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## Chapter 31

# Global Talent and Mobility in a Decentralised Multinational Enterprise

**Anthony McDonnell, Stefan Jooss & Hugh Scullion**

### Introduction

This case examines several key issues and challenges faced by a European-owned, building materials sector multinational enterprise (MNE) that has grown rapidly over the past four decades based largely on an international strategy of cross-border acquisitions. The case highlights links between the business strategy and global talent management and more particularly, the role of the corporate human resource (HR) function in the context of a company with a culture committed to delivering superior performance through a highly decentralised approach to managing international business operations. The case illustrates some of the complexity of staffing and talent management issues in developed markets and also in the emerging markets of Central and Eastern Europe (CEE) and Asia. The talent management challenges are arguably more acute in these regions due to greater cultural and institutional differences which results in a particular demand for a distinctive type of managerial talent which can operate effectively in these culturally complex and geographically distant markets (Skuzza, McDonnell, and Scullion, 2013).

### Background and Context

*European Building Materials Company* (EBMC) is a large, publicly listed, European headquartered MNE operating in the building materials industry. In particular, EBMC targets three core businesses covering residential and non-residential customer bases:

1. Primary Materials (e.g. cement, aggregates, and asphalts)
2. Building Products (e.g. precast concrete products and fencing)
3. Distribution (e.g. builder's merchants and specialist distribution).

The EBMC strategy is one of vertical integration in terms of manufacturing and horizontal integration through servicing the breadth of building material product customers. EBMC operates multiple organisational structures consisting of global business functions, geographic regions, and international product divisions. Each of the three core businesses report to a European or Americas structure who report to the seven group functions (finance, HR, risk management, corporate social responsibility, investor relations, environment, and health and safety). These functions then report to the chief executive officer. There is a mixed product- and region-based organisational structure which fits well with the decentralised approach allowing for a high level of flexibility for local conditions. This approach is regarded as 'business critical' for building materials companies due to the localised nature of the industry. Consequently, the development of a strong senior management team sensitive to the local market and cultural context is vital to EBMC.

Over the past 40 years, the company has developed from a small local player to a global enterprise with operations in 30 countries and a global workforce of approximately 80,000 people. Some 90% of this employment is accounted for outside of EBMC's home country.

The company has developed a major presence in mature markets in Western Europe and North America which accounts for approximately 85% of business and more recently there has also been considerable growth in a number of emerging markets including CEE, South America, and Asia with a growing focus on the Chinese and Indian markets. The relatively limited nature of these operations in developing regions is illustrated by the organisational structure which sees the Indian and Chinese operations reporting to the European division. However, significant investment in Southeast Asia in the next five years may require EBMC to restructure their organisation and develop an additional regional market focusing on Asia.

### **International Business Growth Strategy**

Since the formation of the company in the early 1970s, EBMC has followed a focused and consistent business development and growth path with a strong emphasis on performance and results, which has involved internal/organic growth. However, the main engine of growth has come through the success of the cross-border acquisitions strategy which has taken place across regions and products. Over the past decade, the level of growth has been remarkable witnessing the emergence of the company as a global leader in the industry which is reflected in its rise to the top 100 non-financial services MNEs in the world. In recent years, acquisition activity has been in the range of 70 to 75 per annum, primarily small- and medium-sized firms. However, due to the global recession, there was less emphasis on riskier acquisitions and more focus on operational and commercial competitiveness.

The company has a well-developed methodology in selecting firms for acquisition. First, target companies must be market leaders commanding first or second positions in their domestic market. Second, they should preferably be mid-sized, high-performing companies. Third, the quality of the local management team should be high and the local managers committed to growing the business. While the main foreign market entry strategy has been acquisitions of wholly-owned subsidiaries, international joint ventures have also been used on occasion as a stepping stage to full ownership particularly in the emerging markets where investments are riskier. There is a high failure rate of cross-border acquisitions and mergers (CBMAs). Recent research shows that 83% of all CBMAs fail to deliver additional shareholder value and 53% even destroy value (Marks and Mirvis, 2011). The main reasons for failure in CBMAs are related to cross-cultural and human resource management (HRM) issues including the fact that managers are often unknowingly influenced by human biases and structural problems (Friedman et al., 2016). Hence, cross-cultural management and HRM are increasingly viewed as critical to the successful implementation of CBMAs. This reflects the complexity of integrating the HRM systems from the different organisations and national contexts. Generally, in the implementation phase of CBMAs, the tensions between the need for global integration and local responsiveness influence issues such as the level of integration the acquirer seeks and the extent to which the parent company seeks to introduce a common corporate culture. However, in our case study the company operated a highly hands-off approach to senior subsidiary management allowing local managers a very high degree of autonomy to develop the business using their local knowledge and networks. The role of the corporate HR function in this context is limited to a few key areas which we examine below.

## **The Corporate HR Function**

As organisations internationalise, the corporate HR function is faced with the challenge of establishing effective structures and processes. This may take one of three forms (Scullion and Starkey, 2000): centralised, decentralised, or transitional HR approaches. EBMC operates a highly decentralised approach with a very small corporate HR staff at headquarters (HQ) which undertakes a narrower range of functions than centralised global firms. This reflects the highly decentralised corporate structure which has been in place at EBMC since the early days of internationalisation. As the company operates in a relatively simple, locally based industry, HR policies and practices are devolved to the business unit level to support the business strategy and senior management recognise that sustainable competitive advantage will derive from securing high-quality local management who are able to respond effectively to changing conditions in each host environment. Consequently, the overall role of the corporate HQ is one primarily of support services and coordination.

Shortages of managerial and professional talent have emerged as the key HR challenge facing the majority of MNEs and the growing difficulty of recruiting and retaining managerial talent has been noted as a significant constraint on the successful implementation of global strategies (Mellahi and Collings, 2010). In the last three years, EBMC lost some of their key talent to competitors and other industries with a turnover rate of 18% due to the lack of opportunities for advancement in some of the established locations. MNEs increasingly need managers with the skills to operate in the new market conditions faced in foreign operations both in developed and emerging markets. Inherent in EBMC's market-driven growth approach is an acknowledgment of the importance of having a sufficient level and calibre of talent to grow the international businesses. Indeed, talent management is one of three identified strategic themes under the company's HR strategy (the other two being organisation development and systems and processes). EBMC operates three different leadership programmes, aimed at employees at different levels, to ensure there is a talent pipeline which will deliver the leadership capability to run an international business for the following five to ten years. There are strong links between all three strategic themes, the business strategy, and the corporate HR function. Recently there has been more focus on organisation development as the organisation begins to shift from a portfolio or conglomerate approach towards a more complex, integrated global organisation form. This will pose a new challenge for the corporate HR function and the need to ensure the balance between global integration and local responsiveness will become even more critical particularly as the changing business environment is increasingly driving the structure of the business and the HR agenda. This also means a shift away from a heavily localised approach to one that incorporates a more global agenda.

## **Managing International Talent in EBMC**

MNEs have three primary options with respect to staffing their foreign operations: employ parent country nationals (PCNs), host country nationals (HCNs), or third country nationals (TCNs). It is quite common for MNEs to use PCNs in the early years of a foreign operation to help transfer the company's culture and establish the preferred reporting and control systems of the parent company and for purposes of establishing control in the foreign market (Dowling, Festing, and Engle, 2008). This approach has been used sparingly by EBMC other than on

occasion in the early stages of internationalisation in some of the emerging markets. Here, PCNs may fill the top two or three positions in the foreign subsidiary. The continued use of an ethnocentric management approach with the use of PCNs in the top positions is likely to limit an organisation's ability to attract and retain high-calibre local managers and professionals. The staffing approach will also vary depending on whether an organisation enters the foreign market through establishing a new greenfield site or through acquisition. In addition, the location of the foreign operation may have a very practical effect on the staffing strategy. Research suggests a growing need for MNEs to select and develop managers with distinctive competencies and a desire to manage in culturally and geographically distant markets (Caligiuri and Tarique, 2012). These global leaders must be able to build relationships across cultures, cope with ambiguity, understand complex information, and adapt to new contexts. However, there may be staff availability issues in terms of high-quality managers and professionals with the required knowledge in some emerging markets and managers from established locations must learn to understand how different cultures communicate, lead, decide, and persuade (Meyer, 2017). Also, it is more difficult to get PCNs to accept assignments in some emerging markets and the preparedness of leadership talent to move to new strategic markets cannot be guaranteed. Research suggests that mobility across borders, and particularly to higher risk locations such as Africa, Russia, and China, is proving increasingly difficult to achieve (Yeung, Warner, and Rowley, 2008). The use of PCNs, albeit quite limited, has raised concern among some locals in countries where these individuals have a short-term focus in their roles. There is also concern over the opportunities for local managers especially in cases where the acquired firm's management team have been moved on.

#### Talent Management in High-Growth Acquisition MNEs

The growth of interest in global talent management reflects the growing recognition of the critical role played by international managerial talent in ensuring the success of MNEs. This also reflects the intensification of global competition and the greater need for international learning and innovation in the MNE (Bartlett and Ghoshal, 1989). Recent research argues that MNEs increasingly need to manage talent on a global basis to remain competitive and that talent can be located in different parts of their global operations (Stahl et al., 2007). The difficulties of implementing effective global talent management strategies are accentuated in highly decentralised MNEs adopting a rapid-growth, acquisition-based business strategy model. When a firm is acquired, it comes with staff which may or may not be wanted by the acquiring organisation. EBMC's acquisition strategy involves specifically targeting high-performing companies with high-quality local management. EBMC's post-acquisition staffing strategy is generally to continue with the existing local management as they tend to have a demonstrated track record and strong entrepreneurial flair. Hence, a key element of the talent management strategy in EBMC is acquiring good managerial and leadership talent and indeed the availability of high-quality local management is one of the key criteria used when selecting companies for acquisition.

In practice, the acquired firms' management are allowed a very high degree of autonomy to run the subsidiary operation so long as they reach the performance targets that reflect the local nature of the industry and the highly decentralised approach of EBMC. This approach has consistently produced high performance and growth to date. However, one corporate

initiative was the introduction of a performance incentive scheme which seeks both to reward senior local managers and to retain them as their know-how, networks, and knowledge would be attractive to other MNEs. There seems to be little issue that the HCN managers are relatively unknown to HQ management and there is little indication of the loyalty of these employees to the company. To date, EBMC has not established clear metrics around engagement and retention of these managers. There appears to be a lack of transparency as there is no global talent pool which would allow a long-term strategic view to managing talent (Sparrow, 2007). Moreover, there is very limited mobility of managers between the HQ and the subsidiary which may limit international management development opportunities and the ability to develop talent at the global or regional levels. It seems that a global talent strategy requires better integration of global mobility aspects (Collings, 2014). As long as the global talent management strategy continues to support the business strategy and the present business model is achieving excellent results, there is little pressure on EBMC to change. However, as the company increasingly looks to the emerging markets as the high potential areas for business growth, there may be a greater need in the short term to use more expatriates to establish the business in the foreign markets. In addition to the more traditional mid- and long-term appointments, an increased use of international short-term assignments may be considered. That being said, there is little evidence that an overall approach which depends on high-quality local management to grow the market with very successful results will significantly change in the near future. The particular global talent management challenges in the emerging markets are discussed below.

#### Talent Management in Developing Economies

The increasing investment in the emerging markets by EBMC in recent years has resulted in a growing demand for a distinctive type of managerial talent which can operate effectively in these challenging markets (Meyer and Xin, 2018). The talent management challenges for EBMC are more complex and acute in these emerging markets. While these markets have high-growth potential, they also involve higher risk. These cultures are considerably different to the home culture of EBMC and indeed much of their other foreign operations. A means by which EBMC has sought to reduce some of the risks of development in these countries is to first engage in international joint ventures and then look at a full acquisition.

However, despite the growth of unemployment during the global recession in countries like India and China, recent research suggests there is still a significant gap between the supply and demand of talent with high-level knowledge and skills in these countries (Cooke, Saini, and Wang, 2014). In addition, the inability of these countries to produce graduates of the quality needed by MNEs has resulted in acute skill shortages in key areas (Farndale, Scullion, and Sparrow, 2010). Reports have highlighted that MNEs in India only take between 15% and 20% of available graduates because they do not fit the requirements of western economy MNEs. The retention of managers and professionals in their emerging markets is a major talent management challenge for EBMC. There is intense competition for scarce managerial and leadership talent in these markets and the tight labour market for such talent allows individual managers to move easily to other MNEs or even to domestic organisations. Finally, organisational loyalty is not particularly strong in some of the emerging markets (Bhatnagar, 2007).

In the mature markets of North America and Europe, the vast majority of EBMC's senior managers are HCNs reflecting the company strategy to localise the management. By contrast, the emerging market operations have a number of expatriates, particularly in the early years, as a means to develop the markets and also for control purposes. With many of these senior managers being close to retirement, another key challenge for EBMC is the retention of knowledge within the organisation. Successfully transferring knowledge to younger managers across regions is therefore a strategic priority.

The CEE region is an area of growing importance for the company since their first investment into Poland in the mid-1990s. Expatriates have been used in this region to develop the market but more recently, there has been a greater drive to implement a localisation strategy. In recent years EBMC has developed businesses in a number of other CEE countries and interestingly has used Polish graduates who were integral players in developing the Polish operations to lead the development of these markets (a localisation strategy would follow the initial set up of the market). This suggests an emerging talent strategy of moving high potential managers between countries of a particular region (TCNs) namely the CEE region. However, there was virtually no mobility of managers between different regions of the world which is an issue EBMC may need to address if they wish to evolve from being a highly decentralised conglomerate organisation to become more of an integrated international business.

The selection criteria for managers in the emerging markets involve a number of elements. Effective cross-cultural management skills and a strong motivation and desire to go and work in the emerging markets (not solely monetary) are important. In addition, managers accepted for these international assignments must be on the high potential list as the developmental aspect of these assignments is increasingly important for developing international leadership capability. In EBMC high potentials are viewed as individuals having the potential of being promoted two levels or crossing two functional areas. A key element of global talent management in EBMC is that mobility did not always mean moving upwards but could also be sideways. EBMC wishes to see lateral moves becoming more important as they help give individuals a better understanding of the entire business and position them better for taking on a range of roles rather than a very narrow role. Also, in a highly competitive business where cost reduction is increasingly important, lateral mobility allows development opportunities and develops a team approach. While this core idea is strongly presented in EBMC, the organisation lacks a clear reward strategy to foster mobility among key managerial talent.

One talent management challenge facing EBMC and many other MNEs is the growing difficulty in getting people to take up international assignments. There is growing evidence that families are less willing to accept the disruption of family and social lives associated with international assignments. Dual career issues are increasingly seen as a worldwide trend which can pose significant restrictions on the career plans of multinationals. In the EBMC case a particular challenge was the failure to persuade US managers to move to other regions of the world. This reflects their polycentric approach to international management where until now managers were not expected to move across regional frontiers. Another peculiar feature

of EBMC is that repatriation is not regarded as an issue. The practice of repatriation remains something relatively rare in EBMC. One important factor here seems to be the small size of the corporate head office. Also important is the balance of employees between domestic and international operations as over 90% of employees are based outside the home country in EBMC. In practice, international assignments are essentially a one-way ticket and opportunities for a post in the parent country following an international assignment is extremely limited. Hence, the company is very careful not to raise expectations about the prospects of a job on return from international assignments.

### **Summary**

EBMC is an international success story through its high-growth acquisition development strategy. A highly decentralised management approach has been adopted thus far in the management of its international operations. With high-quality international managers, an increasingly scarce resource, the acquisition of high-performing companies with high-calibre managers and employees has many benefits although it brings many challenges. There is little doubt that their highly decentralised international management approach has stood them well. However, with the worldwide economy in a state of flux and the greatest business growth opportunities in diverse, culturally different developing economies there are question marks over whether the current approach is best suited in the future.

### **Case Study Questions**

1. What are the strengths and weaknesses of the decentralised management approach adopted in EBMC? Is it feasible to maintain a decentralised approach as the firm continues to expand and internationalise? Why/Why not?
2. What are the benefits and weaknesses of the 'one-way ticket' approach to the use of PCNs? How might this approach fit with the need to increase the use of international assignments in EBMC?
3. What role does corporate culture play in developing leaders as part of a global talent management approach at EBMC?
4. How can EBMC foster collaboration among subsidiaries and develop a network of knowledge-sharing talent teams?
5. Discuss how EBMC can assure a strong alignment between business and talent strategies. How can the organisation assess, predict, and plan the supply and demand of talent in the future?
6. To what extent does EBMC use integrated and strategic talent management approaches?
7. Discuss the issues/challenges in developing a dynamic talent management strategy which supports changing organisational priorities in a decentralised business such as EBMC.



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