

# [Pros and cons of polycentric staffing by perlmutter (1968) assignment](https://assignbuster.com/pros-and-cons-of-polycentric-staffing-by-perlmutter-1968-assignment/)

Term paper Title: “ Pros and cons of polycentric staffing by Perlmutter (1968)” Scientific research and writing I Outline I. Outline 1 Introduction 1. 1 Research problem 1. 2 Research methodology 1. 3 Way of investigation 2. Degrees of multinationality and how to measure them 1. General assumptions 2. The role of a manager in a multinational corporation 3 Global staffing 4. The EPRG concept 1. Ethnocentrism 2. Polycentrism 4. 2. 1 Pros of polycentric staffing 4. 2. 2 Cons of polycentric staffing 3. Regiocentrism 4. Geocentrism 5 Conclusion II. Bibliography III. Appendix IV.

Declaration of originality 1. Introduction 1. Research problem Multinational enterprises become increasingly significant in our progressive globalising world. Political, social and economic affairs within a country are persistently affected by their international activities which have worldwide impacts, consequently international ventures are incrementally gaining authority. In the highly competitive strive for achieving the highest degree of multinationality by various means, companies want to obtain sustainable prosperity since a mondial performance is related to motions towards a bright future.

A further scope that is no longer of national interest is the matter of staffing. In the contemporary advancing world, in which country-borders are of dwindling relevance, the recruitment of the ideal staff seems to become increasingly challenging as a rising number of people are being enabled to move to another state in order to search for a suitable and attractive employment. Hence, local human resources become gradually seldom, so qualified staff from all over the world is needed and sought for. Howard V.

Perlmutter, a worldwide recognised expert on the internationalisation of firms and other institutions[1], adopts this difficult topic and introduces the four approaches which become visible when people are engaged on managerial positions in multinational companies. Hiring the most eligible employees for their company, managers of multinational enterprises would conduct with a mix of an ethnocentric, polycentric, regiocentric or geocentric attitude. Perlmutter’s findings are demonstrated in the so-called EPRG concept which is frequently discussed ince 1968 and still an essential subject on international human resource literature. As there are always two sides of the same coin, there are also advantages and disadvantages of each of the different staffing practices. By virtue of the manager’s attitude, he acquiesces in the pros and cons that are accompanied by the chosen staffing philosophy. This term paper will investigate the advantages and disadvantages that go along with a polycentric attitude concerning international recruitment in multinational enterprises. It will further examine the definitions of the common applied staffing approaches originated by Howard V.

Perlmutter. 2. Research methodology This term paper analyses the pros and cons of polycentric staffing according to Howard V. Perlmutter in context of global staffing in international corporations. Hence, an outlook on the causes and consequences of international recruitment as well as on the measures that are used to describe a company’s multinationality is required. Furthermore, the induction into Perlmutter’s EPRG concept which analysis will give information about the four staffing approaches will highlight polycentrism and its impacts.

Additional examinations to this topic by other authors can either support or doubt Perlmutter’s statements and consequently reveal new views. Thus, a comparison of different literary works is inevitable. 3. Way of investigation Corresponding the research question that has been postulated in chapter 1. 1, it is worthwhile to describe the term “ multinationality” and its perception in chapter 2. An investigation of the measures defining the degree of multinationality within an enterprise will follow.

Thereafter, factors that contribute to the establishment of a global company will be elucidated. In chapter 3, special importance will be on global staffing and its repercussions. The causes and consequences that are related with hiring people from different countries for and because of various purposes due to the upcoming significance of international recruitment will be examined. As Howard V. Perlmutter is one of the literate pioneers who potters at multinational corporations and their personnel, his EPRG concept will be addressed in chapter 4.

To emphasise the difference between the four staffing approaches, ethnocentrism, polycentrism, regiocentrism and geocentrism will be illustrated. Focus will be on the polycentric staffing approach. At first, its advantages will be pointed out, followed by a reflection of its disadvantages. Moreover, reasons and impacts for these pros and cons will be suggested. A summary of the findings, a critical acclaim and an outlook will be subject to the conclusion in chapter 5. 2. Degrees of multinationality and how to measure them . General assumptions Being successfully present on a global level and create a universally applicable image that attracts people all over the world is depicted as the ideal goal of a multinational enterprise. But what is so special about being considered as “ multinational”? To most of the managers achieving this state means being prestigious as the company is then regarded as being more progressive and dynamic[2], striving after the future at the peak of economic prosperity.

There are surely diversified opinions about the term multinationality and there are certainly many companies which title themselves with this attribute justifying it with miscellaneous arguments. Those firms may have accomplished a particular degree of multinationality; but how to quantify it? There are certain benchmarks suggested such as the ownership criteria, the organisational structure, the nationality of senior executives or the percent of investment overseas which could help to identify a firm’s global performance. Yet, it is stated that no single yardstick alone could define the level of multinationality. 3] Two hypotheses shed light on its idiosyncrasy. The first hypothesis claims that “… the degree of multinationality is positively related to the firm’s long term viability. “[4] The quality of decision making is of major importance since it leads to survival, growth and profitability of a multinational enterprise in the evolving world economy. If a company’s subsidiary is not successful in one country, another one may compensate this by its own sale and associated success in another country. [5] The failure likelihood of a multinational concern is hence lower than a provincial traditional one.

If the company then establishes the number of those prosperous subsidiaries or creates even new ones, reducing or supporting the number of inefficient branches, it may establish a worldwide succeeding brand image of the firm and hence, also enhances its degree of multinationality. The second hypothesis asserts that multinational enterprises are increasingly liked to be seen as a “ new kind of institution with a new type of industrial social architecture. “[6] These institutions contribute largely to the world order and produce a significant proportion of the world’s Gross National Product (GNP).

With the employment of nationals or internationals, they have moreover an enormous influence on the nation-state. Additionally, multinational corporations are of huge economical meaning for the country and also its government considering the sum of taxes they would have to pay. Depending on their degree of multinationality, ventures with such a status – neglecting whether they are already entrenched or on their way up – can have more or less constructive impacts on host and parent nation-states as well as on other institutions since their presence is considered legitimate and appreciated in each country. 2.

The role of a manager in a multinational corporation These two hypotheses give first indications about the meaning of multinationality. However, the most essential contribution of a corporate’s multinationality is provided by the executives’ philosophies concerning doing business around the world. Their attitudes and orientation towards foreign people, ideas, resources in headquarters and subsidiaries has significant input on the evaluation of the firm’s multinationality. If the proportion of nationals in different countries approximately equals the number of foreigners having reached top positions in headquarters’ ocalities, it is a good index that multinationality is advancing forward. If the executive’s attitude is not ready yet for working on a global level, his decisions may be a major obstacle. For instance, a manager of a so-called international company “ could behave with a home country orientation despite foreign shareholders and (…) pick those local executives who are home country oriented or who are provincial and chauvinistic. “[7] Amongst the behavioural patterns, four emerging attitudes can be inferred from the assumptions upon which key product, functional and geographical decisions were made.

These are firstly the ethnocentric second the polycentric, third the regiocentric and fourth the geocentric approaches which will be outlined in further detail in chapter 4. [8] Nevertheless, it can be stated that there is never purely one type of those four represented in a corporation. By identifying the so-called EPRG-mix or rather saying the degree of each approach in certain areas of the company such as ethnocentric attitudes in finance or polycentric approaches in marketing affairs, there can be a precise description of the point of multinationality the companies have already reached. Global staffing The quality of the employees in an organisation is nowadays often the quintessence that makes the disparity. Immediately, companies have to be “ efficient, locally responsive, flexible, adoptable and capable of transferring knowledge across frontiers”, considering the differing political, economic, social and cultural values in order to be successful. [9] Staffing positions with the best convenient people and developing the management and therefore also the organisation are significant allocated responsibilities of the international human resource management.

Since “ other factors of production-capital, technology, raw materials and information”[10] are more and more being adjusted, the recruitment of skilled people pertains as sustainable advantage in the worldwide competition. Influencing labour and industrial relations challenges the strategic recruitment of international operatives. To select the best people for international managerial positions, there has been a set of numerous qualifications that are hardly to surpass on their diversity.

The ideal manager should be ” a flexible personality, with broad intellectual horizons, attitudinal values of cultural empathy, general friendliness, patience and prudence, impeccable educational and professional (or technical) credentials – all topped off with immaculate health, creative resourcefulness, and respect for peers, if the family is endowed, all the better. “[11] Figure 1 listed in the Appendix illustrates the staffing choices in consequence of the requirements of context specificities, company specificities, local unit specificities and practices of the international human resource management.

Depending on the type of international assignment, costs in varying degrees are attached. [12] Even so, discounting the legal constraints of the home- and the host-governments, multinational companies can benefit from their investment in the education of their internationalised employees. Table 1 opposes the costs and the gains known as the “ return on investment”. [13] The complexity of global staffing, however, lies in the maintenance of a uniform staffing philosophy since strategies in different countries may require different staffing approaches. . The EPRG concept 4. 1 Ethnocentrism Ethnocentrism refers to a preference for putting Parent-country nationals (PCN), employees from the country where the headquarter is located, in key positions all over the world because the headquarters’ management proceed on the assumption that those might be more intelligent, more capable and more reliable than the local people. This approach might result in greater rewards for their work but also in the lack of experiences and knowledge about the Host-country nationals (HCN).

Most vitally, managers from the headquarter miss the confidence towards and of the employees of other countries[14], consequently an efficient collaboration based on communication is not provided with an ethnocentric attitude. 4 Polycentrism Polycentrism is the attitude that cultures of various countries are quite different and therefore know best what to do in which way to gain profit. As long as they are successful on this aspiration, subsidiaries are being left independent without any interference by the headquarter.

Because locals meet the job requirements in a country best, the top management is staffed with Host-country nationals. These managers are viewed as having high, if not absolute, sovereignty over their people. [15] 1. Pros of polycentric staffing Polycentrism as described above is a staffing approach that treats each subsidiary as a distinct national entity with some decision-making autonomy, usually managed by Host-country nationals. Neither the HCNs nor the PCNs are usually promoted to positions executed in another country than their own. 16] Using this staffing approach can have several advantages. Employing HCNs solves the problem of language barriers. Communication, which is the base of a harmonic and functioning team-work, is much easier and eliminates misunderstandings resulting from the lack of vocabulary or other lingual problems. Due to the fact that the HCN is accustomed to the country’s culture, customs and language, adjustment problems of expatriate managers and their families are avoided.

There is no necessity for expensive cultural awareness training programs as well as the time which managers and their families would need to get use to their new environment. Therefore, HCNs are concentrated on their position and their tasks right from the first day and do not need any further explanation or do not have to constantly think on how to cope with other employees concerning cultural matters. This can lead to an improvement of the continuity of management. The HCN does not have to leave the subsidiary because he/she or his/her family cannot integrate into their new surrounding.

Neither do HCNs have the obligation to return to their home country owing to the expiry of their visa, their work permission or the scheduled time for the project. Hence, HCNs stay longer in position which also satisfies the local government. Furthermore, the best men of local markets are recruited so it experiences an intensive exploitation. Because the local management is often better informed about political, economical or social changes, better sales can be achieved due to immediate marketing actions, price reduction or similar activities.

Additionally there can be a higher local initiative for new products because the HCN manager knows about the need and wishes in his/her country[17]. The governmental policy may dictate that nationals are preferred when hiring people for a new subsidiary. Since governments are highly bothered to decrease the unemployment rate of their country, they could set special conditions for multinational enterprises which want to settle a new subsidiary.

Therefore, the employment of HCNs allows a multinational enterprise to trade about governmental support such as subsidies or the loosening of restrictions in exchange of jobs for the local nationals during sensitive political situations. To know the host-country’s economics and the business conditions such as the environmental restrictions of the government or the number of suppliers and other trade partners who could limit or support its daily business is a major advantage when planning, leading and executing a project.

Importantly, knowing local legal requirements concerning for example the labour law where working hours and conditions are regulated supports the HCNs work flow. It eases the bureaucratic procedure with governmental offices and creates a good publicity all over the world considering the corporate image when a multinational enterprise treats his employees the correct way according to local standards or even treat them better than the vernacular norms would afford it. People would prefer buying products of a company which treats its employees fairly and they also would like to work in such an enterprise.

It also saves time because the HCN does not have to take extra lessons to learn about all this regulations and he/she does not doubt it because he/she never experienced another system than it is applied in the host-country. [18] Another major advantage of a polycentric staffing philosophy are the minor costs which get along with employing HCNs. Not only the costs for integrative programs for PCNs and their families as mentioned above are eliminated but also the hiring costs are reduced. In a polycentric staffing approach, each subsidiary is seen as a single entity.

Hence, functions of the human resource management can be decentralised on a country-by-country basis. That means that each “ individual location is responsible for developing their own personnel policies and guidelines”[19] because the coordination between overseas ventures will be minimal. Consequently, there is hardly any need for paying the PCNs’ flights when having an interview nor do the costs for internet-, tele-, or postal-communication play a major role when hiring local nationals.

Table 2 depicts the costs of employing a Canadian manager in the United Kingdom and clearly demonstrates the enormous sum which a multinational enterprise would save when hiring a manager from the United Kingdom instead of Canada. [20] Not only the living costs or the costs for sending the expatriate manager to the subsidiary have to be considered but also the costs for relocation and higher salary when a PCN returns. When leaving a country for several years, one has to consider that several changes occurred such as the condition of the former house or the sold car.

These costs for relocation are not required when hiring a HCN. Another beneficial aspect could be the attitude of HCNs. In contrast to the ethnocentric staffing approach where only PCNs have the chance to achieve important positions abroad, HCNs are faced real career potential as they are more likely to be chosen in a polycentric staffing approach when recruiting people for management positions in subsidiaries. Thus, the morale concerning working for the company and competing with other HCNs for a higher position may improve as they might want to take the opportunity to climb the ladder. . 2. 2 Cons of polycentric staffing As mentioned above, the improving morale of a HCN could be of advantage for the company. But a polycentric staffing approach can also have negative influence on the HCNs morale. On the one hand, it can improve because local managers have the chance to promote to a higher position at the subsidiary but on the other hand there is no actual opportunity to achieve a senior position at headquarters[21] or in any other subsidiary.

In fact, their career stagnates with a senior positions in their own subsidiary because they cannot progress beyond this border. Even parent country staff may view themselves as having limited career options because PCNs cannot get a job in one of the subsidiaries. They may perceive overseas assignments in a negative light because they might think that those assignments are only addressed to the “ privileged” HCNs. Thus, a polycentrism provides narrow career mobility for the host as well as the parent country national staff. 22] Hiring with a polycentric approach means limiting opportunities to gain foreign experience. “ As headquarters positions are held only by PCNs, the senior corporate management group will have limited exposure to international operations”[23] which over time will affect strategic decision making and resource allocation. They will never have another view of things than their own and no experience to chase new traces which worked in other countries. It would also be difficult bridging the gap between HCN subsidiaries managers and PCN managers at the corporate headquarter.

Communication problems due to language barriers and a variety of cultural differences such as personal value distinctions or differences in attitudes towards business may isolate the corporate headquarters staff from the various foreign subsidiaries. [24] Also, conflicts concerning national loyalties can occur. A HCNs loyalty may be to the host country not to the company itself so he/she is more liked to act or to decide in favour of the national interest and against the company’s interest. Hence, there’s a lack on the side of the HCNs’ regarding to a corporate culture of the home office. 25] The difficulty of controlling and coordinating activities and goals between the subsidiary and the parent company due to communication difficulties between the employees of the home office and those in the subsidiaries results in an encouragement of a multinational firm as a federation of independent national rather than global units with nominal links to corporate headquarters. [26] Perlmutter states that the most dangerous risk of polycentrism is the ” … excessive regard for local traditions and local growth at the expense of global growth.

Costs are waste due to duplication, to decisions to make products for local use but which could be universal and to inefficient use of home-country experience. “[27] It is obvious that for him, the loss of the company’s multinationality regarding its global expansion is a major danger which multinational enterprises have to face when using polycentrism as a staffing approach. He further claims that if HCNs and their experiences could have an influence on decision making of the headquarter, the company would benefit in terms of reduction of costs.

Products which have the potential being able to be sold all over the world are only produced and promoted in the subsidiary’s country. The costs for these products can be minimized if the headquarter and its subsidiaries would introduce it as a complete company in every country. The company would save money for the distinct marketing procedures such as commercial campaigns or packaging and also save the money for the Research and Development of the product.

On top of the disadvantages of a polycentric staffing approach are the expensive training and development costs which will be needed to address some of the identified problems and to move onwards to multinationality. 2. Regiocentrism Regiocentrism is depicted by seeing advantages in recruiting, developing, appraising, and assigning managers on a regional basis. Therefore, managers with a regiocentric attitude may benefit from the local experience of their staff originating from different European countries on the one hand and on the other hand from the upcoming unity amongst the people coming from the same region or continent. 28] 4. 4 Geocentrism Geocentrism is evidenced in the attempt to integrate diverse regions through a global unified system. Headquarters and subsidiaries feel connected through a worldwide device and thus, choose the best man from all over the world to fulfil their goal of global success and achieving the highest profit. They share problems and difficulties with each other in order to exchange ideas and innovative thoughts which could be beneficial for the entire company. [29] 5. Conclusion This term paper described the term multinationality and its impact on companies.

Influencing politics due to restrictions and labour conditions as well as affecting society by staffing and sponsorships, an international corporation may not be only seen as economic institution. Furthermore, it has been stated that enterprises have to fulfil multiple criteria to be considered as multinational. The number of employees overseas or the subsidiaries located in various countries, the productions happening worldwide or the count of international shareholders are admittedly helpful to identify the degree of a firm’s globalisation but the contribution of the highest relevance is the attitude of the firm’s management.

Beside its impacts on decision making in financial, investment or production matters, global staffing is most importantly swayed. The qualities of the management as well as the quantity of skilled employees are key factors which companies can be distinguished from. Selecting the most apt men requires choosing the one who complies best the criterions related to context specificities, company specificities, local unit specificities and practices of the international human resource management.

Once found, the company has to face direct costs of the assignment, administrative costs of running an international assignment program and adjustment costs, including programs to get accustomed to language and culture. Nevertheless, multinational enterprises benefit from their investment for they can develop the organisation and its management by profiting from the success of the international assignments as well as from the experiences in overseas. However, recruiting the vintage staff is highly depended on the authorities’ staffing philosophies.

Howard V. Perlmutter identified the four primary attitudes that can be perceived. Applying those, one discerns that the appreciation of people coming from the country where the headquarter is located (Parent-country nationals) and people coming from the country where the subsidiaries are situated (Host-country nationals) differ on wide ranges. Subsidiaries would be staffed with Parent-country-nationals when acting with an ethnocentric approach, for they are assumed to be more skilled on every field and more trustworthy.

The regiocentric attitude implies recruiting people coming from the same region whereas the geocentric staffing acknowledges that not the nationality of managers but their qualifications on hard and soft skills matters. In this term paper, the polycentric attitude has been focused. Applying this approach, subsidiaries are managed by HCNs who are regarded as knowing best what measures to choose to realise high sales and establish prosperous success.

Lower costs, the missing lingual and cultural barriers, the knowledge of national restrictions and laws as well as the persistence of management positions count to the advantages of polycentrism. Likewise, multinational enterprises can benefit from the support of the government due to the employment of locals, the decentralisation of departments as subsidiaries are being left independent and the improve of morale since nationals are enabled to achieve chief positions. Disadvantages arise out of the difficult coordination of activities and goals between the subsidiary and the parent company due to a lack of trust and language problems.

Consequently, a federation of single entities instead of a unified firm can occur, encouraged by a loyalty towards the country rather than towards the enterprise. Additionally, there can be a deficiency of career mobility which leads to demotivation for the chance gaining international experience which could lead to worldwide growth is denied. To build a multinational enterprise one should, hence, build on positive internal factors, most importantly by recruiting the type of managers whose mind is ready for international progress.

By counteracting the disadvantages of each staffing approach, a company can establish its global performance. The overcoming of the political and economic rise of nationalism as well as ethnocentric and polycentric attitudes as they are the greatest opponents of multinationality can be achieved best by building trust between persons of different nationality that support and ease the communication. Over time, one can observe that there is a consequent improvement in the climate of confidence and acceptance of the HCNs and the PCNs views of each other.

Additional programs to assure greater experience in foreign markets can give further support as well as the upgrade of executives’ task forces and the improved design of international careers for executives of all nationalities. II. Bibliography Monographs: Belcourt, Monica; Bolander, George; Snell, Scott: Managing Human Resources, Toronto, Thomson Nelson, 2007 Dowling, Peter J. ; Welch, Denise E. : International Human Resource Management: Managing people in a multinational context, Canberra, Thomson Learning 1990 Groschl, Stefan; Dowling, Peter J. ; Festing, Marion; Sr.

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Scholte, Jan Aart: Globalization: a critical introduction, New York, palgrave Macmillan 2000, p. 49 Articles: Heller, J. E. : Criteria For Selecting an International Manager in the Journal of International Human Resource Management, Vol. 20, No. 2, p. 50 Konopaske, Robert; Werner, Steve; Neupert, Kent E. : Entry mode strategy and performance: the role of FDI staffing, USA in: Journal of Business Research 55, 2002, pp. 759-770 Schuler, Randall S. ; Rogovsky, Nikolai: Understanding Compensation Practice Variations Across Firms in: Journal of International Business Studies, Vol. 9, No. 1, 1993, p. 160 Welch, Denise E. : Determinants of international human resource management approaches and activities: a suggested framework in Journal of management Studies, Vol. 31, No. 2, p. 150 McNulty, Y. M. , Tharenou, P. : Expatriate return on investment in: International studies of management and organization, Vol. 34, No. 3, p. 70 Other sources: Website of the Academy of International Business: http://aib. msu. edu/fellow. asp? FellowID= 43 III. Appendix Figure 1: Determinants of staffing choices Table 1: Return on Investment Table 2: Costs of expatriate managers

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