

Transnational Development: The Efficiency-Innovation Model'

By Karen V. Beaman and Gregory R. Guy



INTRODUCTION

"We are entering the age of unreason, when the only prediction that will hold true is that no prediction will hold true."

-Charles Handy,
The Age of Paradox, 1994.

As Charles Handy observes in his book, *The Age of Paradox*, we are entering the "age of unreason." We are no longer in the position of being able to choose between various opposing business strategies; we have to develop multiple strategic competencies that may at times appear to be in conflict. According to Handy, today's organizations need to be like both the "elephant" and the "flea": they need the size, the reach, and the power of an elephant, but, at the same time, they must remain small, agile, and quick like a flea. To be competitive today, organizations have to be both large and small, both global and local, both centralized and decentralized, sensitive to the needs of local units, and simultaneously responsive to the demands of head office. Instead of choosing one or the other, organizations must learn how to reconcile what were formerly considered "opposites." They must find a way to combine multiple contrasting strategies and avoid situations where they have to neglect one for the other.

There are two major trends affecting organizations today that contribute to this paradoxical business environment:

- The rate of change continues to accelerate, making it increasingly difficult to keep up with new developments, and

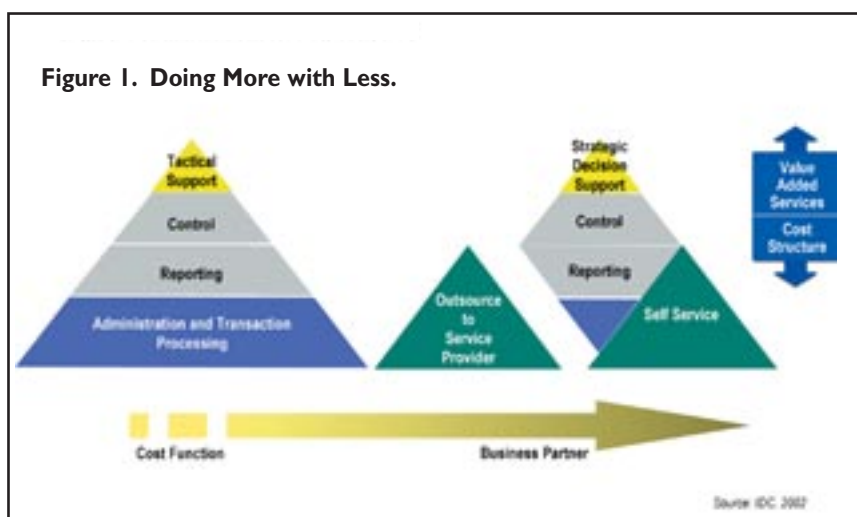
- The world is becoming more and more complex, making it progressively more difficult to manage our organizations effectively.

The growing complexity of the global business environment and the accelerating speed of change are forcing organizations in the direction of ever-increasing competition. To meet the challenge of these two major trends, organizations must learn to live with Handy's paradox, redesigning their businesses in order to reconcile these opposing forces and embrace the opportunities inherent in the paradox.

One approach to handling the deepening complexity of global business is Christopher Bartlett and Sumantra Ghoshal's (1989) *Transnational* organizational model — a model that combines global reach with local flexibility and simultaneously disseminates knowledge

and innovation while leveraging worldwide learning across the organization. With its distributed, interconnected network, the *Transnational* organization is one model that can transcend the paradox.

In this article, we discuss the four global organizational models identified by Bartlett and Ghoshal (1989) and argue the fundamental relevance of the *Transnational* structure for a global human resources (HR) organization. Based on the results from a survey of 50 Fortune 500 companies, we propose a method for assessing the evolution of a company's global organizational structure — the *Efficiency-Innovation Model* (EIM). Our objective with the EIM is to identify leading practices in HR technology in *Transnational* organizations. Finally, to better manage change and deal with growing complexity and the increasing



speed of change in today's business environment, we present some recommendations on how organizations can cultivate a *Transnational* environment in their companies.

THE CURRENT HUMAN RESOURCES ENVIRONMENT

In recent years, the field of Human Resources — like other business areas — has demanded ever-greater levels of efficiency. Although budgets and personnel have been reduced, the current business environment has continued to demand higher levels of service at lower costs. These pressures have been forcing us into learning how to “do more with less.”

Traditionally, a large portion of the work in HR departments has been devoted to purely administrative and transactional functions; management support has been largely tactical (see Figure 1). This type of HR model can be described as a “cost function,” bringing minimal value to the company. To do more with less, HR departments have to re-orient themselves to operate as “business partners.” Leading companies are re-designing their business processes to reduce costs, seeking out leading practices through benchmarking (both internally and externally), and implementing new technologies and service delivery models, such as outsourcing, self-service, shared services, and off-shoring. With such approaches, service value can be increased at lower cost, helping HR do more with less — achieving that elusive business partner role.

One way that HR can move closer to a business partner role is to structure its operations more effectively. A *Transnational* structure can facilitate reaching an ideal balance between centralization and decentralization, making it possible to maximize learning and leverage innovation — mastering the paradox.

GLOBAL ORGANIZATIONAL STRUCTURES

Today's global enterprises exhibit a variety of organizational structures. One of the central tenets of our research is that certain organizational models facilitate more effective and efficient operations than others. Bartlett and Ghoshal

Figure 2. Multinational Model.

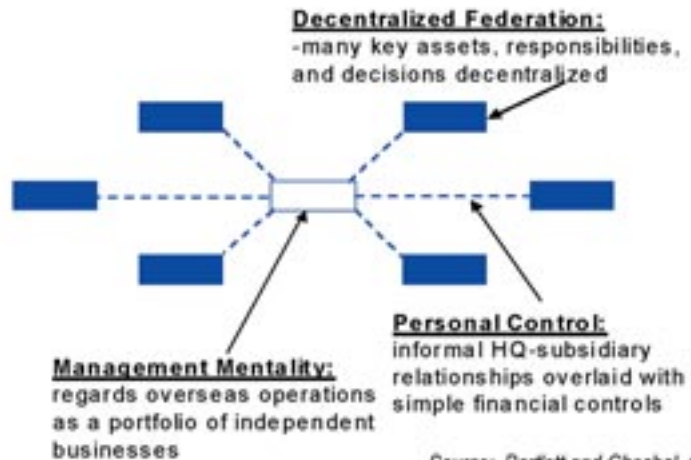


Figure 3. Global Model.

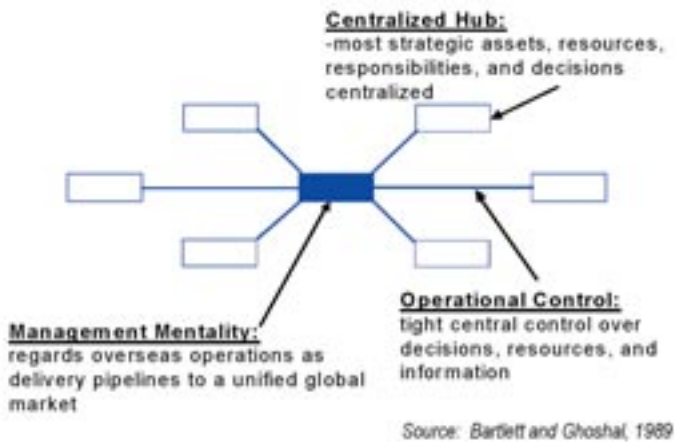
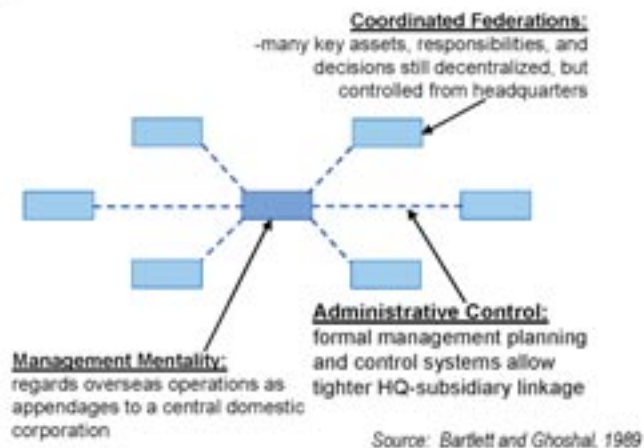


Figure 4. International Model.



(1989) have categorized global companies into four basic models — *Multinational*, *Global*, *International*, and *Transnational*.

Multinational Model — The Multinational model is a highly decentralized structure with minimal control exercised by the head office over regional and local operations. Regional and local business units possess considerable power and autonomy (see Figure 2), while the role of the head office consists of managing a diversified portfolio of distinct operating units. Central control over the business is intrinsically limited by the fact that most of the power is concentrated in the local units. The principle concerns of this type of company are the needs of the lo-

cal market, sensitivity to regional differences, and freedom and autonomy for the local units. Because it is so diversified, such an organization may appear to be a kind of “Rube Goldberg” machine, yet this model is very appropriate for certain companies during certain periods of their development. In particular, this type of organization works well for companies that have a core focus on local markets or those highly affected by differing national rules and regulations, and for companies that have grown largely through a global acquisition strategy.

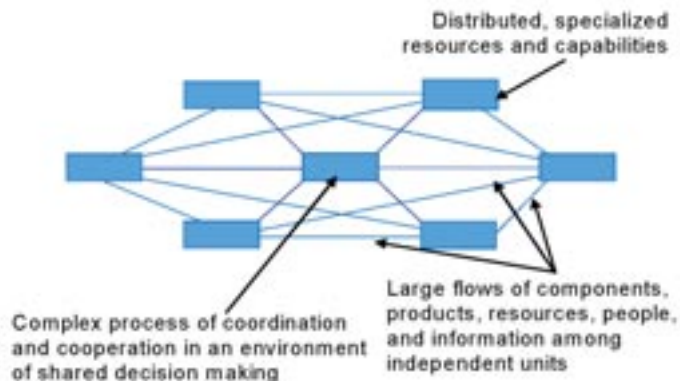
Global Model — In contrast to the *Multinational* model, the head office in the *Global* organization has a great deal of

power and puts a strong emphasis on global standardization and operating efficiency (see Figure 3). Companies of this type focus on building a single, global, uniform operating environment, minimizing the importance of national and local differences. They strive to create one single “ideal” solution dictated by the head office — a “one-size-fits-all” approach. This type of organization became common with the emergence of ERP (Enterprise Resource Planning) systems, such as Oracle, PeopleSoft, or SAP, and can be appropriate for companies that have a uniform product and a single set of standards worldwide.

International Model — The third organizational model described by Bartlett and Ghoshal, while still largely centralized, strives to incorporate sensitivity to the needs of local businesses by focusing on learning and sharing information between the local units and the head office (see Figure 4). There is an exchange of key competencies between headquarters and the regions, and a culture of sharing in which the various components of the company learn and disseminate knowledge, normally via the head office. This model combines certain characteristics of the previous two models.

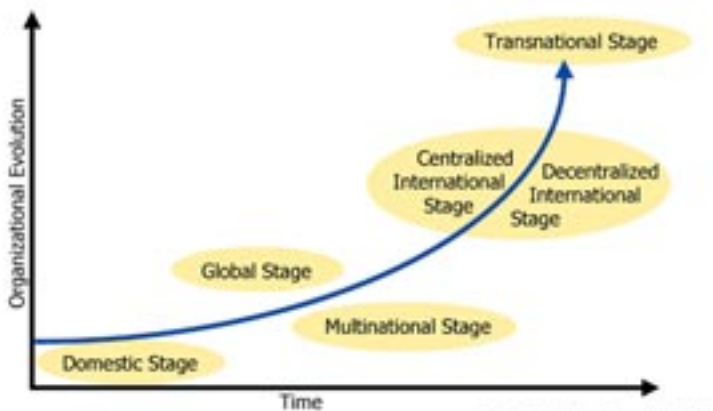
Transnational Model — Bartlett and Ghoshal’s fourth structure, the *Transnational* model, synthesizes essential features of the other three (see Figure 5). The *Transnational* organization is flexible and sensitive to local conditions like a *Multinational* company, competitive and efficient like a *Global* company, and at the same time attentive to leveraging learning and sharing knowledge between the local units, as in an *International* company. The distinctive characteristic of this model is that *Transnational* enterprises develop strong multilateral communication networks and interconnections between all units, in which communication does not necessarily pass through the center. Each unit learns from the other, spreading innovations via an intense, fluid, distributed network. This type of company masters the paradox, since it does well in all three aspects — global efficiency, local sensitivity, and worldwide innovation. It is this combination of capabilities that makes the *Transnational* model superior for global business.

Figure 5. Transnational Model.



Source: Bartlett and Ghoshal, 1989

Figure 6. Organizational Development Curve.



Source: Adapted from Beaman & Walker, 2000

Organizational Evolution — Beaman and Walker (2000) hypothesized that companies operating in more than one country undergo an organizational evolution with respect to their operational structure (see Figure 6). Typically, companies begin their development in a domestic phase, operating within one country. As they expand to other countries, they become either Multinational or Global. Multinational companies frequently grow via acquisitions, country by country. Global companies, on the other hand, typically expand geographically through greenfield development, building operations that operate as extensions of the head office in other countries.

As they grow, companies discover the importance of leveraging and disseminating knowledge among their geographic business units in order to stop “reinventing the wheel.” At this stage, they become International companies — either *Centralized Internationals* or *Decentralized Internationals*. From there, they continue to build the structures and communication capabilities necessary for reaching the final stage — the *Transnational* organization.

With these models in mind, it is obvious that a company’s organizational structure has important implications for its operations. For example, a *Multinational* organization is quite sensitive to the local situations, yet maintains considerable redundancies, losing the savings that could be attained through standardization and economies of scale. A *Global* structure emphasizes standardization and cost reduction, but inhibits responsiveness to local market conditions. Understanding the current structure of a company is important for assessing its effectiveness and planning its future development.

However, it is clearly impossible to just choose one model and implement it on demand. Every company is heavily influenced by its administrative heritage — its corporate history; and an organization’s past directly influences its future development. The appropriate organizational model must fit with the company’s business culture, and its transformation is a process that requires both strategic and tactical planning. In short, organizational change is an evolution — a journey. This article indicates a few steps along this path.

THE EFFICIENCY-INNOVATION MODEL

Bartlett and Ghoshal’s four organizational models raise a number of intriguing questions about the structure and organizational behavior of international businesses. Given that a *Transnational* structure is advantageous, how does a company move in this direction? What are the practices of *Transnational* companies that make them leaders in their respective industries, and how can other companies learn from the examples of these leaders? How can a company identify its current structure and improve on it?

Answering such questions depends first on having a practical way to identify what type of structure the company currently has. Then management can identify what areas need to be changed in order to move the organization along in its developmental journey toward *Transnationalism*. During the course of the restructuring there must be way to measure progress. The remaining sections of this article propose an approach to these problems of organizational analysis and transformation. Based on certain organizational characteristics and practices, we propose a two-dimensional analysis that

Figure 7. Demographics of Survey Participants.

Countries	Count	Percent	Industry	Count	Percent	Lines of Business	Count	Percent	
USA	36	72%	Mining	1	2%	Global	29	58%	
Canada	3	6%	Manufacturing	26	52%	Local	4	8%	
UK	3	6%	Retail	3	6%	No Answer	17	34%	
France	2	4%	Information Systems	7	14%	Total	50	100%	
Germany	2	4%	Finance	6	12%				
Australia	1	2%	Energy	2	4%	R&D	Count	Percent	
Singapore	2	4%	Transportation	1	2%	Centralized	29	58%	
Japan	1	2%	Telecommunications	3	6%	Decentralized	4	8%	
Total	50	100%	No Answer	1	2%	No Answer	17	34%	
			Total	50	100%	Total	50	100%	
	Min	Max	Mean						
No of Ees	1,200	300,000	59,746	Marketing Strategy	Count	Percent	Organization Type	Count	Percent
No of Cos	8	162	53	Global Brand	29	58%	Multinationals	16	32%
				Multiple Brands	7	14%	Globals	11	22%
				No Answer	14	28%	Internationals	10	20%
Business Entities	Count	Percent		Total	50	100%	Transnationals	13	26%
Single	16	32%					Total	50	100%
Multiple	27	54%							
No Answer	7	14%							
Total	50	100%							

Source: Beaman, Fay, & Walker 2003

makes it possible to evaluate company structures and chart them according to the four organizational types defined by Bartlett and Ghoshal. We apply our model to a sample of 50 international companies, indicating their distribution across the four types. We then identify some leading practices in global HR technology that characterize *Transnational* organizations.

The empirical basis for our model is drawn from an ongoing research project that we are conducting in collaboration with Dr. Charles Fay of Rutgers University and Al Walker of Towers Perrin.² This project is surveying best practices in HR technology and organizational structure in international companies. For the present paper, we used a sample of 50 companies (see Figure 7), the majority from North America (78 percent). On average, the companies in the sample have approximately 60,000 employees and operate in about 50 countries. Half of the companies sampled come from the manufacturing industry (52 percent). Other industries represented include information technology (14 percent), financial services (12 percent), retail (6 percent), telecommunications (6 percent), and energy (4 percent). Over half of the compa-

nies have multiple financial entities (54 percent), conduct their marketing programs under a global brand (58 percent), are organized in global lines of business (58 percent), and have centralized research and development (58 percent). The companies in the survey are well distributed across the four organizational types identified by Bartlett and Ghoshal.

The model that we propose is based on the concept that the effectiveness and competitiveness of global organizations depends on two critical dimensions: efficiency and innovation. The “efficiency” dimension measures a company’s degree of centralization and decentralization, where maximum efficiency is achieved with an appropriate balance between localization and centralization. The “innovation” dimension measures a company’s capacity to implement best practices throughout the entire organization, regardless of where they are developed: in local business units or at the head office. This model, which we call the *Efficiency-Innovation Model* (EIM), provides a tool for assessing organizational structure and operations. Applying the EIM to the international businesses in our sample, we are able to identify the most effective programs and strategies

in HR technology — the “best practices” — that *Transnational* companies are pursuing.

The Efficiency Dimension — For assessing the first dimension, we used five measures that reflect different aspects of a company’s centralization and decentralization. Each company was assigned an “efficiency” score using the following criteria:

1. Four points if the company has a single HR system for all its operations worldwide; zero if there are multiple systems.
2. Four points if the company has a single data warehouse for all operations worldwide; zero if there is no data warehouse.
3. Four points if research and development is centralized for worldwide operations; zero if it is decentralized.
4. A score on a five-point scale that reflects the degree of differentiation/standardization between divisions of the company in terms of HR plans and policies; zero indicates maximum difference (and thus minimal standardization); four indicates minimal difference and maximum standardization, and.
5. Four points if the company sets its financial objectives globally for the

Figure 8. Efficiency Innovation Model (EIM).
Efficiency Dimension

Efficiency Measures — Centralization/Decentralization Factors

C1	No of HR Systems	Count	Percent
	One Global	22	44%
	Multiple	28	56%
	No Answer	0	0%
	Total	50	100%

C6	Single Data Repository	Count	Percent
	Yes	33	66%
	No	17	34%
	No Answer	0	0%
	Total	50	100%

A17	R&D	Count	Percent
	Centralized	29	58%
	Decentralized	4	8%
	No Answer	17	34%
	Total	50	100%

B1	HR Policies	Count	Percent
	Minimally Different (<3)	12	24%
	Both Similar/Different (3)	18	36%
	Very Different (>3)	16	32%
	No Answer	4	8%
	Total	50	100%

A19	Financial Goals	Count	Percent
	Set Globally	6	12%
	Set Locally	3	6%
	Set by Line of Business	21	42%
	No Answer	20	40%
	Total	50	100%

whole organization; zero if goals are set by division or locally.

Totaling these scores and subtracting 10 yields an overall efficiency score for the company; scores fall on a scale ranging from -10 to 10, where 10 indicates an organizational structure that is highly centralized, while -10 indicates a structure that is highly decentralized. Zero represents ideal efficiency, the central point, signaling that the company is neither overly centralized nor overly decentralized.

Using these measures, Figure 8 shows the distribution of the companies in our sample for the Efficiency dimension. Companies are divided almost equally between the use of a single global HR system (44 percent) and the use of multiple systems (56 percent). Sixty-six percent have a single HR database, and 58 percent have centralized research and development. In terms of differences between units in HR policies, the companies vary from minimal difference (24 percent) to maximal difference (32 percent). Forty-two percent of the companies set their financial goals by division.

The Innovation Dimension — For assessing the second dimension of our model, we used five measures that represent the company's capacity to adopt and spread best practices throughout their operations. Each company was assigned an "innovation" score using the

following criteria:

1. The degree of involvement of regional HR in the company's overall business planning, on a scale from one to five, with one representing minimal involvement and five meaning maximal involvement.

2. The degree of involvement of local HR in the company's overall business planning, on a scale from one to five, with one representing minimal involvement and five meaning maximal involvement.

3. The frequency at which modifications and improvements in HR policies are adopted as a result of interaction between line management and the HR department, on a scale from one to five, where one indicates minimal adoption and five indicates maximal adoption.

4. The frequency at which global HR meetings are held: one point if meetings are held annually, two if quarterly, and three if monthly; and zero if no global HR meetings are held.

5. The frequency of global adoption of best practices developed in local business units, on a scale from zero to five, where zero indicates that local practices are never adopted and five indicates that local practices are always adopted globally.

The total score on the Innovation dimension falls on a scale ranging from three (minimum innovation) to 23 (max-

imum innovation); the ideal level is a score above 12.

Using these measures, Figure 9 shows the distribution of the companies in our sample for the Innovation dimension. One-third (34 percent) of the companies involve regional HR in the company's business planning as much as possible, and one-third (38 percent) involve them little, if at all. This difference is clearly related to the distinction between the *Global* companies, who minimize the importance of regional HR, and the *International* and *Transnational* ones, who leverage regional HR extensively.

The involvement of local business units in HR planning is well distributed across all three levels: minimum (38 percent), medium (22 percent), and maximum (28 percent). Only a small percentage of the companies (26 percent) frequently adopt changes to their HR plans arising from input from line management. A significant percentage (72 percent) of companies conduct monthly global HR meetings. Half of the companies (50 percent) say they occasionally adopt best practices from their local business units, and it is regrettable to see that more than a third of them (38 percent) stated that they never adopt practices from their local operations, thus missing a major opportunity for learning and improvement.

Locating the Companies — Graphing these two dimensions, with Innovation

**Figure 9. Efficiency Innovation Model (EIM).
Innovation Dimension**

Innovation Measures — Best Practice Adoption Factors

B9B			B12			B7		
Region HR Planning	Count	Percent	Line Mgmt Innovation	Count	Percent	Local Best Practices	Count	Percent
Minimally Involved (<3)	17	34%	Minimal Acceptance (<3)	6	12%	Frequently Adopted	6	12%
Average Involvement (3)	8	16%	Average Acceptance (3)	11	22%	Sometimes Adopted	25	50%
Very Involved (>3)	19	38%	Maximal Acceptance (>3)	13	26%	Never Adopted	19	38%
No Answer	6	12%	No Answer	20	40%	No Answer	0	0%
Total	50	100%	Total	50	100%	Total	50	100%

B9C			B4B		
Local HR Planning	Count	Percent	HR Meeting Freq	Count	Percent
Minimally Involved (<3)	19	38%	Monthly	36	72%
Average Involvement (3)	11	22%	Quarterly	9	18%
Very Involved (>3)	14	28%	Annually	0	0%
No Answer	6	12%	No Answer	5	10%
Total	50	100%	Total	50	100%

Figure 10. Efficiency Innovation Model (EIM).
Identifying the Companies

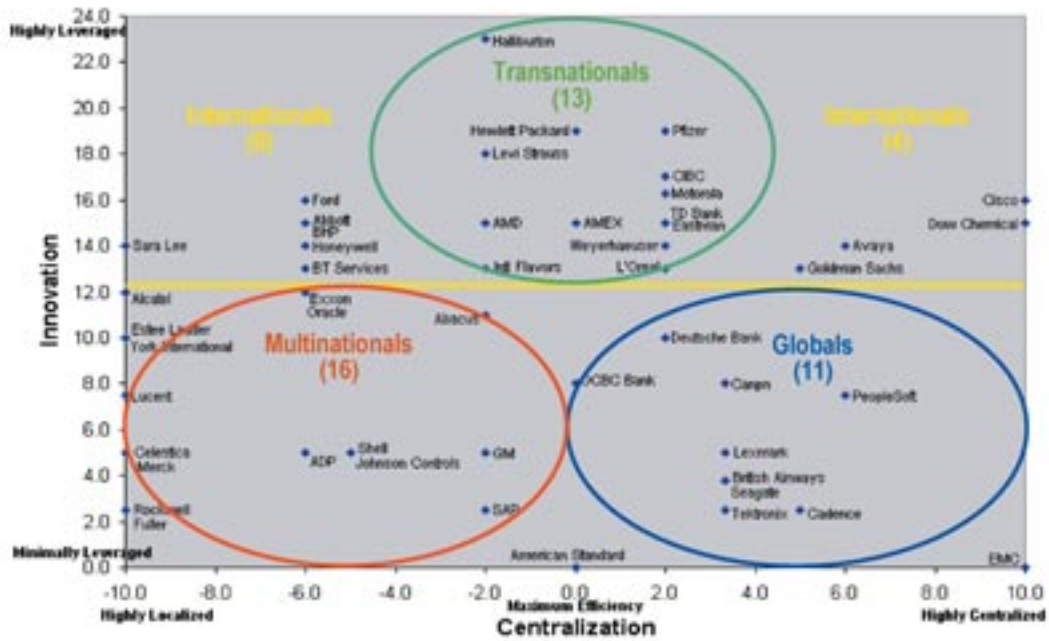
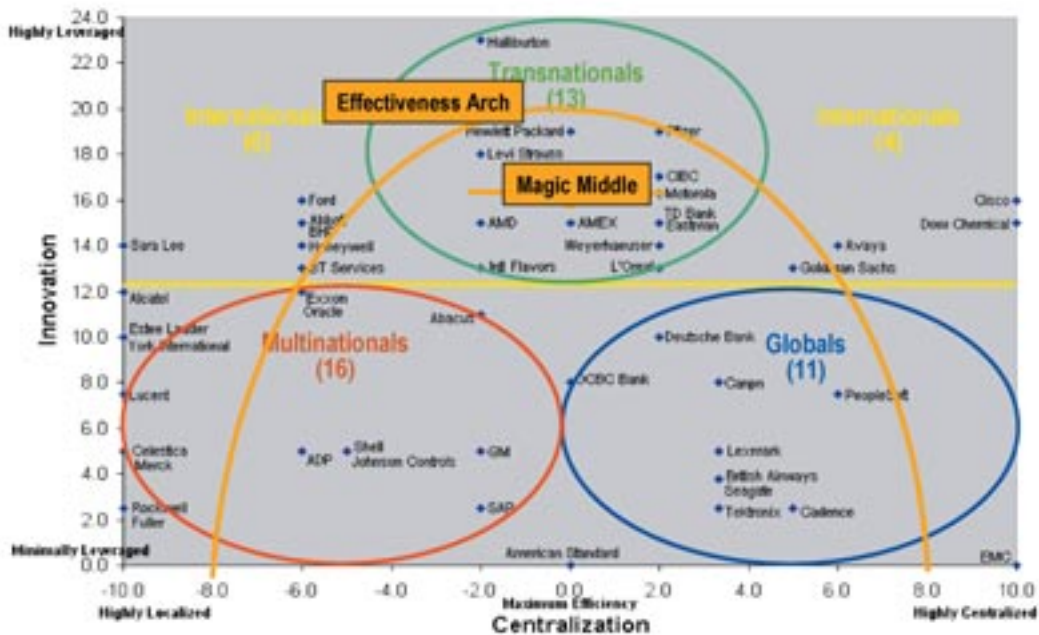


Figure 11. Efficiency Innovation Model (EIM).
"Effectiveness Arch" and "Magic Middle"



on the vertical axis and Efficiency on the horizontal axis, we can locate companies according to their organizational type: the four organizational structures fall into four corresponding regions of the graph (see Figure 10).³

In the lower left quadrant are *Multinational* companies. These 16 companies are decentralized with a high degree of local autonomy and little attention paid to sharing innovations across business units. At the lower right are *Global* companies. These 11 companies are highly centralized and thus highly focused on standardization, but are also very low on leveraging innovations throughout the company.

Above 12 on the innovation scale are the *International* companies. To the left are six *Decentralized International* companies, and to the right are four *Centralized International* companies. These companies are taking maximum advantage of innovations and sharing best practices across business units.

Finally, with a maximal level of innovation and an ideal degree of centralization are the *Transnational* companies. These 13 companies are the best positioned for competitive advantage, by leveraging innovation, achieving operating efficiencies through standardization, and maintaining sensitivity to local conditions — reconciling the paradox.

The companies in our sample are distributed by the *Efficiency-Innovation Model* in an arch-shaped pattern — the “Efficiency Arch” (see Figure 11). The

Figure 12. Efficiency Innovation Model (EIM).
Optimal Efficiency

		Average Efficiency
Multinationals	16	-7.1
Globals	11	3.6
Internationals	10	-0.9
Transnationals	13	0.5
Total	50	-1.0

Figure 13. Efficiency Innovation Model (EIM).
Maximum Innovation

		Average Innovation
Multinationals	16	7.0
Globals	11	4.6
Internationals	10	14.5
Transnationals	13	16.3
Total	50	10.6

Figure 14. Efficiency Innovation Model (EIM).
Differences by Industry

Industries	No	Multinationals	Globals	Internationals	Transnationals
Banks/Financial Institutions	6	0 0.0%	3 50.0%	0 0.0%	3 50.0%
Manufacturing-Industrial	7	2 28.6%	0 0.0%	2 28.6%	3 42.9%
Manufacturing-Consumer	11	4 36.4%	0 0.0%	3 27.3%	4 36.4%
Manufacturing-Technology	12	2 16.7%	4 33.3%	3 25.0%	3 25.0%
Information Technology	7	5 71.4%	2 28.6%	0 0.0%	0 0.0%
Energy/Telecomm	4	3 75.0%	0 0.0%	1 25.0%	0 0.0%
Other	3	0 0.0%	2 66.7%	1 33.3%	0 0.0%
Total	50	16	11	10	13

EIM hypothesizes that the leveraging of innovation is facilitated by an efficient distribution of responsibilities between central headquarters and local business units. Companies that improve efficiencies move along the Efficiency Arch, from either a *Multinational* or *Global* structure, toward the *International* and *Transnational* structures. The arch shape results from the fact that extreme values on the centralization/decentralization scale prevent diffusion of innovation and inhibit a company's organizational development, while an efficient structure promotes leveraging of innovation and worldwide learning. The EIM predicts that it is not possible for companies to rise to the upper right or left corners of the graph, i.e., to exhibit both high degrees of innovation and extreme centralization or decentralization — and indeed our sample shows no companies located in these corners. Companies that are excessively centralized or decentralized are inefficient in diffusing best practices along the innovation scale for one of two reasons:

- If the company is too centralized, the head office seeks to control and standardize practice in the local units, thereby suppressing local innovation.
- If the company is too decentralized, innovations are not disseminated, and so are left to languish on the periphery.

The data shows that maximum leverage is obtained when companies have an efficiency score between -3 and 3. Companies in this region of the chart have an average innovation score of 16, which defines the "Magic Middle" of the arch. The companies in the Magic Middle are the best positioned to take advantage of

maximum innovation and ideal efficiency.

Figure 12 shows the average centralization scores for the four organizational types. On the efficiency scale, *Multinational* companies are quite decentralized, with an average score of -7.1. *Global* companies show an average of 3.6 on the centralization scale, demonstrating that the ones in our sample are centralized, although not extremely so. *International* companies score an average of -0.9, but as can be seen in Figure 11, this result combines one fairly centralized group with another fairly decentralized group, minimizing the distinction. Finally, *Transnational* companies score 0.5, closely approximating the ideal level of efficiency.

Figure 13 shows the average scores on the Innovation dimension. As we have noted, a good level of innovation is represented by a score above 12, which demonstrates effective dissemination of best practices across the organization. The average innovation of the four organizational types in this survey shows an ascending progression — from *Multinational* and *Global*, with 7.0 and 4.6, respectively, to *International*, with 14.5, and finally to *Transnational*, with an average innovation score of 16.3. Although below the ideal, an average innovation score of 10.6 for all the companies in our sample indicates that this group of companies is actually fairly innovative.

BUSINESS TRENDS AND BEST PRACTICES

The *raison d'être* of the EIM is to facilitate the analysis of business trends and to reveal best practices in global HR

technology. In the present study, we focus on three topics: the organizational evolution of industry segments, the use of sole source providers, and the distribution of shared service centers.

Industry Segments — The first application of the EIM is the examination of the association between the four organizational models and various industry segments. Figure 14 shows that 50 percent of financial institutions and 72 percent of industrial/manufacturing companies are either *International* or *Transnational* (see blue outlined box), placing them close to the top of the organizational development curve. Indeed, in this survey we did not find any *Transnational* companies in segments outside of finance and manufacturing.

Interestingly, there are no financial companies with a *Multinational* structure. Since they naturally have a strong focus on financial control, these companies tend toward *Global* or *Transnational* structures, which have a higher degree of centralization than *Multinationals*. A memorable illustration of the importance of this issue for such companies is the famous case of Barings, the British bank that collapsed due to the risky activities of a single broker in the Singapore office. In this case, the lack of centralized financial control destroyed the entire company.

Another observation from our sample is that over 70 percent of information technology, energy, and telecommunications companies exhibit a *Multinational* structure, indicating that these industries are still in the early stages of their global organizational development. We assume this to mean that these industries are less mature on the global stage than the others.

Single Source Provider — The second application of the EIM is the use of a single source provider for HR systems technology (see Figure 15). This practice is clearly associated with higher scores on the innovation dimension. By far, the majority of *Transnational* companies (84.6 percent) adopt a single provider for their HR systems, and *International* companies (60 percent) tend in the same direction.

In contrast, *Multinational* (37.5 percent) and *Global* companies (36.4 percent) tend to have multiple providers. It comes as a surprise that *Global* companies do not have a greater degree of

**Figure 15. Efficiency Innovation Model (EIM).
Single HRMS Vendor Approach**

Single Vendor	No	No	%
Multinationals	16	6	37.5%
Globals	11	4	36.4%
Internationals	10	6	60.0%
Transnationals	13	11	84.6%
Total	50	27	

standardization in their HR systems. We suspect that this may be due to the difficulty of implementing change in a *Global* company where there is a distinct lack of flexibility. We suggest that this may reflect the challenges a centralized company has in dealing with the vast diversity of local laws and regulations governing HR and Payroll systems around the world.

Figure 15 demonstrates a progression of companies along the organizational development curve. Effective management of a *Transnational* company greatly depends on the ability to leverage knowledge and coordinate a complex network of activities around the world, which is clearly facilitated by a common HR technology platform.

Shared Service Centers — Our third application of the EIM deals with the use of Shared Service Centers (see Figure 16). We see that 100 percent of *International* and 70 percent of *Transnational* companies have implemented a Shared Service Center, either regionally or globally. This reduction from 100 percent to 70 percent suggests that *Transnational* companies are “right-placing” their processes in the optimal location — which may or may not be in the center — in cases where overly-centralized processes have become dysfunctional. Again we can see a progression along the organizational development curve in the use of Shared Service Centers, as organizations move from *Multinational* to *Transnational*.

An interesting result appears when we examine what companies think they need with regard to Shared Service Centers in comparison with what they actually have (see Figure 17). Less than half of *Multinational* (43 percent) and *Global* (40

percent) companies have a Shared Service Center, yet the majority think they should have them (71 percent and 100 percent, respectively). One hundred percent of *International* companies have Shared Service Centers, yet only half of them think they should! We can see that only *Transnational* companies actually have Shared Service Centers at the level they believe to be appropriate — 70 percent have them compared to 80 percent who think they need them. We suggest that these results indicate that not all shared services are equal: the effectiveness of Shared Service Centers depends heavily on placing the appropriate functions in the right location. Hence the *International* companies in our sample are in a transitional phase, maintaining redundant activities until the company is capable of “right-placing” them, as it progresses to the *Transnational* model.

CONCLUSION

Leading companies are seeking to achieve the ideal balance between standardized processes and sensitivity to local needs, while leveraging innovation and encouraging worldwide learning. As we have seen from this study, the most effective companies have a single database and use a single HR system provider. Highly innovative companies conduct monthly HR meetings, involve local and regional HR in the company’s business planning efforts, and incorporate and disseminate innovations initiated by the local business units. Shared Service Centers are one component that companies can use to appropriately “right-place” their business processes and meet the challenges of the paradox. The *Efficiency-Innovation Model* can be an

effective tool for helping companies measure their progress along the organizational development curve.

The *Transnational* model offers a variety of advantages to dealing with the challenges of today’s business environment. The *Transnational* organization is better able to:

- Respond effectively to change and complexity by building a distributed network of business units,
- Control costs by finding the ideal level of centralization, making the company efficient without sacrificing flexibility,
- Leverage worldwide learning by promoting and disseminating innovation and best practices across the organization, and
- Facilitate the right-placing of business functions by seeking an effective balance between global coordination and local sensitivity.

For companies seeking to move towards a *Transnational* model, we make the following recommendations based on the dual goals of efficiency and innovation:

- Define Clear Responsibilities:
 - ▶ Define clearly who has the authority to make decisions and what each decision-maker’s responsibilities are.
 - ▶ Avoid assigning joint and/or overlapping responsibilities for activities and tasks.
 - ▶ Recognize that some decisions must be made globally, others regionally, and others locally.
 - ▶ Ensure that decisions are made at the lowest possible level of the organization (this principle is

**Figure 16. Efficiency Innovation Model (EIM).
Shared Service Centers**

Shared Service Centers	Count	Have Global SSC		Have Region SSC		Have Either SSC		Have Both SSCs	
		Count	Percent	Count	Percent	Count	Percent	Count	Percent
Multinationals	7	3	42.9%	1	14.3%	3	42.9%	1	14.3%
Globals	5	1	20.0%	3	60.0%	2	40.0%	2	40.0%
Internationals	8	5	62.5%	5	62.5%	8	100.0%	3	37.5%
Transnationals	10	6	60.0%	6	60.0%	7	70.0%	4	40.0%
Total	30	15	50.0%	15	50.0%	20	66.7%	10	33.3%

Note: n=30; 20 respondents didn’t answer all the questions

**Figure 17. Efficiency Innovation Model (EIM).
“Should Have” Shared Service Centers**

Shared Service Centers	Count	Have an SSC		Should Have SSC	
		Count	Percent	Count	Percent
Multinationals	7	3	42.9%	5	71.4%
Globals	5	2	40.0%	5	100.0%
Internationals	8	8	100.0%	4	50.0%
Transnationals	10	7	70.0%	8	80.0%
Total	30	20	66.7%	22	73.3%

← Right-placed!!

Note: n=30; 20 respondents didn't answer all the questions

known in the European Union as “subsidiarity”).

- ▶ Define activity by activity, even decision by decision, where issues should be managed.
- Create Effective Communication Methods:
 - ▶ Define and implement a formal communication methodology.
 - ▶ Hold monthly HR meetings to get people together to exchange experiences.
 - ▶ Conduct regular strategic meetings on critical topics with key managers.
 - ▶ Organize and empower special task forces on key issues.
 - ▶ Make extensive use of new technologies, such as teleconferencing, videoconferencing, and Web-conferencing.
 - ▶ Promote “communities of practice” (groups that share the same interests) and create “knowledgebases” to facilitate effective cooperation and information-sharing across space and time.
- Promote a New Mentality:
 - ▶ Promote a *Transnational* mentality, changing the controlling, hierarchical ways of thinking to a new delegating, flexible style.
 - ▶ Encourage all associates to see

themselves as part of an interconnected global network.

- ▶ Focus on socializing and training individuals in the *Transnational* business culture.
- ▶ Adopt a management philosophy that understands the need to:
 - Build multiple strategic capabilities across the organization,
 - Analyze problems and opportunities from a local, regional, and global perspective, and
 - Create an organization which is open, agile, and alert.

The fundamental lesson is that, in the long run, no organization can succeed with a relatively unidimensional strategy, emphasizing only economies of scale or only sensitivity to local needs, or leveraging only innovations of the head office. To be competitive, international businesses must pursue all three objectives simultaneously:

- Become globally efficient,
- Be sensitive to local business conditions, and
- Leverage innovation and learning around the world.

To prevail in the era of globalization, increasing complexity, and accelerating change, companies must accept, embrace, and ultimately master the paradox!

*Karen V. Beaman is responsible for the coordination and delivery of ADP's professional services across the Americas, Europe, and Asia Pacific. Previously based in Paris, France, she was responsible for building and leading ADP's professional services business in Europe and for launching the company's professional services in Latin America. She has more than 25 years of experience with information systems and human resource management, specifically in the development, integration, and management of enterprise-wide HR systems. Ms. Beaman has degrees from Old Dominion and Georgetown Universities and was promoted to Ph.D. candidate in sociolinguistics and historical and computational linguistics. She is an internationally recognized speaker and has published works in the fields of both linguistics and HRIS. She is the co-founder and currently the editor-in-chief of the **IHRIM Journal**, past-Chair of the **IHRIM.link** Magazine Editorial Committee, and a former member of the IHRIM Board of Directors. Her first edited volume, **Boundary-less HR: Human Capital Management in the Global Economy**, which addresses global strategic planning and implementation issues, was released in 2002. Ms. Beaman received IHRIM's 2002 Summit Award, recognizing her outstanding achievement in the HR technology field. She can be reached at Karen_Beaman@adp.com.*

Gregory R. Guy is a professor at New York University, having worked at Sydney, Temple, Cornell, Stanford, and York universities. He also taught several times at Institutes of the Brazilian Association of Linguistics and at the Linguistic

*Society of America. He specializes in the study and analysis of geographic and social diversity and variation in language. He holds a doctorate and master's in linguistics from the University of Pennsylvania, and a bachelor's in English from Boston University. His research focuses on quantitative methods, linguistic contact, linguistic variation, and the relationship between social diversity and language change. Recent research projects investigated sociolinguistic universals, the unity of speech communities, and variation in Brazilian Portuguese and Argentine Spanish. Notable publications include **Towards a Social Science of Language** (Amsterdam: Benjamins, 1995, 1996), and a series of articles in **Language Variation and Change, addressing the use of quantitative analysis for the construction of formal theory**. He can be reached at gregory.guy@nyu.edu.*

REFERENCES

Bartlett, Christopher and Sumantra Ghoshal. 1989. *Managing Across Borders: The Transnational Solution* (Boston: Harvard Business School Press).

Beaman, Karen V. 2002. Editor. *Boundaryless HR: Human Capital Management in*

the Global Economy (Austin, TX: Rector-Duncan, Inc. for IHRIM Press).

Beaman, Karen V. and Alfred J. Walker. 2000. "Globalizing HRIS: The New Transnational Model" (*IHRIM Journal*, October 2000, Vol. 4, No. 4).

Handy, Charles. 1994. *The Age of Paradox* (Boston: Harvard Business School Press).

Hock, Dee. 1999. *Birth of the Chaordic Age* (San Francisco: Berrett-Koehler).

ENDNOTES

1 This article has been translated and adapted from the original version in Portuguese. This material was first presented at an ADP seminar for multinational companies in São Paulo, Brazil and at IHRIM's Annual Conference in Las Vegas, Nevada in April 2003.

2 The present study is based on previous work by Karen Beaman and Al Walker (2000), which postulated the evolutionary model for global organizational

development. Researchers from four organizations have contributed to the current study: the authors of this paper, Karen Beaman from ADP Global Services and Gregory Guy from New York University, and our colleagues Al Walker from Towers Perrin and Charles Fay from Rutgers University. The purpose of the current survey is "to discover the existence of the best practices in global HR technology and, if so, what are their contexts and determining factors."

3 We must stress that not all participants answered all of the questions in the survey. That is why a few of these companies, such as American Standard and EMC, scored low on the innovation scale. Wherever possible, scores have been adjusted to take partial information into account. For the next phase of our study, we are planning to return to these companies to ensure they complete the questionnaire.

If you have comments or questions on anything you read in the *Journal*, write to Editor-In-Chief, Karen_Beaman@adp.com.