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CROSS-BORDER MERGERS AND THE 'COUNTRY-OF-ORIGIN EFFECT': IMPLICATIONS FOR HRM?

The paper addresses the argument concerning the growth of the 'global firm' and the apparent detachment of MNCs from their home base in an increasingly 'borderless world'. A counter literature has developed which provides a necessary corrective to the more extreme 'globalization thesis'. We briefly summarise this debate before arguing that the pace of internationalisation of MNCs in the second half of the 1990s suggests that a re-assessment is now necessary. We develop the argument that the wave of cross-border tie-ups in the last few years has created a number of firms which have roots in *two* rather than one business system (ie. they are 'bi-national') and which have a wide geographical spread (while they may not be 'global' many are certainly pan-European and/or trans-Atlantic). These developments thus present a challenge to the 'country of origin effect'. The paper elaborates this argument with secondary data on recent cross-border mergers and acquisitions, before considering the implications of these developments for HRM within these organisations.

Key Words:

country-of-origin effect, cross-border mergers, globalization, human resource management, multinationals.

1. Introduction

The growth of international production has been a key element in the internationalisation of economic activity in recent years. The United Nations estimates that there are just under 60,000 multinational companies (MNCs) in the world, controlling more than half a million foreign affiliates. Foreign direct investment grew by over 15% per annum between 1993 and 1997 and, despite turbulent economic conditions, by more than 30% per annum between 1997 and 1999. This growth has been driven primarily by the surge in cross-border mergers and acquisitions which have increased more than ten-fold in value between 1991 and 1999, while the year 2000 began with a further string of large cross-border tie-ups (UN, 1999; Guardian, 7 / 2 / 2000). Many of these cross-border mergers and acquisitions have brought together firms of comparable size, resulting in the combined entity having firm roots in at least two countries: BP-Amoco, Astra-Zeneca, Daimler-Chrysler, Hoescht-Rhone Poulenc and Vodafone-Mannesmann are all examples. Such firms can be termed 'bi-nationals' (Hu, 1992: 111) in the sense that they have 'two home nations or centers of gravity'.

It is commonly argued that the internationalisation of the firm, of which cross-border mergers and acquisitions is a central part, has given rise to the emergence of 'global' firms that are spread widely across the world and are free from the influence of any one business system. These firms, so the argument goes, have detached themselves from the influence of their home business system, and rather are shaped by global economic forces. The best known exponent of this line of argument has been Ohmae (1990, 1995) in his writing concerning the 'borderless world'. According to Ohmae, the ability of the nation state to regulate and control economic activity has been dramatically reduced by globalisation. At the core of this process are 'global' corporations that are 'nationalityless' and are able to shift to whichever part of the world promises highest returns. Robert Reich has written in a similar vein. In addressing debates about 'national competitiveness', Reich (1991) has argued that nationality is no longer an important or meaningful concept in large MNCs.

The notion of global firms which are detached from their original home base is not entirely new. More than three decades ago, Ball (1967) and Kindelberger (1969) argued that international firms were becoming more global in orientation. However, it has certainly become more popular in much recent academic writing (e.g. Cerny, 1997, de Kerckhove, 1995) and is not confined to those who are enthusiastic about globalisation. Many observers who see globalisation as a threat accept the idea that many MNCs are global (e.g. Bienefeld, 1994; Greider, 1997). Moreover, many newspapers and magazines have readily adopted the rhetoric of the global firm and many managers are anxious to portray their organisations as being global in nature.

Much of the literature on globalisation not only portrays MNCs as being global in scope but also suggests that economic and competitive pressures lead MNCs towards adopting a globally integrated model of operation. In recent years differences in consumer tastes between countries have diminished, while there has been a trend towards deregulating product markets in many countries. These developments in markets have made it easier for MNCs to realise the potential for synergistic linkages between their subsidiaries. Many have responded by building international management structures and seeking to integrate their processes of production or service provision across countries. In terms of HRM, this implies that the result will be convergence in the nature of practices in place at plant level in different countries. Since MNCs are globally spread and respond to global economic pressures, this convergence will take the form of the transfer across a multinational's operations of 'best practice' from wherever it originates. Thus in 'global' firms, new practices which are diffused across the company emerge not just in home country plants but also in foreign subsidiaries.

However, the view that MNCs are highly 'global' has been severely criticised. A counter-literature emerged in the mid-90s, suggesting that, far from being detached from their home base, MNCs remain firmly rooted in, and influenced by, their country of origin. Ruigrok and van Tulder (1995), for instance, challenged the 'myth' of the global firm. Based on an examination of the largest 100 MNCs in the world, they concluded that 'not one of these can be dubbed truly global, footloose or borderless. The argument of the globalisation of the firm is unfounded and untenable' (1995: 168). Similarly, Hirst and Thompson (1996: 95) also referred to the myth of the global firm, arguing that the 'home oriented nature of multinational activity across all dimensions seems overwhelming'. Doremus *et al*. (1998: 3), moreover, argued that MNCs 'are not converging toward global behavioral norms' but rather continue to be deeply influenced by their country of origin.

The implication for the diffusion of human resource practices of this alternative view of MNCs is markedly different from that stemming from the literature on the global firm. The concentration of operations in the home country means that MNCs retain a distinctively national character when they operate abroad. In other words, rather than being shaped by global economic forces, MNCs possess a detectable 'country of origin effect' (Ferner, 1997). Thus when practices are transferred from one part of the firm to another it is generally from the home to host countries and, more generally, the way that MNCs manage their international workforces is strongly shaped by their embeddedness in their home base.

As we will see, this second position, stressing the role of the country of origin in shaping the orientation of an MNC, has stronger empirical support than the first. However, the relationship between an MNC and its home business system is dynamic rather than static. In part this is because national business systems are themselves subject to change, but more importantly it is because MNCs become less concentrated in, and therefore less influenced by, the country of origin as they internationalise. Indeed, the experience of the second half of the 1990s strongly suggests that a reassessment of the strength of the country of origin effect is necessary. As we have seen, foreign direct investment has reached unprecedented levels in recent years and this calls for an important qualification to the view that MNCs are concentrated in and heavily influenced by their home country. In particular, the process of cross-border mergers and acquisitions is creating a growing number of MNCs which are bi-national in nature, which have a wide geographical spread, and which in consequence are not tied to, or dependent on, any one business system.

The following two sections examine the sources of the country of origin effect and discuss the linkages between MNCs and the economies in which they originated. Following this, the principal contribution of the paper is made in sections 4 and 5. Section 4 draws on secondary sources to establish the recent growth in cross-border mergers and details the way in which they have diminished the country of origin effect. The fifth section then considers key areas of HRM practice which are likely to be affected by the increasing numbers of 'bi-national' MNCs. Our arguments here are necessarily tentative and suggestive at this stage. Our intention is to highlight potentially important implications for HRM which only detailed case study work could substantiate in greater depth.

2. Sources of the Country of Origin Effect

MNCs are firmly rooted in their country of origin across a number of dimensions. Studies of the geographical distribution of the operations of MNCs have demonstrated that most MNCs hold a high proportion of their assets and employ a high proportion of their workforces in their home base. Ruigrok and van Tulder (1995) showed that only eighteen of the largest one hundred MNCs held the majority of their assets abroad and only nineteen employed the majority of their workforce abroad. Similarly, Hirst and Thompson (1996) present data showing a marked concentration of sales, assets and subsidiaries in the 'home region' of MNCs (see also Dicken, 1998; Weiss, 1997). This concentration of operations means that the home country is the main focal point in MNCs, acting as the principal source of new systems and practices for the firm as a whole.

The country of origin effect also stems from the embeddedness of MNCs in the corporate governance system in their home base. This is significant because there are important variations in the nature of these systems across countries. Marginson and Sisson (1994) distinguish between two types. The first is the Anglo-Saxon 'outsider' system in which the primacy of shareholder interests and the active market in corporate control give rise to an orientation based on maximising short-term financial returns. In contrast, the continental European 'insider' system is characterised by the existence of multiple stakeholders and stability in ownership which is more conducive to furthering long-term goals such as increases in market share. Consistent with this, Pauly and Reich (1997) provide evidence of enduring differences in the corporate financing arrangements of the US, Germany and Japan. The traits created by these different systems shape the behaviour of MNCs because 'in most cases, a large majority of shares are held by individuals and legal entities in the home nation' (Wade, 1996: 79; see also Hu, 1992). Furthermore, Ruigrok and van Tulder (1995: 156) argue that most MNCs 'regard control over their financial resources of utmost strategic importance, which can only be warranted at home'.

While most MNCs are embedded in nationally distinct forms of corporate governance, others are owned by the state. In these cases, the firm's goals and priorities are of course shaped by the interests of governments, and since these vary from country to country so too will the behaviour of state-owned MNCs. Ruigrok and van Tulder (1995) found that of the largest one hundred MNCs in the world, seven are wholly state-owned and a

further five are partly so. In the case of the oil industry, the authors argue that state-owned oil firms became more influential during the 1980s, increasing their market share at the expense of the privately-owned oil 'majors'. More generally, the concentration of MNCs in their home countries may lead them to be 'quite susceptible to pressure and persuasion from the home country government' (Wade, 1996: 79) on which they may be reliant for subsidies, favourable regulations or sales. Thus, characterising MNCs as 'stateless' appears to be wide of the mark.

The influence of the country of origin also stems from senior managerial positions being filled primarily by home country nationals. This means that key decisions within MNCs are disproportionately shaped by managerial traditions and culture in the home base. In Ruigrok and van Tulder's (1995) study, only five of the thirty US MNCs had any foreigners on their board, and even in these cases there was only one. Similarly, among the twenty Japanese MNCs, only two - Mazda and Sony - employed a foreigner in a senior managerial position. In the case of Mazda this was due to its alliance with Ford, whilst Sony is distinctive among Japanese MNCs in the extent to which it is internationally spread. This is consistent with other sources which indicate that 'top management and governance rest in home country hands' (Wade, 1996:79).

Moreover, there is evidence that 'the world's leading MNCs remain firmly rooted in national systems of innovation' (Pauly and Reich, 1997: 12). Overwhelmingly, research and development (R&D) within MNCs is concentrated in the home country. American MNCs are more likely than their counterparts from Germany and Japan to conduct R&D overseas, but even they spend only 12% of their corporate R&D budgets in their foreign affiliates. There is evidence of a well-developed pattern of cross-border exchange of technology taking place within multinational corporate networks and, crucially, this is primarily from parents to their affiliates, demonstrating that the 'development of new technology remains centralised in the home market operations of MNCs' (Doremus et al, 1998: 109).

Overall, therefore, MNCs appear to be highly concentrated in their home country across a number of dimensions. The literature testifies to the way that this country of origin effect shapes the nature of HRM practices in the foreign subsidiaries of MNCs (Edwards, 1998; Ferner, 1997). American MNCs, for instance, are distinguished by: the emphasis the HQ places on monitoring short-term financial performance; their reluctance to grant union recognition and, particularly, to engage in sectoral bargaining; and the pioneering of practices such as single status and team briefings. Japanese MNCs, too, are distinctive in important ways. In particular, many Japanese MNCs have developed an extensive network of expatriate managers and have used this to implement 'lean production' in their affiliates. The behaviour of German MNCs at the international level is also shaped by the country of origin effect: they are distinguished by high levels of investment in training, a key feature of the German political economy, and have not pursued the aggressive cost cutting measures characteristic of many American and British MNCs.

However, the evidence from German MNCs also demonstrates the dynamic relationship between MNCs and their home business system. Ferner and Quintanilla (1998: 725) detect a process of 'Anglo-Saxonisation', arguing that in recent years they have converged 'towards patterns that have for some time characterised the typically more internationalised MNCs from the USA and the UK'. This points to the need for a closer examination of the embeddedness of MNCs in their country of origin and the extent to which this determines their behaviour. It is to this task that we now turn.

3. Multinationals and their Home Base

The literature reviewed in the previous section indicates that the orientation of MNCs is shaped by the home country business system. The vast majority are not detached from the influences of their country of origin but rather are shaped by it in important ways. There is, of course, a well developed literature demonstrating that the distinctiveness of a country in terms of the nature of its institutions, culture and markets informs the behaviour of *domestic* firms (e.g. Whitley, 1992; Maurice et al., 1980; Sorge and Maurice, 1990). How should we understand the linkages between the distinctiveness of a country and *multinational* firms?

To some extent, the country of origin exerts an influence which MNCs cannot easily escape. Thus the business system in the country of origin may constitute a legacy which senior managers in a multinational are left with whether they like it or not. In some respects, this legacy may erode its competitive position. One illustration of this is the 'short-termist' pressures experienced by British MNCs as a result of the financial system in the UK.

Hutton (1995) has argued that the persistent danger of hostile take-over and the consequent need to maximise immediate profitability has led many British firms to pursue successive rounds of cost-cutting and, hence, to sacrifice longer term goals such as investing in R&D and seeking to increase market share. There is certainly evidence that, in international context, British firms are forced to borrow at high rates of interest on finance raised over short periods (Lee, 1997; Williams *et al*., 1990). In this sense, therefore, the embeddedness in the country of origin imposes a set of constraints upon MNCs.

Conversely, however, MNCs' embeddedness in their home base also presents a set of opportunities for firms to enhance their competitive position in international markets. Elger and Smith (1994) argue that MNCs act as the representatives of particular forms of capitalism, and those that establish a degree of dominance internationally often do so because they are able to draw on the strengths of the home country. The growth of Japanese MNCs in the 1980s and early 1990s is a good illustration as their internationalisation strategies were commonly based on exporting forms of production and work organisation characteristic of their Japanese operations. Similarly, for much of the century, the growth of American MNCs was accompanied by the diffusion of 'Fordist' production techniques from the US to their foreign subsidiaries (Edwards, 1998). Thus the concentration in their country of origin also presents a set of opportunities for MNCs to draw on and exploit.

Therefore, while the country of origin shapes the behaviour of MNCs to some extent, these firms clearly have significant scope to exercise choices concerning how far their home base shapes their behaviour. More generally, many large MNCs have considerable room for manoeuvre in their dealings with the institutions in the different countries in which they operate. The oligopolistic power of some MNCs in international markets, for instance, enables them to shape the nature of consumer tastes and establish their production processes as the dominant mode of organisation. Moreover, those MNCs which appear to be footloose can use this to extract concessions from unions over pay levels and working practices and to exert pressure on governments concerning labour regulations (Edwards *et al*., 1999). While all firms enjoy some scope for exercising choices in responding to the nature of their environment, this is greater among large, powerful MNCs.

This scope for choice that MNCs enjoy, of course, extends beyond their home business system to the countries in which they have foreign subsidiaries, allowing them to take advantage of the opportunities presented by the different business systems in which they operate. The greater the international spread of a multinational, the greater too is their scope to draw on expertise, technologies, systems and practices characteristic of those countries. As Marginson (2000: ??) puts it: 'in becoming international MNCs partially escape the national institutional configurations in which they were previously embedded', opening up the possibility of drawing 'on a wider range of institutions and practices than those found in the home country'.

The wider process of the internationalisation of economic activity has facilitated the adoption of practices from different business systems. In particular, developments in communications and transportation have made it quicker and cheaper for MNCs to closely monitor the performance of their sites in different countries and to examine the practices in place at plant level. A growing proportion of MNCs have attempted to establish a network of managers working across sites in different countries through such mechanisms as meetings of managers in the personnel function, international personnel committees and regular visits and assignments of HR specialists to sister plants (Marginson *et al*, 1995). Arguably, as well as being easier to transfer practices across borders, doing so is also becoming more important to the competitive position of MNCs. As competition is increasingly international across a range of industries, many MNCs have embarked on a continuous search for alternative practices and have used their foreign subsidiaries as a part of this search.

Therefore, MNCs are able to use their international spread to maximise their ability to draw on the opportunities presented by different business systems. We contend that the internationalisation strategies of MNCs, particularly the enormous growth in cross-border M&As, are increasing their scope to learn from environments other than that of their home country. Crucially, we argue that this is eroding the country of origin effect in a significant number of MNCs and this has significant implications for the nature of HRM practices. We develop these arguments in the following two sections.

4. Cross-Border Mergers and the Country of Origin Effect

In our view, it is necessary to reassess the literature reviewed in section two which demonstrated that MNCs remain firmly rooted in their country of origin. This argument was based on information which is now somewhat dated, relating to the early and mid 1990s and, in some cases, to the late 1980s. For instance, Doremus *et al's* (1998) book, which argued that the global firm is a myth, used data principally from 1994 and 1995. Ruigrok and van Tulder's (1995) analysis of the world's largest one hundred non-financial firms was based on information published in 1993, much of which related to 1992 while some of that for internationalisation related to 1990. Hirst and Thompson's (1996) assessment of the extent to which MNCs are 'global' was made on the basis of two datasets. The most recent of these related to 1992-1993, but for a variety of reasons they are less confident about the robustness of this dataset than that relating to 1987, to which they attach more importance. The other cited texts also rely on data which now appears to be ageing: Hu's paper reports information for various MNCs up to 1989; Weiss's analysis of the extent to which FDI is concentrated in high wage economies relates to the period up to 1991; and Wade's consideration of whether it is legitimate to describe MNCs as 'footloose and stateless corporations' uses information from the late 1980s with two references to information relating to the early 1990s.

What, then, has changed in the intervening years? As we saw in the introduction, foreign direct investment in general and cross-border mergers and acquisitions in particular increased significantly in the second half of the 1990s. Indeed, as shown in Table 1, cross-border mergers and acquisitions have increased from a level of $86 billion a year in 1991 to $1.1 trillion in 1999. This record figure in 1999 represented a doubling on the previous year's figure, itself a record.

Table 1: Cross-Border Mergers and Acquisitions, 1991-1999, $ billion

1991	85,279
1992	121,894
1993	162,344
1994	196,367
1995	237,184
1996	274,611
1997	341,653
1998	544,653
1999[a]	1,100,000

Source: UN, 1999
a - figure from Guardian, 8 / 2 / 2000

One way of investigating the impact this has had on the extent to which MNCs are rooted in their country of origin is to consider the United Nations' Transnationality Index (TNI) which is compiled for the 100 MNCs with the largest foreign assets in the world. This brings together three measures of the internationalisation of firms - the percentage of their sales, assets, and employees outside the home country - into one single measure. As Table 2 shows, this increased steadily up to 1997 (the last year for which figures are available), demonstrating that the largest MNCs are becoming less home-country centred.

Table 2 - The Transnationality Index for the World's Largest 100 MNCs

1993	47.2%
1994	48.8%
1995	51.0%
1996	54.8%
1997	55.4%

Source: UN, 1999
(figures for 1993 - 1995 estimated from a graph)

This trend in the TNI almost certainly continued during 1998 and 1999, since several of the largest 100 MNCs in 1997 were engaged in a cross-border merger in the last two years. In some cases this involved two of the top one hundred merging with each other. BP, for instance, merged with Amoco in 1998 and with Atlantic Richfield in 1999, greatly reducing the extent to which the combined entity is concentrated in either the UK or the US. In many more cases the cross-border mergers involved some of the largest 100 MNCs merging with firms outside the top 100 MNCs but nonetheless large enough to significantly increase their global spread. Examples include Daimler, Seagram, Total, BAT, Generale des Eaux (now Vivendi) and L'Air Liquide.

Outside the top one hundred, a number of other MNCs have significantly increased their global spread through large acquisitions. In particular, in many sectors that were previously dominated by firms organised only at the domestic level, large firms have embarked on a process of international expansion through acquisition. In retail, for instance, the American giant WalMart bought Asda of the UK, signalling its intention to expand further into Europe. In electricity supply, privatisation in Britain has allowed many of the American firms to significantly increase their international spread, exemplified by Texas Utilities' purchase of Energy Group. Similarly, the newly privatised firms in Britain are now able to expand internationally, something which Scottish Power has taken advantage of with its acquisition of PacifiCorp in the US. In investment banking, the large banks are keen to increase their international spread in order to have a significant presence in each of the main financial centres in the world, a motivation which resulted in Deutsche Bank's purchase of Bankers Trust in the US.

Cross-border mergers and acquisitions have also been a feature of more traditional, manufacturing sectors. In steel, the merger between British Steel and Hoogovens of Holland in 1999, forming a new group called Corus, instantly reduced the UK group's concentration in its home country from 80% to around 50%. In aluminium, the three way merger between Alcan of Canada, AluSuisse of Switzerland and Pechiney of France created a 'tri-national' company of just under 100,000 employees spread widely across several countries with no clear country of origin. A tri-national firm was also created in the industrial gases sector through the merger of L'Air Liquide of France with BOC of the UK and Air Products of the USA.

The impact of cross-border mergers and acquisitions has perhaps been felt most acutely in telecommunications. Until a few years ago most markets in Europe were characterised by a state-owned monopoly which was organised solely at the domestic level. Recently, however, privatisation, deregulation and rapid technological change have led the key players to seek to build international networks. Deutsche Telekom, for example, has embarked on a series of acquisition attempts, including the successful purchase of One2One in the UK. Indeed, the sector has been the scene for a number of large cross-border mergers and acquisitions in recent years, creating a significant number of firms which have no one country of origin and which are highly spread across countries. The best example is Vodafone, which in recent years has built up a partial or complete stake in telecommunications firms in 23 countries. In 1999 it acquired the American firm Airtouch in a deal worth $60 billion and, most notably, at the beginning of 2000 it succeeded in its $170 billion hostile take-over for Mannesmann of Germany.

There is clearly evidence that cross-border mergers and acquisitions have reduced the concentration of the operations of many MNCs in their country of origin, but to what extent has the distinctive influence of corporate governance systems been eroded? While some small acquisitions do not significantly alter the strong roots that MNCs have in the financial system in their country of origin, a growing number of deals have done just this. Most large cross-border mergers and acquisitions are achieved through issuing new shares rather than cash, resulting in the combined group having a strong shareholder base in at least two systems. BP, for example, financed its take-over of Amoco through issuing American Depositary Receipts (ADRs) which are listed in New York, so that it now has shareholder bases of roughly equal sizes in the UK and the USA. Scottish Power also used ADRs to finance its acquisition of PacifiCorp. While deals between American and British firms are significant in that they reduce the strong links a multinational has with its domestic financial system, perhaps of more significance are deals which leave the combined group with strong shareholder bases in two quite different systems of corporate governance.

Mergers between Anglo-Saxon and continental European firms are of particular interest here. Many large German firms have enjoyed close and long-lasting relationships with the big banks, with the latter often holding large stakes in the former. When Daimler merged with Chrysler, the holding of the Deutsche Bank fell from 22% to 13%, illustrating the way in which these distinctive linkages have been eroded in recent years. In Sweden, similarly, a

small number of investment groups have held large stakes in many Swedish-based MNCs, providing a stability in ownership which contrasts with the dispersed nature of shareholdings and the distant relationship between shareholders and firms in the UK. The merger between Astra and Zeneca was of great significance, therefore, because it reduced the shareholding of the 'Investor' group from 10% of Astra to 4.7% of the combined group. A further illustration of a merged firm with strong roots in quite different financial systems is the tri-national created through the merger of Alcan, Pechiney and Alusuisse, which is legally domiciled in New York but has additional share listings in London, Paris, Zurich and Toronto. More generally, where cross-border mergers create a key player in an industry, financial institutions from a range of countries appear to be anxious to secure a stake in the new group, exemplified by the great international spread of shares in firms like TotalFina and Vodafone.

The distinctive influence of state ownership and regulation on MNCs appears also to have been eroded. Influenced partly by a shift towards neo-liberal economic policies, and partly by the practical issue of reducing public debt and borrowing in order to qualify for economic and monetary union, several European governments have embarked on a process of total or partial privatisation. Many of the newly privatised firms have sought to expand internationally through acquisition, Deutsche Telekom and France Telecom being prime examples. Others, meanwhile, have joined forces with their privatised counterparts in other European countries, such as the mergers between British Steel and Hoogovens, and Total and Fina. Perhaps the clearest example of the way privatisation has facilitated the transformation of a firm through international acquisition is the French group Vivendi. Formerly known as *Generale des Eaux*, a state-owned firm which operated in stable but unspectacular markets such as water provision and motorway services, in the last few years it has undertaken a string of purchases which have radically altered its activities. Its growth areas have been in environmental services, transport, energy and, most notably, in the growth of its communications division. It has recently obtained outright control of Cegetel, the second largest mobile phone operator in France; in television, the group has a controlling stake in Canal Plus and a quarter of the shares in News Corporation; and has reached an agreement for a joint venture with Vodafone to provide internet services. The group is widely seen as behaving more like an Anglo-Saxon than a French firm in its preference for growth through acquisition and the attention paid to 'shareholder value'.

Many cross-border mergers and acquisitions have lead to the creation of a managerial board made up of a mixture of nationalities, thereby eroding a further source of the country of origin effect. Thus, the four most senior positions at Astra-Zeneca are filled by two British and two Swedish managers. Of the twenty two positions on the senior management board of BP-Amoco, thirteen were from BP and nine from Amoco. Corus has joint CEOs, one British and one Dutch and the Executive Committee is made up of six managers from British Steel and three from Hoogovens. In this way, decision-making within bi-national companies is influenced by more than one set of managerial traditions.

Daimler-Chrysler presents a very interesting illustration of the way that very different governance structures have been integrated. The merged company has set up a US-style Board of Directors, comprised of ten Daimler managers and eight from Chrysler, which will 'create a formal arrangement for representatives of some of the new company's biggest shareholders to meet executives' (FT, 9th May, 1998). This will operate alongside the German-style supervisory board, which is made up of employee and shareholder representatives. IG Metall has agreed to cede one of its three positions on the supervisory board to the UAW. Thus the nature of decision-making structures and the composition of these structures in Daimler-Chrysler reflects both American and German influences.

It is clear that the wave of cross-border mergers and acquisitions is reducing the concentration of MNCs in their country of origin across a number of dimensions. What are the implications for the nature of HRM in the increasing number of bi-national firms? How are two (or more) sets of national influences combined? Is it likely that management's approach to HRM will primarily converge on those of one nationality or, alternatively, will a 'hybrid' of the two nationalities emerge? At present these remain open questions upon which there is insufficient longitudinal case study evidence to warrant definitive conclusions. The following section, however, addresses areas of HRM in which there is likely to be some considerable impact.

5. HRM in the 'Bi-National' Firm

One possibility when two firms from quite different business systems merge is that each partner retains a distinct approach to HRM. That is, there is little attempt to harmonise pre-existing systems and practices in the different

countries in which the firm operates. This tendency is likely in areas of HRM in which legal, institutional and cultural factors constrain a firm's scope to deviate from practices already in operation. In relation to structures for employee representation, for example, the room for manoeuvre that management enjoys is significantly constrained by the legal underpinning of labour market institutions, meaning that persistent differences in the nature of these structures in different countries are likely to remain.

Increasingly, however, MNCs are under pressure to integrate their operations despite these differences between national business systems. This pressure has a number of sources: many MNCs are striving to present a standardised product or service in international markets; the creation of international institutions, particularly in Europe, has required a co-ordinated approach from management; and the pressures of international competition have led a growing number of MNCs to engage in sharing best practice across their operations. This set of pressures has lead many MNCs to strive for an integrated approach to some aspects of HRM[1]. In some cases this takes the form of explicit policies, such as those relating to employee development in French-based Danone. More commonly, such integration comprises implicit policies to share best practice in areas like work organisation, as in the case of the major motor manufacturers (Marginson and Sisson, 1996).

These competing pressures, for a decentralised approach on the one hand and for an integrated approach on the other, will be found in different mixes among MNCs according to such factors as sector, the degree of diversification and customer requirements. However, given that the forces towards integration are growing, one pressure that merged firms face is the challenge of harmonising their approach to HRM. It is pertinent to examine whether this integration in firms formed through a cross-border merger will involve a 'hybrid' of the two principal national business systems or convergence towards one set of processes and practices.

There are some pressures towards the latter. The way in which MNCs attempt to harmonise their operations is strongly shaped by managers' perceptions of the relative strength of particular organisations and countries within the international economy. A strongly performing firm is likely to lead competitors to consider emulating its systems and practices, while strong economic performance of a country may create similar interest in the diffusion to other countries of elements of the model of economic organisation concerned. Smith and Meiskins (1995: 255-256) refer to this process as 'dominance effects': at any one time, they argue, countries 'in dominant positions have frequently evolved methods of organising production or the division of labour which have invited emulation and interest'. Thus merged companies in which one of the parties to merger originates in a strongly performing country are able to exploit the advantage of having first-hand experience of particular organisational principles and practices and use these as the basis on which harmonisation occurs.

One example is the nature of management structures in MNCs. A growing body of evidence reveals that many continental European MNCs perceive the hierarchical and bureaucratic structures that are characteristic of their domestic operations to be ill-suited to an international environment characterised by rapidly changing markets and technologies and, consequently, have undergone a process of 'Anglo-Saxonisation'. This tendency is marked among those German MNCs which have expanded internationally through acquisition and merger in recent years. Many of these firms have moved towards management structures typical of British and American MNCs, particularly the divisionalised organisational form with business units having devolved responsibilities for bottom-line performance. Accompanying these organisational changes have been important developments in the recruitment and remuneration of managers. A growing number of executives in German MNCs are 'generalists' rather than having expertise in a particular function, as has traditionally been characteristic of German firms. A further trend is for an increasing element of their pay to be performance-related, a relatively novel development (Ferner and Quintanilla, 1998). Moreover, international expansion through acquisition and merger has been associated with similar moves towards Anglo-Saxon management practices in some French MNCs (Mtar and Quintanilla, 1997) and in a Swedish multinational (Hayden and Edwards, 2000). For cross-border mergers and acquisitions, this suggests that Anglo-Saxon management structures and practices are likely to form part of the basis of international integration.

This tendency towards convergence around one set of systems or practices is likely to be a contested process, however. The pressure to produce an integrated approach may be resisted by some organisational actors and the scope for political activity may lead to some groups seeking to further their own interests. Indeed, the uncertainty associated with a merger, cross-border or otherwise, may present a critical opportunity for different groups to

influence developments. This may involve attempting to block the process of integration or, alternatively, it may involve shaping the direction that integration takes.

One group who may seek to do so is managers of national units within a multinational. These managers may be concerned either to guard their autonomy from higher levels of management or to advance their systems and practices as the basis for convergence. In particular, this group may perceive integration around other national models as a threat. One example involves those French managers who have been trained in one of the *grandes ecoles*, for whom promotion up the managerial hierarchy is largely guaranteed (Ferner and Edwards, 1995). This group may be uneasy with, and consequently try to resist, moves towards the development of a cadre of 'international' managers who are trained through uniform systems of management development. A key question, therefore, concerns how such managers in MNCs formed through a cross-border merger seek to use various sources of power in order to advance their own interests. These include their role as experts in their own national business system and the interface they represent with key customers in that system.

Another group who may seek to influence the nature and extent of integration is managers of particular functions, and as such one of the potentially key implications for HRM concerns the role of HR managers. Crucially, HR managers may try to use the merger as an opportunity to portray themselves as key players in dealing with the 'people' side of the post-merger process. In so doing they may be able to stress the importance of the training and development of international managers and in establishing mechanisms which promote the sharing of practices across borders as important elements in the international integration of the merged firm's approach to HRM. In this way HR managers may be able to raise the profile and prestige of their function within the organisation and to increase the prospects of promotion to high-level corporate jobs for individuals in the function. As a recent KPMG report into European mergers concluded, 'the process of entering into M&A transactions is (often) less than perfect, with key elements left too late and post-completion integration tackled haphazardly' (1999: 23). Evidence such as this serves as an opportunity for the HR function to portray itself as a key player in post-merger integration. However, despite this opportunity HR managers may find themselves marginalised in mergers, finding it difficult to get the 'people' issues onto an agenda dominated by managers from the finance and accounting function.

How are these alternative outcomes for the HR function shaped by the competing national traditions that are evident in a cross-border merger? We might hypothesise that HR managers are more likely to find themselves marginalised in mergers where an Anglo-Saxon firm is the dominant force. Where British or American firms are key players in mergers, the primacy of shareholder interests and attention given to (short-term) profitability are likely to make it difficult for HR managers to secure a significant role for themselves. In mergers where continental European firms are the larger party, on the other hand, this task is likely to be commensurately easier. However, as we have seen, even in these cases, many large continental European firms appear to have undergone a process of limited 'Anglo-Saxonisation'.

As well as affecting the profile of the HR function, cross-border mergers also affect the form of 'international HRM'. The pressures to integrate the firm's approach to managing its international workforce will erode elements of national models of personnel management within the different parties to the merger. In their study of German MNCs, Ferner and Varul (2000: 16) identified 'considerable strains between the highly reactive, legalistic, administrative style of personnel management, rooted in a specifically German institutional framework, and the requirements for a more "broad-brush" strategic approach to IHRM'. It is likely, then, that the eventual form of international HRM in bi-national firms will in part be the result of a series of negotiations and trade-offs between HR managers from different countries.

Employees and their representatives may also seek to shape the process of integration. This group may be concerned to resist the development of common approaches to HRM, fearing that it will undermine pay levels and pre-existing channels of representation. They may be able to use legal obligations on management to negotiate change, such as the works councils in many European countries, to block or alter the introduction of particular practices. Alternatively, employee representatives may seek to influence the substance of integration through co-ordinating their demands with their counterparts in other countries. The ability of workforces to exert such an influence increases as MNCs seek greater integration in their processes of production and service provision as this process makes them more susceptible to disruption given the knock-on effects in other parts of their operations. The establishment of European Works Councils arguably provides a forum in which employee

representatives can increase the co-ordination of their approach to bargaining on a cross-border basis. Future research could beneficially address the influence over the process of integration in bi-national firms of employee representatives in general and of EWCs in particular.

Of course, the centre in most MNCs has considerable power resources that it may be able to use to overcome resistance or influence from other groups of organisational actors. Invariably, the HQ possesses control over investment funds, for instance, and also retains the authority to take key decisions concerning the promotion of senior managers. Moreover, the general context of uncertainty and the particular concern over job security that characterises the post-merger process creates an opportunity for the centre to push through organisational change. Nonetheless, the forces for post-merger integration in MNCs that stem from managers at the HQ will not be uncontested.

In sum, the approach to HRM in firms formed through a cross-border merger is likely to be subject to growing pressures towards integration. This integration is likely to take different forms in different areas of HRM: one tendency is for the Anglo-Saxon party to a merger to form the model for integration in relation to managerial structures and management development and remuneration. However, we have also seen how the move towards integration is a contested process, the outcome of which is of course dependent on the resources that each group is able to mobilise. The stronger the influence of the centre the more likely it is that there will be convergence on a particular model; the stronger the influence of national and functional managers and of employee reps the more likely it is that a 'hybrid' form will emerge.

6. Conclusion

The paper has argued that the recent high incidence of cross-border mergers and acquisitions is creating a significant number of 'bi-national' firms and, consequently, is eroding the country of origin effect. More particularly, we have considered the implications of these developments for HRM, and contended that many of those MNCs formed through a cross-border merger are subject to pressures to integrate aspects of their approach to HRM. The form this integration takes, moreover, is shaped in part by the perceived attractiveness and suitability of national sets of practices, but also by the power of groups of organisational actors to shape the nature and extent of integration. The former tends to promote convergence towards one national influence dominating integration, while the latter is likely to lead to a hybrid of two (or more) national influences.

The rise in cross-border merger activity clearly has profound implications for practitioners. HR managers may be able to use a merger of this type as a way of raising the profile of the function, as we have argued, and further are likely to find that the nature of their responsibilities are increasingly cross-border, involving them in greater co-ordination with their counterparts in other countries. Worker representatives, too, are likely to be deeply influenced by this process. The nature of practices that management seek to employ are likely to be subject to pressures for change and, more importantly, representative structures and bargaining relations are similarly likely to be challenged. The process of international restructuring also has important implications for policy makers, too, something on which we plan to elaborate elsewhere.

Whilst the paper has raised a number of potentially important issues around HRM in MNCs, to further our understanding of these issues a programme of qualitative research into cross-border mergers is needed. Ideally, this would involve comparative fieldwork in a number of different countries, a task on which the authors are planning to embark.

Footnotes

1. The pressures to achieve international integration are stronger in some sectors than in others. In automotive and electronics, consumer tastes between countries vary only slightly and competition is primarily between highly integrated multinationals in which plants co-ordinate closely. In contrast, in other sectors, such as parts of the food and clothing sectors, consumer tastes differ significantly, limiting the extent to which firms are integrated internationally, while in others, such as energy distribution, markets are typically highly regulated, similarly constraining the scope for integration.

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