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STRATEGIC INTERNATIONAL HUMAN
RESOURCE MANAGEMENT IN MNC'S:
IMPLICATIONS FOR CONGRUENCY THEORY**

**CEO Publication
T 90-15 (177)**

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**Organizational Life Cycles and Strategic
International Human Resource Management
In MNCs: Implications for Congruency Theory**

Abstract

This paper seeks to extend our understanding of congruency theory of fit in strategic human resource management (HRM) as a result of developing an organizational life cycle model of international HRM (IHRM) in multinational companies (MNCs). Consideration of the international dimensions provides two contributions to congruency theory as it relates to IHRM - context fits needs to be considered in strategic human resources which have not been addressed previously in the literature. Second, the nature and need for flexibility and the relationship between flexibility and fit in strategic IHRM is explored in greater detail. A series of propositions are formulated concerning the relationship of fit and flexibility to organizational functioning and performance in MNCs.

Organizational Life Cycles And Strategic
International Human Resource Management in MNCs:
Implications For Congruency Theory

Researchers have long focused on the concept of fit for organizational effectiveness in organizational theory, organizational behavior, and strategy (Fry & Smith, 1987), but have often been frustrated by difficulties in conceptualizing and operationalizing the concept (Venkatraman & Camillus, 1984). Similarly, the dominant theme of the literature of strategic human resource management (HRM) is the need to fit human resource strategy to the larger organizational context, but again this theme remains controversial and elusive (Lengnick-Hall & Lengnick-Hall, 1988). For example, Lengnick-Hall and Lengnick-Hall (1988) state that fit often implies a static concept and in many situations flexibility, not fit, will promote organizational effectiveness.

Human resource practices also appear to play an additional role in multinational companies (MNCs) as a mechanism to enable the firm to deal with control and cross-cultural issues both internal and external to the firm (Adler & Ghadar, 1989). Inherent in the need for control and cross-cultural sensitivity is again the concept of fit. Multinational corporations often must address greater challenges than domestic firms in terms of geographic dispersion of operations, cross-cultural differences, global competition, and greater reliance on overseas divisions and thus the concept of fit becomes very complex in this context. Unfortunately, the international management literature in general and the international HRM (IHRM) field in particular are plagued by a lack of theoretical and conceptual advances (Black & Mendenhall, 1990).

Because of these limitations in the literature and the greater complexity in the international arena, we have developed a model of IHRM practices of MNCs which increases our understanding of the nature of fit and flexibility in strategic IHRM practices. Specifically, an examination of MNCs reveals that the concept of fit in strategic IHRM must include consideration of the organizational level of analysis and of the firm's environment. Second, a greater understanding is required of the type and variability of organizational contextual factors which affect the need for fit and flexibility of strategic IHRM practices.

Accordingly, this manuscript undertakes several goals: we initially propose a framework for analyzing fit and flexibility when dealing with strategic IHRM practices which differs from the prior prescriptive human resource literature because of the addition of international dimensions. Second, we expand our model for IHRM practices by utilizing an organizational life cycle model. Finally, we discuss the implications of this model for strategic objectives,

fit, and flexibility in IHRM. Specific propositions will be developed which further describe both the types of fit required and under what conditions organizations will seek to achieve fit and flexibility.

Brief Overview of Strategic HRM Literature

The concept of fit is a dominant theme in strategic human resource management (HRM)-research. For example, in their strategic HRM literature review, Lengnick-Hall and Lengnick-Hall (1988) note that managers are matched to the nature of strategic business planning, to the firm's expansion strategy, and product life cycle, and future strategic needs and choices. However, this literature typically does not take into account issues such as the short- and long-term implications of HRM practices, benefit-cost analysis of various HRM options, and the different organizational conditions in which fit leads to organizational effectiveness (Lengnick-Hall & Lengnick-Hall, 1988). These two authors suggest that frequently HRM practices should be developed to create flexibility rather than fit, explicitly emphasizing the orthogonality of the two concepts.

This manuscript addresses two unresolved issues in this literature. First, the concept of fit needs to be clarified in relationship to strategic IHRM. In addition what kinds of fit are required in the human resource practices of MNCs? Second, what exactly does flexibility mean? Under what conditions will fit and/or flexibility lead to organizational effectiveness? We contend that studying strategic IHRM in MNCs sheds light on both of these issues. In doing so we will first examine the nature of the concept of fit and define the concept of flexibility as they apply to strategic IHRM.

Framework For Analyzing Fit And Flexibility

Congruency has been a dominant theme in the organizational literature (e.g Fry & Smith, 1987; Miles & Snow 1984). Thus, it is important to first clearly state what is meant by this concept. Nadler and Tushman (1980) define congruency theory (or fit) as:

The congruence between two components is the degree to which the needs, demands, goals, objectives, and/or structure of one component are consistent with the needs, demands, goals, objectives, and/or structure of another component (p. 40).

This definition emphasizes the need for interdependence and congruence among the different components of the organization and between the organization and its environment (Fry & Smith, 1987). Furthermore, Mealiea and Lee (1979) state that two major types of fit are macrocongruence -- or the fit between the internal organization structure

and the external environment and microcongruence -- or the fit between the internal structure and individual employee behavior.

In terms of HRM congruence, Baird and Meshoulam (1988) assert that creating effective strategic human resources practices involves managing two fits simultaneously in the firm: external and internal. The external fit involves the fit between HRM activities and the organization context at each major developmental stage (e.g. life cycle phase) of the organization. In addition, Baird and Meshoulam (1988) state the internal fit requires that "...the components of human resources management must fit with and support each other" (p. 122). Thus, the internal fit concerns the relationship between the various human resource functions (e.g. selection, training, performance appraisals, compensation, etc.).

An examination of the IHRM literature indicates the Baird and Meshoulam's (1988) external and internal fit concepts are insufficient for dealing with international firms. Thus these concepts must be expanded to deal with the complexity of MNCs in several ways. First of all, in terms of the external fit, a central purpose of IHRM practices is to facilitate effective cross-cultural interactions (Black & Mendenhall, 1990). Adler and Ghadar (1989), in noting that IHRM practices are critical in facilitating the adaptation of MNCs to cross-cultural issues overseas, state "Discussions concerning the influence of culture on strategic efficacy remain time-lagged, disconnected from other corporate realities. We continue to ask if culture impacts organizational functioning rather than the more relevant when, or under what conditions, does it do so" (p. 3). Furthermore, MNCs must deal not only with language and cross-cultural interactions but also with the socio-economic, legal, and political settings of various foreign countries in which they have some type of operation (e.g. Adler, 1986).

Thus, a critical component in international firms involves the degree to which MNCs overtly seek to understand the host country's culture (Von Glinow & Milliman, in press), an additional need beyond Baird and Meshoulam (1988) who state only a fit within HRM and between HRM and the organizational stage of development are required. To achieve this environmental fit the MNC must continuously involve a number of host country nationals and trained expatriates in order to obtain the three-way congruence between management, societal values, and organization structure which is required to make effective cross-cultural management practices (Davis, Kerr, & Von Glinow, 1987). Accordingly, proposition 1 can be stated as follows:

Proposition 1: The external environment fit involves fit between IHRM practices and the environment (e.g.

the degree to which IHRM practices are utilized to facilitate the adaptation of the MNC to its crosscultural environment).

A second major issue regarding fit concerns the internal organizational structure of MNCs. Most discussions of fit have explicitly or implicitly assumed an organizational level of analysis (e.g. Baird & Meshoulam, 1988; Lengnick-Hall & Lengnick-Hall, 1988) and thus have viewed the organization in monolithic terms: there is little appreciation for differences which arise within different divisions, geographic areas, etc. of the firm. Camillus (1984) observed that strategic business units (SBUs) in some MNCs have a high degree of autonomy and independent business strategies and are at different stages of development. Similarly, Miller, Beechler, Bhatt, and Nath (1986) found that strategic IHRM practices must be studied at both the corporate and overseas SBU levels. Ondrack (1985) noted that while both European and U.S. MNCs set their most fundamental strategic IHRM objectives at the corporate level, there are significant strategic policies made at two additional levels: regional and national.

These studies indicate MNCs have a need to achieve an integration between strategic IHRM practices of the overseas offices and the corporate headquarters. This type of integration involves the strategic decisions of to what degree does the organization desire to achieve a global orientation with strong linkages between the corporate and overseas offices (Adler & Ghadar, 1989) and how to accomplish this fit. There are two principal ways to achieve integration. One is using tight controls exercised by the corporate office; a second is control created through informal organizational culture via international staffing practices (Adler & Ghadar, 1989; Doz & Prahalad, 1981; Edstrom & Galbraith, 1977; Jaeger, 1982). Ondrack's (1985) detailed study of European and U.S. MNCs supported the contentions of these authors that international staffing practices do provide international firms with a cadre of managers who can implement an informal control and communication system for diverse operations.

It is clear that the complexities of MNCs must be considered in finer theoretical granularity and that the IHRM fit should not be always be assumed to apply across all aspects of the international firm which operates world-wide. Instead, the external environment fit stated previously and the external and internal fit concepts advanced by Baird and Meshoulam (1988) need to be understood at their respective levels of organizational analysis (e.g. corporate or other levels). In many MNCs this would actually involve three levels (corporate, regional, and national), but for simplicity we will assume it involves two levels: corporate and the SBU.

The examination of strategic IHRM practices indicates that managing fit in MNCs is extremely complex and implies the need for the following propositions:

Proposition 2: In MNCs the three types of fit which need to be managed in strategic IHRM (e.g. internally fit between various IHRM functions, fit of IHRM functions to organizational stage of development, and fit to cross-cultural environment) should be specifically stated in relation to each specific level within the organization (e.g. corporate or SBU).

Proposition 3: Strategic IHRM in MNCs involves the management of fit of human resource functions and practices between the corporate and various SBU levels.

In summary, research on MNCs indicate that two additional fits need to be considered in addition to Baird and Meshoulam's (1988) two strategic IHRM fits and that these fits need to be considered at each specific organizational level. These four types of fit are summarized on a 2 by 2 typology along the following two dimensions in Figure 1: internal or external IHRM and within or outside the organizational unit of analysis. The internal-external dimensions states whether the fit applies within (internal) the various IHRM functions (e.g. between selection, training, appraisal, and reward systems) or between (external) the IHRM functions and the larger organizational or environmental context. The within or outside organizational unit of analysis dimension refers to whether the fit applies within a given organizational unit (e.g. within a SBU or within the corporate office) or between different organizational levels (e.g. SBU to corporate).

Insert Figure 1 About Here

As shown in Figure 1 the internal-within organizational unit fit involves the degree of fit between the various IHRM functions at each organizational level of analysis (e.g. fit of IHRM functions to each other at the SBU level and at the corporate level). The internal-outside organizational fit specifies the fit between the IHRM functions of the SBU and the IHRM functions at the corporate level. The external-within organizational fit concerns the fit between the IHRM functions to the organizational context or life cycle stage at each organizational level of analysis (SBU and corporate). The external-outside organizational fit involves the degree of fit between the IHRM functions and that organizational unit's external environment (again SBU and corporate). These four types of fits are depicted

in Figure 2. The complexity of this situation is illustrated when it is considered that some MNCs have many SBUs.

Insert Figure 2 About Here

In general, we would assert that MNC effectiveness will be enhanced by the degree to which it simultaneously manages these four types of fit. However, it must be recognized that the importance of fit to performance may vary depending on the nature of the organizational-context and its environment. Lengnick-Hall and Lengnick-Hall (1988) state that achieving fit does not always lead to organizational effectiveness and that fit by nature implies a static, fixed concept. These two authors state organizations often require flexibility instead of fit and they position fit at opposite ends of the continuum from flexibility. Lengnick-Hall and Lengnick-Hall (1988) state:

The whole issue of fit deserves reassessment. Research has shown that achieving fit is not always desirable. Further, a focus on maximizing fit can be counterproductive if organization change is needed or if the firm has adopted conflicting competitive goals to correspond to a complex competitive environment (p. 460).

In contrast to this view of fit other researchers (e.g. Thompson, 1967; Miles & Snow, 1984) perceive fit as a dynamic process in which the firm is constantly seeking to adapt to the demands of a rapidly changing environment. For example, Chakravarthy (1982) observes strategic management is primarily involved with continually achieving a fit with the firm's changing environment. Miles and Snow (1984) state:

Fit is a process as well as a state--a dynamic search that seeks to align the organization with its environment and to arrange resources internally in support of that alignment. . . Because in a changing environment it is very difficult to keep these major organizational components and management processes) tightly integrated, perfect fit is most often a condition to be strived for rather than accomplished (p. 11).

Thus, there appears to be two fundamentally different views of fit in the literature: researchers such as Lengnick-Hall and Lengnick-Hall (1988) view fit and flexibility as being orthogonal while others such as Miles and Snow (1984) appear to see fit as inherently involving constant change and adaptation and hence flexibility.

While the nature of fit as a dynamic or static concept (Venkatraman & Camillus, 1984) and the precise relationship of fit to flexibility remain empirical questions, we believe these researchers have raised flexibility as an

important theoretical concept in its own right which requires greater consideration in strategic IHRM. Accordingly, it is important first of all to clearly define this concept.

Based on Lengnick-Hall and Lengnick-Hall (1988) human resource flexibility can be defined as HRM facilitating the ability of the organization to adapt effectively and timely to meet changing or diverse demands from either its environment or within the firm itself. Flexibility may involve such aspects as the ability to monitor its internal and external environments, capability to swiftly implement organization change, be innovative, and possess a variety of skills which are adaptive to many diverse situations. Four possible situations which may require flexibility include: (1) A dynamic environment; (2) A variety of different environmental conditions and situations; (3) Rapidly changing organizational goals or strategies; (4) Two or more divergent organizational goals.

We believe that the nature and complexity of MNCs will shed some light on three major theoretical issues involving fit and flexibility in strategic IHRM: (1) The nature of flexibility as an important IHRM concept; (2) The relationship of flexibility to fit; (3) Under what conditions fit and/or flexibility will lead to greater organizational effectiveness. Accordingly, in the following section a model of the strategic IHRM based on organizational life cycles is developed in which the concepts of fit and flexibility will be explored in greater detail.

Model of IHRM Practices by Organizational Life Cycle Stage

Because of the complexity and diverse nature of MNCs a model of the strategic IHRM practices is helpful in pinpointing under what organizational conditions a firm is most likely to seek fit and/or flexibility. All stage models have limitations (e.g. Milkovich, 1988; Porter, 1980), however we believe the organizational life cycle stage can serve as a good (though limited) proxy for the basic organizational and environmental context in which IHRM practices function.

The international product life cycle (PLC) model, first espoused by Vernon (1966), has been regularly used to describe how MNCs have evolved predictably through three distinct phases; high tech, internationalization and growth, and maturity in a 15 to 20 year period. Adler and Ghadar (1989) refine Vernon's model by adding a fourth phase and observing that in today's rapidly emerging global economy the time frame for movement through all four phases of the PLC may occur within three to five years and in the case of high technology firms that period has often been reduced by half (Von Glinow, 1988). In addition, Adler and Ghadar (1989) contend that the MNC's IHRM practices need to adapt and fit each stage of the firm's PLC.

One important limitation with PLC models is that many MNCs have multiple products and hence multiple PLCs. These life cycles may vary between the SBU and the corporate headquarters (Milkovich, 1988). Organizational life cycles (OLCs) are less likely to vary as substantially as PLCs between the SBUs and the corporate offices. As a result we believe an OLC model offers a more general framework for portraying the organizational context at different level of analysis in a large complex MNC than the PLC approach. In addition, it should be noted that this international organizational life cycle model assumes that environmental as well as organizational complexity generally increases as the firm proceeds through the life cycle stages. In the international arena this assumption seems particularly valid because the emergence of a global economy frequently produces greater foreign competition and environmental complexity as a firm's products and operations become more established over time (Adler & Ghadar, 1989).

Baird and Meshoulam (1988) developed a five stage OLC model which emphasizes strategic HRM practices in the domestic context. Both the Baird and Meshoulam's (1988) OLC model and the Adler and Ghadar's (1989) international PLC model make similar predictions about HRM practices at different stages of organizational development. However, neither fully deals with the twin concepts of fit and flexibility in an international context. Therefore, we will consolidate the Baird and Meshoulam's (1988) five stage model into four stages and build on both of these papers as a basis for our model of strategic IHRM practices in MNCs. From Baird and Meshoulam (1988) the four OLC stages are organization initiation, functional growth, controlled growth, and strategic integration. These stages are summarized as follows.

(1) Stage 1: Organization Initiation

Organizational Context. Baird and Meshoulam (1989; p. 118) state, "A new organization is characterized by start up, entrepreneurship, management by informality, and limited products and markets. A firm in the early stages of developing its product is likely to place a major emphasis on research and development (R & D) and as a result have high technical and entrepreneurship skill requirements (Adler & Ghadar, 1989).

In the initial phase the firm typically develops a domestic focus only or is just beginning to develop international markets. (Adler & Ghadar, 1989). The company may develop a single international division which handles operations for all overseas businesses (Pucik, 1984). Because of its focus on the domestic arena and product development the company usually has an ethnocentric cultural perspective as well as short-term focus (Adler &

Ghadar, 1989).

IHRM Practices. In the initial stage of the firm, most personnel practices are handled by line managers and the major emphasis is on basic recruiting and compensation programs (Baird & Meshoulam, 1988). The organization has a short-term view of its IHRM practices as it is focusing primarily on domestic R & D, and is just beginning overseas sales. Most staffing and other IHRM practices during this phase are conducted on an ad hoc basis: expatriates are usually selected for their technical work skills and often receive little intercultural training (Adler & Ghadar, 1989; Pucik, 1984; Tung, 1988).

(2) Stage 2: Functional Growth

Organizational Context. Baird & Meshoulam (1989; p. 118) state "Stage II is characterized by technical specialization, dynamic growth, expanded product lines and markets, and added formality in structure." A formal personnel department is established. In this stage the company may evolve from a domestic to an international orientation. In terms of its products the MNC is often threatened with greater competition and in turn seeks to expand its foreign markets. As a result, the firm's primary focus now becomes efficiency of production with a market orientation (Adler & Ghadar, 1989).

In developing overseas operations, the firm initially may open an overseas sales offices and begin to develop a greater cross-cultural orientation. At some point the organization is likely to develop international product divisions (Adler & Ghadar, 1989; Pucik, 1984).

IHRM Practices. The firm now develops a formal personnel department and begin computerizing its payrolls and employee profiles (Baird & Meshoulam, 1988). Because it is often a period of rapid growth MNCs at this stage are still likely to value short-term cost savings over longer term career development of expatriates, although in general they will begin to place a greater emphasis on their overseas managers (Adler & Ghadar, 1989). In order to sell and develop its products overseas the firm must be more sensitive to the needs of the host foreign country and will seek to develop a higher level of intercultural sensitivity and language skills in its expatriate managers. The cross-cultural orientation of the firm is likely to change from ethnocentric in the first phase to either polycentric (two regions) or regiocentric (regional focus within global operations) in phase 2 (Adler & Ghadar, 1989).

(3) Stage 3: Controlled Growth

Organizational Context. In this stage the MNC is now mature with substantial overseas markets and its major focus appears to be on internally controlling and developing its organizational structure and management practices (Adler & Ghadar, 1989). Baird and Meshoulam (1988) observe that firms in stage 3 have a high need for measurement and control and is "...characterized by professional management, scarce resources, new acquisitions, and diversified product lines....Here the focus is on productivity and cost effectiveness and the cost of newly proposed programs and added specialization must be justified" (p. 119).

Similarly, Adler and Ghadar (1989) indicate the MNC now has a greater focus on price competition and controlling production costs. This phase is typically marked by strong multinational competition and competitive advantage is gained by placing production in countries where the lowest costs can be obtained. Because of the emphasis on cost and production the MNC is likely to place a higher priority on developing an integrated and controlled organization than cultural sensitivity and marketing (Adler & Ghadar, 1989).

IHRM Practices. Since the MNC is now well established it is primarily concerned here with developing a tight integration and control of its overseas operations (Adler & Ghadar, 1989). As a result, MNCs frequently begin to focus on personnel practices which facilitate global strategy implementation (Adler & Ghadar, 1989). Human resource practices are now characterized by professional management and the use of advanced analytical tools (Baird & Meshoulam, 1988)~. However, because the firm is concerned principally with control (Baird & Meshoulam, 1988) and cost efficiency of production it will place only a moderate importance on long-term career development and not have a overriding interest in cross-cultural sensitivity (Adler & Ghadar, 1989). (4) Stage 4: Strategic Integration

Organizational Context. In an era of increasing internal competition and rapid change the MNC faces two simultaneous challenges: it must be highly sensitive to host or overseas countries and cultures and it must manage the overseas operations within the firm's overall global strategy and objectives (Adler & Ghadar, 1989; Von Glinow & Mohrman, 1990). In this phase the "...management's focus is on flexibility, adaptability, and integration across business functions. The stage is characterized by team action, full integration of functional areas, strategic management, highly developed monitoring capabilities, and an ability to adjust to the environment," (Baird & Meshoulam, 1988; p. 121).

In an advanced organizational stage the MNC may develop a complex set of new organizational forms

representing multicentric interests such as cooperative alliances, consortia, networks, joint ventures, and other non-traditional structural forms (Galbraith, 1990; PuCik, 1984). To compete more effectively within these new global alliances, IHRM practices need to be redefined (Lorange, 1986) and require new leadership, tight internal integration, and a close linkage to other organizational functions (Baird & Meshoulam, 1988).

IHRM Practices. With the MNC often facing increasing worldwide competition, to survive it must have a long-term view and develop a cadre of expatriates who can guide the firm with a global vision (Adler & Ghadar, 1989) at both the SBU and corporate levels. Baird and Meshoulam (1988) state "Human resource programs should be integrated not only among themselves but also with other functions, such as accounting, marketing, and operations" (p. 121) and should clearly influence strategic business choices. The modern MNC must have the ability to have both an overall global strategy within the firm as well as be highly sensitive to the host country and culture to maintain competitive advantage. Thus, the MNC will need to evolve a truly global multicentric cultural perspective which includes sensitivity to both national cultures as well as their subcultures in each of its overseas locations (Adler & Ghadar, 1989).

Strategic IHRM Fit And Flexibility By OLC Stage

With the development of the OLC model it is now possible to depict how two fundamental strategic IHRM objectives are sensitive to the OLC stage and thereby provide greater insights on how fit and flexibility vary along the continuum of the OLC phases. A summary of these relationships is contained in Figure 3 below and detailed discussions follow.

Insert Figure 3 About Here

Strategic IHRM Objectives

Von Glinow and Milliman (in press) identified two fundamental strategic IHRM objectives as timing (short-term versus long-term planning focus) and cost versus development. Timing involves whether the MNC has a short-term or long-term orientation. A short-term orientation requires that the company implement its IHRM practices more quickly. A longer term orientation involves more formal commitment to expatriates and overseas operations and ultimately can result in more effective overseas operations. Japanese and European firms have long

been considered to place a greater focus on the long-term and recently Tung (1988) found that MNCs in these nations have more commitment to selection and training programs and have achieved greater expatriate effectiveness than most U.S. firms. As such a careful assessment of the short-term and long-term perspective should be made to facilitate the establishment of later priorities and practices (Lengnick-Hall & Lengnick-Hall, 1988).

A second strategic orientation involves cost versus development. A focus on short-term cost indicates whether the MNC's priority is to incur initial lower operating costs in its human resource functions. In contrast, a focus on longer-term development implies that the firm will seek to develop more sophisticated selection, training, and career paths for its expatriates in order to establish a better future competitive position (Von Glinow & Milliman, in press). Accordingly, firms should carefully assess the benefits and costs of their prospective strategic human resource practices (Lengnick-Hall & Lengnick-Hall, 1988).

IHRM Strategic Objectives And Fit By OLC Stage

International firms in general can be expected to place a greater focus on the short-term and cost efficiency and hence less emphasis on fit in the early OLC stages (e.g. 1 and 2) than in the more advanced phases. As shown in Figure 3 the organization's focus on the long-term, development, and the four IHRM fits can be expected to increase steadily over the OLC continuum. The reason for this changing emphasis is that in the initial OLC stages the organizational unit (e.g. corporate or SBU) is less likely to be formalized and tends to focus on entrepreneurship, R & D, product development and growth. Consequently the top management does not tend to emphasize support services such as IHRM and thus less emphasis is placed on consciously obtaining the four IHRM fits.

In contrast, by the phases 3 and 4 of the OLC the MNC is now well established and has a formalized organizational structure, systems, human resource department, and strategic planning process. Accordingly, the MNC is more likely to plan for the long-term and to place a higher priority on developing its expatriates. The top management team and personnel executives have a greater awareness and recognition of human resources and thus is more likely to seek greater fits within IHRM and between the human resource functions and to their larger organizational and environmental context.

IHRM Flexibility By OLC Stage

As stated earlier flexibility involves the ability of the firm to adapt effectively and timely to different environmental and organizational conditions. In the first phase of the OLC the firm's personnel practices are

typically run by line management and the primary focus is on product development and research, not on support services such as human resources. Thus, the firm's top management is not likely to consciously emphasize flexibility or as noted earlier, fit, initially.

In the second OLC stage the MNC begins to recognize the importance of human resources and establishes a formal personnel department. In this phase of rapid growth and new products and markets the firm still emphasizes, but slowly begins to move away from an exclusive short-term and cost efficiency focus. Similarly, the MNC'S top management team and personnel department increasingly recognize the need for human resource practices (e.g. selection and training of the required skilled personnel) to meet the greater demands from high growth and overseas expansion. Accordingly, the firm places a high need on flexibility to meet the demands of its rapidly changing organizational and environmental situations.

In the third OLC phase the MNC is now well established and essentially is concerned with how to manage, coordinate, and control the rapid growth of the previous stage and wide spread overseas operations. The firm is in a stage of controlled growth, bureaucratization, and specialization. There is now an increasing focus on the long-term and employee development to meet these needs. Hence, the MNC in this stage is primarily concerned with achieving fit not flexibility.

In the fourth OLC stage the MNC has highly developed its management practices, systems, and structures and often faces greater complexity and competitive pressures in the international arena. In this phase the MNC must achieve both tight integration and be sensitive to its cross-cultural environmental context to achieve organizational effectiveness (Adler & Ghadar, 1989). As noted earlier Baird and Meshoulam (1988) observe that firms in the advanced OLC stage focus on flexibility, adaptability, and integration. Thus, top management and human resource executives in phase 4 seek both fit and flexibility simultaneously.

A summary of how fit and flexibility vary by OLC stage is shown in Figure 4. Figure 4 indicates that management's focus on fit and flexibility varies from focusing on neither fit or flexibility in OLC phase 1, to either flexibility only (phase 2) or fit only (phase 3), and finally to concentrating on both fit and flexibility in phase 4.

Insert Figure 4 About Here

Discussion and Implications

This paper has made a number of contributions to the research literature. First, an in depth perspective of the MNC reveals that the concept of fit should be expanded to four specific types of fit dimensions in strategic IHRM practices: (1) between the IHRM functions and the OLC stage; (2) internally within various human resource functions; (3) orientation of human resources to the firm's cross-cultural environment; (4) between the human resource functions of the SBU and corporate levels. In addition, to our delineations of two new types of fit, we propose that the first three fits should be considered within their specific organizational level of analysis (e.g. corporate or SBU) and not be assumed to necessarily be constant across all levels of the MNC.

Third, the development of a model of strategic IHRM practices based on an organizational life cycle approach extends our understanding of both the concepts of fit and flexibility. The OLC approach indicates that the MNC tends to increase its emphasis on four types of fit as the firm advances through the various stages of organizational development and faces greater environmental complexity and competition. While there is anecdotal data on these relationships an important research direction will be to empirically test management's emphasis on these fits as well as whether the relationship of the four fits to organizational performance varies depending on the OLC stage.

Building on the work of Lengnick-Hall and Lengnick-Hall (1988) the concept of human resource flexibility is introduced as the degree that strategic IHRM facilitates the firm's ability to adapt effectively and timely to a changing environment and organizational conditions. It is proposed that the focus of MNCs on fit and flexibility will vary by OLC stage. When the MNC organizational unit is in the first OLC stage it is in a start up position and is not strongly concerned with either flexibility or fit. In the second phase in order to meet its rapid growth needs, the organization primarily emphasizes flexibility not fit. The third OLC stage is one of controlled growth, increasing structure, and control and thus the firm focuses primarily on fit and not only flexibility. In the fourth phase the firm typically has a more sophisticated management and organizational structure and faces increasing environmental complexity and competition and thus must simultaneously achieve both flexibility and fit.

Finally, a number of implications for practice are suggested in this manuscript. First, MNCs need to consider both the organizational level of analysis (e.g. corporate or SBU level) and the OLC stage of development before determining the specific level of investment in and type of IHRM practices functions (e.g. selection, training,

etc.) that are required. Similarly, MNCs should carefully evaluate by OLC stage and organizational unit of analysis the degree they seek to create flexibility and/or fit as strategic IHRM goals. Finally, future research should simultaneously consider the organizational life stage, level of analysis, and the concepts of fit and flexibility in order to determine under what conditions strategic IHRM practices will lead to greater organizational effectiveness.

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- Figure 1 -

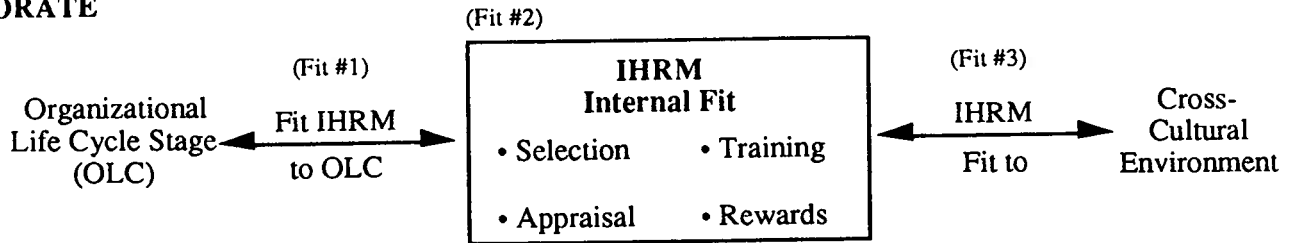
Four Fits of Strategic International Human Resource Management

	Internal Fit Within IHRM Functions	External Fit of IHRM to Organizational Context
Within Organizational Level of Analysis	Internal IHRM Fit (Selection, Training, Appraisal, Rewards)	IHRM Fit to Organizational Life Cycle Stage
Outside Organizational Level of Analysis	SBU IHRM Fit to Corporate IHRM	IHRM Fit to Cross- Cultural Environment

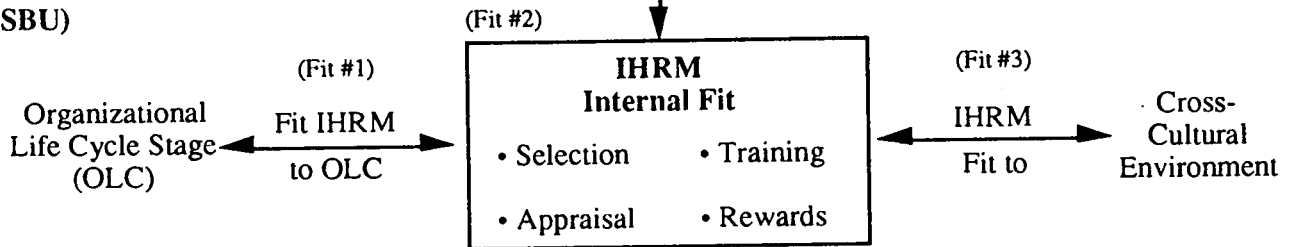
- Figure 2 -

IHRM Concepts of Fit at Corporate and SBU Levels

CORPORATE

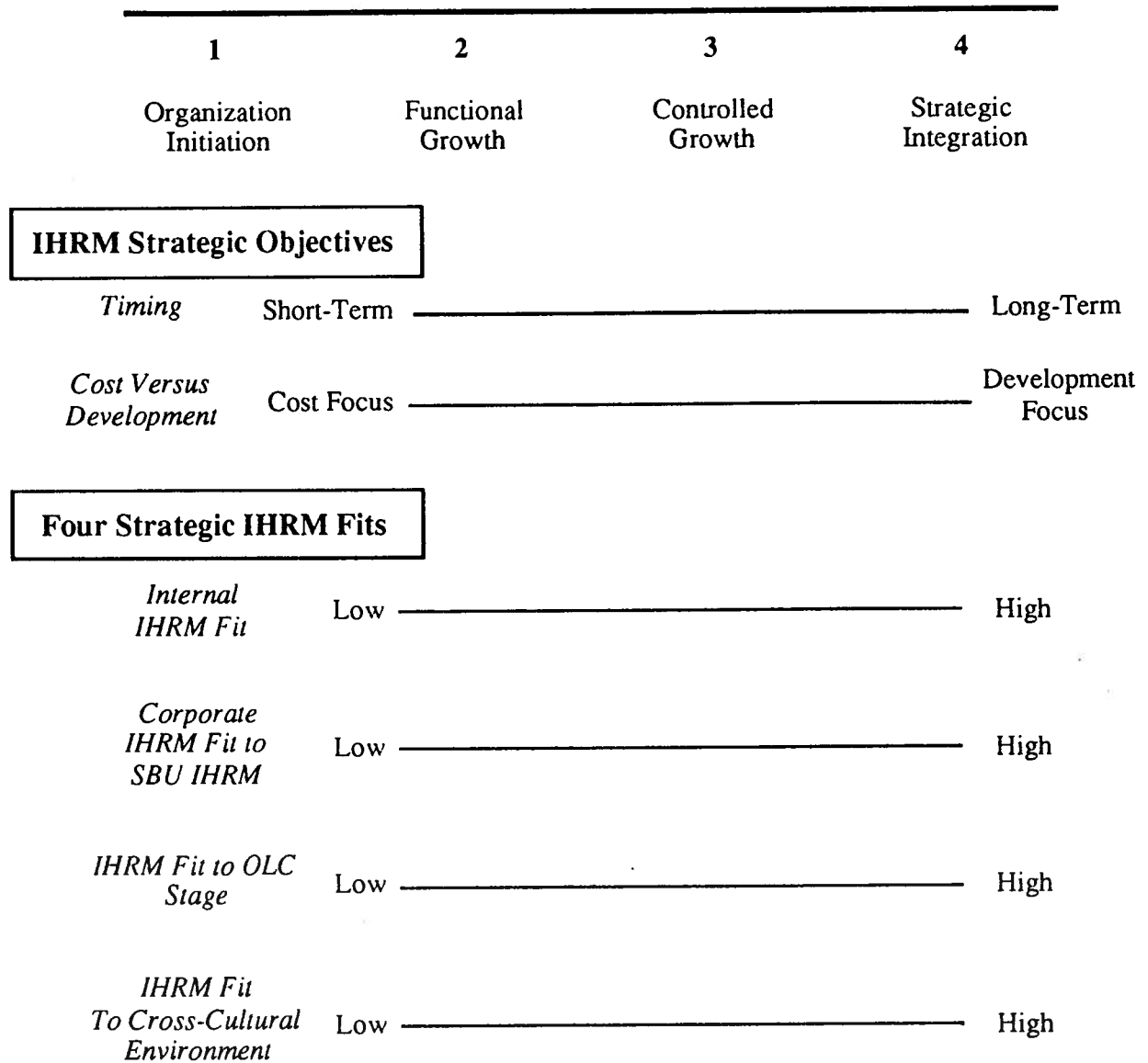


STRATEGIC BUSINESS UNIT (SBU)



- Figure 3 -

**Top Management Perceived Need for Fit in IHRM
By Organizational Life Cycle (OLC) Stages**



- Figure 4 -

**MNC Perceived Need for Flexibility and Fit*
in IHRM by Organizational Life Cycle (OLC) Stages**

		MNC Perceived Need for Flexibility	
		<i>Low</i>	<i>High</i>
MNC Perceived Need for Fit	<i>Low</i>	OLC Stage 1 Organization Initiation	OLC Stage 2 Functional Growth
	<i>High</i>	OLC Stage 3 Controlled Growth	OLC Stage 4 Strategic Integration

*Fit refers to the four fits of strategic IHRM identified in the manuscript.
