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**DOES ONE SHOE FIT EVERYONE? A COMPARISON OF HUMAN  
RESOURCE MANAGEMENT IN RUSSIA, CHINA, AND FINLAND**

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## **DOES ONE SHOE FIT EVERYONE? A COMPARISON OF HUMAN RESOURCE MANAGEMENT IN RUSSIA, CHINA, AND FINLAND**

### **EXECUTIVE SUMMARY**

Based on in-depth case studies of three Swedish multinational corporations, this paper compares the HRM practices used by these firms' Chinese, Russian, and Finnish subsidiaries and highlights that important differences in HRM in the three countries exists for good reason. The article shows that while most previous literature has considered the overall degree HR practices were standardized, in fact MNCs should and do standardize different practices to varying degrees. Further, a central point of this article is that it is important to move beyond a course look at the "what" of HR and also consider the "how" of HR. Both formal and informal systems should be used and both HRM staff and line managers have a role to play to make HRM practices work optimally. The repertoire of systems used and their balance is significantly influenced by national context.

## INTRODUCTION

People are an organization's most valuable resource as we enter the 21<sup>st</sup> century. Thus, as the role of human resource management (HRM) is to help organizations make the most effective use possible of their human resources, HRM is clearly an increasingly important area to understand. As scholars such as Bartlett and Goshal have pointed out in their recent *Sloan Management Review* article "Building competitive advantage through people," without good human resource management systems, leadership and most functions of an organization will struggle. A considerable body of research indicates that investments in the firm's human resources tend to have positive effects on firm performance. Companies with more extensive and comprehensive human resource (HR) systems and practices (e.g., for recruitment and selection, performance appraisal, training and development, company-internal communication, performance-based rewards, and career management) are likely to have employees that are more competent, better motivated and committed, more empowered and involved, and more innovative and flexible.

However, HRM practices may not be universally applicable, and both executives and international management scholars are wrestling with the question of the extent to which a firm's practices for people management should be modified across countries. For instance, should a company implement the same HRM practices in Russia as in Finland? The localization stream in the literature advanced by scholars such as Rowley and Benson asserts that policies and practices of HRM need to be adapted to each local context. Other scholars such as Pfeffer argue that one set of practices for people management works in most situations and that standardization is important to ensure that a MNC function efficiently and preserve its identity. Furthermore, global standardization of HRM is one way in which a multinational corporation may attempt to control the ways in which a foreign subsidiary operates. The above discussion builds on the long-standing debate on overall MNC strategy between the need for MNCs to pursue global "integration" or "standardization" versus local "responsiveness" or "localization." This tradeoff is particularly well articulated by Doz, Bartlett, and Prahalad.

Scholars such as Taylor, Beechler, and Napier, however, have argued that multinational corporations sometimes may have a HRM strategy that blends global standardization with local responsiveness. Taking this a step further, it may even be beneficial for a firm to standardize different HRM practices to a different degree around the world. However, most past work has

focused only on the overall level practices are standardized. Thus, there is arguably a need to describe and in-depthly analyze each HRM practice separately rather than using an aggregate measure of HRM practice standardization.

Most research on people management has focused on which HRM practices are used by a firm. Far less work has been done on WHO does the HR work—line managers or HR staff. The role of line managers may be particularly important in supplementing formal HRM practices with informal processes, thereby diffusing the company's values and mission, establishing appropriate behavioral norms, and sharing information and encouraging responses to challenges facing employees in their daily activities. Most extant HRM research has focused on one country (often the USA). We assert that much can be learned from comparative studies. Thus, this article seeks to add value by providing an in depth comparison of Russian, Chinese, and Finnish subsidiaries of three Swedish multinational corporations (MNCs) to augment our understanding of the “what” of HRM, but also to shed new light on the “how” of HRM. By “how” we mean what part of HR is done by HR managers and what part of HR is done by line managers. The role of formal and informal practices is also an important part of “how.” As will be shown below, Russia and China are good choices to include in this study since they are important markets about which we have limited understanding as they are just now emerging as full partners in the international economy. We include Finland as a comparative case.

## **BRIEF BACKGROUNDS ON THE HOST COUNTRIES**

Russia is an important country for the world economy since it is the largest in terms of land area, the sixth largest in terms of population, and the seventeenth largest in terms of GDP in 2000. Further, recently Russia has been increasingly attracting international business attention as its economy has become more stable and signs of continued improvement begin to emerge (e.g., the Russian stockmarket has gone up 43% between January and mid May of 2002). However, Russia has historically proven to be challenging for foreign companies, in part due to cultural differences.

Being the world's most populous country with 1.3 billion inhabitants, China also has gained much attention since Deng Xiaoping began to open China's doors to the world in the mid 1980s. In fact by 2000 China was the world's second most popular destination for foreign direct investment. This is not surprising since China is an inexpensive location to produce products,

China has averaged 7.8% average annual growth from 1997-2001, and Boston Consulting estimates are that by 2008 China will be the World's largest market for any product one chooses. However, although China offers great potential, like Russia it is a market which has caused problems for many foreign companies. Thus, a need clearly exists for more research focusing on China and Russia.

We include Finland in this study in order to have a sample Western/ European country with which to compare Russia and China. In part Finland's proximity to Russia yet different culture helped motivate our choice to include Finland. Finland is a country of 5 million people which is known for a homogeneous population and an extensive social welfare system.

## **FORMAL AND INFORMAL HR**

A fundamental problem facing managers in organizations is how to exercise adequate control in organizations and, at the same time, to encourage and maintain flexibility, innovation, and creativity among employees. It has long been appreciated that the role of HRM is to help organizations to achieve their goals by proper management of their resources. To help achieve this goal HRM tools like performance appraisal systems have been developed. Such systems may contribute to improved employee and organizational performance through improved focus on the setting of objectives, analysis of training and development needs, and enhanced feedback on performance. Such systems are sometimes used more as formal control mechanisms, e.g., focusing on the measurement of progress against plans to guarantee the predictable achievement of goals. When used in this way, HRM practices hold employees accountable for performance without stimulating motivation and initiative. This practice can cause sub-optimal performance unless other complementary systems are in place.

Simons (R. Simons. "Control in an age of empowerment," *Harvard Business Review*, 1995, March-April, 80-88.) asserts that what he calls the "ingredients of success" should be taken into account when developing the company's management system. These ingredients include "belief systems" which encompass the company's values, mission, and other statements of philosophy; "boundary systems" which set boundaries that establish the rules of the game; and "interactive control systems" which promote sharing information and encouraging interactive responses. An important argument of this paper is that for a company to be successful, it needs to use all these different systems in a balanced way.

Belief systems contain the core values and mission of the organization and thus reduce the uncertainty about purpose. This becomes particularly important in situations of on-going change or transformation (such as in China or Russia) where insecurity is an important issue and employees need constant reinforcement of which direction is the way forward to obtain additional security. In the absence of clearly articulated core values, employees are forced to make assumptions about what constitutes acceptable behavior in the many different and unpredictable circumstances they encounter. As performance-oriented organizations grow and become more decentralized, managers need to ensure that the boundaries are communicated and understood. Boundaries can help with the empowerment process (and empowerment is a key issue in countries like Russia and China where there is not a tradition of empowerment) and decrease uncertainty by clearly delineating the area of an employee's responsibility. Finally, the interactive control systems play an important role in allowing for the sharing of strategic information and obtaining employees' input - two items which are critical to employees' feeling that they are meaningfully contributing to the organization.

In summary, relying only on formal HRM tools without having other informal processes in place can cause problems. The type, way, extent, and proportion that various formal and especially informal practices are used are dependent on the local context where the organization is operating.

## **METHODOLOGY**

This article is based on in-depth case studies of three Swedish multinational firms operating in China, Russia, and Finland. The firms are Ericsson, Electrolux, and Tetra Pak. Brief descriptions of these three firms can be found in Appendix A. In order to be eligible for participation in the study, the corporations had to have subsidiaries in China, Russia, and Finland, have at least 50 employees working at their subsidiaries, and have each subsidiary be at least two years old. We were able to identify six firms which met these criteria and from these we selected three for the case studies. Approximately five people (normally including the general manager, the human resource manager, and a manager and employee from two different functional areas) were interviewed at each subsidiary and at least one representative from headquarters. The interviews were conducted during 2002.

## **HRM PRACTICES IN THE THREE COMPANIES**

### **Recruitment and Selection**

Managers in the Russian and Chinese subsidiaries felt that hiring was one of the most important HR practices on which to focus. Given Russia's and China's transformation from Communism to Capitalism, some people in those countries are making the necessary mental state transitions while others are not. Russia and China have more heterogeneous populations in terms of level and quality of education, expectations, values, etc. than is the case in a fairly small homogenous country like Finland. Thus, the downside of making an incorrect choice is normally larger in Russia or China than in Finland, making hiring particularly important in Russia and China. However, there seems to be a larger pool of applicants with Western training and experience in China than in Russia and in fact a sizeable and growing number of Chinese have MBAs or other education from abroad.

Initially, when the case study companies opened their Russian and Chinese subsidiaries, they tended to rely heavily on the use of expatriate managers for their subsidiaries. However, by 2002 only a few expatriate managers worked in key management positions in the Russian and Chinese subsidiaries. Both local and expatriate interviewees asserted that whenever possible (ie., if suitable competence could be found), it was best to have mostly local managers. It was felt that local managers were beneficial because they understood the local environment better than the expatriates, decreased language problems, were much less expensive, and might be willing to work at the company long-term. The decreasing role of expatriates was supported by the managing director of Electrolux, Finland, who was also in charge of the subsidiary in Russia. He said:

The next stage in development of our subsidiary in Russia which we are now starting is moving the business to the locals. Local managers are starting to take broader responsibilities. The best possible way to develop the business in Russia is to select and hire young and professional people with higher education background. Hiring is the most important HR practice in Russia for the time being.

The increasing ability and importance of locals were supported by the Chinese interviews also. For example, the HR manager of Ericsson China Region Central said, "In 1995, we had about 30 expatriates in our region. Now the General Manager, who is from Sweden, is the only

expatriate.” Filling an increasing number of key positions with local people, however, has increased the importance of finding and developing the right local people. One important task which expatriate managers fulfil in subsidiaries is to help transfer the MNC’s organizational culture and values (Simon’s belief systems). Such values are especially critical in dynamic environments and where people are often working in jobs they are not used to--both of these conditions can be found in Russia and China . Values can provide direction and an important sense of stability. It is a challenge to ensure that values and organizational culture from the parent firm remains/develops at the same level with fewer expatriates in the subsidiaries. One Ericsson manager commented:

Many people came to work for Ericsson because they wanted to work at a foreign firm. We used to worry if we were adapted enough to the Chinese environment. This is no longer an issue, but with fewer expatriates, Ericsson China is becoming somewhat more Chinese and some employees complain about this.

Several interviewees mentioned that it was good that the subsidiaries we interviewed were adapting more to the local environment. However, it should not be forgotten that MNCs have the culture and values they do for good reason. Several interviewees suggested that hiring top managers from within the Chinese subsidiaries (as opposed to someone from outside) helped maintain the subsidiary’s/MNC’s culture and mitigate the problem of diluting the firm’s organizational culture.

One important question concerning hiring was whether it was better to hire someone with experience, but potentially experience doing the same job in a company with a very different philosophy (perhaps from Communist times), or whether it was better to hire a young person who lacked the experience, but presumably could be more easily molded. In most cases the companies chose the latter approach as they had concluded that changing attitudes and working styles was far more difficult than training people in a skill. As the HR manager in Ericsson Russia put it:

This focus in recruitment was made because it was too difficult to change the mindset of old people .... The company wanted young, talented people who were not spoiled by the old Soviet system. ... It is cheaper and easier to develop technical skills rather than trying to change the mentality.

Over the last ten years the focus for most foreign subsidiaries in Russia was on hiring bright, young Russian people twenty to thirty-five years old even if they did not have the exact



skills that were needed for a specific job. For example, the average age of employees at Electrolux Russia was 30. It was felt it was easier to teach skills than change mentality.

Electrolux, Ericsson, and Tetra Pak all used interviews and some sort of psychological tests to select employees in Russia. Tetra Pak also asked candidates to solve different case studies as part of their evaluation process. The focus in hiring was on identifying managerial potential. Managers at Ericsson (Russia) stressed that experience had shown them that ability to successfully evaluate one's strengths and weaknesses was a good indicator of the person's ability to take responsibility and managerial potential and was thus looked for in interviews. All firms mentioned their wish to hire people good in teamwork, but there was also a uniform feeling that this was difficult to identify in advance.

Hiring in China was somewhat different from that in Russia and Finland. First, companies preferred applicants who had functional experience for the job they would perform even if it was from a state-owned firm over people who had no experience but the correct character and could be more easily molded. An HR manager at Ericsson China supported this view and indicated that Ericsson considers many factors when hiring but proven skills from past experience is the most important one. The HR manager of Tetra Pak Hoyer China supported the importance of potential employees possessing needed skills. He stated, "The key factors we look at in making a hiring decision are the applicants' previous working experience, their motivation to apply for the company, and salary expectations."

In the 1980s and 1990s foreign firms' representative offices had no right to hire employees directly in China—they were hired through the assistance of a state organization. As a result, initially many foreign firms did not have well developed HR departments in China. This situation has now changed, however, and especially Electrolux and Ericsson both had grown well-developed HRM departments by the time of our interviews even if some employees also remembered much earlier times when HR was not so strong.

Deciding on the roles of HR and line managers was an important issue in China as elsewhere. One manager at Ericsson explained the roles of HR and line managers in hiring:

First, I provide the requirements of the position to the HR department, and HR will help to post the vacancy using both internal and external media. After that, HR will do the first round selection of selection after processing all applications. Then line managers are responsible for second round selection and conducting interviews.

Electrolux China had a similar process for hiring, and line managers usually made the final decision about the candidates. The general manager and the HR department played a larger role in hiring in Tetra Pak Hoyer China probably because the firm is earlier in its life cycle.

The methods used for hiring in these three companies in China were similar to those used in Russia. Interviews were the most commonly used method. However, psychological tests and assessment centres were also used by all companies at times depending on the requirements of vacancies. Another important characteristic of hiring in China was that the firms spent much effort trying to hire from within the firm when possible. This process was closely tied to personnel development. About 80% of middle managers in all three companies in China were promoted from within the company.

In contrast to Russia and China, somewhat less attention was placed on hiring in Finnish subsidiaries. This may be a result of the fact that Finnish people's mindsets and training were more homogeneous than in Russia. In addition, the greater availability of well-developed recruiting agencies, job fairs at universities, and databases of potential employees resulted in greater ease in finding suitable employees in Finland than in Russia. Although tests were used for screening candidates in Finland, extensive interviews were the key determinant of hiring decisions. Further, compared to Russia and China, there was a greater involvement of line managers in the selection process. For example, a manager in Ericsson Finland stated:

HR is not very much involved in the process given this is mostly the responsibility of the line managers to select people. The only role of the HR in the process is to make an initial screening of potential candidates.

## **Appraisal**

Parent company influence was very noticeable when observing appraisal systems in Russia, China, and Finland. There were many tools developed to conduct appraisal, though the difference among the three countries was much more in the way these tools were applied than in which tools were used. Also, the expectations that employees had concerning appraisal differed.

In the Russian subsidiaries of Tetra Pak and Ericsson, appraisal was performed under close supervision of the HR department. In Electrolux Russia appraisal was a less formalized discussion. In China, all the three companies had a formalized performance appraisal system. In Ericsson and Electrolux the systems were linked to compensation while in Tetra Pak the results

were largely linked only to employee development. Different forms and levels of appraisal were used. For example, in Ericsson China, employees identified as “high potentials” received extensive appraisal and career management assistance by identifying development needs and planning developmental activities.

For standard employees in Ericsson China each employee was evaluated once a year by his boss on various characteristics such as Leadership ability, teamwork capacity. In addition, each employee was assessed on how well he or she did at meeting mutually-set short term goals which are both individual, group, and company level goals. Based on this assessment the company pays a bonus equivalent to about 10-20% of yearly salary. Tetra Pak Hoyer China, being somewhat newer, had a basic system in place and was planning to develop a more extensive system similar to those mentioned above shortly.

The quality of the performance appraisal, however, depended much on the manager making the appraisal. As one employee of Ericsson said,

Every manager has different preferences and looks more on different things. Some managers like you to show your performance, yet some managers see how you perform even if you don't tell them how well you have done. Sometimes I feel a little bit frustrated because what I do is not identified much less rewarded.

Such statements revealed that while employees have high expectations for performance appraisal, managers need to understand the system of performance appraisal more and companies should give clearer directions about performance appraisal.

In Finland similar tools were used for assessment. These included personal planning and development (PPD) and management planning and development (MPD) in Tetra Pak Finland, personnel development (PD) talks in Ericsson, and individual planning sessions in Electrolux Finland. The managers interviewed knew all the tools very well. In China, Ericsson and Electrolux also used quite similar tools; however, in China they were often linked more to objectives and quotas rather than to facilitating employee growth. One problem in China was that managers and employees were just becoming familiar with these appraisal tools. Lack of familiarity sometimes caused some challenges especially since they were important determinants of compensation--something everyone cares about.

Differences did exist regarding appraisal in Russia, China, and Finland. An important difference among the three countries was in the expectations employees had concerning appraisal. In Russia, probably because the process was driven by the company rather than a result of

employee demand, employees viewed appraisal as a formal process when they were required to complete evaluation forms which perhaps did not contribute to the best results. Further, given that in most cases Russian managers were used to giving orders rather than feedback, several expatriate managers indicated that they thought that Russian managers needed to improve their appraisal skills (probably mostly naturally through practice). Coaching skills among Russian managers were mentioned as being particularly weak.

In Finland, on the other hand, managers normally provided their subordinates with feedback and such feedback was expected. Compared to Russia, however, this feedback was often provided in an informal way and not in such a structured formal system as was the case in Russia. The business controller stressed:

It is quite self-evident that performance is up to the individual. The individual has to see his work is meaningful, and this is about getting feedback. Feedback increases motivation and spirit in the department. Also people can see their contribution to the whole company and their development.

In general, as mentioned above, Finnish managers were more accustomed to give feedback and more willing to do so. However, sometimes time pressures left their subordinates without needed feedback for quite a while. A manager in Electrolux Finland described her first days at work in the company:

When I started work here I wondered how would I know what I am allowed to do and what not, what the standards are? I would have talked with my boss, but my boss was very busy--we don't have regular meetings. It is part of the culture and also history that you have to find out how things work yourself. I'd like to have had the opportunity to talk with my boss to find out whether the activities I planned were what he felt were needed. I want to go in the same direction with the company; it is important for me to know such things as vision, strategy, targets and where I am in the company.

The general manager of Ericsson region central highlighted another difference between China (with Russia being fairly similar) and Finland for us. China is very people-oriented while Scandinavia tries to be process-oriented. In Scandinavia people try to build a process which will work regardless of who is in a given job. In contrast, in China, the job is often built around the person in the job—the person is the central focus. This difference is becoming a larger challenge now as firms like Ericsson try to implement SAP throughout their organization including appraisal/HRM. SAP demands conformity and a process-based organization. It is too early to tell exactly how this will work out in China, but it is clear that this will create a greater pressure

for conformity throughout the Ericsson world-wide organization and result in greater pressure for a larger process-orientation even in China.

Most expatriate managers whom we interviewed in Russia and China highlighted that, compared to Swedes, most Russian and Chinese employees were extremely driven and willing to work much longer hours to help the firm and to further their careers. As one employee in Ericsson China who had been in Ericsson headquarters in Sweden commented:

Sweden is a country with high benefits and people place high importance on a good quality of life. The social insurance system is quite good in Sweden. Employees in Ericsson China actually work harder than those in Sweden. Besides the career orientation, the new situation in the Chinese market is an important factor. Customers request more--quick response and short delivery time are essential.

### **Training and Development**

Training and development received much attention and were more formalized in the Russian and Chinese subsidiaries than in the Finnish subsidiaries. The logic behind this difference was that the Russian and Chinese employees, while very intelligent and capable, had more diverse backgrounds and were often working in areas in which they were not originally trained in and thus they were more likely to benefit more from formalized training than their Finnish counterparts. Further the content of training differed between the countries. Training in Russia and China appeared to be fairly similar and differ from Finland. According to the top Electrolux executive responsible for Finland and Russia:

In Russia, because we have very young people, all with very good education, training is about giving our employees practical tools. Training in Finland differs. In Finland we have employees with average age of 40 years and they need other kind of training, e.g., different courses to gradually develop their management skills. Young potentials in Russia have very high expectations for their career. They perceive training as a sign that the company developing them sees them as potential bosses.

In the Russian subsidiaries of both Ericsson and Tetra Pak, training and development activities received significant co-ordination from headquarters. For example, special programs for high potential employees were transferred from Ericsson and Tetra Pak headquarters to their Russian subsidiaries. Developmental tools based on the use of competencies were also applied in these companies. International training in these subsidiaries was very structured (for certain

positions / departments or for high potential). In addition to training, once new employees were on the job, orientation also played an important role.

The most formalized training and development process was in the Russian subsidiary of Tetra Pak where all activities in the area of training and development were supervised and co-coordinated by the HR department. There was a system of developing high potentials and this system was “very strong” (HR director of Tetra Pak), meaning very formalized and received much attention. Every managerial employee had a development plan that was kept in the HR department, and progress was strictly monitored by HR staff. The initiative about training could come from the individual, his/her superior or the HR department, but the HR department normally played an important role.

Deciding on the training an employee would attend was done in consultation with the employee. Sometimes, however, there was implicit or explicit pressure for an employee to attend a particular training. An explanation for this could be that because of a need to formally satisfy training quota requirements of the parent company, managers did not pay much attention to identification of subordinates’ training needs. The existence of formal criteria, however, has helped in making sure that people were selected and the program moved forward.

In China, though in general training was more similar to Russia than to Finland, training was approached differently. For example, Ericsson China provided employees with extensive training of various types from 1996 to 2000 when the Chinese economy was developing very well especially for telecommunications firms. At that time there were no strict limitations on training. As one employee said, “I participated in a lot of technique trainings in the late 1990s.” However, with the recent decline of the telecommunications industry, Ericsson has had to control costs significantly and restrict training programs. Ericsson does, however, recognize the importance of training and maintains much more training than many companies even now. In recent times Ericsson has decided to focus its training more on technical training than on managerial training. Recently Ericsson has placed more effort on training in China as opposed to abroad and currently the general manager or deputy general manager must approve all foreign training. Electrolux China provides some training for management-level employees and anticipates providing more training for all employees in the future. .

As to the standardization of training, both Ericsson and Electrolux China got support and co-ordination from headquarter on training. Tetra Pak Hoyer China had much more focus on

developing locally-specific training. Ericsson and Electrolux had a mix of programs with some training programs being standardized and used worldwide. Standardized training usually related to company strategy and to core techniques and skills that should be applied all over the company. Subsidiary employees also took training courses provided by headquarters to make full use of the resources within the company.

All three of these companies use on-the-job training although procedures for this training are not very explicit and formal. Coaching was a new concept in China. None of the three companies had an extensive formal coaching program although managers from all companies indicated this was an interesting concept which they were considering exploring more fully in the future. Ericsson had a coaching system to some extent for identified high-potentials. However, the deputy GM mentioned that probably it was the people who have not yet made it to the high-potential short list who need the coaching more. Electrolux plans to start a coaching program which has been applied in other area of Electrolux next year. Tetra Pak Hoyer does not yet have any formal coaching program, but is interested in the idea.

Training needs were identified by line managers and HRM personnel together in all three companies in China. However, in Ericsson China, line managers played more important roles than in the other two companies. In Ericsson, usually the training needs were identified through an annual activity called Personal Development Talks. As one manager said, “employees can put forward their perceived training needs and supervisors judge whether the employee should take part in the training program according to the needs of employee and department.”

Compared to Russia and China, the subsidiaries in Finland had a very informal approach to organizing training. This informal approach resulted in some critical comments by the managers interviewed. For example, a manager in Electrolux Finland highlighted some weaknesses:

Two years ago we did not have HR [department] and there was almost nothing in terms of HR. At that point I did not have any appropriate training. There was only language and computer skills training and I knew about that before. Only this year I attended some classes I was long hoping for. Historically, training was not organized; nobody had time to organize it. My supervisor would not reject my initiative but at that time I was young and did not have enough strength or knowledge to demand training or know what training I needed. Now I learned that I have to take care of myself.

The managers interviewed in all of the Finnish subsidiaries uniformly indicated that training was not very formalized. However, for both Russia and Finland, more concerns were raised in the area of internal communication.

Tetra Pak Russia's extensive efforts in developing its personnel through various systems including formal training and other methods had met with much success and also resulted in one important challenge for the firm. With the help of the various systems that Tetra Pak Russia had in place, Tetra Pak Russia's employees increased their competence significantly over time to the point where many employees actually possessed the competence to be promoted to higher positions. Not enough vacancies available, however, higher up in the organization for all qualified employees to be promoted. At the same time, other firms (especially local Russian firms) were actively trying to attract these well-trained/developed employees to join their firms where they would be offered jobs with significant responsibility. This problem was exacerbated by the fact that most Tetra Pak employees wanted an interesting and challenging career—simply paying qualified people more money was not a sufficient answer. How to persuade the qualified employees who could not be immediately promoted to stay at Tetra Pak was a key challenge with which Tetra Pak Russia was struggling.

### **Internal Communication**

There was strong agreement in Russia, China, and Finland that good internal communication was critical for a company to work effectively. This is in keeping with Simons' assertion (described earlier) that interactive control, communication both up and down in the organization, is the third system needed for an organization to be effective. It was also clear that communication happened much more naturally in Finland than in Russia and China. For example, the general director of Electrolux Russia, who was a Fin, asserted that internal communication is a key challenge in Russia, much more of a challenge than it is in Finland:

Lack of this communication between people is a problem I am working on in Electrolux Russia. Here if I want to deliver some message I have enough experience to understand that if I tell it to one person I am 100% sure that that person should tell it to you, it may not happen. I have to especially agree with the first person that he would communicate also with you and then, if it is important, I still have to check that it actually happened. In Finland such communication happens naturally; it is not something you have to worry about much. In Russia it is considered if you tell too much you are losing the power. Russians like to talk to



each other and they speak a lot about a car crash or general items from the newspaper, but they don't speak about the core things for the company.

A production manager at Tetra Pak Russia, like other employees, indicated that while communication between some departments at Tetra Pak Russia worked very well, communication between other departments did not work as well as it could. This is not surprising since historically Russian organizations have been good at vertical flow of information (at least downwards), but very poor with horizontal flow of information. As one employee at Tetra Pak Russia commented:

Firms in Russia have a long tradition of having poor information flow and even in Tetra Pak it takes time to create a firm where information flows as well as would be desirable. People just can't change their style over night. Tetra Pak is improving, but information does not flow as well as it should between some departments.

Managers in Chinese subsidiaries had the similar feeling. Some managers interviewed said that there were some problems in communication between departments. Several interviewees indicated that they thought there were several explanations for this problem of lack of communication between departments including cultural traditions and employees thinking more about their department's interest than the interest of the company as a whole. Employees in all firms, however, uniformly indicated that internal communication worked much better in their firm than in traditional firms in their country. In fact, a number of people, especially in China, indicated that relatively better communication flow was one of the reasons they chose their firm.

The GM of Tetra Pak Hoyer China provided an insightful explanation for why he thought internal communication was difficult in China. He said:

One problem is that Chinese really are concerned about losing face. You have heard it before, but it is really true. Thus, if a Chinese manager does not understand something that I say to him, he is unlikely to ask for clarification because he is concerned he might say something that sounds stupid. This is quite different than most places I have worked previously.

In both Russia and China companies used formalized mechanisms to increase internal communication flow since information flow was not a tradition.

Formalized systems included instruments like intranets, newsletters, regular department/company meetings, suggestion boxes/systems, etc. Having such formal mechanisms seemed to be more important in Russia and China than in

Finland since in Finland employees indicated that by the time the information was available via formal channels, they often already knew much of the information from informal channels. In Russia and China, since information was often perceived as power, less information was shared via informal channels (especially across department lines) and thus the formal channels served an important purpose. In Finland employees were much more likely to take proactive actions to share information they thought might be useful for another employee with them than was the case in Russia.

### **Compensation Systems**

In fact what stands out most about compensation was that the structure of compensation (the types of compensation system used) was very similar in Russia, China, and Finland. In all of the subsidiaries involved in the research in Russia, Finland, and China had compensation systems which had some sort of a performance-based component and were co-coordinated from headquarters. Headquarters had the main role in determining salary structure/levels with input from the subsidiaries.

In general, Chinese subsidiaries had somewhat more independence than their Russian and Finnish counterparts perhaps due to their larger size and geographic and cultural distance from Sweden. Both Ericsson and Electrolux participated in a compensation survey in China and adjusted their compensation level according to the survey results yearly. A unique aspect of the compensation systems in China was that firms contributed (as was required by law) to the housing fund for each employee. This was a fund centrally managed by the government where each employee had their own account and they can use the money in the fund to purchase a house or an apartment. In the Chinese subsidiaries we interviewed, employees each contributed 7% of salary and the company contributed matching funds. This can vary somewhat from firm to firm.

There were slight differences between Russian subsidiaries, Chinese subsidiaries, and Finnish subsidiaries in terms of systems of bonuses existing in the subsidiaries. Different subsidiaries used different types of performance-based compensation ranging from subsidiary performance, to subjective assessments of individual performance, to reaching quantifiable individual targets, to reaching subjective individual performance or development targets. However, performance-based compensation of some type was an important salary component in

each case and especially in Russia and China this was cited as appreciated by most employees and an important motivating factor.

Though compensation was important for all employees interviewed, there were not many comments about the way the practice was administered. In part this was probably because the interviewed firms usually had above market-level compensation employees appeared generally satisfied with salary level. Further, given that in Russia and China for the type of people who were working for the case study companies development of one's career was very important, several employees indicated that monetary compensation was seen as only part of their overall compensation package. As an employee at Ericsson Russia said, "what is the most important for me is my possibility to learn and develop, but of course good compensation also plays a role." An employee at Electrolux China echoed these comments, "career opportunities and personal development are most important for me in my job and are something I consider as part of my compensation." Compared to Chinese and Russian subsidiaries, Finnish employees seemed less inclined to consider development a part of compensation.

### **THE ROLE OF THE HR FUNCTION: FORMAL VS. INFORMAL APPROACH**

While some differences could be detected between the three corporations, considerably more striking was the similarity in the roles played by the HR departments in a given country, and, conversely, how different the role of HR was among Russia, China, and Finland. The role of the HR function was closely associated with the degree of formalization of the HRM practices. In brief, the HR department played a more central role and HRM issues were handled in a much more formalized manner in Russia than in Finland, with China being someplace in-between—but much closer to Russia. In Russian subsidiaries the role of the HR function was very significant in providing support to businesses in managing their operations. The subsidiaries had well-developed HR functions. The Russian subsidiary of Ericsson followed an interesting approach to facilitate closer relations between HR and the other departments by having HR officers allocated for different departments to help the departments with HRM-related issues, e.g., assessment and development planning. In Tetra Pak the role of the HR department was even stronger—every HRM activity in the company was supervised by the HR department. The Russian interviewees often referred to the HR department when they were asked about their development plans or appraisal systems during the fieldwork.

In China, both Ericsson and Electrolux didn't have a very strong HR function at the beginning of their expansion into China. However, after several years, both set up HR departments which were quite well developed by the time of our interviews in 2002. Like in Russia, HR in China was quite formalized and consisted mainly of many different programs, tools, and systems. At first, HR had done more administrative tasks, but as time had gone HR was beginning to become a partner in strategy implementation (and to a lesser degree formulation). As an HR manager in Ericsson China said:

HRM plays an important transactional (administrative) role in the company. A study by a consulting firm indicated that we spend over ½ of our time on transaction activities. Yet our company desires to lift up the image of the role of HR. HRM is receiving quite much attention currently. HRM is becoming more strategic in recent years, however, the reality of the pace of this change doesn't always match the spoken philosophy.

The HR departments in Tetra Pak Hoyer and Electrolux China were somewhat less involved with strategy. Because TP Hoyer was a young joint venture there were many HR related administrative issues to be done. However, the company has initiated several organizational development programs such as management training and staff evaluation.

In contrast, in the Finnish subsidiaries the role of the HR function in co-coordinating of HRM activities was less pronounced. As an employee at Ericsson Finland indicated, "The role of the HR department is not so visible to the employees." Until two years before our interviews, Electrolux Finland had not even had a formal position of HR manager. This raises the question of what the role of HR is. As a HR manager at Ericsson's corporate HR group in Stockholm commented:

An important role of HR is to teach employees the Ericsson way of doing things. In Finland since many people have been with our organization for many years and most people have a similar mindset this happens naturally--almost by itself. In Russia and China, more attention is needed to using more formal practices to make sure this acculturation occurs.

In Russian subsidiaries the prime role of the HR function was to help with the implementation (and to some degree adaptation) of the major HRM tools used by the parent companies. The multinationals brought their standardized practices, and the local HR function was to implement these in the subsidiaries. The HR director in Tetra Pak Russia explained:

In the area of HR key approaches and practices are determined by the headquarters: Tetra Pak core values are declared and applied world-wide; they are told to every new hire, repeated and referred to during the company events. These core values are global .....Our contacts with the headquarters are very close ones: whatever we do here has to be in line with their requirements ....We [HR Russia] are here to provide support and disseminate practices as well as to take the best that exist in the market companies. Adaptation is about how implementation is done.

The interviewees in the Russian subsidiaries of Ericsson also highlighted close links with the parent company. This was somewhat less pronounced in the subsidiary of Electrolux. In every Russian subsidiary there were a variety of printed materials, e.g., different manuals, describing the major HRM procedures and processes.

In China, the subsidiaries also adopted many standardized processes and tools from headquarters in Sweden, but they had much flexibility in precisely how these tools were implemented to best suit the environment. As the HR director of Electrolux said:

Our headquarters in Sweden provides us with a clear platform which is helpful to our operation. Yet we still adjust it to the Chinese situation. For example, when we design our compensation and benefits, we need to think about what the Chinese government requires us to do for social security and medical insurance and what will motivate Chinese employees best. Thus, some differences exist between the system in China and that found in Sweden.

The GM of Ericsson China Region Central had a similar view and said, “We use many processes from Sweden, but we have a lot of freedom because managers at headquarters realized that China is a very different place from Sweden and thus things need to be done differently.”

The above actions are consistent with the observation that flexibility is quite important for doing business in China. As the GM of Ericsson indicated, “A key skill you need to be successful in China is to be flexible. For example, meetings will be changed at the last minute. It does not mean they do not want to meet with you. It is just how China is.”

In China, all three companies shared the responsibility between the HR managers and the line managers. As the HR director of Electrolux China commented, “Line managers must also act like HR managers. The HR department acts as a facilitator and should provide good service and consultation to our customers. Line managers make many decisions regarding people management.” And the GM of Ericsson said, “While HR is an important part of our organization, increasingly we are pushing more and more of our HR out into the organization. Hiring and personal development decisions, for example are largely made by functional managers

with some support from HR.” However, all companies we interviewed felt that line managers would benefit from improving their HR skills and from paying more attention to HRM

As mentioned above, less attention was given to the HR department in the Finnish subsidiaries than their Russian and Chinese counterparts. Even more noticeable, in Finland HRM practices were communicated to employees in a more informal way and that line managers did a large part of HR. Interviewees in all three companies in Finland mentioned that there was a strong company culture which helped things work correctly and the fact that many employees had worked at the company for many years also helped things work smoothly (showing the importance of Simons’ belief systems). As a result, when a new employee came to the company, he/she naturally saw the way things were done and adjusted to fit with the culture. This assimilation was likely made easier since Finnish people tend to be conformists, are fairly homogenous, and have a similar mentality compared to the heterogeneous Russian and Chinese workforces. Further, due to the age of the subsidiaries, in Finland there was more of a focus on modifying existing systems than creating new ones.

The above section provides support that formal structures were transferred from headquarters and applied in the Russian subsidiaries of the multinationals involved in the research. Given that in Russia the HRM practices (tools) transferred were new to the local employees, the focus was on the introduction of formal structures and systems. A similar transfer occurred to the Chinese subsidiaries with many formal systems/tools being implemented. However, a greater degree of modification to these practices occurred prior to implementation in China. In contrast, in Finnish subsidiaries the HRM practices were used in a more informal way, given the smaller influence of the parent companies on the implementation of the practices.

Implementing HRM practices in the Finnish subsidiaries also required less effort since the practices (tools) used in the Finnish subsidiaries were not very different from those used in other local Finnish companies. As discussed in the following section, however, it appears important to focus on employing both formal structures as well as informal processes to successful implementation of HRM practices. The existence of formal structures does not guarantee they are used in a way they were meant to be in terms of stimulating most needed behavior.

## **BALANCING THE USE OF FORMAL HRM TOOLS AND INFORMAL PROCESSES: A WAY TO EMPOWERMENT?**

One of the key challenges mentioned by the case study managers in Russia and China, but not Finland, was empowerment. This problem has historical roots. Historically, organizations have been hierarchical in China and Russia and there has been little empowerment. This tradition continues today. Swedish firms are now keen to create organizations with more empowerment since empowerment is a Swedish tradition and has proven to be effective, but managers are discovering that empowerment is a process, not an event. As one Swedish manager we interviewed said, “We learned the hard way that you cannot just say ‘now you are empowered.’ Employees have to accept being empowered. It takes both a subordinate and a boss to follow empowerment for it to work.” Several managers commented on the importance of a gradual evolution to empowerment. Further, just having formal procedures in place without supporting these by other informal systems discussed earlier in the paper can lead to chaos and employees discomfort. One manager we interviewed at Electrolux Russia commented on the importance of setting clear boundaries on what subordinates should and should not decide on. With clear boundaries providing guidance, employees felt more comfortable and more progress was made on empowerment. This advice follows Simons’ concept of boundary systems—the second of three ingredients to organizational success Simons’ recommends.

Historically, Russians and Chinese have been harshly punished for mistakes which is one factor that has contributed to Russian and Chinese employees generally taking little initiative. The general manager of Electrolux Russia realized this tradition caused problems for him successfully implementing the degree of empowerment he wanted and thus to counteract this he said, “I have told the employees thousands of times--don’t be afraid of punishment for making mistakes. Mistakes happen when we do things and the most important thing is that we constantly try new things. If we don’t try new things we will not succeed.”

Further, in Russia information has always been power. As a result, managers were reluctant to share information with co-workers even if it could help them with their job (especially if it was across department lines). Thus, both from above and below there were pressures for low empowerment. One of Ericsson Russia’s expatriate managers explained the problem:

Russians are used to somebody deciding above them. The managers we have are quite inexperienced. They are not that good in managing people yet. That they have to learn by experience—eventually our managers will be very good because they are very capable people. They are not used to guiding and helping others....It’s the Swedish way of managing – giving guidance supervision and delegating and getting consensus. You have to convince people. Russians are

more inclined just to decide, but then people further down in the organization don't work so hard for the success of the idea because they don't feel it is their idea. Further, you just don't have time to decide everything yourself as a manager.

Despite these obvious difficulties, the managers interviewed claimed that they could achieve some results in empowering their local staff. The general manager of Electrolux Russia explained:

I want to delegate lots of responsibility and not control things centrally --like the Kremlin does. Central control is a Russian tradition, but it is not effective for a firm. We have come pretty far....In Russian traditions if you take whatever picture from the newspaper there is always this wonderful strong man sitting behind the desk and making all of the decisions. I don't want to do that, and we work hard so that each day we are further away from this picture.

Many local managers interviewed valued this open approach although some managers, reminiscent of the old days when their boss had been dictator and they had been forced to obey, wished they could now experience that absolute power in their roles as managers. All firms were trying to weed out or change such managers. All of the firms, however, had discovered that change is a process not an event. Most managers interviewed in our three case-study firms made positive comments about the extent their firms, compared to other Russian firms, were open to employee opinion and empowerment even if further progress was needed.

In our interviews with Chinese subsidiaries of these three companies, we identified the same issue of empowerment as critical. As the GM of Ericsson China Region Central commented, "Empowerment is a particular challenge in China. The key secret in China regarding empowerment is to be very explicit about what people are empowered to do." This idea was also supported by GM of Tetra Pak Hoyer China who said:

Our employees are quite good about doing a task that they are clearly assigned to do and coming back with the requested output. What most Chinese employees including managers in our firm are not very good at doing is dealing with unstructured tasks.

One reason for Chinese difficulties with empowerment might be that in China, similar to Russia, there is a strong obedience culture. Usually employees will just follow what their managers tell them to do without any questioning. The other reason, quite similar to the Russian situation, is that Chinese companies and society have not historically encouraged people to try



different things and potentially make mistakes. Since mistakes were punished and conforming to the norms rather than trying to stand out and excel was considered desirable behavior, people did not like to take risks in order to avoid making any mistakes.

All companies we interviewed in China, however, were trying to make strides towards more empowerment. As the GM of Tetra Pak Hoyer said:

Working on empowerment is a key challenge in China. Our employees are not used to working in an empowered environment, and it takes a long time and much effort to explain what empowerment is all about. We are working on this and have made some progress, but we have a way to go.

Our research also uncovered that more is not always better when it comes to formal HR practices. In those subsidiaries where managers were used to being supported by a strong HR function there were some signs of lack of incentives among managers to develop their own leadership skills because it was the turf of the HR function to give direction and develop people. For example, given the strong role of the HR function in co-ordination of all HR-related activities, some employees in Tetra Pak and Ericsson in Russia took a passive role in conducting these practices. They had an appraisal meeting, but they did not really put their whole heart into it. Further, some such employees expected the HR function to help them with people-related issues so they could concentrate on other tasks. People in a way felt helpless without help from the HR department. The same was true to a lesser degree at Ericsson and Electrolux in China. It is impressive that these firms had managed to develop such sophisticated HR departments which could provide much support to the firms, however, the above demonstrates that there is a risk if the HR department becomes too strong and has too many systems—perhaps this calls for more of a focus on informal HR. It also seems to call for an equally large focus on HR, but dividing the HR task more between the HR department and line managers. This is something that in fact many of the case-study firms were starting to do—especially Electrolux.

Clearly the above problem is not simple to avoid. It appears that the case study companies made a good effort to explain WHAT they were doing in Russia and China to employees. However, often there was not enough explanation of WHY they were doing things. Both Russians and Chinese, having much experience of hearing many slogans and goals from communism without a clear explanation of why these goals were important, are now eager to understand why these goals are important. Of course with great time pressures, such communication is not easy.

## **CONCLUSION**

In an effort to help illuminate the particular features of HRM in different countries, this paper has compared HRM practices used by three Swedish MNCs in their Russian, Chinese, and Finnish subsidiaries. The article has shown that significant differences in the practices used in Russia, Finland, and China exist for good reason. Further, in contrast to the way much previous literature has dealt with standardization of HR practices, our study reveals that in fact MNCs standardize different practices to varying degrees across countries. For example, compensation systems, which were easy to control from headquarters were fairly standardized, while hiring practices and internal communication practices varied quite a bit from country to country. A central point of this article is that it is important to move beyond a course look at the what of HR, which is what most extant literature has focused on, and look at the what of HR in fine detail. Most importantly, unlike much past HR research, it is important to consider the “how” of HR.

This article also showed that while a focus on HR systems is clearly beneficial, both formal and informal systems should be used to make HR practices work successfully in different environments. The repertoire of systems used and their balance is significantly influenced by the context. Probably because of the diverse backgrounds that Russian and Chinese employees come from compared to their rather homogenous Finnish counterparts, formal HR practices have a larger role to play in Russia and China than in Finland. This article also showed the importance of engaging both the HR department and line managers in HR issues to achieve maximum benefit for the organization. In conclusion, it is critical for MNCs to adapt their HR practices for the environmental context where they are operating, but the true secret to success is not just the “what” but also the “how” issues of HR.

## **APPENDIX A**

### **DESCRIPTIONS OF COMPANIES INVOLVED IN THE STUDY**

#### **Tetra Pak**

Tetra Pak is a private family-owned company. It has operations in more than 150 countries and employees 20,000 people worldwide. The company produces and sells solutions for packaging liquids. This includes treatment equipment, delivery equipment, and packaging equipment for dairies and juice producers.

Tetra Pak first had contact with the USSR in the mid 1960s. However, activity did not begin to grow until Tetra Pak acquired a new plant in Russia in Timoshevsk (Krasnodar), Russia in 1992 to produce liquid packaging materials. Tetra Pak also more recently acquired a plant in Korolev (a suburb of Moscow) to produce liquid packaging materials. Tetra Pak Russia employs approximately 400 people (including 8 expatriates) at their factories and the representative office.

Tetra Pak Finland, which is located in Helsinki, is only a sales company and employees 50 people. It is currently undergoing a change of its organizational structure from an old box-type departmental structure to a matrix organization to facilitate increased communication.

Tetra Pak started its operation in mainland China in 1986. Now Tetra Pak has three factories producing packaging materials in Beijing, Foshan, and Kunshan. In addition, they have set up offices in Beijing, Shanghai, Guangzhou, Xiamen, Chengdu, Harbin, Nanjing and Xi'an.

The Chinese subsidiary of Tetra Pak we interviewed was Tetra Pak Hoyer Ice Cream Machinery Co Ltd. which belongs to the ice cream processing equipment part of Tetra Pak group. Tetra Pak Hoyer is a joint venture 75% owned by Tetra Pak Hoyer and 25% owned by Shanghai Light Industry Corporation (a large diversified light-industry company owning about 500 firms). The joint venture was started in late 2000 and employs 150 people. Producing ice cream processing equipment is not the main business of Tetra Pak and in part due to this the Tetra Pak Hoyer group is organized in a fairly independent style.

## Ericsson

Ericsson, with 82,000 employees and operations in 140 countries, is one of the world's largest producers of telecommunications equipment primarily for networks. Historically Russia played a very important role for Russia and today China is probably Ericsson's most important market. Ericsson's first contact with Russia was in 1881 and by the time Ericsson Russia was nationalized in 1917 it employed 3000 people and accounted for 50% of Ericsson's revenues. In post-communist times Ericsson opened a subsidiary in Moscow in 1994.

Today Ericsson Russia, which employs 300 people mostly in Moscow, works with both fixed line and mobile telecommunications, primarily selling equipment for telecommunication networks. Since the fixed networks belong to the state and still have low tariffs, the mobile business, which is more profitable, makes up more of Ericsson's business in Russia. Ericsson

also provides services in Russia including assembling, testing of equipment, and after sales service and maintenance.

Ericsson is divided into three regions in China: North, Central, and South. There are 23 offices in China including about 10 JVs. All factories are JVs. Our interviews took place in Ericsson Shanghai which is the headquarters (comprising about 120 people) for Region Central and primarily provides sales and systems support. There is also an office of about 20 consultants in Shanghai and about 300 people working at an R&D facility (R&D is part of global R&D and does not report to region central). There are about 240 people in region central sales, support, installation, etc. 120 of these are located in the Shanghai head office and the other spread out throughout the region. Often only 1-4 people in each office. In smaller offices it is mostly pure sales people and they use staff from the region central head office for sales support. Ericsson is trying to be a total solutions provider offering excellent customer support.

Ericsson Finland has five different sites and employs 1000 people. Most of Ericsson Finland's activity is in R&D, but there is also a sales organization for Finland. About 30-40 new products are developed each year and over 500 projects are being carried out for both local and global markets at Ericsson Finland.

## **Electrolux**

Electrolux, which has 87,000 employees and has operations in 150 countries, has several business sectors. However, 80% of its business comes from consumer durables (primarily home appliances) and that is what we will focus on here. Electrolux is one of the world's largest producers of home appliances. It has grown via aggressive acquisitions over the last 25 years and is known for its strategy of rationalizing financial operations in acquired companies, but maintaining many different brands (e.g., 30 brands in Europe).

Electrolux Russia is part of cluster North-Western Europe which is based in Finland and also includes Kazakhstan, Ukraine, Belorussia, the Baltic countries, and Finland. The warehouses for household appliances is in Finland. In Russia there are 60 employees working in household appliance business. Electrolux Russia began in 1993 when a representation office was opened in Moscow (2 employees) and distributes Electrolux, Zanussi, and AEG.

Electrolux Finland's home product division started in the early 1960s and currently employs 250 people. In Finland there is one sales office and one warehouse. Like in Russia, there are three management levels in the subsidiary.

Electrolux entered China in 1996 and set up its first joint venture in Chang Cha, Hunan Province. Besides the Changsha factory, Electrolux has a holding company in Nanjing. Electrolux manufactures many of its products in China, but it also imports some of its products from abroad. Electrolux China employees 3500 people including 600 in marketing, 1200 in R&D, 200 in customer service, 120 in functional departments, 1000 people in direct sales and promotion, and 300 for installation and maintenance. Electrolux China headquarters are located in Beijing, and it has sales branches all over the country. There is a subsidiary or branch companies in Beijing, Shanghai, Guangzhou, Chengdu, Xian, Sheng Yang, Changsha, and Wuhan. Electrolux's main products include air conditioners, vacuum cleaners, washing machines, and refrigerators.

### **FOR FURTHER READING**

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To read more about HRM in Finland please see S. Vanhala, “Human resource management in Finland,” *Employee Relations*, 1995, 17, 7, 31-26.

To read more about Simons ingredients of success (belief systems, boundary systems, and interactive control systems) please see R. Simons, “Control in an age of empowerment,” *Harvard Business Review*, 1995, March-April, 80-88.

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