for those practices that are considered as “best practices” and can come from either headquarters and subsidiaries (Pudelko & Harzing, 2007). Other authors claim in addition that potential change of context and time may alter the extent to which subsidiaries are able to make the best use of HR autonomy (Lazarova *et al.*, 2017).

However, *MNEs* should act as a two-way vector of dynamic change within national business systems: both PCNs and HCNs will bring their own nationally distinctive ways of doing things within the diverse units and will realize how to adopt that practice in their respective country (Ferner *et al.*, 2001).

Differently from the extant literature, according to Cheng & Yu (2012), instead of directly impose commands to the subsidiary, parent-firm executives should previously involve also subsidiary executives in the decision-making process: in addition to the environmental concerns’ assessments and messages from the familiar home-country, parent-firm executives supported by the subsidiary’s executives, should consider as an indirect reference point also the messages from the host-country to adjust their actions. Collectively, the adoption of practices of an international SMEs is partially a result of the evaluation of overlapping institutional effects in the host-country and home-country (Chang & Yu, 2012).

On the one hand, if institutional pressures come from just one side, it is necessary to centralize (if home-country pressures are higher) decision-making, or grant autonomy (if host-country pressures are higher), as showed in the previous chapter.

On the contrary, in case both parent and subsidiary executives assess high competing institutional pressures in both countries, there is a so-called “*institutional interaction*” (Cheng & Yu, 2012). If the host-country institutional pressures assessed are high, it is likely that subsidiary executives avoid to completely adopt internal practices. In this typical intra-organisational dynamic, the firm should find a compromise in decision-making.

Building on the Kostova and Roth's (2002) findings, to satisfy the different institutional interests, Cheng and Yu (2012) propose two alternative approaches for international SMEs: the subsidiary can either "implement all internal practices in a sufficient level" or "internalise only few internal practices".

In the first approach, SME's executives at a subsidiary and parent level will mutually tolerate each individual institutional interest by implementing a sufficient but limited level of overall internal practices in the subsidiary (e.g. about a half) (Cheng & Yu, 2012). It occurs when the subsidiary formally complies with the request of the parent but does not view the practice as valuable and does not form positive attitudes toward it (Kostova & Roth, 2002). The partial implementation of overall internal practices reflects an easy tool utilised by a subsidiary to cope with the internal controls from its parent firm. This is similar to the idea of "*ceremonial adoption*" proposed by Meyer and Rowan (1977): it is the formal adoption of a practice on the part of a recipient unit's employees for legitimacy reasons, without their believing in its real value for the organization.

The second approach in case of institutional interaction concerns the internalisation of only few types of internal practices by a subsidiary as exchange to the parent firm.

Having relatively higher pressures in the host-country, the subsidiary may select few internal practices to satisfy the parent firm and refuse to adopt the others. When the subsidiary decides to not implement most internal practices, it must profoundly internalise in the few selected internal practices to display its loyalty to the parent firm with the aim to satisfy their executives. For instance, as concern internal control mechanisms within an *MNE*, the subsidiary may accept HR practices such as administrative hierarchy designs, recruitment policies, staff compensation in order to receive support from the parent firm (Kostova & Roth, 2002). This applies to a greater extent to firm that de-localize labour-intensive production activities in developing countries where many people are employed (Cheng & Yu, 2012).

MNE affiliates face a broader range of choices concerning which practices to adopt and to what extent they should respond to each institution (Kostova et al., 2008; in Cheng & Yu, 2012). Anyway, it is likely that the subsidiary adopts certain types of internal practices that heavily rely on the knowledge and resources from the parent firm (Cheng & Yu, 2012).

The institutionalization creates in this way more internal inconsistency and thus leads to diversity among affiliates rather than similarity and isomorphism (Chan & Holbert, 2001; in Cheng & Yu, 2012). Thus, institutional interaction enables subsidiaries to adopt diversified practices and creates different practice's profiles among units within the *MNE* (Cheng & Yu, 2012).

For the parent firm, evaluating internalisation in a subsidiary is more difficult than doing so for implementation. Unlike implementation, the internalisation requires the subsidiary to spend much more energy in doing that.

The parent-firm's top managers will judge the type-by-type adoption commitment of each subsidiary comparing it with the average situation among *MNE* affiliates.

As a result, a subsidiary may present a partial isomorphism to more than one institution and create a combination of diversified practices (Cheng & Yu, 2012).

4.5 Conclusion

This chapter presented some cross-cultural elements that needed to be addressed by companies operating abroad. Given the rapid growth, Sirmax has not recognized and directly faced cultural differences during practices' implementation. Gradually, cultural differences will be more and more evident and Sirmax will need to be prepared. In the second paragraph some cultural differences in the firm's subsidiaries were identified and it was proposed how to deal with them.

Organizational HR practices must be designed and formalized in order to prevent the risk of hostile behaviours, dissatisfaction and, ultimately, staff turnover. Operating in diverse environment Sirmax should manage this complexity working on different styles of communication, leadership and motivation. It is important to establish an integrated corporate culture in which diversity is managed adequately.

In the fourth paragraph, the concept of talent was introduced. There is evidence that inside an organization people make the difference and the ability to manage them is a source of competitive advantage. Therefore, it was proposed how emerging pocket multinational can organize these talents and can develop a strong firm's human capital.

Sirmax's strategy was drawn and adapted on Morris *et al.* (2016)'s framework and it was proposed to foster the relationship between corporate HC and subsidiary HC supported by the local and international ones.

As a result, in a transnational strategy it is crucial to achieve organizational ambidexterity through the implementation of a strong HRM system. Once evaluated the institutional influences, HR practices can be entirely or in part transferred to each subsidiary.

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