Workforce Diversity Initiatives of U.S. Multinational Corporations in Europe

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Executive Summary

Although most U.S. multinational corporations have substantial workforce diversity management programs in their U.S. operations, they are only beginning to consider parallel efforts in their overseas subsidiaries and affiliates. The internationalization issue is particularly prominent in the European Union, where competitive, demographic, legal, and political developments make workforce diversity issues unavoidable within the next few years. Instead of simply replicating U.S. programs, however, diversity initiatives in Europe need to adapt to each employer's strategic objectives, degree of organizational integration, and local needs. The experiences of Lucent Technologies Inc. and The Royal Dutch/Shell Group of Companies illustrate two contrasting approaches. The former has adopted a strongly multidomestic strategy, while the latter has a more global approach. © 2003 Wiley Periodicals, Inc.

INTRODUCTION

Over the past decade, workforce diversity management has become an important component of human resources management in most large U.S. corporations. Diversity management refers to initiatives that capitalize on the personal diversity in a firm's workforce (involving "visible" characteristics such as race, ethnicity, national origin, gender, age, or disability as well as "invisible" characteristics such as thinking style, level in the firm's hierarchy, professional background, or functional affiliation) as a "strategic approach to business that contributes to organizational goals such as profits and productivity."[1] According to recent sur-

[1] Society of Human Resource Management (2001). Diversity management is related to, but differs in origin, intent, and activities from, equal employment opportunity and affirmative action, which are "grounded in moral and social responsibility to amend wrongs done in the past, with legal obligations to increase the representation of minorities and females in the workforce to reflect their availability in the labor market." Diversity management's emphasis on employers' goals also distinguishes it from "valuing diversity," which emphasizes improving employees' work lives by making organizational cultures more welcoming to individual differences. However, these distinctions are consistently maintained in only the most sophisticated 25% of current U.S. diversity management programs (Bendick, Egan, & Lofhjelm, 1998, 2001; see also Thomas & Ely, 1996, and Doomernik, 1998).

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veys, some form of diversity management is in place in about three-quarters of the United States' largest corporations and more than half of the companies belonging to the American Management Association (Bendick, Egan, & Lofhjelm, 2001, p. 2).

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Many of the firms with diversity management programs in their U.S. domestic operations are multinational corporations (MNCs) extensively involved in international markets and operating subsidiaries or affiliates in multiple nations. As is well known, many MNCs prefer uniform or consistent operating policies and practices worldwide, as part of efforts to exercise centralized control of local operations, promote cooperation among their subsidiaries and affiliates, and mold corporate cultures reducing local differences (Bartlett & Ghoshal, 1998; Harzing, 1999; Johansson & Yip, 1994; Rosenzweig & Singh, 1991). These considerations suggest that diversity management is unlikely to remain prominent in the U.S. domestic operations of these firms and absent elsewhere.

On the other hand, human resources is an area of corporate policy where global consistency is often particularly difficult to implement (Adler, 1997; Brewster, Hegewish, & Mayne, 1994; Schuler, Dowling, & De Cieri, 1993). Outside the United States, issues of discrimination and diversity often present themselves in forms and with priorities quite different from their counterparts in the United States, and initiatives addressing these issues must be implemented in widely varying legal, political, and cultural environments. Even firms that are well-established in overseas markets may not be knowledgeable about these issues in every nation where they have employees and may become overwhelmed by the range of issues across the multiple countries in which they operate. Concurrently, firms' control relationships between their headquarters and their operating arms may differ between their domestic and international operations. In these circumstances, the pace and content of diversity management initiatives outside the United States might continue to differ from their domestic counterparts over an extended period.

In the European Union (EU), three circumstances coincide to transform these matters from a theoretical issue into a practical concern in the near term. First, the European and U.S. operations of many U.S. MNCs are extensively interrelated. Second, cultural attitudes toward employment discrimination in the United States and Europe are relatively similar (compared to, for example, Asia). Third, powerful demographic, legal, and political developments associated with continuing EU integration are mandating increased attention to diversity issues. Accordingly, as a harbinger of likely future directions for diversity management initiatives outside the United States, this article focuses on the experiences of U.S. multinationals[2] in the 15 member countries of the EU.

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The article begins its exploration of these experiences by reviewing circumstances in the EU that will compel U.S. MNCs operating there to focus on diversity issues in the near term. The article then documents the current overseas diversity activities of a sample of such firms. Next, the article contrasts two approaches to diversity management in the EU, illustrated by Lucent Technologies Inc and The Royal Dutch/Shell Group of Companies. Finally, the article sketches likely future directions for overseas diversity management initiatives. From these analyses, we conclude that U.S. MNCs need to prepare now to implement substantial diversity management efforts in their European operations within the next several years. We also conclude that, for these efforts to be effective, they cannot simply replicate these firms' U.S. domestic diversity programs. Instead, while reflecting a level of commitment similar to that in the United States, they need to be adapted in complex ways to each employer's corporate culture, strategic objectives, and degree of organizational integration, as well as to the operating environments of the host nations where these firms operate.

DEVELOPMENTS MANDATING ATTENTION TO DIVERSITY IN EUROPE

Virtually no U.S. MNC can afford not to operate in the EU. The EU's 15 countries[3] encompass a population of 376 million, 38% more than the United States and nearly triple that of Japan. In 1999, the EU produced 20.2% of world GNP, only marginally behind the United States' 20.8%. The EU and United States are each other's largest single trading partner and each other's most important source and destination of foreign direct investment (FDI) (Manganelli, 1999; United States Mission to the EU, 1999; "Key Indicators,"

[2] One of our main examples, Royal Dutch/Shell Group of Companies, is not a U.S. MNC but a joint venture between Royal Dutch Petroleum (Netherlands) and the British Shell Transport and Trading Company, PLC. Its international diversity efforts, however, started in its Shell (U.S.) subsidiary.

[3] Today's EU reflects integration that began in 1951 with six countries (Belgium, Germany, France, Italy, Luxembourg, and The Netherlands) and expanded through four waves of accessions (Denmark, Ireland, and the United Kingdom in 1973; Greece in 1981; Spain and Portugal in 1986; and Austria, Finland, and Sweden in 1995). The single currency "euro zone" encompasses the 15 member states except Denmark, Sweden and the United Kingdom ("The ABC of the European Union," n.d.).

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Traditional Pressures for Diversity Management

These developments start with diversity issues raised by the social, political, and legal environments in each European host country in which a U.S. MNC operates. These issues include many with which these companies are at least partially familiar from their U.S. experience. For example, the International Labour Organization recently conducted systematic cross-national measurements of the proportion of job applications in which "visible minorities" encountered discrimination. These studies estimated rates of 36% in Spain and 27%-39% in Belgium, generally comparable to the 19%-33% for the United States (Arrijn, Feld & Nayer, 1998, p.112; Bendick, 1996, p. 38; ILO, 1998, p. 4).

Other diversity issues present themselves in forms less familiar to U.S.-based firms. One example involves guest workers excluded from citizenship in the country in which they work despite having resided there for multiple generations; this issue has only limited parallels in the United States because the U.S. Constitution grants citizenship to anyone born in the United States and thereby limits alien status to one generation. A second example involves the six million Roma (gypsies) whose substantial socioeconomic disparities compared to their countrymen make them a "spectral third world nation within Europe" and potentially "the most important civil rights issue in Europe" (Economist, 2001, p. 29; see also Range, 2001).

Adding to the complexity of diversity issues in any one country, many U.S. MNCS operate in more than one EU member state. In 1991, at least 34 U.S. MNCs employed more than 1,000 employees in two or more European nations (UNCTAD, 2000, p. 26; see also Sisson, Waddington, & Whiston, 1992).

Diversity issues also arise for U.S. MNCs within their own firms, particularly when they establish their presence in Europe by mergers or acquisitions involving establishments that were previously European-owned. This mode of international expansion has become increasingly important in recent years, often because its "time to market" is substantially less than when MNCs create their own subsidiary or affiliate. Worldwide, FDI involving cross-border, goods-producing mergers and acquisitions increased from less than $100 billion in

1987 to $720 billion in 1999 (UNCTAD, 2000, p. 9; European Commission, 1999). In those circumstances, MNCs often need to address diversity issues arising from differences between the organizational cultures of the merger or acquisition partners. Failure to do so can have substantial consequences. For example, one recent survey of mergers and acquisitions involving large U.S. firms reported that 7 out of 10 did not live up to their financial promise, and 73% of participants in these experiences cited cultural incompatibility between the partners as the largest reason for failure (Grossman, 1999; see also Buono & Bowditch, 1989, and Napier, Schweiger, & Kosglow, 1993).

U.S. MNCs operating in Europe must also comply with the employment laws of their host countries.

Recent Legal Developments

Within the United States, federal and state laws prohibiting employment discrimination or mandating affirmative action have been an important, although certainly not the sole, motivation for firms' diversity efforts (Cox, 1993; Richard & Kochan, 2000). When employing U.S. citizens outside the United States, U.S. MNCs and their international subsidiaries may remain subject to the extra-territorial reach of U.S. anti-discrimination laws such as Title VII of the Civil Rights Act of 1964, the Equal Pay Act, the Americans with Disabilities Act, and the Age Discrimination in Employment Act.[4] Even when not legally mandated to comply with such laws, administrative convenience and the equity of company-wide uniform employment practices may motivate companies to voluntarily extend coverage to overseas employees.

U.S. MNCs operating in Europe must also comply with the employment laws of their host countries. Although many European nations have statutes or constitutional clauses prohibiting employment discrimination (European Commission, 2001a), many of these laws have traditionally lacked provisions for enforcement by government agencies or private litigation comparable to those in the United States. However, that circumstance is changing rapidly. Concern about the possibility that integration of the EU would be accompanied by a decline in employment rights and working conditions to the lowest level in any EU member state—a concern sometimes referred to as "social dumping"—has led to EU-level legislation requiring member nations to strengthen their legal provisions (Adnett, 1995).

[4] The extraterritorial application of the laws is complicated. For example, under Title VII of the Civil Rights Act of 1964 and the Americans with Disabilities Act, a U.S.-based company and its foreign subsidiaries are liable for discrimination against U.S. citizen employees only if they are an "integrated enterprise" or the employee is in a "joint employer" relationship (Carmell, 2001).

With respect to employment discrimination and diversity, this trend has manifested itself in Article 13 of the EC Treaty, introduced by the Treaty of Amsterdam, which authorizes the EU to take action against discrimination based on race, sex, ethnic origin, religion, age, or sexual orientation. Implementing this article, EU Directive 2000/43/EC (Council Directive, 2000a) establishes the principle of equal treatment in employment in terms of race and ethnic origin, requires every member state to provide a minimum level of anti-discrimination protection, guarantees victims judicial or administrative redress, shifts the burden of proof in civil cases to the employer once a *prima facie* case of discrimination has been established, and requires member states to establish bodies to promote equal treatment and provide assistance to victims of discrimination. A second directive, EU Directive 2000/78/EC (Council Directive, 2000b), establishes a framework for equal treatment in employment based on religion, disability, age, or sexual orientation ("The Fight Against Discrimination," n.d.; "Treaty of Amsterdam," n.d.; European Foundation, 2000a).

Legislation on race, sexual orientation, and disability discrimination has been planned or adopted in France, Austria, and Germany.

Member states are required to implement both directives by 2003, and as these deadlines near, their effects are already being felt. Legislation on race, sexual orientation, and disability discrimination has been planned or adopted in France, Austria, and Germany. The number of legal claims accusing employers of unfair dismissal, discrimination, harassment, bullying, and unfair working practices has been increasing, and demand is growing for employment practices liability insurance (European Foundation, 2000b; "Prepare or Be Sued!"1999).

Demographic Trends

Legal developments are by no means the only force promoting firms' increased attention to diversity. In the United States, concerns about obtaining, retaining, and utilizing the workforce they need to be competitive have led many employers proactively to engage in diversity efforts that are more aggressive than, or simply different from, what laws mandate. A second important reason for firms to address diversity management issues in Europe is the dramatic changes in the composition of the EU labor force predicted for the next 30 years. Over that period, this labor force is expected to:

- *Shrink.* Between 1985 and 1995, the EU workforce grew from 154 to 169 million. If current demographic trends continue, it will peak at 183 million in 2010 and by 2050 return to its

1985 size. This decline reflects the aging of the "baby boom" generation as well as low fertility rates (Eurostat, 2001).

- *Age.* Currently, about 20% of the EU labor force is 50 years old and over. Between 2020 and 2025, this fraction is forecast to reach 30%, an increase to 52 million older workers from 33 million in 1995. In former eras, many of these workers would retire earlier than their counterparts in the United States; in the EU in 1999, the employed proportion of persons age 55-64 was 37.4%, compared to 59.3% in the United States (Bureau of Labor Statistics, 2001; "Key Indicators," n.d.). However, that tradition may not prove sustainable; there are currently between four and five people of working age for every retired person in Europe, but in 40 years, there will be only slightly more than two (UN/ECE, 1999, p. 45).
- *Become more female.* A development countervailing to the first two trends has been the rapidly increasing labor force participation of women, from a 39% EU-wide rate in 1985 to 42% in 1995 and an expected 44% in 2010 (Eurostat, 2001).
- *Become more part-time.* In 1995, about 83% of the employed population in the EU held or sought full-time jobs (32 hours or more per week). By 2020, this share is predicted to decrease to 77% (Eurostat, 2001).

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Such developments raise obvious concerns for U.S. MNCs operating in Europe about workforce recruitment, retention, and development. Equally, they raise issues about how to maintain and increase productivity from workgroups that are increasingly diverse in their composition (Jackson & Joshi, 2001; Jehn, Northcraft, & Neale, 1999). Finally, the same demographic developments that are reshaping the workforce have parallel effects on the general population, enhancing the potential role of diverse workforces in relating to diverse customers. In the United States, the "business case" for diversity management is usually based on some combination of these three concerns—staffing, productivity, and customers. As major demographic developments occur in Europe comparable to those in the United States, it seems inevitable that they will translate into a comparable business case for diversity management initiatives in the European context (Wilson & Carswell, 2001).

Political Developments

The largest shock facing the European labor market over the next several years will be triggered by the EU's ambitious expansion program (Graham & Danson, 1999; McDonald, 2000). "Fast track" countries likely to enter the EU by 2004 include Hungary, Poland, Estonia, the Czech Republic, and Slovenia. A second group, including Bulgaria, Romania, Latvia, Lithuania, and Slovakia, are scheduled to follow somewhat later; and a third group, including Cyprus, Malta, and Turkey, are at a more preliminary stage of negotiations. The first group of new entries alone would increase the EU's population by more than 25%, to 500 million ("Enlargement," n.d.).

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For U.S. MNCs currently operating in countries scheduled to join the EU, the most obvious diversity consequence of accession is that workers in the new member states will acquire the anti-discrimination protections mandated by the EU directives previously discussed. For some of these nations with long-simmering issues of racial/ethnic conflict, this empowerment may cause substantial upheavals that will extend into the workplace.

Other consequences of expansion will be felt in the EU's 15 current member states. Under the Union's principle of free movement of labor within the member states, employers in these nations must be prepared for workers from the new states to join their workforces. The extent of new mixing is difficult to predict. One prominent study predicts no large-scale migration of workers into the EU15 from newly-acceding states (European Commission, 2000; European Commission, 2001b). Other sources suggest that such immigration, and the diversity issues associated with it, are likely to be more extensive. They point to the presence of between 400,000 and 500,000 illegal migrants already working in the EU as "labor tourists" or "cross-border commuters" (Economist, 2000b, p. 27). Whatever the extent, it is clear that the expansion will inevitably heighten the workplace management challenges of ethnic, national, linguistic, cultural, and religious diversity.[5]

HOW U.S. MNCS CURRENTLY ADDRESS DIVERSITY OUTSIDE THE UNITED STATES

The Overall Rate of Activity Is Low

Although the developments just described create an expectation that diversity initiatives would be common in the European operations of

[5] One indicator of how different the workers from the newly acceding states will be from workers already in the EU is provided by the following fact: Although the first wave of expansion will increase the EU's population by more than 25%, it will increase its GDP by only 5% ("Enlargement," n.d.).

U.S. MNCs today, a variety of indicators demonstrates that such initiatives are not in place. For example, in the late 1990s, the International Labour Organization attempted to survey workplace anti-discrimination/diversity training programs in 14 industrial nations. The survey was eventually completed in only the United States and two European countries—Great Britain and The Netherlands—principally because of an inability in the other nations to identify samples of workplaces where such training existed.

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The international diversity management activities of U.S. MNCs were examined directly in a study of eight large companies with well-established diversity initiatives in the United States and substantial operations outside the United States. This study found that the firms' international diversity programs were consistently less developed than their domestic counterparts, with many still in the planning stage. For example, the study identified 116 current domestic diversity initiatives among the eight firms but only seven comparable international ones (Wentling & Palma-Rivas, 2000, p. 4).

Within the United States today, a substantial flow of literature on diversity is produced every year, addressed both to practitioners and scholars. Except for primarily descriptive work addressed to practitioners (Elashmawi & Harris, 1993; Grove & Hollowell, 1996; Solomon, 1994), most of this writing stops abruptly at the U.S. border. For example, a 2001 survey of Fortune 1000 companies asked 170 questions about the relationship between diversity and firms' bottom lines without including a single question examining firms' activities outside the United States (Society of Human Resource Management and Fortune, 2001). Only one empirical study of which we are aware examines the business case for workforce diversity in an international context; it found no relationship between the cultural diversity of firms' international operations and those firms' financial results (Gomez-Mejia & Palich, 1997; see also Palich & Gomez-Mejia, 1999).

Even "First Movers" Are at a Preliminary Stage

This paucity of information on international diversity programs led us to conduct our own survey of 30 large U.S. MNCs. The firms we contacted were each a major player in its global industry, with revenues placing them among the top five firms worldwide; at least 50,000 workers; and operations or sales in at least 60 countries ("The Global 500," 2001). The firms were drawn from a range of industries, including manufacturing (aerospace, computers, food, motor vehicles, petroleum products, pharmaceuticals) and services (communications, finance). Each firm had both a well-established domestic diversity program and some reputation for leadership in international diversity (indicated, for example, by providing speakers on this topic at recent professional conferences or being discussed in the trade press).

The nine firms that did respond to the survey further confirmed the gap between domestic and international diversity operations.

During fall 2000, we attempted to administer our semi-structured telephone interview to the head of diversity programs at each of these firms. Of the 30 firms approached, 21 declined to participate, for an overall response rate of 30%. This level of participation contrasted sharply to a 73% response rate achieved in a comparable recent study of domestic diversity activities (Bendick, Egan, & Lofjhelm, 2001), and we attribute this difference to the lesser state of development of international work. This interpretation was confirmed by at least four firms declining to be surveyed, who explicitly stated that they would not participate because they had little to report.

The nine firms that did respond to the survey further confirmed the gap between domestic and international diversity operations. The firms reported that they first became involved in domestic diversity between 1989 and 1996, whereas their international effort began between 1996 and 1999. For about half of the firms, as of 2000, that international involvement encompassed only planning and strategy development, not operating programs. Among the half with at least some operational initiatives, the firms reported that their current diversity activities outside the United States were less numerous, less well-established, and less aggressive than their domestic counterparts. For example, while several firms reported operating mentoring programs and affinity groups both domestically and internationally, the former efforts usually were offered to multiple demographic groups, and the latter only to women. Similarly, while frequently mentioned international activities were usually preliminary in nature (e.g., introducing diversity messages), commonly reported domestic ones included many focusing on specific operational issues (e.g., reviewing hiring procedures or conducting compensation equity studies). Finally, while eight of the nine responding firms reported that their U.S. domestic managers were held accountable for diversity objectives in annual performance reviews, only two of the firms claimed to have established even a preliminary version of such accountability for their managers outside the United States.

Domestic and International Initiatives Are Broadly Similar

Despite clear differences in the current state of domestic and international efforts, the nine firms' approach to diversity management in the two arenas tended to parallel each other in many respects. This parallelism partially reflects the firms' adherence to corporate mission statements and value statements intended to apply worldwide. It also reflects the staffing of these firms' newly christened "Global Diversity Teams" primarily with individuals who simultaneously continue to manage the firms' domestic diversity work.

The first domestic/international similarity involves the scope of diversity issues that the firms address.

The first domestic/international similarity involves the scope of diversity issues that the firms address. All nine firms reported that they use the same definition in their domestic and international efforts, and that this definition is "universal inclusion." For domestic initiatives, this response means that attention is not limited to demographic categories associated with employment discrimination legal compliance (such as race, sex, and age) but can encompass any personal characteristics that affect employees' workplace treatment or productivity (e.g., family responsibilities, thinking style, level in the firm's hierarchy, professional background, or functional affiliation). The flexibility inherent in this definition facilitates extension of diversity initiatives outside the United States by empowering firms' foreign affiliates and subsidiaries to address diversity issues in whatever form they arise locally—from Turkish guest workers in Germany to French speakers in Flemish Belgium.

A second domestic/international similarity concerns the motivation for diversity initiatives. All nine firms reported the same motivation for domestic and international programs, namely the "business case." Thus, in explaining why they operate diversity programs, firms tended not to cite legal, ethical, or historical reasons but instead emphasized such objectives as: being an employer of choice; attracting and retaining talent, especially innovators and technical workers; developing high-potential employees; increasing productivity; resembling and understanding customers; improving public and governmental attitudes toward the firm; and keeping up with competitors. When these objectives were applied to the firms' nascent diversity activities outside the United States, the international context tended to reinforce the same goals. For example, the need to work with global customers amplified the importance of firms' learning to work with diverse domestic customers, and helping multinational work teams operate efficiently reinforced the importance of firms' efforts to increase the efficiency of diverse domestic work teams.

A third domestic/international similarity concerns the administrative structures firms use to carry out diversity activities. In their domestic operations, firms typically employ a small diversity consulting staff at corporate headquarters, either reporting directly to a senior executive or located in the firm's human resources department. Diversity councils, which are part-time committees planning and supervising diversity activities, are typically established at the corporate and local levels. Affinity groups (e.g., a women's caucus or a gay/lesbian network) are often created to link and represent employees who are members of specific demographic groups. Short training programs, conducted either by in-house diversity staff or outside consultants, are provided to both managerial and non-managerial employees to deliver diversity messages and develop diversity skills. As they begin to develop international diversity initiatives, the nine firms participating in our survey all reported that they plan to rely on these familiar institutions.

In domestic diversity activities, some firms see improvements in workforce diversity itself as the exclusive goal of diversity management.

A fourth domestic/international similarity concerns the firms' integration of diversity initiatives into broader efforts at organizational change. In domestic diversity activities, some firms see improvements in workforce diversity itself as the exclusive goal of diversity management. Other firms perceive that their organizations need broader changes in their corporate cultures—such as becoming less parochial or more of a "learning organization"—and see diversity management as supporting these broader objectives. Among the nine firms responding to our survey, those firms emphasizing the narrower interpretation tended to do so both domestically and internationally, and the same was true for those taking the broader approach. For example, one firm responding to our survey is a traditional manufacturer of consumer durables that is trying, throughout its global organization, to shift its employees' focus from the goods it manufactures to the needs of customers who purchase those goods. This firm argues that, to the extent that diversity management makes employees happier, more flexible, and more sensitive to those around them, they will be more adaptable to the new, customer-driven perspective. Another firm responding to our survey is reorganizing from a decentralized, country-by-country structure to a globally integrated one. To function within the new structure, managers used to national autonomy have to cooperate with their counterparts in other nations, and the firm expects its diversity management activities to help them learn skills useful in doing so.[6]

A final domestic/international similarity has to do with expectations about the future of diversity management. All nine firms responding

[6] For a discussion of the competitive advantages of managers and firms developing a "global mindset," see Jeannet (2000); Kedia & Mukherji (1999); and Paul (2000).

to our survey agreed that diversity management is here to stay and will be at least as important within their organizations over the next 3 to 5 years as it has been in the recent past. In support of this contention, they cited exogenous developments (such as anti-discrimination legislation and demographic changes), as well as the fast pace of corporate culture change associated with mergers and acquisitions, changes in work structures (such as the increasing utilization of multinational teams), and the increasing need for firms to manage their public reputations. These same considerations apply in both the domestic and international arenas.

How should firms respond to this growing demand for international diversity management?

STANDARDIZATION VERSUS ADAPTATION

How should firms respond to this growing demand for international diversity management?

Perhaps the most complex issue raised by the movement of diversity into the international arena is that of standardization. How uniform should the diversity activities of an MNC operating in multiple nations be? How much independence should a firm allow its overseas subsidiaries or affiliates to develop their own diversity initiatives rather than requiring detailed conformity to corporate-wide goals and practices?

These questions apply a question to diversity management that is fundamental to any MNC's international corporate strategy. Firms need to select an organizational structure that allows its subsidiaries sufficient independence to manage and exploit local differences yet keeps them sufficiently within the firm's cohesive structure and goals to maximize their contribution to overall corporate performance (Doz & Prahalad, 1981; Perlmutter, 1969).

The international management literature often focuses on two alternative organizational structures: multidomestic and global.[7] Multidomestic MNCs are typified as loose federations of independent national subsidiaries that tend to operate with little integration among them. These firms are particularly well-positioned to respond to local requirements and opportunities. In contrast, global firms typ-

[7] A third organizational alternative, transnational, is also described in the theory of multinational firms. Like global firms, transnational firms are more interdependent than multidomestic ones. However, they differ from global companies in that they achieve interdependence less through headquarters' control over subsidiaries than through subsidiaries organizing themselves into a network with equal power among the units (Bartlett & Ghoshal, 1998; see also Harzing, 2000). We do not discuss this alternative further because it did not seem to describe any firm examined in the present study.

ically control their subsidiaries and affiliates more tightly, focus them more on firm-wide objectives, and integrate them across geographic markets. Although such firms are often less responsive to local markets, they may gain a competitive advantage from the scale and resulting cost leadership made possible by standardization of products, production processes, and other business practices (Bartlett & Ghoshal, 1998; Porter, 1990).

In principle, the organizational structure of an MNC's diversity management activities should reflect the one the firm has adopted for its overall activities.

In principle, the organizational structure of an MNC's diversity management activities should reflect the one the firm has adopted for its overall activities. This matching tends to preserve organizational consistency (Lu & Bjorkman, 1997; Luo, 1999). It also helps to communicate that the organization has made a long-term commitment to diversity, rather than considering it a temporary special project (Bendick, Egan, & Lofhjelm, 2001). However, as noted at the beginning of this article, in human resource issues, legal, cultural, and demographic environments tend to be highly variable among different nations, creating resistance to company-wide uniformity. In one recent survey of U.S. MNCs, only 10% of responding firms undertook the wholesale transfer of the parent company's human resource management system to its subsidiaries and affiliates worldwide. About 75% combined global integration with local differentiation, and 14% opted for purely local systems (Csoka & Hackett, 1998, p. 25).[8]

For their overall corporate structures, the nine firms responding to our survey have adopted a range of organizational approaches, some approximating the multidomestic model, some approximating the global one, and some corresponding to neither. Yet nearly all nine have adopted a strongly multidomestic organization for their diversity management efforts. Under this structure, the firms expect their regional- or country-level businesses to define, fund, and implement diversity initiatives with only broad guidance from headquarters. The firms' headquarters diversity management staff relate to these local efforts not as supervisors but as consultants, strategists, communicators, role models, record keepers, and administrators. The diversity activities implemented at the company's facilities worldwide therefore vary substantially in both extent and design, reflecting, as one survey respondent stated, "the same vision, different strategies."

[8] Circumstances inside and outside firms tend to influence the extent to which MNCs localize human resource management practices. For example, a study of 249 U.S. affiliates of non-U.S. MNCs found that local adaptation was more likely for practices with precise or mandated local norms and less likely for those dealing with executive-level employees or a firm's internal decisionmaking. Other influential circumstances include acquired affiliates, dependence on local inputs, the presence of expatriate employees, and the frequency of communication with parent managers (Rosenzweig & Nohria, 1994, p. 248).

One reason for these firms' reluctance to impose greater global consistency is to avoid identifying diversity management with American management practices. Within the EU, employers, workers' representatives, and public officials often express generalized opposition to American employment practices, which they perceive as too market-driven and too willing to sacrifice traditional economic and social safety nets. These same European perspectives tend to equate American-initiated diversity management activities with American equal employment opportunity enforcement, which they reject as too litigious, and affirmative action, which they reject as too quota-driven (Addison & Siebert, 1992; Krueger, 2000). One Dutch diversity trainer interviewed in the course of this study estimated that diversity management's American associations created automatic resistance among perhaps 10% of his trainees. In these circumstances, having a firm's U.S. headquarters diversity management staff maintain a low profile may minimize the risk that diversity initiatives within Europe will be hampered by a negative "country-of-origin effect."

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A second reason for firms' reluctance to impose globally uniform diversity programs is that many firms appear somewhat baffled by the complexity of developing such initiatives. They are particularly cautious about such a major undertaking when their diversity staffs typically include only a handful of professional employees who also continue to carry domestic diversity responsibilities. Universally, the nine firms responding to our survey agreed that it would be inappropriate simply to export a standard U.S. domestic diversity program to their non-U.S. operations. But until substantial resources become available to develop new diversity approaches designed for non-U.S. audiences, most of the firms believe that locally-driven initiatives will remain their primary source of programming for international diversity work.[9] In fact, those locally generated overseas activities may eventually provide program models that can be adopted more generally.

TWO PIONEERING CORPORATE EFFORTS

The challenges and rewards of implementing diversity management efforts in Europe are well illustrated by the experiences of two firms

[9] The only diversity topic on which most firms responding to our survey felt confident enough to develop global initiatives was women's issues. Several of the firms had organized worldwide internal meetings on this subject or initiated worldwide mentoring or networking programs for this group.

pioneering such initiatives—Lucent Technologies Inc. and The Royal Dutch/Shell Group of Companies. The former has adopted a strongly multidomestic strategy, while the latter has a more global approach.

. . . with facilities in more than 30 countries and offices or distributorships in 65, Lucent is a global company and wanted its diversity efforts to match.

Lucent Technologies' Multidomestic Initiatives

Lucent Technologies Inc., headquartered in Murray Hill, New Jersey, emerged as an immediate global leader in high technology communications systems when it spun off from AT&T in 1996. Powered by its famous research arm, Bell Labs, its 2000 annual sales of $33.8 billion placed it 84th in Fortune's Global 500 and first in the worldwide Network Communications category ("The Global 500," 2001). Nevertheless, throughout its short life as a separate company, the firm has experienced recurrent organizational upheavals, including more than 38 acquisitions, spinoffs of its enterprise networks and microelectronics businesses, efforts to sell other noncore product lines, and large-scale layoffs (Mehta, 2001).

Work in diversity management, already underway when Lucent separated from AT&T, continued in the new entity. Because about 75% of Lucent's approximately 150,000 employees are in the United States, domestic concerns provided more than enough work for the firm's headquarter diversity staff of five. However, with facilities in more than 30 countries and offices or distributorships in 65, Lucent is a global company and wanted its diversity efforts to match.

Lucent believes that the most effective diversity initiatives arise from the company's grass roots. Hence, under the label "multilocal" ("at home, in many places"), Lucent's approach to internationalizing diversity is driven from the bottom rather than the top. Each international facility is responsible for developing, designing, implementing, and funding its own diversity management work. The role of Lucent's corporate headquarters is to communicate the corporate-wide diversity message, form broad corporate strategies, encourage local initiatives, provide diversity tools and templates, and respond to local requests for assistance (Neuteboom, 2000, pp. 10,11).

Our observation of what this decentralized approach produces focused on Lucent's facility at Hilversum in the Netherlands. Lucent's 2,000 employees at seven locations in the Netherlands are involved in research and development, sales and marketing, and customer support. The Hilversum plant houses all these types of activities, particularly in relation to Service Provider Network projects throughout Europe, the Middle East, and Africa. Prior to being acquired by Lucent, the Hilversum facility had been part of Royal Philips Electronics N.V., a Dutch MNC.

Ironically in light of the company's decentralized approach, one of the first diversity activities at Hilversum was a three-day training program that Lucent's corporate headquarters required all Hilversum managers to attend. This course delivered to a Dutch audience information that was essentially unchanged from earlier presentations in the United States. Thus, a group of trainees whose contacts with visible minorities involves North Africans and Indonesians was presented with examples involving African Americans and Native Americans. And, although Dutch law forbids collecting racial data on individuals, the trainees were instructed about American affirmative action practices based on statistical monitoring. Much of the training struck the audience as irrelevant at best.

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Despite its shortcomings, this course struck a spark. A small number of line managers in the research and development departments at Hilversum became excited about diversity management's potential to address issues they perceived as important locally, including fostering a climate open to new ideas, improving operational efficiency, raising managers' awareness of their cultural assumptions, and reducing conflicts between American and Dutch managerial styles.[10] Six managers formed a "Diversity Circle" to explore these possibilities.

Subsequent developments occurred when the head of Lucent's Switching Unit instituted a requirement that all his employees attend 8 hours of diversity training each year. Because Lucent employs no specialized diversity staff outside the United States, the Hilversum plant's coordinator of technical training organized the courses, with the Diversity Circle advising on how to relate training content to local issues. Unable to find experts within their own industry to deliver this type of training, these Lucent personnel worked with external agencies and consultants that had experience delivering diversity training to police interested in improving police-community relations, and low-technology manufacturing firms where non-Dutch workers had long been employed. They also devised a strategy for introducing diversity concepts that they felt would be more accessible to white male trainees—first describing diversity in terms of dif-

[10] Compared to the U.S. managerial style, the Dutch corporate culture is sometimes characterized as protective and worker-inclusive, comfortable with negotiation rather than unilateral directives, non-hierarchical ("Dutch culture is a culture without bosses"), focused on results rather than rules, and demanding that managers be considerate and nurture group relations (Hampden-Turner & Trompenaars, 1993, p. 283; Heijltjes, Witteloostuijn, & Van Diepen, 1996, p. 181).

ferences between professional orientations (such as hardware specialists versus software specialists) and then extending the concept to race and gender.

Hilversum's experiences illustrate both the strengths and the weaknesses of a multidomestic approach

Over the next 4 years, 4 one-day courses were delivered at Hilversum, covering subjects ranging from how to work in a diverse company and in multicultural teams to how to conduct business in specific countries (such as Japan and the Gulf States). Then Hilversum's training coordinator freshened the subject with an innovative arrangement—a Diversity Month during which 14 courses of 2–3 hours each were offered and individuals made selections to fulfill their 8-hour requirement. The courses—on such topics as conflict resolution, diversity in thinking styles, cross cultural marketing, differences in business cultures, and dealing with bullying—were designed by outside trainers to the company's specifications. About 500 people were trained during Diversity Month.

Training has not been the only diversity activity at Hilversum. By the late 1990s, the proportion of non-Dutch employees at the plant had risen to about 20%, encompassing some 50 nationalities. This development, in turn, led to the founding in 1997 of the International Lucent Employees Association (ILEA), a voluntary group promoting cultural contact through social activities and providing assistance with day-to-day problems of integrating into Dutch society. Also by the late 1990s, the proportion of females among engineers at Hilversum had risen to about 12%. For them, Lucent's diversity efforts have not been purely local. Women in Leadership at Lucent Technologies (WILL) is a voluntary affinity group, with 37,000 members company-wide, designed to represent women's interests within the company, act as a resource on gender issues, promote networks of contacts, and create opportunities for professional growth.

Hilversum's experiences illustrate both the strengths and the weaknesses of a multidomestic approach. Making local staff responsible for shaping diversity activities harnessed the energy of managers with direct stakes in the outcomes, unleashed considerable creativity and commitment, and resulted in activities well-targeted to issues of local relevance. However:

- Committing time to diversity with no relief from their other responsibilities, the members of Hilversum's Diversity Circle and others invested effort at a level difficult to sustain over an extended period. Although volunteers can be important diversity champions, when they work without support from staff whose primary responsibility is diversity, they cannot be expected to sustain the additional workload indefinitely. A local facility often has too few such volunteers to generate substantial momentum for change.

- Since these Hilversum staff had no training or experience on diversity issues and little contact with expert staff at corporate headquarters, they may have re-solved problems already addressed elsewhere, and they may have devised solutions that were not state of the art.
- The staff at Hilversum had neither the resources nor the authority to examine possible system-wide diversity problems embedded in the company's human resource management practices and systems—for example, how the company recruits employees, structures career paths, or makes decisions about pay and promotions. Diversity programs that focus on individual employees, such as Hilversum's training efforts, risk being incidental rather than part of systemic organizational change.
- Operating with only minimal mandates from corporate headquarters and little monitoring and accountability, diversity efforts at Hilversum may prove difficult to sustain in the face of constant competition for resources. For example, Diversity Month training at Hilversum was eliminated in 2001 in favor of enhanced technical training.

Is decentralization justified by the local energy, creativity, and relevance it may harness, or does it render diversity initiatives too low-key and fragile?

In short, multidomestic approaches to diversity management such as Lucent's raise a tough question: Is decentralization justified by the local energy, creativity, and relevance it may harness, or does it render diversity initiatives too low-key and fragile? Hilversum's experience lends some support to both conclusions.

Royal Dutch/Shell Group: A Global Approach

The Royal Dutch/Shell Group of Companies, the world's second largest oil and gas producer and distributor, is a joint venture between Royal Dutch Petroleum and the British Shell Transport and Trading Company, PLC. In 2000, it generated $149 billion in revenues and had 90,000 employees in 120 countries.

Diversity work within the Group started in Shell Oil Company (U.S.). Fundamentally rethinking its operations after very unsatisfactory financial performance in 1991, Shell (U.S.) began a broad organizational transformation in 1993 that included diversity management as a component. The CEO of Shell (U.S.) sought to create a more innovative "new Shell" structured as a networked community of independent businesses linked by common principles and driven by core values of belief in people, innovation, trustworthiness, excellence, and a sense of urgency. After internal and external studies of the role diversity could play in these broad organizational changes, Shell (U.S.) hired a diversity director in 1996.

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Meanwhile, concern about a low return on capital triggered a major restructuring of the worldwide Group in 1995. Since the 1950s, the firm had a matrix structure under which its operating companies reported to both business sector and regional bosses. Its new structure created five worldwide core operating businesses: Exploration and Production, Oil Products, Chemicals, Gas and Power Generation, and Renewables. Although these businesses share a corporate reputation, business principles, and a network of supporting services, they operate independently and report separately to the Group's top management, the Committee of Managing Directors (CMD).

Although Shell (U.S.) lost its separate identity in the Group-wide reorganization, it brought to the new global structure its experience with diversity management as part of a broad transformation process. The worldwide restructuring raised a variety of "people issues" throughout the Group, from downsizing to multicultural teams. The Group also began to recognize that elements of its traditional business style, based on its historic identity as a petroleum producer, were discordant with current realities, such as the firm's heavy involvement with retail customers through its 46,000 service stations. In 1995, the company became embroiled in major public controversy over its natural gas investments in Nigeria in light of the execution of Ken Saro-Wiwa and eight others, and over Greenpeace's protest of Shell's sinking an oil storage buoy in the Atlantic (Paine, 1999). Responding to all these developments, the Group undertook one of the largest multistakeholder consultation processes in its history, issued new statements of business principles emphasizing human rights and sustainable development, and initiated a Group-wide transformation process aimed at new behaviors and attitudes. For the diversity program of Shell (U.S.) with its experience in supporting broad organizational transformations, these circumstances offered a window of opportunity to go global.

In 1997, a report supporting the importance of international diversity management was presented to the CMD. In this report, diversity was defined as "all the ways we differ" and identified as strategically important for global organizations in the twenty-first century. Goals and a timetable were set for incorporating diversity considerations throughout the Group. However, by 1999, little progress toward the goals had been made. In response, the CMD and business CEOs recommitted themselves to diversity, this time backing it with concrete resources and visible support. The Group created an internal Global Diversity Practice; staffed it with between 15 and 18 employees located in Houston, London, The Hague, and Singapore; appointed a strategic leader—the former Director of Diversity in Shell (U.S.)—to head the Practice; and placed the Practice reporting to the Group's head of human resources and directly supporting the Chairman of the CMD.

Like safety, diversity has been positioned as a corporate-wide strategic commitment to be incorporated into all aspects of "how we do business."

In seeking a model for how it should proceed, the CMD and business leaders looked to a recent Group-wide commitment on workplace safety. Like safety, diversity has been positioned as a corporate-wide strategic commitment to be incorporated into all aspects of "how we do business." Safety also paralleled diversity in deriving its rationale from a strong, although basically intuitive, business case and in requiring integration into decisions and activities at all levels in the firm. Many of the specific mechanisms the Group has subsequently applied to diversity—such as Policy and Commitment Statements, local councils, and monitoring scorecards—were direct adaptations of counterpart mechanisms in the safety initiative.

In the Group's methodical approach to fomenting change, attention first focused on helping the firm's leadership understand the business case for diversity, commit to diversity actions, and prepare to be held accountable for diversity results. As an initial step in this process, the Group's most senior 1,000 executives were asked to attend a one-day "Diversity Engagement for Leaders" program. The firm's strategy for change then relies on these leaders to create demand for diversity improvements throughout the businesses they manage, using the same managerial techniques they apply to other strategic goals.

Under this strategy, each of the Group's five global businesses creates its own business case for diversity, crafts its own strategies, establishes its own implementing structures (e.g. councils or action teams), and sets its own metrics to measure progress. However, to ensure that businesses move forward, a Shell Group Diversity Council was created to ensure ongoing attention to the "Group Diversity Vision." This Council, headed by the Chairman of the CMD and including the CEO or another executive with decision-making authority from each of the five global businesses, meets quarterly to provide strategic direction and review progress toward explicit goals. Specific Group-wide targets have been established for increasing the percentage of women in senior executive positions by 2008 and the percentage of local nationals in top executive positions by 2003.

One cultural characteristic of the Royal Dutch/Shell Group of Companies appears to be that top-down changes move slowly in the organization.

Other procedural requirements further "hard wire" continuing attention to diversity. Starting in 2001, each business is required to submit an annual Diversity Business Plan. Diversity is also required to be addressed in each business's annual "Targets and Resources" plan, marking a first step toward metrics that might eventually appear on individual and corporate diversity scorecards. Finally, diversity is covered in the internal annual report of the top Shell official in each country in which the firm operates. This ten-page questionnaire, addressing diversity along with safety and sustainable development, goes to the Chairman of the CMD as the basis for an annual individual meeting.

Members of the Global Diversity Practice have ongoing consulting relationships with individual businesses and actively assist them in developing their annual plans, devising quantitative measures of diversity as a tool for accountability, developing training to change the diversity attitudes and skills of individual employees, reviewing human resource systems and procedures, and applying techniques of organizational development to improve the workplace climate. The Diversity Practice also supports Group-wide initiatives, such as organizing a company-wide women's conference, developing succession plans to shift the demographics of the firm's senior executives, and training a global network of grass roots diversity change agents.

One cultural characteristic of the Royal Dutch/Shell Group of Companies appears to be that top-down changes move slowly in the organization. Our description of the company's approach to global diversity began with events nearly a decade old, yet only now are major elements of the firm's response moving from planning to implementation. Thus, it is far too early to judge the effectiveness of these efforts. Nevertheless, the assiduous and innovative nature of Shell's strategy cannot be denied. At a time when those few MNCs undertaking diversity initiatives outside the United States have almost universally adopted more cautious multidomestic approaches, Shell has boldly committed to achieving global scale while maintaining global consistency. The firm's methodical pace may be applauded as thorough or criticized as ponderous. Its strategy of integrating diversity within broader cultural change may be applauded for adding to diversity's momentum or criticized for diluting its focus. But whatever verdict eventually emerges on those issues, Shell has staked out a pioneering position, and its experiences will influence other MNCs for years to come.

CONCLUSIONS

Will diversity management be an American export to Europe over the next several years? The evidence reviewed in this paper suggests that the answer is both yes and no. Yes, in the sense that workforce diversity management is likely to become as significant a component of U.S. MNCs' human resource management practices in their European operations as, over the previous decade, they have become in those firms' U.S. domestic operations. No, in the sense that these firms cannot simply transplant U.S. approaches into their European subsidiaries and affiliates.

Will diversity management be an American export to Europe over the next several years?

For these efforts to be effective, they need to reflect each firm's strategic objectives and organizational structure. In that sense, there is no universal answer to the question of whether a multidomestic or global approach to diversity management is preferable. For each company, the soundest approach is likely to be that which matches the degree of decentralization that firm applies to other important aspects of corporate operations.

For diversity management efforts to be effective, they also need to be adapted to the operating environments in their European host nations. This adaptation needs to be more than cosmetic. Although all firms responding to our survey recognized that standard U.S. diversity training courses and administrative procedures will not work outside the United States in their "off-the-shelf" form, some envision the necessary changes primarily as substituting local examples and translating U.S. terminology. In reality, more basic reconceptualization is required—for example, to allow for a broader range of diversity issues, to base the "business case" on European circumstances, and to support European styles of persuasion and organizational change. Such rethinking is unlikely to occur when most firms' present diversity staffs are thinly stretched to cover both domestic and international work. Front-end product development and enhanced diversity staff with international expertise are likely to be required. However, those investments can importantly prepare U.S. MNCs to mobilize workplace diversity in addressing the human resource management challenges they face in the new Europe.

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