

Auditing human resource management in the global environment

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Abstract

The globalization of business is making it increasingly important to understand how multinational enterprises (MNEs) can operate more effectively. Human resource management can be a critical determinant of corporate effectiveness, particularly as it plays out in the global arena. This article discusses how MNEs enhance their ability to utilize human resources and internal labour markets for competitive advantage through audits of the international human resource management (IHRM) function. A multi-dimensional auditing framework is developed and applied to the strategic aspects of IHRM in MNEs and international joint ventures.

Introduction

As the world economy becomes more competitive, dynamic, uncertain and volatile, more firms must compete globally because the costs associated with the development and marketing of new products are too great to be amortized over a single market, even one as large as the United States or Europe. Yet, many products and services demand accommodation to local customs, tastes, habits and regulations. Consequently, there is a growing need to manage globally, as if the world were one vast market, *and* simultaneously to manage locally, as if the world were a vast number of separate and loosely connected markets (Bartlett and Ghoshal, 1991). These opposing forces are creating a great deal of challenge and opportunity in understanding and conceptualizing exactly how multinational enterprises can compete effectively (Sundaram and Black, 1992). This is especially true with respect to international human resource management (IHRM). For example, how do MNEs co-ordinate their geographically dispersed units through human resource policies and practices? Can MNEs utilize IHRM policies to facilitate a multidomestic response capability in

conjunction with global co-ordination, learning transfer and innovation across units (see Schuler, Dowling and De Cieri, 1993)? Are MNEs achieving competitive advantage through human resource management in the same way that many US firms have done (see Schuler and MacMillan, 1984)? Answers to these questions rest within formal audits of the substantive and procedural aspects of IHRM.

Regrettably, the home-country HRM function is not evaluated on a regular basis in the United States or abroad. While US firms often conduct internal financial and operational audits,¹ human resource activities typically receive limited auditing attention. Payroll audits are the most common focus therein, examining the legitimacy of recorded pay levels and recipients as well as conformity with prescribed disbursement procedures (Arens and Loebbecke, 1984; Fonorow, 1989). At times, supplemental reviews may consider the congruence between HRM programmes and home-country employment standards. Although such analyses may reduce fraud and legal liability, they offer no insight into the *performance* of most HRM subsystems (e.g., training), let alone the HRM function's overall *impact* on specific operating units or the entire MNE.

Corporate annual reports also fail to document the organizational contributions of HRM processes or outcomes. These documents tend to be meagre sources of employment-related information notwithstanding the common practice of touting human resources as critical assets. An international study of reporting practices attests to this problem. Non-European companies normally offered vague policy statements on employee/industrial relations without meaningful quantitative data to substantiate their existence or effects (cited in Gray and Roberts, 1991).² European firms, particularly those in Germany and Italy, were more likely to convey industrial relations, training and safety statistics. Even here though, extensive details were lacking in most instances.

Arguments for extensive human resource management audits are not new to the literature; however, considerable variation exists in the assessment criteria which are advocated. Mahler (1979) placed emphasis on the extent to which HR staff and line management correctly perceive and adhere to the formal partitioning of employment roles and responsibilities. While role clarity and conformity are relevant issues, they offer very limited perspectives on organizational performance and the role that HRM plays in it. Jennings, McCarthy and Undy (1990) focused on managerial and employee reactions to select human resource activities. Survey respondents were asked about the frequency or regularity of occurrence, the source of information or decision making and

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personal satisfaction or agreement with these patterns. While useful, these perceptual and attitudinal reports from organizational members need to be merged with more objective indicators (Dyer, 1991).

Other schemes have utilized outcome measures in the auditing process. Heiser (1968) reviewed plant-level statistics before developing an interview-guide for local management. One study combined values from attitude surveys, executive rankings and archival records to generate composite personnel-audit scores (Gomez-Mejia, 1985). A factor analysis of thirty-seven measures supported the existence of nine audit dimensions – managerial behaviour; policies and procedures; manpower flows; staffing/equal employment opportunity (EEO); compensation and rewards; labour relations; health and safety; career, training and development; and performance appraisal. Certain factor scores also were significant predictors of organizational performance and personnel's overall contribution as perceived by executives, employees' overall satisfaction with personnel and net profit per capita. Although detailed descriptions are unavailable, the United Kingdom's National Audit Office purportedly uses value-added analyses to judge the efficiency and effectiveness of public-sector HRM practices (Easteal, 1992).

All of these auditing perspectives exhibit two fundamental limitations. First, none of the approaches examines the *strategic* appropriateness of HRM systems.³ It is necessary, but not sufficient, to profile HRM in terms of staff characteristics, structure and policies. Audits must also critique how well those traits *fit* the business' environment, structure and strategy, and map the technical, political and cultural changes fostering better alignment (Fombrun, Tichy and Devanna, 1984). Biles and Schuler (1986) partially bridged this gap by adding strategically oriented survey items to those with a managerial and operational orientation. Action-plan statements also were provided for each level in the event that discrepancy scores (i.e., difference between how true and how desirable) were unacceptably high. Second, with the exception of Biles and Schuler,⁴ the analyses are confined to domestic operations. The inherent reliance on a single cultural, regulatory and structural context for HRM becomes increasingly dubious as the number of overseas units grows. International HRM generally entails more diverse activities, greater involvement in employees' personal lives, greater risk exposure and more external influences than does its domestic counterpart (see Dowling and Schuler, 1990: 6–11). These administrative challenges are exacerbated by international joint ventures, where the ongoing staff may be comprised of as many as ten different employee groups (Zeira and Shenkar, 1990).

Available evidence suggests that MNEs will encounter greater

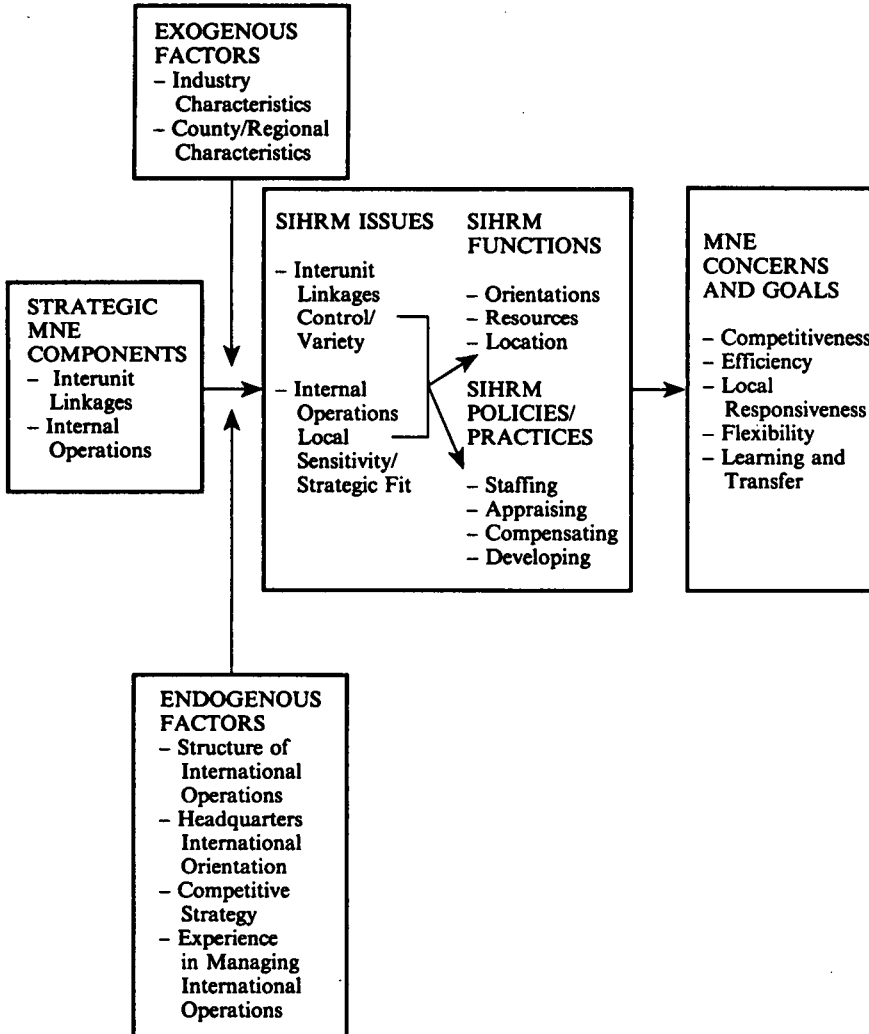
difficulty remaining globally competitive if these evaluative deficiencies are not corrected. A recent survey of effective firms in highly competitive environments found that Latin American, European, North American and Asian companies all assigned a relatively high priority to strengthening the linkage between HR and business strategies by decade's end (Towers Perrin, 1992). A majority of the respondents in eleven out of twelve nations also felt that issue identification/strategic studies would be a high-priority human resource activity by the year 2000. Progress towards both goals is dependent upon an MNE's ability to evaluate and properly integrate the mission, strategy, programmes and configuration of its HRM function on a worldwide basis.

Therefore, this article presents a framework for designing and implementing internal audits which assess the strategic aspects of IHRM. We begin with a brief overview of strategic IHRM's primary elements. Discussion then turns to a model of effective auditing embracing both content and process.

Strategic international human resource management

Strategic IHRM encompasses the human resource issues, functions, policies and practices that result from the strategic activities of MNEs, as well as those that impact on the international concerns and goals of these organizations (Schuler, Dowling and De Cieri, 1993). As shown in Figure 1, interunit linkages and internal operations are the central considerations giving rise to and influencing strategic IHRM (Hennart, 1982; Phatak, 1992). Numerous exogenous and endogenous factors in turn influence how difficult it will be to balance and satisfy both needs. Each component is examined further below.

As noted earlier, MNEs are firms that are driven to be global and local (multidomestic) at the same time. There are, however, varying levels of globalness and localness that MNEs need to achieve, and numerous ways of attaining similar levels on these dimensions (Bartlett, 1992). Even within particular industries, worldwide companies have evolved very different strategic and organizational responses to changes in their environment. Differentiation and integration questions are important not only because they influence firm effectiveness (Lawrence and Lorsch, 1967), but also because of the challenge inherent in selecting from among the many choices and alternatives that exist along these two dimensions (Phatak, 1992; Prahalad and Doz, 1987). Therefore, general questions about differentiating and integrating the units of a firm are regarded as strategic ones (Hambrick and



Source: adapted from Schuler, Dowling and De Cieri, (1993).

Figure 1 Integrative framework of strategic international human resource management in MNEs

Snow, 1989). They are also strategic for international human resource management. In fact, the issues associated with differentiating and integrating MNE units represent a major influence on IHRM issues, functions and policies and practices (Schuler, Fulkerson and Dowling, 1991; Fulkerson and Schuler, 1992).

In addition to working together, each unit has to work within the confines of its local environment, its laws, politics, culture, economy and society. Isomorphic pressures must be managed in such a way that they do not impede each unit's ability to execute local and companywide competitive strategy. For these reasons, concerns regarding the internal operations of units are strategic as well (Prahalad and Doz, 1987). Schuler *et al.* (1993) provides a more detailed account of how internal operations and interunit linkages are expected to influence strategic IHRM.

While these components are critical to our framework, they are only part of the whole. Both are influenced by exogenous (outside the MNE) and endogenous (within the MNE) forces. As noted in Figure 1, exogenous factors are typified by industry and country/regional characteristics. In contrast, endogenous factors include the structure of international operations, the international orientation of MNE headquarters, the competitive strategy being used and the MNE's experience in managing international operations.⁵ Support for the inclusion of these factors is offered by Kobrin (1988, 1991, 1992), Evans (1992), Porter (1980, 1985, 1990), Bartlett and Ghoshal (1987, 1988, 1991, 1992), Punnett and Ricks (1992), Phatak (1992) and Miller *et al.* (1986). Essentially all of these factors impinge upon the MNE's management of its human resources as well as its effort to be locally responsive and adaptable without abrogating global co-ordination and control (Edstrom and Galbraith, 1977; Egelhoff, 1988; Galbraith and Kazanjian, 1986). Other factors that could be included in a more extended version of this framework include industry maturity, history, national industrial policy and extent of unionization (Kochan, Batt and Dyer, 1992).

Equipped with this paradigm, we now discuss the challenges inherent in strategic audits of international human resource management. Figure 2 summarizes the diverse forces that affect the appropriateness and ultimate value of its contents and process.

Auditing for strategic IHRM

External benchmarking

Similar to what is done in other management areas, the best practices of competitors should be systematically identified and internalized to reduce any competitive edge that may have accrued. Product-market rivals need to be profiled in terms of their organizational culture, leadership base, demographic composition, skill mix, HR policies, HR

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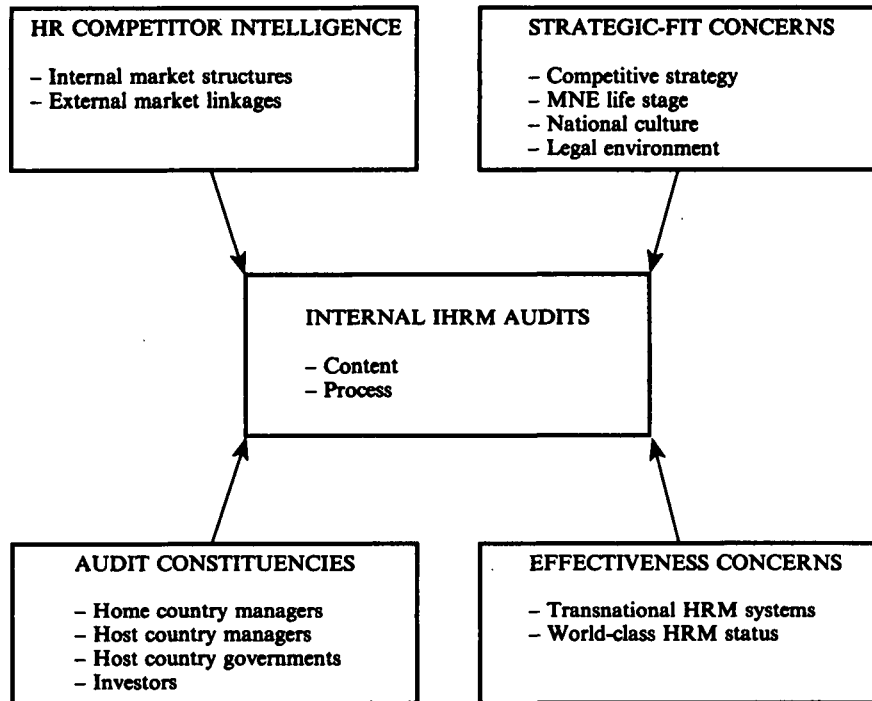


Figure 2 *Designing audits for the strategic aspects of IHRM*

systems' strategic fit and recent personnel changes (Craft, Fleisher and Schoenfeld, 1990). Such information conveys what industry competitors are capable of doing, *as well as what they are likely to do*, given their work-force, decision-making tendencies and environmental positioning. Labour-market rivals and HRM practice leaders also can be targeted to ensure access to the requisite talent pool for strategic goal attainment. This framework has been extended to multinational settings with reporting recommended at the host, regional and global levels (Fleisher and Schoenfeld, 1991).

At a minimum, competitors' internal labour-market structures must be documented. To illustrate, what is the nationality mix of their boards of directors? US and Japanese MNEs have been extremely ethnocentric, contrasting sharply with European firms like Unilever that has a half-dozen countries represented on its board. How much direct international experience do home-country officers have, what was the nature of their assignment(s) and what region(s) did they serve in? How extensive are their repatriation policies and host manager rota-

tions through home operations? What is the present mix of PCNs and TCNs on foreign assignment, and is that percentage relatively constant across regions? How are strategic business units configured, and what is the employment distribution among them? How long have these patterns been in effect?

Questions also must be asked about the local operations of competing MNEs. What is their nationality mix, and where are international assignees typically placed (e.g., technical specialists, functional heads, CEO)? Have expatriate failure rates been more or less problematic in those units than we have experienced? What kind of HR information and appraisal systems connect their units with headquarters? More generic inquiries for all host competitors include skill/experience levels, demographics, turnover rates and consistency between HRM systems and stated/observable strategies.

External labour-market initiatives should be a vital component of each profile as well. How active are foreign-owned and indigenous firms in employer associations at the industry and national levels? Sizeable involvement may signal efforts to influence lobbying priorities or industry bargaining objectives where labour negotiations are highly centralized. Which unions have representational rights, and what is the overall labour-relations climate in rival facilities? Have competitors established special links with host-country institutions (e.g., schools, employment agencies, government ministries)?

Internal auditing

However it is structured, auditing must go beyond activity verification – IHRM's strategic contributions must be assessed. Because the standards for evaluation are likely to vary across assessment methodologies, auditing is typically a very complex process. Moreover, the complexities of MNE operations necessitate a multi-faceted HR-audit process. Best suited would be an approach that incorporates the multi-constituent (Tsui and Gomez-Mejia, 1988), strategic fit (Ulrich, 1989) and effectiveness-efficiency (Mercer, 1989; Walker and Bechet, 1991) perspectives. Each is reviewed below and described in the context of strategic IHRM.

Multi-constituent perspective

As noted in Figure 2, numerous parties have vested interests in the make-up of IHRM audits and their results. MNE headquarters and host-country management are key internal stakeholders; host governments and investors are potentially important external ones. These

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groups, however, may harbour conflicting expectations about the HRM policies and evaluation perspectives which are most appropriate for an MNE's cultural, administrative, technological and competitive imperatives. By analogy, one study found that line executives, supervisors, professionals and hourly employees assigned different priorities to the same set of HRM activities (Tsui and Milkovich, 1987). Gomez-Mejia (1985) likewise reported that satisfaction with the personnel function decreased successively among managers, professionals, clericals and operatives. These dynamics are compounded when relationships and responsibilities transcend national boundaries. Each stakeholder's concerns are highlighted next.

MNC headquarters Home-country executives will be keenly interested in the extent to which international HRM policies strengthen interunit linkages and support the strategic goals of overseas units. The most salient feedback from their perspective evaluates such factors as the international assignee staffing mix, universality and flexibility of strategic performance measures, global orientation of management development activities, unit-level alignments of HRM practices and competitive strategy, and capacity for/utilization of HRM environmental scanning (Schuler *et al.*, 1993; Schuler *et al.*, 1991). The weight accorded each item and cut-off point defining success will be determined by exogenous and endogenous variables that are beyond the scope of this article. Nevertheless, we predict that:

Proposition 1(a): The formality and scope of strategic IHRM audit activities will be greater when the MNE is competing in global markets than when it is competing in multidomestic markets.

Proposition 1(b): MNE headquarters will assume a greater role in the collection and processing of strategic IHRM audit data when the MNE is competing in global markets than when it is competing in multidomestic markets.

Host-unit management Strategic IHRM auditing will probably evoke mixed reactions from expatriates and indigenous managers. The audit looms as another evaluation exercise instigated by a distant parent – one that could significantly affect resource allocations. Such linkages are most likely to surface in regiocentric and geocentric firms, where there are strong needs to develop, utilize and retain sizeable pools of transnationally competent managers. For example, ethnocentric organizations may judge international HRM efforts in terms of the extent to which home-country HRM structures are reproduced or expatriate failure rates minimized; polycentric MNEs on HRM cost-reduction within host units.

Legitimate performance-reward contingencies become the pivotal

issue for managers in each case. To what extent is the failure to deliver on these dimensions the result of individual versus systemic shortcomings? How much weight will audit results carry in individual appraisals? These concerns intensify when host units are pursuing decentralized business strategies and the individuals at risk come from cultural backgrounds that question the general value of internal auditing. Accordingly, we expect that:

Proposition 2(a): Host-unit managers will be more supportive of strategic IHRM auditing when its criteria, procedures and outcomes are clearly differentiated from those associated with the performance appraisal process. PCNs and TCNs are expected to exhibit stronger views in this regard than are HCNs across organizational structures.

Yet, strategic IHRM audits also can serve as a vehicle for bringing indigenous human resource problems and capabilities to the attention of home-country top management. Aside from national subsidiary structures, host units generally lack direct access to senior executives at headquarters. Intermediate or intervening levels of management inevitably filter information about international affiliates as it moves upwards. Without a systematic framework, each gatekeeper decides whether HR data should be forwarded intact, aggregated or deleted. Such variability obscures whether the MNE has, or can readily acquire, the human capital needed to achieve its strategic objectives. SIHRM auditing standardizes the input provided to strategic decision makers. A formalized process is especially important, since the HR function's involvement in global strategic planning tends to be limited to implementation matters (Miller *et al.*, 1986). As a result, we propose that:

Proposition 2(b): Host managers will be more supportive of strategic IHRM auditing when they perceive that other communication channels are not accurately conveying their unit-specific HR concerns to MNE headquarters.

Host governments Since World War II, developing countries have grown increasingly wary of the influence that MNEs have on their societies. Several countries have adopted national development plans which explicitly incorporate commitments to cultural preservation (e.g., Thailand, Kenya). Others have attempted to curb the utilization of expatriates with strict residency periods or indigenous employment quotas (e.g., India, Saudi Arabia, Philippines). Still others, like Nigeria, have imposed timetables for the indigenization of foreign investments and conveyance of equity ownership to the local workforce.

In contrast, developed countries typically superimpose broader,

more intricate regulatory webs on employment relationships. Officials therefore are expected to place greater emphasis on conformity with indigenous work-place entitlements than on the socioeconomic impact of MNEs. To illustrate, while there have not been any serious outcries that Japanese-owned firms are endangering American culture, a majority of them face possible litigation over equal employment opportunity issues (Labor Letter, 1989).

Admittedly, external pressure to redefine HRM policies at the local level will not cause firms to involve government leaders actively in the audit process or fully disclose its findings to them. Instead, it is argued that every audit should build in analyses which are responsive to hosts' oversight role.

Investors Growing interest in socially responsible investing suggests that capital-market access may depend increasingly on the ability to demonstrate acceptable business policies.⁶ American firms generally avoid using social audits as an evaluative tool for internal operations or external relations. At best, prosocial initiatives are inventoried with little or no evaluation of their effects or relevance to the organizational mission (Wood, 1990). European companies normally engage in more extensive social reporting, frequently attributable to regulatory pressures. Again though, HR disclosure requirements tend to be modest (e.g., Fourth and Seventh EC Directives). Asian firms are more apt to follow the US example when it comes to social reporting behaviour (Gray and Roberts, 1991). MNEs would be better prepared to document their eligibility for such financing with IHRM audits that confirm fair employment standards (e.g., EEO) are being adhered to across countries.

Yet, identifying a checklist of socially 'correct' employment practices is problematic because the determination will not be culture-free. One possibility would be to report the extent to which IHRM policies parallel conventions adopted by the International Labour Organization (ILO). ILO Conventions embody legal principles that should be evident in the indigenous employment laws of member nations. This is not a practical guide for two reasons. The ILO has passed over 170 conventions to date, and countries vary widely in the number that they actually have ratified. More importantly, these instruments furnish minimum standards that do not supplant any custom, law or agreement which is already more favourable to employees. Accordingly, a good ILO track record looks appealing in societies where host laws fall short of conventions and unimpressive elsewhere. Two industrial relations provisions of the OECD Guidelines hold more promise as a partial template of social responsibility. MNEs are

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charged thereunder to (a) develop and utilize indigenous persons in host operations to the greatest extent practicable, and (b) supply reasonable notice of major changes in host operations to bargaining agents and government administrators, and work with them to mitigate the adverse effects to the maximum extent practicable. While positive, the remaining provisions do not bar variable behaviour on a transnational scale because union organizing and representation rights fluctuate from one home country to another.

The sheer number of constituents will not be as formidable an obstacle to effective auditing as will the diversity of cultural and regulatory expectations that these constituents bring to the table. Perhaps even more challenging is the fact that strategic-fit concerns arise in multiple environments.

Strategic-fit perspective

How does the international HRM function demonstrate that its policies and programmes are addressing vital corporate interests? Portwood (1988) advocated that process management, not problem solving, should be the basis for evaluating HRM systems. The former assesses value-added from the context of strategic business objectives, while the latter confines itself to need-satisfaction or problem-containment indicators. As noted earlier, previous auditing schemes have been dominated by a problem-solving outlook. Discussion now turns to competitive strategies, the contextual issues MNEs must confront in their pursuit and the accompanying implications for strategic IHRM auditing.

Competitive strategy Business strategies must elicit certain role behaviours from the work-force to deliver competitive advantage. Moreover, the role behaviours central to an innovation strategy differ from those that secure quality enhancement, which in turn are distinct from those associated with cost reduction (see Schuler, 1989, for an expanded discussion). Product pioneers or refiners need continually to fuel risk taking and creativity, high levels of co-operative, interdependent activities, concerns for both process and output, and knowledge acquisition and transfer. Quality upgraders need to sustain some amount of co-operative, interdependent activities as well, along with a high concern for process issues, moderate commitment to quantity and internal skill development. Lowest-cost producers need to perpetuate highly repetitive, predictable behaviours, high-volume production, a modest commitment to quality and rapid human resource deployment. No single mix of employment practices is equally suited for all three strategic thrusts.

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Thus, the bottom-line inquiry in any audit is whether international HRM policies collectively promote the cluster of behaviours dictated by an MNE's strategy. Programme choices in HR planning, staffing, appraisal, compensation, training and labour relations must be co-ordinated to focus on the right labour market, SKAs (skills, knowledge and abilities) for entry and placement, performance criteria and cycle, reward mix, training scope and industrial relations posture. General programmatic inconsistencies, or host-specific departures, could generate enough role conflict and ambiguity to preclude the attainment of global strategic goals. Consequently, we anticipate that:

Proposition 3(a): The criteria used in strategic IHRM audits will be more similar among MNEs that are pursuing common competitive strategies than they will be among MNEs pursuing different competitive strategies.

Proposition 3(b): Within MNEs, units linked to a common competitive strategy will be audited using criteria that are more similar than will be the strategic IHRM criteria applied to units aligned with different competitive strategies.

Proposition 3(c): The greater the proportion of MNE units linked to a common competitive strategy, the more likely it is that mechanisms will be in place to alter strategically inconsistent HRM policies within that unit cluster.

The quality of strategic IHRM objectives, if formulated, should be appraised as well. There may be reciprocal influences between these objectives and the MNE's strategic choices, as opposed to more traditional views that the former merely flow from the latter (Milliman and Von Glinow, 1990). International HR executives seeking greater access to the strategy formulation process are more likely to command the respect of existing participants by showing how foreseeable market developments can be exploited to increase competitive advantage. This is a neglected area in the US, with senior international HR managers devoting only 10 per cent of their time on average to international HR strategy (Reynolds, 1992).

Multinational life stage The balance that MNEs strike between fit and flexibility in HR policies should vary across life-cycle stages (Milliman, Von Glinow and Nathan, 1991).⁷ Furthermore, it is not uncommon for overseas units to pursue decentralized business strategies and occupy life-cycle stages which are different from the one characterizing home-country operations. In these circumstances, lack of HR fit may be advantageous because it provides an organizational buffer to cope with conflicting goals or rapid change within the MNE (Milliman and Von Glinow, 1990). The short-run effectiveness of each unit would be enhanced instead by instituting the appropriate combination of flexibility and fit for its development phase and strategy

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(Schuler *et al.*, 1993). As those units mature and close the 'generation gap' with home-country operations, MNEs should strive for a closer HR fit across locations.

Thus, IHRM audits offer insufficient strategic guidance if they embrace a static concept of fit. Whether current policies lend consistent support to an overarching strategy is a threshold question. IHRM policies must empower the MNE to cope with challenges that are foreseeable in the present life stage *and* the discontinuity of an impending stage transition. Therefore, we predict that:

Proposition 4(a): HR flexibility will become an increasingly dominant criterion in strategic IHRM auditing as MNE units grow more heterogeneous in their life-cycle stages and business strategies.

Proposition 4(b): MNEs will make faster, more effective transitions from one life-cycle stage to the next one if strategic IHRM auditing assesses the internal capacity for change beforehand.

National culture Strategically relevant human resource policies will meet with limited success if the cultural context of implementation is ignored. Case studies suggest that a common set of HRM practices has been used in different countries to advance the same strategy (Schuler *et al.*, 1993: 57). Yet, more extensive cross-cultural research documents considerable national variation on attitudes pertaining to power distance, uncertainty avoidance, collectivism-individualism and masculinity-femininity (Hofstede, 1993). These views could have a profound effect on how willing indigenous persons will be to accept certain organizational and job design principles. Mechanistic structures, which epitomize the HR package for a cost-reduction strategy, could be counterproductive in societies that have low tolerance for power distance, low needs for uncertainty avoidance and strong 'feminine' values. The human resource practices consistent with an innovation strategy may encounter a similar fate in nations that are high on the first two dimensions and oriented towards 'masculine' values. Schneider (1988) discussed several instances in which host national cultures hindered the acceptance and implementation of HRM practices developed solely from the standpoint of an MNE's home national and corporate cultures.

Cultural differences also exist in basic management assumptions (e.g., instrument vs. social perspectives on organizational systems) – disagreements that are not automatically reduced as a result of working for the same MNE (Laurent, 1986). In the same vein, host managers may have difficulty embracing the business strategy advocated by headquarters because that strategy stresses factors which are not deemed pressing in the host country. For instance, a global quality-

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enhancement strategy is much more likely to coincide with the general human resource priorities of Latin American firms than those of Italian companies (Towers Perrin, 1992).

In response, audits must examine whether the MNE has proactively differentiated IHRM policies within the limits of what will facilitate its overall strategic objectives. This suggests that:

Proposition 5(a): MNEs that incorporate cultural compatibility criteria in their strategic IHRM audits will diffuse HR policies more efficiently and effectively across units than will MNEs that do not do so.

Proposition 5(b): Cultural compatibility criteria are more likely to be incorporated in strategic IHRM audits as the nationality mix of home country management becomes more diverse.

Given the tendency of unit-level HRM practices to reflect the local environment (Schuler *et al.*, 1993), one must simultaneously guard against endorsing ad hoc revisions in one unit that inadvertently become dysfunctional organizational precedents for other host countries.

Legal environment Transnational employment relationships are regulated by a complex legal environment that can vary along five dimensions: heterogeneity, complexity, relevancy (e.g., enforcement probability), stability and predictability (see Florkowski and Nath, 1993). How these dimensions are configured can have strategic significance. The greater the differentiation in legal superstructures and enforcement propensities, the more pressing the need to monitor key host units and adjust HR policies to insure ongoing compliance. Failure to do so may jeopardize access to labour or product markets that are central to the multinational's strategic objectives. Host governments do retaliate against noncomplying firms, as an American MNE discovered when India banned its operations for several years following repeated violations of residency limitations for third-country nationals.

MNEs should also be taking steps to enact their regulatory environment. Are efforts being made to predict employment law changes in important locations? Are indigenous staff utilizing the legal avenues at their disposal to advance the MNE's interests under current and pending requirements (e.g., filing for variances, lobbying legislators prior to bill passage, supplying input during the administrative rule making process)? Is MNE headquarters assessing the compatibility of IHRM policies and host mandates before site selection is finalized? Are negotiations being conducted for exemptions, repeals or other legal concessions before entry? A caveat to all of these points is that

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'successful' behaviour may detract from the MNE's social responsibility posture.

Finally, we turn to the importance of auditing strategic IHRM from an effectiveness-efficiency perspective.

Effectiveness-efficiency perspective

Effectiveness in large part describes the extent to which IHRM initiatives enhance the transnational competence of an MNE's management cadre. According to Adler and Bartholomew (1992), such competence rests upon IHRM systems that are transnational in scope, representation and process. This calls for a review of the context within which strategic human resource decisions are framed and evaluated, the demographic profiles of IHRM decision makers and the organization's aptness at creating synergies from cultural diversity within its operations. These factors have a direct bearing on competitiveness, profitability and adaptability, not to mention efficient strategy implementation.

Schuler (1993) extended the concept of effectiveness by identifying several characteristics that generally equate with world-class HRM departments. The implications for auditing would be to focus on such pertinent items as:

- extent of the IHRM function's inclusion in key business issues – both formulation and implementation;
- extent to which home management views HRM and organization issues as critical in strategy implementation;
- having a structure, organization and operation for IHRM activities that serve the strategic needs of the business and its individual units;
- facilitating, or being capable of facilitating, major organizational change through the IHRM function;
- having competent, adaptive and flexible IHRM staff; and
- extent to which IHRM activities are being evaluated for value-added.

The next section details special auditing considerations for international joint ventures (IJVs).

Strategic auditing for IJVs

The organizational form of the international joint venture (IJV), the business relationship between its parent firms and the intended benefits of collaboration will dictate which HRM policies are strategically appropriate. Co-operative ventures can take several forms including project-based networks, licensing or royalty agreements, networks

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with permanent complementary roles by the parents or jointly owned, ongoing businesses. A critical set of human resource issues cuts across these forms:

- who should parents assign to the venture;
- how transferable will human resources be within the venture and between it and the parents;
- how should venture managers allocate their time between strategic and operating tasks;
- who will assess venture competencies and performance;
- how will divided loyalties between the venture and parent be managed; and
- how will venture assignments be managed from a career standpoint? (Lorange, 1986)

Yet, their relative importance varies considerably from one structural permutation to another. For example, project networks constitute organizational modules that are staffed separately by each parent. Technical specialists are loaned to the project, with the sender typically evaluating the contingent that it dispatched. The short-term nature of the assignment renders divided loyalty a moot issue, and obviates the need to engage in strategic tasks unless future cooperation is contemplated in this area. Ongoing, jointly owned businesses call for longer-term commitments to assignments, adjustments to extended departures of critical human resources and dual loyalty, venture-level competence to execute strategic tasks and venture-driven evaluation schemes. Staffing, training and appraisal programmes should function very differently in these scenarios.

One also must account for the parents' pre-existing relationship and what they hope to secure from this alliance. Complementary ventures link firms that are not in direct competition for their mutual benefit. This differs from competitive collaboration which unites market rivals who are interested in leveraging their partner's resources or expertise to realize disproportionate gains. While bureaucratic controls can effectively monitor resource flows, they are inadequate safeguards for intangible assets like marketing, technical and managerial know-how.

Pucik (1988) contends that organizational learning capacity is the best means of protecting or securing competitive advantage in competitive alliances. This necessitates HR policies that channel high-quality, informed representatives to the venture, encourage active learning and transfer to the parent and synthesize these knowledge streams for focused deployment. Failure to be proactive in these areas defeats the whole purpose of investing in the venture, and, even worse, may jeopardize the parent's long-term competitive position.

IHRM audits can address these concerns by critiquing the practices that govern partner selection, IJV start-ups and venture management. The role that HRM policies play in IJV partner selection has generally been ignored in the literature. At best, previous studies have included the quality of managerial and technical talent as possible criteria (e.g., Geringer, 1991). Yet, descriptive accounts suggest that screening potential partners on the basis of managerial and HRM compatibility increases the likelihood of successful venture operations (Schuler *et al.*, 1991). Related arguments have been made for the use of human resource data when identifying merger/acquisition candidates (e.g., Hawkins, 1988).

Partner compatibility must be determined on the basis of multiple factors. Is there a commitment to internal or external labour markets and at what levels? What is the resource allocation for training and development and where is it concentrated? Are compensation policies anchored in internal or external equity considerations? To what extent does top management promote or tolerate employee involvement? What is the firm's industrial relations posture and track record? How does it pursue work-force flexibility? What is its compliance history with respect to employment laws? Answers to these questions begin to clarify the stylistic (and strategic) differences that must be bridged in venture-related interactions. The accompanying proposition is:

Proposition 6(a): IJVs will be less efficient and effective when the HRM policies of one parent are strategically inconsistent with the HRM policies utilized by the other parent. The adverse effects of this conflict will be reduced to the extent that the parents empower IJV managers to devise suitable HRM policies for venture operations.

Assuming an acceptable partner has been chosen, start-up policies set the tone for venture control. Ownership position and related formal controls provide limited means of influencing managerial behaviour in IJVs, especially when the other parent is based in that same country. Consequently, HR-based mechanisms may be a more significant determinant of IJV control-system effectiveness (Frayne and Geringer, 1990). Practice clearly lags in this regard. One survey reported that approximately 4 per cent of the total time associated with venture creation was spent resolving HR-related issues (Coopers & Lybrand/Yankelovich, Skelly & White, 1986).

To counteract this, MNEs should review existing joint venture agreements, form documents and negotiating policies for IJVs to ascertain what kind of HRM framework is being fostered. How much influence is the parent attempting to exercise over the choice of IJV general manager and key technical or professional staff? What mechanisms, if any, ensure that the selection criteria for these positions will

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be consistent with the parent's strategic purposes for venture participation? How structured is the parent's role in assessing venture training needs and deciding on programme content? In evaluating the effectiveness of IJV training interventions or implementing responsive changes? Has sufficient control been retained over IJV performance appraisal and compensation policies to reinforce the parent's strategic objectives? In tandem, the following proposition is offered:

Proposition 6(b): The parent that exerts more formal or informal influence over venture staffing, training and compensation policies will attain more of its strategic objectives for the IJV than will the other parent.

Joint venture administration should also be audited in terms of its contribution to organizational learning. At the micro level, there is a concern that the parent-IJV interface is actually being managed to enhance the parent's critical competencies. Its macro-level counterpart is that complementary, not duplicative, learning is occurring across ventures, and that there are mechanisms to maximize the transfer of newly acquired competencies throughout the MNE. Pucik (1988) articulates numerous ways that ill-conceived HR policies can frustrate organizational learning in strategic alliances. These run the gamut from insufficient planning and lead-time for staffing and development programmes through disincentives for knowledge assimilation to fragmented corporate responsibility for learning and its internal diffusion.

A series of questions again must be posed. Have adequate efforts been made to educate IJV assignees about the strategic intent underlying partnerships? Are local staff with loyalties to the venture being developed not to block knowledge transfer? Is there reciprocity in training between the parents? How formalized is the responsibility for learning (e.g., written into business plans)? Are there sufficient economic and career incentives for sustained learning within and across strategic business units? Where does ultimate accountability for learning reside – in SBUs or MNE headquarters? Are there regular, comprehensive reviews of the learning process? Will the existing mix of IJV assignees expedite knowledge transfer to MNEs units which stand to gain the most from its utilization?

Summary

As firms become more global in order to compete and even survive, all functions need to contribute to their maximum level. For the human resource function this means auditing its functional capacity and responsiveness as extensively as possible worldwide. Initially, we

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discussed the importance of benchmarking human resource experiences. Maximizing the contribution of SIHMR to the effectiveness of MNEs will require auditing to see how well HR policies and practices are being done elsewhere. In all likelihood, the results will indicate a need to do better – to have superior policies and practices in place. Benchmarking and HR intelligence can help ensure that this becomes a reality. To facilitate effective internal auditing, we tried to take an inclusive approach to what is meant by the auditing process. We, therefore, included three major assessment methodologies: the multi-constituency perspective; the strategic-fit perspective; and the effectiveness-efficiency perspective. The intent here was to provide a discussion of these perspectives using a framework that identifies the strategic international HRM issues of MNEs and to present several questions and issues for SIHRM auditing that would suggest future research programmes. Strategic IHRM audit issues associated with international joint ventures were incorporated into our presentation as well. As IJVs become an important vehicle for many firms seeking to operate globally, auditing IJVs is likely to become a significant international HRM activity. It is our hope that this work stimulates more professional and research interest in this vital evaluation area.

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Notes

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- 1 This is in contrast to financial-statement auditing by external auditors, which attests to the firm's compliance with generally accepted accounting principles when reporting business economic activity. Needles, McDermott and Temkin (1991) provide a broad-based summary of the variability in auditor roles, auditing standards and reporting practices across countries.
- 2 In the US, at least, it is unlikely that comprehensive assessments of the HR function were suppressed or overlooked when these reports were prepared (see Tsui and Gomez-Mejia, 1988: 1-204-1-209).
- 3 Schuler and Jackson (1987) discuss several domestic examples where such alignment has been achieved.
- 4 Sixteen questions were developed for parent-country nationals (PCNs) expatri-

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ated to foreign units. However, no consideration was given to HR policies for host country (HCNs) and third-country nationals (TCNs), or the structural linkages between HR units in MNC headquarters and host countries.

- 5 The framework in Figure 1 obviously oversimplifies the reality of the MNE and the factors that influence SIHRM in MNEs, e.g., the type of business and the structure of international operations may be related. It might be reasonably argued that, in fact, the type of business could be an antecedent of the structure of international operations (Phatak, 1992; Heenan and Perlmutter, 1977). However, because the exact nature of the possible relationships among these factors can be debated, we offer them here as independent factors subject to empirical investigation (Kobrin, 1992).
- 6 Employment practices clearly fall within this purview, although they are not common screening criteria at this time. The Working Assets Money Fund is a dramatic exception, applying equal opportunity, domestic job creation and labour-relations criteria to potential investments (Harrington, 1992). It is worth noting that the fund rules out investing in American multinationals that have more than 50 per cent of their total work-force overseas, unless a majority of the eligible US workers are unionized.
- 7 HR fit has an internal dimension (policy congruence between home office and foreign units) and an external one (facilitating needed adaptation across the MNC's cross-cultural and cross-national environments). HR flexibility is a complementary concept focusing on the multinational's ability to adapt effectively to external or internal pressures in timely manner.

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