

**Emerging Motivations for
Global HRM Integration**

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For many years, the field of international human resource management (IHRM) has struggled with the question of whether or not it is better for a multinational firm (MNC) to integrate its IHRM function across the various geographies in which it operates. By integration, I refer to the quest for consistency of HR philosophy, policies and practices across the MNC’s operations worldwide. Looked at from one angle, the debate is rather a bizarre one. Does it really make any sense for a MNC to undertake

integration of HR policies? Surely, any VP or Director of IHRM must be considered slightly mad to take on such an endeavor. The obstacles this hapless VP faces would give anyone with his feet firmly planted in reality not just pause, but freeze him in his tracks. He is faced with a stupefying array of labor law regimes, enormous divergence in labor market characteristics, widely different institutional settings, vastly different cultures – who in their right mind would proceed to try to tie together their HR system into a global whole? No, much better to hire competent local HR specialists who can concoct a HR system for their local units that makes sense. It decreases the hair pulling over how to adapt and how much to adapt particular HR policies and yet retain an integrated system. It is simply easier, and less costly in both psychic and monetary costs, to not integrate.

Evidently, the IHR profession must attract the slightly demented, because a fair number of firms actually seem intent on this lunacy. And, interestingly enough, we are likely to see more. And this is what I would like to explore with you today – why MNCs, and the IHRM VPs who work within them, are likely to become ever more intent on overcoming the many barriers that exist to integrating their HR management on a global basis. There are, I will argue, two emerging trends that cannot be ignored that are creating a strategic imperative for greater IHRM integration, and that may dwarf other concerns. These two trends are the increasing need to focus on the creation of social capital within the global network, and the growing need to focus on sustainability as part of the company's global strategic imperative. And as I hope to show briefly, these harried VPs of IHR have gotten lucky, because achieving these two goals is a mutually reinforcing process.

I will first quickly review the major debates around HRM integration before turning to a description of these two trends in MNCs. I will then discuss how these trends are likely to increase the desire for integration of IHRM. I will finish with a short discussion of which aspects of HRM are most likely to be affected by each trend. My remarks are not meant as definitive but simply as food for thought, observations of the larger societal and strategic trends within which IHRM exists and with which it must deal.

IHRM Integration Debates

Various factors are thought to inhibit the ability of MNCs to transfer their HRM policies across national borders. Broadly speaking, these factors can be grouped into three areas: institutional, cultural and organizational (Evans, Pucik & Barsoux, 2002). Institutional factors include the legal, political and labor market facets of the host countries in which the MNC operates. Legal constraints can include prohibitions on certain types of compensation schemes, limits on hire-at-will principles, and requirements for certain kinds of employee benefits. These have been termed “coercive isomorphism” (Rosenzweig & Nohria, 1994). Labor market characteristics may make it necessary for MNCs to adapt their HRM policies in order to attract local talent, such as the modification of seniority based pay by Japanese investment firms operating in the U.S. Political history and structures can also influence HRM adaptation, with foreign firms that need to keep a low political profile often adapting their HRM policies in order to not be the ‘nail that sticks out’. A second key factor is the culture of the host country (Newman and Nollen, 1996; Schuler and Rogosvsky, 1998). Here the premise is that cultural values and norms so tightly interact with behavior that human resource

management practices that encourage “unnatural” behaviors – such as individual performance rewards in a collectivistic society – are destined to fail. Empirical evidence seems to provide some support for the importance of this factor in constraining integration of HRM in MNCs (Ngo, Turban, Lau & Lui, 1998). Last is what can be called organizational factors, into which can be placed the strategic posture and imperatives of the firm. Organizational factors include some moderating variables, such as the role of the affiliates in the overall MNC network, or how embedded the affiliate is in the local environment (Rosenzweig and Nohria, 1994) due to the way it was founded or its age. It also includes the overall strategic orientation of the firm to its international operations. If it tends towards the multidomestic approach (Bartlett & Ghoshal, 1989) to participation in the global arena, then there will be greater pressure for local isomorphism. Industry of the firm, country of origin, and top management beliefs have all been discussed or studied as contributing to the chilling effect on global integration of HRM. Country of origin, for example, has been found to influence the kinds of HRM policies that MNCs adopt in the foreign affiliates, with MNCs from some countries showing greater propensity to adapt than others (Ngo, Turban, Lau and Lui, 1998; Bae, Chen and Lawler, 1998).

Which of these various factors inhibits integration the most is not clearly established, although it appears that cultural factors may be the most important, if one includes in it the country of origin of the MNC, along with the strategic orientation of the firm. Firms do seem to find ways around the legal and political barriers. These are uncertain conclusions, and no meta-analysis or all encompassing study has been done to definitely determine this, to my knowledge.

Given all these forces constraining the integration of HRM in global firms, it is tiring to even contemplate the idea of attempting some consistency of policies. Yet, as stated previously, there are firms who *do* both try and succeed in this endeavor. What are their motivations? Various factors have been hypothesized and studied. One key force is the need for integration and coordination of action (Edstrom & Galbraith, 1977). If one views the MNC as a network of operations in various geographies that need to respond with one voice to clients, vendors or competitors, then an integrated HRM system helps ensure that the employees in the relevant units have consulted with each other and adopted a common stance. Another factor is to ensure internal equity, so that employees in foreign units do not feel, for example, that they are receiving different treatment than their peers in other countries, adjusted for differences in cost of living (Rosenzweig & Nohria, 1994). Another key pressure is the exploitation of the MNC's distinctive competence, such as the desire of Japanese firms to leverage their skill in producing quality products through effective HR policies such as cross-training and job rotation (Beechler & Unge, 1994). There is also a cost advantage to be gained through avoiding duplication of design and implementation of HR policies (Gomez Mejia & Palich, 1997). Finally, some authors (Kobrin, 1994; Kamoche, 1998) have pointed to the contribution that HR integration can make to facilitating organizational learning. By having standardized practices, whether in marketing or HR, it is easier to transfer knowledge, particularly tacit knowledge (Quintanilla & Bonache, 2002).

It is rather difficult to quantify the contribution of each of these to the bottom line of the MNC. That is, is it really possible to say how much the performance of the MNC is enhanced by an integration of HR policies? Can one measure the exact impact on *each*

of the areas mentioned above – coordination and control, organizational learning – to be able to tell if the HR integration has indeed ‘worked’ to achieve the desired goals? This is a question that may remain unanswered for a while.

But what one can argue is that the motivation to integrate HRM globally will probably increase in the years to come, and eventually overshadow most of the forces for isomorphism. The first reason for the growing pressure towards HRM integration builds on the previously observed pressures to coordinate and control in a way that leverages learning across borders. In order to explore how social capital is becoming more important to the accomplishment of these goals, let me first return to the overall strategic imperatives that MNCs face in the global arena.

MNCs are subject to increasing pressure to do three things simultaneously in order to be successful: integrate across borders, respond to local demands and leverage the learning in the network (Bartlett & Ghoshal, 1989). ABB is an example of a company that was held up by Bartlett and Ghoshal as a model of achieving all three goals. The accelerating speed of change means that the firm that can do these things fastest in response to changes in the economic, technological and political environment will be the most competitive. MNCs must locate resources where they are best utilized, building an interdependency among units that is constantly shifting. At the same time, the firm must control the utilization of its resources to maximize returns on them. The ever-widening dispersion of resources thus means that coordination and control will become ever more challenging and fluid. At the same time, as noted by Kogut and Zander and others, the most valuable resource to competitiveness today is knowledge. MNCs by virtue of operating in multiple locales are privy to a greater diversity of

knowledge sources that can, if properly managed, help them create or access greater knowledge than purely domestic firms. And the firm that can create and share knowledge faster than competitors will be at an advantage. “The ability to learn faster than competitors may be the only sustainable competitive advantage”(Snell, Youndt & Wright, 1996: 68). Recently, several international management scholars (Kostova & Roth, 2003; Tsai and Ghoshal, 1998) have claimed that social capital is critical to the effective coordination and control in MNCs and to its ability to learn faster than competitors.

Social capital has recently gained prominence in the management literature for its importance in creating value for the firm through enhancing knowledge creation and sharing as well as coordination and control. Social capital can be defined as “an asset embedded in relationships – of individuals, communities, networks, or societies” (Leana and Van Buren III, 1998: 538-539). Cohen and Prusak (2001) elaborate on this idea, defining it as “...the stock of active connections among people: the trust, mutual understanding, and shared values and behaviors that bind the members of human networks and communities and make cooperative action possible”. Leana and Van Buren (1999) call this cooperative action “associability”, which they define as “...the willingness and ability of participants in an organization to subordinate individual goals and actions (1998: 541).

According to Nahapiet and Ghoshal (1998), there are three types of social capital: structural, relational and cognitive. Structural social capital is derived from the place an actor occupies in a particular network, and the contacts he enjoys that provide him access to information, jobs or other benefits. In general, this view of social capital is of a private

good, the benefits of which devolve the person only. Relational social capital emphasizes the assets that derive from interaction with others in the network, particularly the trust that builds up over time in others. An interesting, and important aspect of relational social capital is that in order for someone in the network to trust another person in the network it is not necessary for those two particular individuals to have built the trust. Rather, by holding membership in a network with high social capital, i.e., high levels of trust, other members come to expect trust in any new relationship they form within the firm. This has also been called ‘generalized trust’ (Leana & VanBuren, 1998). An example often given is of someone who moves to a high social capital community, such as Israel in its first decades, and finds that as a member of the community she is automatically trusted and able to trust neighbors and others with such things as the safety of her children. Finally, cognitive social capital has been described as the “...resources providing shared representations, interpretations, and systems of meaning among parties” (Nahapiet & Ghoshal, 1998: 244). Expectations about proper ways of doing things slowly evolve over time. Like relational social capital, cognitive social capital is more a public than a private good.

All three kinds of social capital are important to the creation and sharing of knowledge in the MNC network. Nahapiet and Ghoshal (1998) discuss ‘the intellectual capital’ that a firm builds as being comprised of two dimensions: tacit/explicit and individual/social. The most valuable knowledge is social or collective (Spender, 1996), whether it is explicit or tacit. “Much valuable knowledge is fundamentally socially embedded – in particular situations, in coactivity, and in relationships” (Nahapiet & Ghoshal, 1998: 250). In order to build new knowledge, new combinations of existing

knowledge must occur, and this means that the holders of the knowledge must be willing to exchange the knowledge they have with others in the firm. Yet people will be reluctant to exchange unless they feel it is worth their while. “(E)mployees may be unwilling to share knowledge with others, particularly if they feel it may be detrimental to furthering their own career” (Currie & Kerrin, 2003: 1029). In addition, holders of knowledge must have access to others, must anticipate some value in combining/exchanging information, and must have the human capital or capability (“absorptive capacity”) to make the combining of knowledge work (Nahapiet & Ghoshal, 1998; Cohen & Levinthal, 1990).

Firms high on social capital will, in general, be better at combining and exchanging knowledge. Each type of social capital affects different parts of the knowledge combination and exchange differently. For example, the relational dimension, which helps build trust, shared norms, sense of obligation and identification, is particularly important to the access and motivation aspects of the process. The cognitive dimension, which helps create shared codes and language and shared narratives, is particularly impactful on anticipated value of the exchange and on combination capability (Nahapiet & Ghoshal, 1998).

Of course, not all MNCs experience the same degree of pressure to combine and exchange knowledge, nor are all affiliates equally affected. Kostova & Roth (2003) point out that different models of MNCs are characterized by different kinds and degrees of interdependence or resource flows. The interdependence varies from very low in the multinational model, with few technologies, people or products flowing between units, to very extensive, multidirectional and unstable flows in the transnational model. Resource

flows, whether they be of knowledge or product, are thus of most concern to MNCs with high interdependence. Moreover, it is the very instability, complexity, and involvement of multiple levels and functions that make it difficult to rely on formal structures to ensure the successful flow, requiring firms to search for more informal ways of coordinating and controlling (Bartlett & Ghoshal, 1989). As Kostova and Roth note,

(W)e define social capital as the potential value arising from certain psychological states, perceptions, and behavioral expectations that social actors form as a result of both their being part of social structures and the nature of their relationships in these structures. Higher levels of social capital are reflected in a motivation for social actors to maintain those relationships, a felt obligation to reciprocate past favors of other social actors, an expectation that other social actors will also reciprocate, and a psychic comfort in asking others for resources and in using those resources once acquired, as well as in the perceived likelihood of providing, receiving, and asking for help from the other social actors. (2003: 301)

Kostova and Roth (2003) go on to argue that the public good form of social capital, that is the one that exists within the total community rather than in just certain members, may be the most important one to develop in MNCs. This is because MNCs are becoming increasingly complex in their interdependence, and the fluidity of exchange relationships means that employees at many different levels and locales are constantly needing to combine and exchange knowledge with a new member in the network. “New exchanges may require contributions by individuals who have not been previously part of the network and who are geographically and culturally distant. Yet these employees have to be motivationally predisposed to participate” (Kostova & Roth, 2003: 303).

In sum, given the increasing interdependence in MNCs, particularly with regard to knowledge creation and sharing, there is greater need to build social capital, particularly of the public good sort. Social capital facilitates the access individuals have to others within the network, their motivation to share with them, and their ability to

share. Thus one of the most crucial tasks of MNCs today, particularly those that are highly interdependent or moving towards greater interdependence, is to build social capital throughout the network.

This is easier said than done. Given the greater geographic distance, cultural diversity and linguistic divides in an MNC, the task of building social capital in a global network of units is much more difficult than in a purely domestic setting. Kostova & Roth (2003) argue for a focus on key ‘boundary-spanners’ in each affiliate, who through building greater social capital on an individual basis with headquarters can transfer their heightened trust and general social capital to the rest of the members of the unit. While not disputing the importance of these boundary spanners, I would argue that it is equally if not more important to focus on the entire employee population and to examine what will help build relational and cognitive social capital among them. This is important, I think, because as Kostova and Roth themselves note, the interactions between units occurs at multiple levels and functions, and thus the attitudes and behaviors of a large number of people affect the successful combination and exchange of knowledge. Relying on simply a few individual boundary spanners will not be as efficient as building wider spreading, more public good forms of social capital.

Crucial to the building of social capital is the human resource management system of the firm. Theoretical work suggests that certain HRM practices are particularly effective in building social capital in firms. Key among the practices Leana and Van Buren (1999) argue to be important is long-term employment relationships. This is crucial to all three components of social capital – structural, relational and cognitive – although Leana and Van Buren (1999) are mostly concerned with the effect on relational

social capital, which as mentioned previously, for them includes both the trust aspect and the concept they call associability. Associability helps organizational members keep the 'greater good' in mind, and results in desirable outcomes such as greater willingness to share information and decision making with other members of the MNC. Leana and Van Buren argue that 'trust-breaking' behaviors by firms, such as contract violations, downsizing and the regular use of temporary employees, is likely to make the building of trust impossible. Stability of employment also facilitates the building of shared norms and values that greases the skids of knowledge combination and exchange (Nahapiet & Ghoshal, 1998).

The ways in which firms select new members who share their values and socialize them into working collectively are also important. Promotions can signal what kind of behavior is desirable (Leana & Van Buren, 1998). Compensation policies are important both because they can affect turnover (Campbell, 1994), can reward collective over individual action (Leana and Van Buren, 1998; Campbell, Campbell & Chia, 1998), and can help support the sense of equity necessary to a sense of trust. "(T)he presence of significant pay differentials among employees may undermine cooperative behavior within the organization as whole" (Leana and Van Buren, 1998). High investments in training also supply a signaling effect that increases employee commitment as well as enhancing the capability of employees to combine and exchange knowledge across groups. In fact, when examined closely, most of the practices usually termed High Performance Work Practices (HPWPs) act to create higher levels of organizational social capital.

For the VP of IHR, this means that allowing each unit to devise its own approach to HR independently is simply not an option, particularly if the firm in which she works is characterized by high interdependence and their attendant resource flows. The question that must be asked in designing the global HR system is “does this approach encourage the creation of social capital throughout the global network?” For example, allowing each site to approach the selection process based on local norms and practices ignores the necessity of selecting people who are most likely to adopt the philosophy and norms of the total global firm. The human capital characteristics of each individual, while important, should not be the only criteria. This wider lens applies across the HR system. “Human resource practices that simultaneously encourage stable job tenure and reinforce associability and trust might well yield better organizational-level results than those observed in systems that focus exclusively on individual contributions” (Leana and Van Buren, 1998: 545). Thus the VP of IHR must insist that there be at least some degree of integration of HR across borders – she really has no choice. The HR system is probably the most potent tool a MNC has for creating social capital.

Implementation will not be without challenges. Harking back to the myriad obstacles to integration discussed at the beginning, IHR directors must address the concerns of local HR directors and local employees regarding the cultural, institutional and legal differences. This indicates a critical need for IHR to be involved not only in designing the IHR system in conjunction with foreign affiliates, but also the imperative IHR has to communicate what it is up to, and why. IHR must do this in order to not only avoid resistance simply because HQs is involved, but also to actively help local people understand the role that certain HR policies play in creating knowledge valuable to the

firm. This is particularly important if one buys the argument put forward by Fukuyama (1995) that the trust levels in unknown others differs widely between countries. In order to be truly effective, IHR must become a champion of an integrated HR system, a communicator of the reasons for it, and booster for the overarching global vision of the firm that underpins the need for interdependence. In fact, research I have conducted with Orly Levy, Schon Beechler and Nakiye Boyacigiller finds that commitment of employees in foreign affiliates as well as HQs is significantly and positively affected by the adoption of HPWPs as well as a strong global orientation among top managers. Obviously, IHR's role is becoming increasingly complex (Evans, Barseaux and Pucik, 2002).

But there is another reason why the VP of IHR should be strongly motivated to adopt a more integrated approach to HRM. This is what I would call an emerging motivation, one that is on the radar screens of IHRM in only a limited way, but that over the next decade or so I predict will become very salient in global firm management. This is the concept of sustainability. While many firms are beginning to deal with certain limited aspects of sustainability in their global operations, such as the ethical behavior of employees worldwide or environmental impacts of foreign affiliates, a more systemic, holistic approach to these concerns is encompassed in the concept of sustainability.

Sustainable development has been defined by the World Commission on Economic Development as "development that meets the needs of the present without compromising the ability of future generations to meet their own needs" (World Watch Institute, 2000). At the firm level, sustainability is typically defined as pursuing the 'triple bottom line' of environmental, social and economic goals. The environmental principle is based on the assumption that "...ecosystems have limited regenerative

capability and that the earth's land, air, water and biodiversity will be compromised by irresponsible actions" (Bansal, 2002: 23), while the social-equity principle is focused on treating everyone fairly, independent of initial endowments (Bansal, 2002: 23). Finally, the economic principle emphasizes the necessity of an "...adequate production of resources to maintain a reasonable standard of living" (Bansal, 2002: 23).

Adoption of these three principles – environmental, economic and social-equity- is a growing imperative for MNCs for a variety of reasons. A study by Bansal and Roth (2000), conducted largely in companies in Britain and Japan, many of which were multinationals, found three main motivations to adopt a corporate ecological response: Competitiveness, Legitimization, and Social Responsibility. The first focuses on obtaining long-term profitability through such things as increased efficiency of resource utilization, designing 'green' products that gain the company a competitive edge, or even finding it easier to hire quality employees due to enhanced reputation. Legitimization is fueled by a desire to comply, and seeks to reduce risk through ensuring that laws, industry norms and stakeholder expectations are met. Finally, social responsibility is a driver born of the belief that the firm has social obligations that are as important as economic goals.

Each MNC will be driven by one or a combination of these motivations to adopt some degree of a sustainability strategy. Yet regardless of motivation, the fact remains that the VP of IHR is going to become increasingly embroiled in translating the sustainability goals into action. Lets examine what kinds of concerns this will lead to for the IHR VP, and why it will lead to a greater need for integration of HR.

First, in order to meet the economic imperative it is necessary for firms to innovate. Finding ways to reduce resource input or to design products that are non-toxic requires creative thinking and problem solving. The link between innovation and sustainable business strategies is increasingly recognized. For MNCs, this means that recruitment must focus on attracting employees who are environmentally concerned and selection criteria must include consideration of environmental knowledge and skills (Egri & Hornal, 2001). Particularly as manufacturing is outsourced to a wider array of countries, the skills and competencies to identify sources of eco-innovation need to be taught to employees worldwide, and their supervisors trained to encourage such efforts (Ramus & Steger, 2000). Compensation and reward policies, which have been found to be effective in encouraging eco-initiatives by employees (Milliman & Clair, 1996; Lawrence & Morrell, 1995; Ramus & Steger, 2000), need to be instituted worldwide. Corporate HR is likely to be involved with local affiliates to not only ensure these things are done, but to share systems and materials developed at HQs or elsewhere.

Second, the legitimization motive will force the VP of IHR to focus on such areas as job design, organizational structure and performance appraisals throughout the global system. Job descriptions will need to include responsibilities for environmental goals, and evaluation systems need to include metrics that measure their attainment. The VP will also need to ensure that a position of environmental officer is created in affiliates that need them.

Finally, the social responsibility motivation focuses the VP of IHR on such aspects as organization culture and employee socialization. As Starick and Rands (1995) note, "Ecologically Sensitive Organizations will be characterized by numerous cultural

artifacts such as slogans, symbols, rituals and stories which serve to articulate for their members the importance of ecologically sustainable performance” (p. 920).

Organizational culture is one of the main instruments for conveying the values espoused by key decision makers to other organizational members, and IHR can have an important role in creating and reinforcing the global firm’s culture. Another important aspect of social responsibility is the reputation of the company (Hart and Milstein, 2003). On the positive side, a company such as Hewlett Packard that has increasingly pushed a sustainability agenda can differentiate itself through, for example, its efforts to design products that use less non-renewable resources than competitors. On the negative side, ignoring huge disparities or labor abuses by subcontractors can severely damage a valuable brand name, as NIKE discovered to its dismay in the early nineties. In addition, for a MNC in particular it is often necessary to meet the standards of leading sustainability countries in which it operates, which can affect its operations and reputation worldwide. Finally, and certainly not least, MNCs can be driven by the values of key decision makers, whether owners or top managers, who have adopted a sustainable view of business. In Portland, Oregon, for example, the owner and CEO of Norm Thompson Outfitters returned from a year’s sabbatical in Latin America with a keen understanding of the interdependence of the three principles outlined above, and set about transforming his company to pursue a triple bottom line. Ensuring that Norm Thompson translates this vision consistently worldwide into sustainable HR policies is particularly important in order to ensure that the CEO’s vision is not violated and the company not become a target of criticism by NGOs. In some sense, the IHR VPs of companies that

have adopted a sustainability strategy are under the greatest pressure to ensure integration of HR worldwide.

Concluding Remarks

My attempt in this talk has been to invite you to contemplate the predicament of the VP of IHR, and particularly the factors operating on him to build greater integration of HR policies. The two trends I have pointed to – the need for social capital and for sustainability – are familiar to everyone here. What I hope this talk has done is to illustrate how the IHR function in MNCs is going to be affected by these two trends. Moreover, in closing, let me point out that the job of the IHR VP may be facilitated by the fact that pursuit of the social capital for knowledge creation can aid in the pursuit of sustainability. To take one example, social capital is desirable because it aids in the creation and sharing of knowledge worldwide. On the other hand, in order to successfully pursue sustainability it is necessary for firms to encourage innovation of product, process and basic technologies. Thus nurturing social capital will in turn enhance the eco-innovation capability of the firm needed to achieve a sustainability strategy. And, if one accepts Leana and Van Buren's (1999) premise that HPWPs help build social capital by creating a sense of equity throughout the firm, then this same result is in keeping with the idea of measuring the impact of company policies against the social-equity principle. While we could, and should, quibble over whether all the HPWPs proposed by advocates such as Huselid are equally beneficial worldwide, I would propose that the overarching philosophy of HPWPs is beneficial to MNCs that are

highly interdependent, knowledge creation driven, and powered by a sustainability triple bottom line. Clearly, the already overworked, slightly crazed VP of IHR is about to become more so as she attempts to create the appropriate integration of HR worldwide to respond to these two important trends.

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