WHY A MULTINATIONAL ENTERPRISE INTRODUCES A COMPETENCY-BASED LEADERSHIP MODEL? :

A TWO THEORY APPROACH

Maral MURATBEKOVA-TOURON

Ph.D. Candidate, HEC School of Management

Management and Human Resources Department

1 rue de la Libération

Jouy-en-Josas, 78351 France

e-mail: muratbekova@hec.fr

Abstract

Why a multinational enterprise introduces a competency-based leadership model? To examine this question, the case of one French industrial multinational company experiencing important organizational changes is analyzed. By using two theoretical frameworks - agency theory and institutional theory – the phenomena of changes in organizational culture are studied. It is argued that this multinational introduced a competency-based leadership model (1) in order to develop it leaders as trustworthy agents, (2) in the result of institutional mimicry.

Key words: agency theory, competency-based leadership model, institutional theory, multinational enterprise, organizational culture

1. INTRODUCTION

Globalization of business during the past decades has led to the development of the large firms expanding their activities across countries and continents. One of the main issues facing the development of the global firms has always been to find the right balance between the local autonomy between subsidiaries and the control of the corporate headquarters. One answer to what often appears as a dilemma has been the development of managerial frameworks used by these global firms to specify what are the expectations regarding their managers. Depending upon the degree of centralization, these expectations could be very different up to very identical across countries and cultures. More recently, global and multinational firms have formalized these expectations through the development of competency-based leadership models (Morrison, 2000). The objective of this paper is to understand this phenomenon of using competency-based leadership models by multinational companies. There are as many variations of these models as companies implementing them but the recurring observation of the development of these models is intriguing. That is why this paper tries to answer the following question: *why do the multinational companies devote so much energy and resources to introduce a competency-based leadership model*?

We've chosen to study the case of one French industrial multinational company. For the sake of confidentiality we will use a pseudo-name of ALPHA for this multinational company. The Group ALPHA which presently is in the process of significant changes in organizational culture has also launched its proper leadership model in 2000.

Two theoretical lenses: agency and institutional theories are used to answer the question "Why did ALPHA introduce a competency-based leadership model" and to formulate some propositions likely to serve as the basis for future research.

Each of these theoretical perspectives provides a possible answer to this question and while recognizing the fact that several combined explanations may be helpful to give a more accurate view of the reasons that explains the development and implementation of this model.

2. THE CONTEXT OF THE RESEARCH

The Group ALPHA, the world-wide leader in its core activity, has expanded rapidly over the past several years due to its growth-by-acquisition strategy (two major acquisitions doubled the size of the company in a few years time) and has operations in more than 70 countries. If almost half of the group's employees were French ten years ago, they represent only 19% of the company at the present time. However, the company keeps French language as one of the official languages of the organization at the management level. Another official management language of the work is English.

A decentralized schema of organization by divisions is intentionally chosen by the management of the Group. A co-ordination role is intended for the Corporate Center. While "*rationalizing the role of the corporate function*", divisions were given "*more direct responsibility for strategic development and performance improvement*" (internal document of ALPHA, 1999).

In order to prepare successors in top positions of the Group, two principles of functional and geographical mobility are applied by ALPHA to those who wish to rise to leading or key positions. Different training programs are proposed and recommended for managers' career path. By identification of high potential and his/her development the Group prepares the successors of its leaders. Apart from strong leadership skills, the targeting objective of the Group is to have internationally experienced and high performing leaders. The Group wants "*managers who are true leaders*" meaning "*individuals who practice what they say, respect group disciplines, share information and who are professional in managing employee evaluation, career management and the compensation system*" (internal document of ALPHA, 1999). It is explained by two strategic directions of the Group: growth and performance.

> *"ALPHA was always excellent in the development of its leaders using international and functional mobility. As we know people learn 80% of what they know on the job. Moving managers from one position to another was an ideal mean of their career development. But now, in actual world, we need to develop more formal training that allows learning faster. Of course, we will keep our ancient methods as well. New arrivals do not have the same notion of time as we…we do not have 5 or 10 years to integrate people" (Human Resources Director of the Group)*

By moving managers across different business units, countries, and functions, the organization tries to reach several objectives: to expand future leaders' experience and perspectives, to ease the information flow within the Group, and to reinforce the corporate culture. In other words, the construction of management career path in a such a way allows people to create useful relationships and to work via their networks later; it also allows to transfer common values within the organization, i.e. it successfully contributes to the creation of a "glue technology" or "global glue" (Evans, 1992; Bartlett & Ghoshal, 1989).

However, at the present time, ALPHA faces difficulties in staffing top management positions because of a rapid international expansion. ALPHA, as many other multinational groups views the leadership development process not only as a source of competitive advantage, but also as an urgent necessity. As stated by Wellins and Byham (2001) who referred to the Development Dimensions International study of succession management practice, one of five top management positions and nearly one of four middle management positions could be vacant by 2005. As stated by one of the interviewed managers:

> *"There is a generation problem at ALPHA: top managers are in their sixties and the next generation is in their forties. There is nobody between" (General Manager, Division 1).*

Before going deeper into consideration of the reasons of the competency-based leadership model development, a brief description of the changes in the organizational culture of ALPHA is provided since the organizational values have always been very important in the history of the Group.

3. CHANGE FOCUS: ORGANIZATIONAL CULTURE

Using the cultural dimensions developed by such scholars as Hall and Hall (1990), Hofstede (1991), Trompenaars and Hampden-Turner (1998), and others, one could describe ALPHA's culture as a paternalist, relational and high-context communication culture. A high respect for authority, centralization of decision-making, extreme importance of network and relations, information considered as a privilege: these are characteristics of the organizational culture in the past.

3.1 Paternalist culture

Managers of ALPHA speak about a well maintained distance between superior and subordinates, lack of responsibility delegation, and a strong respect for authority. When one of the interviewed managers says that

> *"The CEO is perceived as someone just below the God..." (HR manager, Corporate),*

One can not ignore the fact that there is a big part of reality in this exaggeration. Another example of a woman, an employee of ALPHA Corporate center, who has placed the photo of the CEO at her office desk, shows a popularity of the charismatic leader of ALPHA. When ALPHA employees say that the company managers should develop their listening skills and empathy, learn how to question themselves; they make you understand that it is rather authoritarian than egalitarian style of managing that was practiced in the Group.

3.2 Relational culture

The interviewed managers state that *"everything is built on the system of networking" (General Manager, Division 1).* It was and it is still the force of ALPHA: ALPHA works by creating the networks of people.

> *"The slogan of ALPHA is 'we win if we work together'" (Marketing manager, Corporate).*

> *"I've always been close to executives of the Group. There was a high accessibility of executives. At least, for people at the Corporate. Everybody knew each other. We have worked by networking" (Country manager, Division 1).*

The elitist approach of recruitment which characterizes French management practices (Barsoux and Lawrence, 1991) was widely used by ALPHA in the past:

> *"The only way to become a manager at ALPHA before ...if you are a good engineer from a good French school" (General Manager, Division 1)*

The majority of managers understand the danger of remaining 'consanguine'.

"It is dangerous to remain 'consanguine'. There will be no innovation. We will probably have 'erreurs de raisonnement'" (Strategy manager, Division 2).

3.3 High-context communication culture

One could notice a high-context communication culture (Hall and Hall, 1990) of ALPHA. Managers, especially non French, complain of a confusing and complicated structure of the organization where the access to information is a privilege of those who are well integrated into strong network.

It would be worth to notice that such kind of networking has positive side. While it is extremely difficult for managers who are "out of seraglio" to integrate into the organization, those managers who belong to the network benefit from their relationships. It is easier for them to work in the decentralized schema and the culture of "non-dit" of ALPHA.

> *"In the past, new arrivals were put in contact with ancients. That's how they learned ALPHA behavior" (Country manager, Division 1)*

While willing to move toward more formalized and explicit way of communication, the Human Resources Director of the Group notices that one does not have to underestimate informal part of management:

> *"There are always formal and informal parts in organization. I do not dream about complete transparency. It is life. The life can't be managed only by procedures"*

3.4 Human culture

The ALPHA's culture was and is also known as a human culture putting the respect for people and the quality of the relationships at the central place. The absolute majority of the interviewed managers define ALPHA culture as a human culture.

> *"ALPHA trusts people; it believes that social progress should be accompanied by the economic progress. Everybody at ALPHA had his/her chance" (Country manager, Division 1)*

> *"We have no such a hard pressure of results in comparison with American organizations. Today, this result-oriented pressure exists more than it did five-six years ago. But still, the culture is human" (General Manager, Division 3)*

3.5 French traditions

The values of the organizational culture are deeply anchored in French traditions. Even after the acquisitions of two Anglo-Saxon multinationals in ten years that allowed to ALPHA to double its workforce and activities, French language remains an official language of the Group. While only 12% of Group's employees are French, 45% of the top executive

positions are still occupied by French. For the organization announcing a willingness to move from "*French to international*" company (internal document of ALPHA), ALPHA lacks transnational representation (Adler and Bartholomew, 1992). As argued by (Adler and Bartholomew, 1992, p. 55), "*the firm's portfolio of key executives and managers should be as multinational as its world-wide distribution of production, finance, sales, and profits*".

As it was already mentioned before, two important acquisitions of Anglo-Saxon multinational companies have significantly influenced the organization's structure and culture. First of all, significant increase in size – doubling sales and workforce – puts in question the ancient way of management well appropriated to a small size, but impossible to continue in the new conditions. Secondly, time becomes precious to integrate new arrivals as soon as possible. There is no time for long socialization process practiced before. The acquisitions have brought Anglo-Saxon values of short-term efficiency to ALPHA: result and performance orientation.

The following quotations give a brief summary of cultural changes occurring in the organization.

> "*ALPHA, which originally had catholic values such as paternalism, humanism, men dominance, and a certain degree of humility, now, with acquisitions, is in the process of adoption of protestant values of activity, efficiency, and sexual neutrality*" (HR manager, Corporate)

> "*Now, ALPHA is changing... It is more performance-oriented culture...the ancient culture has to change from just being nice and intelligent: it is not enough to run the business*" (HR manager, Corporate).

The following table summarizes important characteristics of ALPHA's culture that are in the process of change.

TABLE: Changes in organizational culture

French Origins	On the way to
Paternalist	Participative management ("ALPHA's management style is defined as participative..." Internal document of ALPHA, 1999)
Centralization	Decentralization (organization by Divisions)
	New tendencies towards performance- and result-oriented culture (*the introduction of a variable part of the managers' remuneration depending on the overall performance of the group, 1998*) (*the introduction of a competency-based leadership model emphasizing the importance of Client and Results*)

High-context communication: "culture of non-dit" (confusing structure)	Low-context communication: formalization (*formalization of the leadership competencies in the competency-based leadership model*)
Particularism: strong networking • difficult entries • recruitment of "the same model", consanguinity • long time to build relations • slow decision-making • mutual support	Universalism: opening networks • appearance of "new profile" managers • formalization of leadership requirements

4. THE INTRODUCTION OF A COMPETENCY-BASED LEADERSHIP MODEL

ALPHA has launched the project of a competency-based leadership model in 2000. The Group stressed the necessity of the creation of a common language for leadership development. The main objectives are to improve business results through newly developed leaders' behavior and to help the managers' career development.

Development of common language. It is highly important for multinational organization to maintain its effective co-ordination in a global environment (Bartlett & Ghoshal, 1989). One of the main factors that create difficulties in the day-to-day business of international corporations is cultural diversity (Black, Gregersen, Mendenhal and Stroh, 1999). Therefore, to allow the mobility of organizational leaders across borders, the Group faces the necessity to create a common language.

Fitting the corporate culture. ALPHA's human resources management was keen to build a model consistent with its values. And the management of the Group decided that it was an absolute necessity to choose competencies based on the Group culture. It was considered as almost impossible and non-useful to try to impose something that is not culture-based. That's why, the process starts with the analysis of internal documents of the organization by the consultants to identify the key organizational values. A generic set of competencies - the first draft of a model contains a general definition of each competency. For each competency, there was a description stages which represent mastering levels inside a competency.

The next step was to conduct interviews with ALPHA leaders to validate this first draft. More than 30 interviews were conducted with the managers occupying the Group's key positions by the responsible of the project and consultants. Apart from the objectives to test, validate, and improve the model, there was an intention to look at real examples of leadership in the organization. These examples where presented as successful stories illustrating each competency in the document intended for the managers' development.

Formalizing Group's expectations. Based on the Group values, leadership competency model would serve as a reference of what is expected from leaders of the Group.

As a result of meticulous work on internal documents, validation interviews with top managers of the Group, a model was elaborated with the help of a consulting organization which had previous experience in the construction of competency-based leadership models.

According to the classification of competency approaches developed by Briscoe and Hall (1999), there are three following methods:

The research-based approach. A behavioral research is the basis for competencies development. Top managers considered as high performers are nominated by the executives. Then, the interviews with these managers are conducted to identify behavioral examples that demonstrate the key to their success. The aim of such "behavioral event interview" is to distinguish superior performance from just good performance. This approach considered as the most rigorous and legitimate approach because it involves executives in the development process and therefore foster acceptance of the competency framework.

The strategy-based approach. If competencies developed using the research-based approach are driven by the behavior of high organizational performers in the past, the strategy-based competency approach places strategic direction of the organization in the center. Therefore, future orientation is more important in this case.

The values-based approach. If the competencies are based on cultural values of the organization, the approach is the values-based. According to Briscoe and Hall (1999, p. 44), *"company values may provide stability and a consistent approach to conducting business, learning, meeting customer needs, and leading that is able to weather and even proactively shape trends in the business environment"*.

One could argue that the combination of two methods was used in order to identify the competencies of the leadership model: the research-based and values-based approaches.

Developing competencies on the basis of internal documents, validation interviews with exemplary ALPHA leaders (the research-based approach), and willingness to keep traditional organizational values (the values-based approach), all these characteristics of the process of the model development allowed benefiting from the advantages of different competency approaches. Scientific rigor of interviews gave the air of legitimacy to the model and allowed to involve top managers in the development process. Using traditional ALPHA values contributed to the reinforDivision 1 of the culture.

Among the competencies considered as crucial for successful operation of the Group were the competencies to manage people and change with high priorities given to customers and results' achievements. One competency is devoted to the organizational values. Another one defines Vision as an important strategic competency.

4.1 Rationale of the competency-based leadership model

The majority of managers consider the model as "*the first attempt of formalization*" (HR Manager, Corporate) and "*a good initiative to develop a common reference*" (HR Manager, Corporate). It has a great influence on the adoption of the practice.

"Leadership model is an opportunity to look at where we will be in 5 years... it is an opportunity to prepare our future" resumes a Marketing manager of the Corporate.

The absolute majority of questionnaire respondents agreed that the leadership model was introduced to formalize and communicate the Group's expectations from those in a leadership positions. The respondents pointed out that the leadership model was introduced to create a common language for the evaluation and the development of leadership competencies.

"Is ALPHA changing fast enough? It is a big group. ALPHA today is clearly a number one, a global leader. It would never had happened if there were no good managers and good procedures...But being a leader is something, and staying a leader is more demanding. We have to work harder, adapt faster, develop global leaders, common understanding. Common knowledge is a progress" (Country manager, Division 1).

4.2 Implementation of the competency-based leadership model

According to Briscoe and Hall (1999), too many companies that introduced competency-based leadership models had spent a huge amount of time to develop their models and little to implement them.
The implementation of the leadership competencies in annual appraisal interviews, in 360° feedback or in the intranet web-site is highly appreciated by the ALPHA managers.

Annual appraisal interviews

84% of questionnaire respondents estimate that the annual appraisal interview is the right moment to discuss the leadership competencies. However, certain respondents' comments as well as certain interviews show that managers find it difficult *"to fill in the cases"* corresponding to competency stages. According to them, the idea of classification of competencies and determining people's profile is good, however rating is still secondary.

"When you have to evaluate your subordinates, to rate them according competency stages, you are lost" (Performance Manager, Division 2).

"W*e were asked to make a rating for each competency. But rating is secondary. What is important? It is the development of the competencies... in addition; some competencies are not applicable for certain positions*" (General Manager, Division 2).

Even if the majority of the questionnaire respondents think that it is relevant to apply the model in annual appraisal interview, 49% of respondents find that the leadership competencies should be discussed during another specific meeting not linked to the performance appraisal.

"It creates confusion between performance appraisal process (normally linked to the bonus + salary increase process) and the leadership competencies assessment which should be linked to individual development plan" (Comment of one of the questionnaire respondents).

Human resources direction of ALPHA stated that the model is aimed to support such HR processes as performance management, staffing, development, and recruitment in the future (internal document). The model is applied in annual appraisal interview, 360-degree-feedback, and the guide for leadership development. A regularly updated web-site (e-learning tool accessible via intranet and internet) structured around the competencies of the model provides useful readings on the leadership, its development, and existing best practices.

To summarize, one could state that ALPHA introduced a competency-based leadership model as an HR tool that helps to build a common, formalized, and consistent with organizational culture reference regarding leadership evaluation and development.

5. THEORETICAL INTERPRETATIONS

In order to provide an answer to the key question asked in this paper: why do multinational companies devote so much energy and resources to introduce a competency-based leadership model?, different theoretical lenses could be used in the case of ALPHA. During the process of data gathering, the researcher has countered evidence referring to different theories dealing with human resource management. One could compare this process of founding elements relative to different theories to critical incident technique (Flanagan, 1954) used as one of the methods of data gathering. Each time that mentioning some issues has made the researcher think about a particular theory; this issue was mentally classified as a "critical incident" relating to this theory. For example, while some managers have stated that *"the competency-based leadership model is a fad"*, the researcher classified this notion as a theoretical element relating to Institutional theory. Among all the possible theoretical frameworks that can be used to interpret this case, as suggested by Schuller (2000) to understand HRM, two theories have been kept because of their relevance in relationship with the topic of interest here. Agency theory and institutional theory allow us to interpret the research issue in a meaningful way at different levels and to formulate propositions that may serve for future research.

5.1. Agency Theory

The heart of agency theory is the assumption that goal conflict between two parties: the principal and the agent is inherent in these relationships (Eisenhardt, 1989). The principal delegates work to the agent who performs that work. The theory describes these principal-agent relationships and the conflicts that can arise because two parties could have different interests and preferences while being tied with the contract. The people nature (self-interest, bounded rationality, risk aversion) as well as goal conflict among organizational members and information asymmetry results in agency problem (Lubatkin, Lane, and Schulze, 2001). Agency problem arises from the conflicting goals of the principal and the agent and from the difficulties related to the verification of the agent behavior (Eisenhardt, 1989). Agency theory also presumes that *"information about the agent is a commodity that can be purchased"* (Nilakant and Hayagreeva Rao, p. 653, 1994).

The problem of 'risk-sharing', another problem relevant to agency theory, arises from *"the differing attitudes toward risk on the part of the principal and the agent"* (Nilakant and Hayagreeva Rao, p. 652, 1994).

5.1.1. Agency relationships in MNC

Researchers have already looked at the relationships between headquarters and subsidiaries in MNCs through the agency theory perspective (Gong, 2003; Roth & O'Donnell, 1996; Chang and Taylor, 1999, O'Donnel, 2000). As headquarters invest funds and resources in the subsidiaries, and the subsidiaries are supposed to work for the headquarters, these relationships could be considered as agency relationships (Chang and Taylor, 1999). Headquarters (principal) delegate work to subsidiaries (agents), however they can not permit subsidiaries complete autonomy as the interests of subsidiaries are not always aligned with the interests of the headquarters (Roth & O'Donnell, 1996).

5.1.2. Agency costs

One of the central point of the agency theory is agency cost that comes from information asymmetry: it is difficult for the principal to verify the behavior of the agent (Eisenhardt, 1989). To reduce agency costs the principal must introduce a control system that fosters agents' desirable behavior (Jensen, 1998). The researcher defines agency costs as "*the sum of the costs of designing, implementing, and maintaining appropriate incentive and control systems and the residual loss resulting from the difficulty of solving these problems completely*" (Jensen, 1998, p. 115).

Chang and Taylor (1999, p. 545) state that agency costs in MNC "*might include any subsidiary decision undertaken to promote its own interests at the expense of headquarters' interests*". Researchers argue that cultural differences play a significant role in increasing agency costs. Managers at the head of the subsidiaries might have different values and work attitudes from those of the corporate managers and, therefore, may have interests which diverge from the interests of the corporate managers. Thus, agency costs are more likely in the relationships of headquarters and the foreign subsidiaries (Chang and Taylor, 1999). The less accurate and complete information about the performance of the subsidiaries is available, the higher agency costs. The scholars mention cultural and geographical distance between headquarters and subsidiaries as one of the factors that increase information asymmetry and therefore agency costs (Roth and O'Donnell, 1996; Chang and Taylor, 1999).

5.1.3. Control mechanisms

In order to resolve the agency problem, the principal may introduce appropriate incentives schemes for the agent and use different control mechanisms (Jensen and Meckling, 1976). This study will focus on the control mechanisms. Three mechanisms of control could be used by the principal in order to make the agent behave in his interests (Eisenhardt, 1989). These possible control mechanisms are:

- outcome control is possible when relatively accurate and complete information about the agent's performance is available;
- behavioral control is possible when relatively accurate and complete information about the agent's behavior and work processes is available;
- cultural control is exercised through shared goals and values.

Control mechanisms or monitoring (O'Donnel, 2000) leads to the increased information about the agent behavior. Headquarters need to find an optimal control mechanism to make subsidiaries behave in its interests. Geographical distance makes it difficult for headquarters to supervise the managers of foreign subsidiaries personally (O'Donnel, 2000). Other forms of monitoring subsidiaries will be described below.

5.1.4. Cultural control

Individual commitment or psychological alignment is highly important in the principal-agent relationships (Eisenhardt, 1989; Ouchi, 1979; Roth & O'Donnell, 1996). The researchers state that an agent accepting and working towards organizational goals contributes to the reduction of the goal conflict between the principal and the agent. It is this commitment to organization at the individual level that is of a particular interest for us to study in this paper. In the context of the globalization, it is highly important to have top managers of MNE to be committed to the values of the parent company. In the case of such attachment to parent company values and the way of doing, the agency costs are less as the goal conflict between headquarters and subsidiaries decreases (Roth & O'Donnell, 1996).

One could measure such attachment to the values of the parent company by the employees' feeling. As it was mentioned before, the managers of ALPHA find its organizational culture human. They like feel "*human, not numbers*" (HR Manager, Corporate).

> *"You can easily find many people who work for ALPHA for a long time. And it is due to HR politics, salary politics... When there are open positions, HR people try to find competencies inside the Group, they try to recruit internally apart from specific cases. It is a chance for many for their career development."* (Performance manager, Division 2)

However, many managers making their career at ALPHA feel some nostalgia about ancient time:

> "*Because of size effect the relations have lost their intensity, the quality of relationships is not the same. The decentralization by divisions has created a compartmentalization. People do not feel that they belong to the Group*" (General Manager, Division 2)

One could conclude that ALPHA needs to reinforce its cultural control not only to integrate new arrivals, but also to keep "attached" its managers to the organizational values.

How could an MNE achieve such commitment to the corporation values and culture? Through cultural control says Ouchi (1979), through globalizing people through international assignments say Black et al (1999), through socialization say Evans, Pucik and Barsoux (2002). One can quote many other terms used by different researchers. But the idea is to attain

the commitment of key individuals in central and expatriate leadership positions to parent company. And it is through socialization that the culture of the firm is learned and maintained (Evans, Pucik and Barsoux, 2002, p. 108).

Managers are conscious about significant changes occurring in the organizational culture. And they understand the need to formalize what the Group expects from its senior managers. This formalization allows explicit understanding of the leadership requirements and therefore strongly contributes to the transmission of corporate values to managers all over the world. It could be considered as part of a socialization process and corporate cultural learning.

> *"Until now, ALPHA was not international organization. It was multi-local, not multi-national organization. It was not so dangerous before. But now, we need common language. We need to adapt simplified language to integrate others that may not understand 'French' subtleties" (Strategy Manager, Division 2).*

Geographical and functional mobility

Socialization often involves the extensive use of international and inter-functional mobility. Through such geographical and functional transfers managers learn the corporate culture and its nuances. Transfers of managers *'can increase the knowledge of the network; develop multiple contacts within it...'* (Edström and Galbraith, 1977). According to Edström and Galbraith (1977), such managerial transfers facilitate information-collecting behavior within large multinational companies. The generation of information leads to the reduction of the information asymmetry and therefore to the reduction of the agency costs in the relationships between the corporate center and its subsidiaries.

ALPHA was always strong in developing international managers by moving them geographically and inter-functionally. According to the researchers Edström and Galbraith (1977), international transfer of managers is a mean for designing the information system for large MNCs because it dealt with verbal information. This dynamic mobility in addition to a particularistic character of ALPHA culture allowed developing trustworthy agents in the past, to create a verbal network. It was a mean to design the key information system for ALPHA given its nature of a non-formalized culture. Extensive transfer of top managers was used as a coordination mechanism at ALPHA. It also contributed to the circulation of knowledge: know-how and best practices.

Staffing control

Staffing control which is appointing managers - nationals of home country to the top positions of the subsidiaries is a type of cultural control exercised by the headquarters (Chang and Taylor, 1999, Gong, 2003). O'Donnel (2000) calls it headquarters supervision: monitoring the subsidiaries activities through expatriation. Parent nationals expatriates are supposed to be more committed to the organization than foreign managers. Their presence allows to decrease information asymmetry and to prevent opportunistic behavior of subsidiaries' managers (O'Donnel, 2000).

ALPHA has largely used staffing control in the past. The majority of the top subsidiaries positions were occupied by French expatriates to whom the Group trusted more than to foreign managers.

> *"The appointment of a non-French manager at the head of the business unit outside France was not possible ten years ago"* Country director, Division 1.

A "consanguine" network of French managers was extremely strong and contributed to the increased amount of information about subsidiaries. Foreign managers find it extremely difficult or even impossible to *"enter the Circle of confidence"* of a high-context communication culture of ALPHA.

However, the management of ALPHA needs other means to facilitate cultural learning at the present because of the lack of people and time.

> *"It is an excellent mean to develop our leaders. And we are going to keep it. However, we have to add to this method of career development that included a big part of implicit training and learning by network another formal tool that would be used not so much for the evaluation as for the development of leaders... We have no time as before to integrate new comers. They have to understand our requirements as soon as possible. Our willingness to formalize stems from this."* explains the Human Resources Director of the Group.

5.1.5. Conclusion: The competency-based leadership model as a tool of cultural learning

The leadership model provides a strong basis for cultural learning in the constraints of the increased size of the Group, cultural diversity, and time issues. Reducing agency costs is one of the reasons to formalize leadership requirements. Creation of common and formalized and therefore explicit reference would reduce time of understanding the corporate culture for new comers, positively contribute to the socialization process, and decrease the information asymmetry existing between headquarter and subsidiaries. The Leadership Model is a tool of a cultural control (Ouchi, 1979) or a mean for building global glue (Bartlett and Ghoshal, 1989).

> *"It is meritocracy that works to promote managers, but ALPHA has no system to make leaders emerge"* (*General Manager, Division 1*).

In the conditions of a drastic increase in the organizational size, there is a strong necessity to fill in the gap. 78% of the questionnaire respondents believe that the leadership model brings more objectivity to the assessment of the leadership competencies. However, as stated by one of the questionnaire's respondents:

> *"The desire to bring more objectivity is clear. The reality is and will be that assessment of leadership stays a judgement. Therefore, saying that it brings objectivity will be, in my mind, hypocritical"*

In order for leaders to emerge requires finding trustworthy agents in the perspective of the agency theory. We define a "trustworthy agent" as a manager

- committed to organizational goals
- able to share cultural values
- strongly identified to ALPHA's principles of management

Thus, it is postulated that ALPHA has introduced the leadership model in order to develop its leaders who share organizational values and goals announced in the competency-based leadership model.

> *"To demonstrate that we are serious about the leadership model, promotions and appointments should not be made for those who do not truly embrace the values of the Group" (a comment from questionnaire)*

The leadership model which contributes to the building of a common language regarding the leadership requirements help to bring up organizational leaders committed to ALPHA, in other words trustworthy agents.

One could state that that a multinational company can link its globally dispersed units through human resources practices and policies. It can facilitate the transfer of learning across units through human resource practices. A competency-based leadership model as a human resource practice could serve as a tool of socialization, or developing trust worthy agents. This discussion leads to the formulation of the following proposition:

PROPOSITION (AGENCY THEORY):

ALPHA introduced a competency-based leadership model in order to develop its leaders as trustworthy agents.

This proposition offers an understanding of WHY ALPHA introduced a competency-based leadership model. However, according to the data, the objective of developing trustworthy agents is difficult to attain.

A curious finding of this study is that despite the fact that the model was conceived as a common reference for leadership development and evaluation; the way of competencies' rating is not the same across the businesses.

> *"Great care should be taken in comparing the evaluations as the bosses do not have the same way of grading"* comments one of the questionnaire respondents.

Another manager is complaining that
> *"The rating system is completely confusing and not calibrated across the businesses" (a comment from questionnaire)*

The differences in rating have been observed by the researcher during her work at the HR department in one of the Group's Division. While comparing the evaluations of the leadership competencies in annual appraisal interview made by managers of Division 2 all over the world, HR managers have seen that the managers' ratings of a French business unit are

systematically higher than the ratings of an English business unit. Evidently, cultural peculiarities play their roles.

According to the gathered data, the leadership model was not easy for understanding for all managers. As argued by one of the interviewees, the precipitated introduction of the model entails some problems: *"we introduced the profile, but we did not train managers, we did not explain them how to use it" (HR Manager, Division 3).*

Some managers find the model too "academic" and complicated:
> *"The Leadership model is too 'verbalized', much of the text, much of 'bla-bla'. People need training to understand the main axes. The comprehension is not natural. May be it is natural for HR managers who conceived it, but for others…" (Performance manager, Division 2).*

82% of the questionnaire respondents claim training needs to understand how to use the leadership competencies. Training claimed by managers is extremely important to bring coherent understanding of the competencies and their use in different applications.
ALPHA HR managers face the necessity to propose training for the Group's managers in order to answer numerous demands.

> *"When you schematize, you became ambiguous. Therefore, you should explain in great detail. The Leadership model is a framework that should initiate discussions" (Strategy manager, Division 2).*

5.2. Institutional theory

A fundamental principle of the institutional theory is based on the homogenization process or isomorphism – a process that forces organizations that face the same set of environmental conditions to use similar practices (DiMaggio and Powell, 1983). These authors distinct three types of isomorphism: coercive – when practices are imposed by a more powerful authority; mimetic – as a result of response to uncertainty by a standard solution already successfully used by other organizations; normative – when practices are considered "normal" (accepted) in the environment.

5.2.1. The role of uncertainty

The role of uncertainty is fundamental in the choice of practices made by organizations (DiMaggio and Powell, 1983). "As the environment becomes more global, managing people also becomes more challenging, more unpredictable and uncertain and more subject to rapid change and surprise" (Schuller, 2000).

One of the members of the General Human Resources Management Committee of the Group, who followed the development of the competency-based leadership model from its birth, explains the reasons of the model's introduction:

"We recognized that the way of accessing managers at ALPHA was strange... very subjective, based on the opinion of the boss who likes you or not. There was no framework in existence... We needed something more objective, some sort of competencies... special or something at the shelf...Finally, we decided to reflect the specificity of ALPHA and develop our own leadership model" (HR manager, Division 3).

As this manager specifies, the management of the Group hesitated between borrowing an existing competency model from another organization and developing a competency model appropriate to the organization. The Group ALPHA has chosen to put in place a tailored competency-based leadership model.

Introducing an organizational practice that was already tested by a network peer is less risky. It is even less risky when some organizational innovation was tested by numerous organizations from an extended network of international organizations and was "promoted" by management gurus, business professors, or consultants. There are many organizational practices – management "fashions" or "fads" that were introduced by this network.

5.2.2. Comparison to peers

Inter-organizational networks play a significant role in introducing and diffusing organizational practices in multinational corporations (Evans, Pucik, Barsoux, 2002). According to Evans, Pucik, and Barsoux (2002), many researches show that organizations compare themselves to other similar organizations: the multinationals compare themselves to other multinationals, and local firms compare themselves to other local firms. To a greater or lesser extent it is true all over the world; similar organizations create separate networks that limit access to information from the wider environment. "Organizations observe each other to understand what practices are effective and acceptable in their social system" state Guller, Guillén, Macpherson (2002, p. 214). The scholars argue that an innovative practice becomes institutionalized when the number of organizations adopting it increases.

In many respects, the development of a competency-based leadership model is not an innovation since many MNEs had already adopted prior to ALPHA similar models as a key element in their international human resource management strategy (Schuler, 2000). Having experienced significant organizational changes, ALPHA faces difficult questions of further leadership development. The Group compares itself to other multinational organizations and finds a solution. As stated by Evans, Pucik, and Barsoux (2002, p. 353), *"translating organizational needs into competence implications has been an important focus of HR attention during the last decade"*. One could say that the introduction of a competency-based leadership model was the result of institutional mimicry: ALPHA chooses to use an organizational practice that was already successfully used by an extended network of other multinational companies (DiMaggio and Powell, 1983). Guler, Guillén, and Macpherson (2002) emphasize the importance of identifying actors in the analysis of institutional mimicry, the actors whom an organization tries to observe and imitate. The scholars argue that these actors are the organizations perceived as peers: *"members sharing similar traits or located similarly become aware of each other's activities and use this information to compare their practices with others"* (Guler, Guillén, and Macpherson, 2002, p. 215).

The fact of inter-organizational comparing could be evidenced by the proper experience of the researcher. While the Leadership model was already in advanced stage of its development, the researcher was asked by her superior to get acquaintance with a competency-based leadership model developed by another multinational. The aim of the interview with the HR responsible of this multinational conducted by the researcher was to clarify the objectives of the competency model introduced at the company, the composition of the profile, its application and adaptation issues. Without any doubts, the objectives of this comparison were not to copy the competency model of another multinational, but to confirm the right choice of an HR tool. This action of comparison could be classified as one of the attempts to cope with uncertainty through information and experience sharing (Guler, Guillén, and Macpherson, 2002).

5.2.3. An institutionalized tool promoted by professional and business circles

Business and professional circles have "a set of 'routine' or 'acceptable' solutions to certain managerial and professional problems" (Galaskiewicz and Wasserman, 1989). Graduate schools, workshops, seminars, professional magazines serve as means for communication of such solutions. Inter-organizational movement of managers who change the job facilitates the spread of such institutionalized solutions, state Galaskiewicz and Wasserman (1989). As it was mentioned above, the responsible for the leadership model project is a manager of different from "ancient ALPHA" profile who had an experience related to competency-based leadership models. His rather "Anglo-Saxon" view of management and previous experience were highly appreciated by his superiors in order to cope with organizational changes. Human Resources Director of the Group clearly states the

> "*Willingness to find competencies of Anglo-Saxon nature in order to lead the group's training and development. We have hired a foreigner. His successor will be a foreigner also.*"

A competency approach aiming to improve organizational performance (Rothwell and Lindholm, 1999) is started to be used for executives recently (Briscoe and Hall, 1999). A competency framework for executives becomes an institutionalized tool promoted by professional and business circles.

5.2.4. Choice off consultants

The choice of a consultant organization consolidates the argument of institutional mimicry. The consultant group which has helped to elaborate the leadership model had previous experience in the development of similar competency-based leadership models in other multinational groups.

5.2.5. Management "fads"

Many interviewed managers are conscious about the imitation.

"This kind of management practices does not come from nowhere. It was developed and used in other Groups. It is not the originality of ALPHA even if it is adapted for our Group" (Marketing manager, Corporate).

It is highly important to emphasize once more that the absolute majority of the interviewed managers perceive the leadership model as "*a natural need of the Group*". Managers understand the need to formalize what the Group expects from its senior managers. However, some managers expressed their sentiments of having another management practice that is "*a fad*" (HR manager, Corporate), "*something nice to have*" (General Manager, Division 1) or "*flavor of the month*" (General Manager, Division 2). Group's HR director states that managers needed time to be convinced of the necessity of the model like this. According to him, many managers see the practice as one of American tools at the first glance. It is not surprising taking into account the *"culture of non-dit"* of the Group where little was formalized beforehand.

5.2.6. Conclusion

One could say that ALPHA did its best in order to develop a model based on the values of the organization, a model that fits its corporate culture. The whole process of this development described before - the work on internal documents, validation interviews with top managers, reformulating the competencies – was aimed on the elaboration of a model proper to ALPHA values. The nature of this process was dictated by the pursuit of the legitimacy. It is a tailored approach of developing competency model that was used to ensure "legal defensibility" (Rothwell and Kazanas, 1998).

However, nobody could deny that the idea of this competency-based model was borrowed. It is uncertainty in the leadership development that pushes the management of the company to launch the project. The Group that has doubled its size with acquisition Anglo-Saxon multinationals in few years needs integrate as soon as possible new comers; it needs to staff leadership positions. How to do it with minimum of risk? A competency-based leadership model already tested by the majority of multinationals seems to be a good decision, especially as the concept is easily accepted by managers of Anglo-Saxon culture. The responsible of the project inside the Group has a different from traditional "French engineer from Grande Ecole" background with previous experience of the model development. The consultant company that helps to develop the model also has an experience in the subject as it was already mentioned. Therefore, one could argue that the introduction of the leadership model was conditioned by the mimetic processes in order to reduce uncertainty in the leadership development. This discussion leads to the formulation of the following proposition:

PROPOSITION (INSTITUTIONAL THEORY)

ALPHA introduced a competency-based leadership model to develop its leaders in the result of institutional mimicry.

6. CONCLUSION

We have discussed the reasons of the introduction of a competency-based leadership model in one French industrial multinational in the context of significant changes in organizational culture. Two theories are used to describe and understand this phenomenon: agency theory and institutional theory.

Applying agency theory to a multinational company, one may consider relations between headquarter and its subsidiaries as principal-agent relationships (Gong, 2003; Roth & O'Donnell, 1996). In order to make subsidiaries to behave in the headquarters' interests, it should find an optimal control mechanism (Eisenhardt, 1989). According to this researcher, one of such mechanism is cultural control through shared values and goals. In the context of rapid international expansion of the Group ALPHA, it becomes extremely difficult to find enough trustworthy agents to staff acquired business units. By introducing a competency-based model, the Group ALPHA is looking for the creation of a common language in the leadership development and evaluation. This formalized common reference helps to develop trustworthy agents committed to organization values.

Looking at the question of the model introduction in the framework of institutional theory induces us to say that institutional mimicry was one of the forces that pushed the Group to develop this model. The introduction of a model already tested and widely used by many other multinational groups was a response to uncertainty (DiMaggio and Powell, 1983).

7. METHODOLOGY

The data of the present research were collected in the framework of a research contract between the HEC School of management and the Group ALPHA. This research contract allowed the author of this paper to be a temporary employee of the Group ALPHA during three years.

The combination of two types of qualitative research design: tight - with preexistent conceptual framework and loose - with theories that emerge gradually during the research (Miles and Huberman, 1994) was used for the present case study.

Multiple source of evidence for data collection is used: ALPHA internal documents, interviews with top managers, direct and participant observation in the life of the organization.

In total, 24 formal interviews of *semi-directive* character were conducted with top managers of ALPHA. Three of them were done by telephone. In addition, one interview was conducted with an external consultant who contributed to the development of the model. For the sake of confidentiality anonymity of all interviews was promised. Only the interview with the Human Resource Director of the Group was tape-recorded. Interviews lasted from forty minutes to two hours. Ten of the interviewed managers are French; others are from European countries, Canada, and United States. We have tried to provide a functional diversity regarding the positions occupied by managers. However, the half of the interviewed managers is from Human Resources Departments; other departments include General Management, Strategy,

Finance, and Performance departments. The interviews were conducted in French and in English.

Interviews were conducted with the help of an adaptation of the *critical incident technique* developed by Flanagan (1954). A critical incident is defined as a procedure for collecting certain important facts concerning any observable human activity in a defined situation. Critical incidents are to be compared to each other and given conceptual labels. Different concepts are grouped together and categorized.

We define two different sorts of critical incidents in this study. The first type concerns the description of the organizational culture of ALPHA. The critical incident is an event or behavior described by managers that helps to define the cultural dimensions of the Group. In other words, critical incidents are specific characteristics of the business culture of the organization perceived by ALPHA managers.
The second type is critical incidents that are attitudes, perceptions, behavior of ALPHA managers of different organizational units regarding the competency-based leadership model.

The interviews focused on three different series of questions. The first part concerned the question of why ALPHA has introduced a competency-based leadership model. The second part of questions was devoted to the organizational culture of ALPHA. What are the main features of ALPHA? What distinguishes ALPHA from other organizations? The third part regarded the competency-based leadership model. What is this? How the interviewees learnt about the model? What are their opinion concerning the choice of the model, of the competencies, their definition? What do they think about the applications of the model? What do they suggest to improve the model?

These formal interviews were only a part of the sources used by the author. Working for ALPHA during three years in Paris were the head office is located was extremely helpful to understand the organizational culture. Participation at the Group's human resources activities, informal conversations with ALPHA employees, direct access to internal documents and archival information allowed drawing a picture of what is going on in the organization.

A questionnaire was sent by intranet to 1208 top managers of ALPHA in May 2003. 286 responses were received that corresponds to a rate of response of 24%. Among 286 managers 5% were not familiar with the model. Thus, the responses of the rest 272 managers were analyzed (a rate of response is 22% = 272 respondents out of 1208). Content analyses techniques (Miles and Huberman, 1994) and descriptive statistics were used to perform the data analysis.

8. REFERENCES

Adler N.J. and Bartoholomew, S. (1992) Managing Globally Competent People. *The Academy of Management Executive.* **6**, 3.

Bartlett, C.A. and Ghoshal, S. (1989) *Managing Across Borders. The Transnational Solution.* Harvard Business School Press, Boston

Black, J. S, Gregersen H. B., Mendenhal M.E., Stroh L.K. (1999) *Globalizing People through International Assignments*. Addison-Wesley.

Briscoe, Jon.P., Hall, Douglas.T. (1999) "An Alternative Approach and New Guidelines for Practice", *Organizational Dynamics* Autumn, Vol. 28, issue 2, pp. 37-52.

Chang, Eunmi and Taylor, M. Susan "Control in Multinational Corporations (MNCs): The Case of Korean Manufacturing Subsidiaries", *Journal of Management,* 1999, Vol. 25, Issue 4, pp. 541-566.

DiMaggio, P., and Powell, W. (1983) The iron cage revisited : Institutional isomorphism and collective rationality in organizational fields. *American Sociological Review*, **48,** 147-160.

Edström, Anders and Jay R. Galbraith "Transfer of Managers as a Coordination and Control Strategy in Multinational Organizations", *Administrative Science Quarterly,* June 1977, Vol. 22.

Eisenhardt, K. M. (1989) Agency Theory: An Assessment and Review. *Academy of Management Review*, **14,** 57-74.

Evans, P. A. L. (1992) Management Development as Glue Technology. *Human Resource Planning*, **15**, 1.

Evans, P., Pucik, V., Barsoux, J-L. (2002) *The Global Challenge: Frameworks for International Human Resource Management*. McGraw-Hill Higher Education, New-York.

Galaskiwicz, Joseph and Stanley Wasserman "Mimetic Processes within Interorganizational Field: Empirical Test", *Administrative Science Quarterly,* 34, 1989, pp. 454-479

Gong, Y. (2003) Subsidiary staffing in Multinational Enterprises: Agency, Resources, and Performance. *Academy of Management Journal*, **46,** 728-750.

Guler, Isin; Guillén Mauro F., Macpherson, John Muir "Global Competition, Institutions, and the Diffusion of Organizational Practices: The International Spread of ISO 9000 Quality Certificates", *Administrative Science Quaterly*, 47, 2002, pp. 207-232

Hall, E. T., and Hall, M.R. (1990) *Understanding Cultural Differences. Germans, French, and Americans.* Intercultural Press, Inc, Yarmouth, Maine.

Hofstede, G. (1991) *Cultures and Organizations. Intercultural cooperation and its importance for survival. Software of the mind*. Harper Collins Business, London.

Jensen, Michael C. *"Foundations of organizational strategy"* Harvard University Press, Cambridge, Massachusetts, London, England, 1998

Jensen, M. and W. Meckling "Theory of The Firm: Managerial behavior, agency costs and ownership structure", J*ournal of Financial Economics,* 3, 1976, pp. 305-360.

Lubatkin, M.H., Lane, P.J. and Schultze, W.S. (2001) "A strategis management model of agency relationships in firm governance", in M.A. Hitt, R.E. Edwards and J.S.Harrison (eds) "The Blackwell Handbook of Strategic Management", Blackwell Business: Oxford, pp. 229-258

Morrison, A. J. (2000) Developing a global leadership model. *Human Resource Management*, **39**, 117-132.

Nilakant, V. and Hayagreeva Rao "Agency Theory and Uncertainty in Organizations", *Organization Studies,* 1994, 15.

O'Donnel, Sharon Watson "Managing Foreign Subsidiaries: Agents of Headquarters or An Interdependent Network?", *Strategic Management Journal,* 2000, 21, pp. 525-548.

Ouchi, W. (1979) A conceptual framework for the design of organizational control mechanisms. *Management Science*, **25**, 833-848.

Roth, K. and O'Donnell, S. (1996) Foreign subsidiry compensation strategy: an agency theory perspective. *Academy of Management Journa*l, **39,** 678-704.

Rothwell, W. and Kazanas, H. *Mastering the Instructional Design Process: A Systematic Approach (2nd ed.)* San Francisco: Josey-Bass, 1998

Schuller, Randall S. The internationalization of human resource management *Journal of International Management*, 6, 2000, p. 239-260

Trompenaars, Fons and Charles Hampden-Turner (1998) *Riding the waves of Culture. Understanding Cultural Diversity in Business,* Nicholas Brealey Publishing, London, Second Edition

Wellins, R. and Byham W. (2001) The Leadership Gap. *Training*, **38**, 3.