

# International Human Resource Management

3rd Edition

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## CHAPTER 1

# International Human Resource Management: An Introduction

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### LEARNING OUTCOMES

When they have read this chapter, students will:

- appreciate the growing internationalisation of the world in which HRM is conducted
- understand the additional complexity of HRM in an international context
- be able to describe the key features of the three main approaches to IHRM
- be able to identify some of the key HRM challenges facing organisations working internationally
- understand the format of the rest of the book.

### INTRODUCTION

This chapter starts with a general introduction to the text – it outlines the dual objectives of the text:

- to give readers a better understanding of international HRM (IHRM) in a way that will help them as practitioners
- and, for those who are concerned, to help them get through the International Personnel and Development element of the CIPD Standards.

The first section explains what is new about this updated and enlarged latest edition of the book. The next section (*Key Trends*) considers the background of the growth of international business and the implications for HRM. The third section (*International HRM*) outlines the importance of countries and presents the three main approaches to IHRM: cultural, comparative and international. In so doing it explores the differences between domestic and international HRM for practitioners. The final section of this chapter (*An Outline of the Book*) provides a guide to the other chapters in the book.

## WHAT IS NEW ABOUT THIS EDITION?

We have introduced a number of additional chapters from the previous edition. Notably, the textbook now gives more coverage to institutional influences on IHRM. We have strengthened the comparative sections of the book with a new chapter on the organisation of work and have redeveloped the material on flexible work. We have also introduced a new chapter on performance management. This new material enables lecturers to provide much broader functional coverage in a comparative setting. All the other chapters have been updated to pick up developments in both the literature and practice over the last four years.

The aim of this text, however, remains the same: to help you explore the meaning and implications of the concepts of cross-cultural, comparative and IHRM. We do not assume that there is only one way of defining or understanding the nature of HRM. On the contrary, we believe that HRM varies according to the country in which HRM is conducted: that provides the cultural and institutional environment for HRM. This text addresses directly the issues raised by the fact that HRM is different from country to country. One effect that this must have is on people like you, who are trying to gain an understanding of the full range of meanings of HRM. Another effect is on those, like some of you, trying to manage HRM in organisations whose reach crosses national boundaries. These issues are covered in this text.

A key task for organisations which operate across international boundaries is to manage the different stresses of the drive for integration (being coherent across the world) and differentiation (being adaptive to local environments). Reading this text will give you some flavour of the way that HRM – and particularly what is seen as ‘good’ HRM – is defined differently in different national cultures, and is presented and operates differently in different national institutional environments; some flavour, too, of the ways in which international organisations attempt to deal with the issues these differences create.

We believe that the text will be of value to anyone involved in, or interested in, comparative and IHRM. Whereas in the past the book has focused particularly on HRM specialists, for this edition we have sought to take a more general approach, acknowledging that for some readers they may only be studying IHRM as one component in a broader qualification programme. At the same time we have kept a close eye on the CIPD’s International Personnel and Development Standards. If you are teaching a course, or studying for the CIPD qualification, this book will therefore form a comprehensive course text.

This book is unusual in that it provides evidence of cross-national variation in HRM policies and practices from the Cranet survey. Cranet is the largest ongoing academic survey in the world and has, over more than 20 years now, gathered comparative data from countries around the world. The survey database is broadly representative of the countries in which data is collected, matching the employment patterns of organisations (of more than 100 employees) in now more than 50 countries. The data is collected from the most senior person responsible

for HRM in each organisation, and mainly only ‘factual’ questions (involving yes/no or numbers or percentages as responses) are asked. For consistency we have used the latest data from France, Germany, Japan, Spain, Sweden, the UK and the USA in each chapter, but we have also referred where appropriate to recent articles that cover a wider range of countries.



### REFLECTIVE ACTIVITY

- Why would a global approach to managing people be beneficial to an organisation?
- Why might it be harmful?

Provide examples for each perspective.

For many of you, these first paragraphs will already be raising some key questions. What is the culture of Spain, with its Castilians, Catalans, Andalucians, Basques, etc? What is the culture of Singapore, with its Malay, Indian and Chinese populations? What is the institutional and labour market position of the European Union, where many laws apply across national boundaries and there are few institutional limitations to cross-border labour markets? And, of course, basing the text on national differences inevitably blurs some of these important ‘within-nation’ and ‘beyond-country’ issues. These are critical matters – but outside the scope of this text. We have chosen here to concentrate upon the national differences partly because they are so powerful (employment laws, labour markets, trade unions, etc tend to operate at national level), and partly as an introduction to an often-neglected element of HRM – the fact that it does vary considerably around the world. Our consideration of these issues is focused on Europe, but we will take the opportunity to draw on examples from other continents whenever that is appropriate.

We have also taken the opportunity in the new edition not just to improve our coverage of this rapidly changing subject (see Sparrow *et al*, 2004) but also to extend both the number of chapters and the material covered within the chapters. It has been fascinating to note that the number of books and articles on international and comparative HRM has expanded almost exponentially even in the short time since the first edition of this text. Whereas in many organisations IHRM used to be the concern of a rather separate department arranging terms and conditions for expatriate employees, it is increasingly becoming a more and more significant part of organisations’ attempts to manage their entire workforce across the world in the most cost-effective manner possible. As such, it is becoming a key contributor to organisational success. It is little wonder that it is beginning to attract the attention of more and more researchers, publishers and consultancies.

We note in the *Outline of the Book* the details of the new topics that we have addressed chapter by chapter. Here it suffices to say that we have responded to



the book's users by adding specific chapters detailing comparative aspects of the organisation of work and of performance management, and have used the latest research to extend the material on the way that international organisations manage their workforces internationally.

## KEY TRENDS

It is a truism to point out that the world is becoming more international. This applies to our technology, our travel, our economies and our communications – if not always obviously to our understanding. The growth of global enterprises leads to increased permeability in the traditional business boundaries, which in turn leads to high rates of economic change, a growing number and diversity of participants, rising complexity and uncertainty.

Traditionally, much of our understanding about IHRM has been based on the study of multinational corporations (MNCs). A multinational corporation is defined as an enterprise that operates in several countries but is managed from one home country. In practice, once an enterprise derives more than one quarter of its revenues from outside its home country, it is considered an MNC. MNCs may take any of four forms: a decentralised corporation that has a strong home-country presence; a global and centralised corporation that can acquire a cost advantage through centralised production; an international company that builds on the parent company's technology or research and development; or a transnational enterprise that combines all three of these approaches. In general, an MNC may not have co-ordinated product offerings in each country, because it is more focused on adapting its products and service to each individual local market. Some people prefer to use the term 'multinational enterprise' (MNE) because the word 'corporation' implies business organisations, whereas many other forms of organisation – such as non-governmental bodies or charities – might be deemed to have multinational characteristics. The term 'transnational corporation' (TNC) is typically used to describe much more complex organisations that have invested in foreign operations, have a central corporate facility, but give decision-making, R&D and marketing powers to each individual foreign market. We shall generally use the abbreviation 'MNCs' throughout the textbook for the sake of convenience and simplicity.

MNCs are presented as being economically dominant: the world's 1,000 largest companies produce 80 per cent of the world's industrial output.

The United Nations Conference on Trade and Development (UNCTAD) was originally set up as an as an intergovernmental forum for North–South dialogue and negotiations on issues of interest to developing countries, including debates on the 'New International Economic Order'. Its *World Investment Report* focuses on trends in foreign direct investment (FDI) worldwide and at the regional and country levels. As of publication the latest data for non-financial organisations relates to 2008. Based on an average of three ratios (the ratio of foreign assets to total assets, foreign sales to total sales, and foreign employment to total

employment) the Transnationality Index often paints a surprising picture. The most transnational firms from the transition economies, in order, are First Pacific Company Limited (Hong Kong, with an index of 99 per cent), China Merchants Holdings International (Hong Kong, 97 per cent), Guangdong Investment Limited (Hong Kong, 95 per cent), Road King Infrastructure Limited (Hong Kong, 90 per cent) and Li and Fung Limited (Hong Kong, 90 per cent). Acer of Taiwan would rate 12th, Tata Steel of India 18th, and Samsung 41st.

Using one of the three measures of geographic spread, some more familiar names appear in the list of all financial organisations. In terms of scale, the top five financial firms based on 2009 data were Citigroup (USA), BNP Paribas (France), Allianz SE (Germany), Generali Spa (Italy) and Société Générale (France). In the list of all non-financial TNCs, using 2008 data, by asset the top five largest firms are General Electric, Shell, Vodafone, BP and Toyota. On the TNI they are Xstrata (UK, Mining), ABB, Nokia, Pernod Ricard and WPP Group.

Across nations, the UNCTAD World Investment Report 2010 expected global inflows of foreign direct investment (FDI) to reach more than US \$1.2 trillion in 2010, to rise further to US \$1.3–1.5 trillion in 2011, and to head towards US \$1.6–2 trillion in 2012. However, these FDI prospects were considered to be fraught with risks and uncertainties. These risk factors included the slow global economic recovery, investment protectionism, rising sovereign debt and continued volatility in the currency markets – all likely to slow down the pace of FDI across the globe in 2011. The United States, the epicentre of the global economic meltdown in 2008, gradually recovered from the crisis, with FDI flows increasing by 40 per cent in 2010 to US \$186.1 billion from US \$129.9 billion in 2009. Developing and transition economies attracted half of global FDI inflows, and invested one quarter of global FDI outflows. There was a sharp increase in global FDI flows to East and South-East Asian countries and Latin American nations in 2010. This marked the first time that developing countries outpaced rich nations in attracting foreign investments.

#### PROGRESS TOWARDS TRANSNATIONALISATION?

UNCTAD (2007) defines transnationalisation as the intensity of foreign activities in relation to domestic or global activities. Between 1990 and 2003, the values of assets of foreign affiliates of the world's TNCs have increased by a factor of five, and sales and employment have multiplied respectively by three and two. By the early 1990s there were an estimated 37,000 TNCs in the world, with 170,000 foreign affiliates. Of these, 33,500 were parent corporations based in developed countries. By 2006 there were an estimated 77,000 TNCs in the world, with more than 770,000 foreign affiliates. These affiliates generated an estimated US \$4.5 trillion in value added, employed some 62 million workers, and exported goods and services valued at more than US \$4 trillion. Around 60 per cent of international trade involves transactions between two related parts of a single MNC. This means that the *physical location of economic value* creation is now difficult to ascertain.

Continental shifts in economic activity continue at a pace. In 2003 economists at Goldman Sachs bracketed Brazil with Russia, India and China as the economies that would come to dominate the world. However, interpreting trends in

international HRM that might result from shifts in economic power is never easy and complex factors are always at play.

We see a number of traditional regional strategies, often reflecting past cultural and institutional linkages. For example, while the Spanish economy was contracting in 2009, Spanish MNCs capitalised on their Latin American connections. Telefónica, the telecommunications company, was the biggest investor in the region, making 35 per cent of its profit there. Its US \$100 billion of investments in Latin America represented about a third of the company's value (*Economist*, 2009a). Santander made 43 per cent of its profit there. Six Spanish MNCs accounted for 95 per cent of all the Spanish investment in Latin America. At the same time, however, Spanish MNCs made large acquisitions in Europe and the USA to balance their exposure to Latin America. MNCs hedge their bets across geographies.

They also create new patterns of mobility and trade. Chinese expansion into Latin America and Africa creates both a new geographical demography in terms of international mobility, and new patterns of comparative management. For example, in 2009 the China Development Bank and Sinopec lent US \$10 billion to Brazil's state-controlled oil company Petrobras in return for 10 years' supply of 200,000 barrels of oil a day. As foreign direct investment has gone into Brazil, it has spawned a new set of Brazilian MNCs, such as Petrobras in oil, Vale – one of the world's largest mining companies – and Embraer, the world's third-largest maker of passenger jets, with steel-makers, bus-builders, food companies, textile and cosmetics firms soon expected to follow (*Economist*, 2009c). Out of a list of 100 companies from the emerging markets that are expected to evolve into MNCs, compiled by Boston Consulting Group, 14 are based in Brazil. Living in the shadows of this shift in economic power, UN data suggests that the informal economy still represents about 40 per cent of Brazilian GDP – it is only 13 per cent of GDP in China. China has now become Africa's largest trading partner and buys one-third of its oil from the continent. It exports US \$60 billion to Africa, and imports a little more from Africa (*Economist*, 2011d). 14 per cent of Chinese overseas investment is in sub-Saharan Africa, with 19 per cent to Latin America, 17 per cent to the Middle East and North Africa, 17 per cent to other parts of Asia, 13 per cent to Europe, 11 per cent to Australia and only 9 per cent to the USA.

Much is spoken about relative levels of productivity around the world driving investment and growth. In fact, much of China and the USA's gains in productivity were due to capital investment rather than true improvements in efficiency. From 1990 to 2008, OECD data on a better measure of 'total factor productivity' – the percentage increase in output that is not accounted for by changes in inputs (ie the volume of work hours and capital investments) – showed that China still had an annual growth rate of 4 per cent in productivity. No other country in history has enjoyed such rapid productivity gains (*Economist*, 2009d). On the same measure and time period, productivity increases were 2.8 per cent in India, 2.3 per cent in Singapore, and 1.8 per cent in Thailand, falling to 1.2 per cent in Britain, 1.1 per cent in the USA, 0.3 per cent in Brazil and 0.2 per cent in Russia. The determinants of such long-term productivity are the rate of adopting existing technologies, the pace of domestic scientific innovation, and changes in organisation and production, which in turn

depend on openness to foreign direct investment (FDI) and trade, education and the flexibility of labour markets. China's technology penetration and innovation is very high, so China's growth is twice as fast as seen in Japan and South Korea when they were at similar stages of development.

We also witness different responses internationally within the labour force. For example, within the rich Group of Seven economies, the USA has the lowest share of 'prime age' males aged between 25 and 54 in work (*Economist*, 2011e). The proportion has fallen from 95 per cent in the 1960s to 80 per cent today. The figure is still 96 per cent in Japan and 94 per cent in France. The main reason for the falls in economic participation in the USA, the UK and Canada are structural changes that have reduced demand for less-skilled workers. US university graduation rates have slipped in recent years from near the top of the world league table to the middle.

Another issue is labour arbitrage. Although taking advantage of lower wages abroad, especially in poor countries, has been important, in practice MNCs consider many factors when they think of locating activities offshore. A study by Boston Consulting Group in 2011 (*Economist*, 2011f) found that pay for factory workers in China increased by 69 per cent between 2005 and 2010. On current trends of annual wage growth of 17 per cent in China, modest appreciation in the value of Chinese currency and existing productivity growth rates, by 2015, they argue, manufacturers producing for consumption in America will be indifferent to locating in America or China on cost grounds. Factories take time to build. The behaviour of MNCs has therefore already started to factor in such trends. Caterpillar and NCR have already begun to move some manufacturing from abroad back to the USA. General Motors is investing US \$2 billion and adding 4,000 jobs at 17 American plants. Complex supply chains at risk of disruption, energy prices, inventory costs associated with importing all require consideration.

These shifts are not always as easy or rapid as made out in the business press. For example, in the area of consumer electronics, when firms moved production to Asia they created a supplier base and infrastructure that would now be hard to reverse. Despite rapidly rising wages in India, productivity growth means that the software and back-office offshoring industry is similarly expected to retain cost advantage for the foreseeable future. Infosys, India's most celebrated IT company, earns only 1.2 per cent of its revenue in the Indian market, earning 375 per cent more from overseas exports than in domestic operations. So despite Infosys, Wipro and Tata Consultancy Services, it is the US firm IBM that is the leading provider of IT services to Indian companies (*Economist*, 2009a).

Whatever the driving factors, we are nonetheless witnessing the global transfer of work – either in terms of the creation of new jobs or through the global sourcing of certain parts of an individual's or unit's work. This is having a major impact on the type of organisations and nature of work that remain viable in different parts of the world. In the first wave of globalisation two decades ago, low-level manufacturing work began to transfer to low-cost locations. In the second wave, simple service work such as credit-card processing began to relocate. In the third wave, higher-skill white-collar work is being transferred.

## WHAT IS INTERNATIONAL HUMAN RESOURCE MANAGEMENT?

In all these MNCs or MNEs, HRM is a key to success. For the vast majority of organisations, the cost of the people who do the work is the largest single item of operating costs. Increasingly, in the modern world, the capabilities and the knowledge incorporated in an organisation's human resources are the key to performance. So on both the cost and benefit sides of the equation, HRM is crucial to the survival, performance and success of the enterprise. For international organisations, the additional complications of dealing with multicultural assumptions about the way people should be managed and differing institutional constraints become important contributors to the chances of that success.

The need for human resource specialists to adopt an increasingly international orientation in their functional activities is widely acknowledged and becoming ever clearer. It is important not just to people working in the giant MNEs, but also to many in small to medium-size enterprises (SMEs). The freer economic environment of the twenty-first century, the reduction of restrictions on labour movement in areas such as the European Union, and the advent of new technology have combined to mean that many fledgling enterprises operate internationally almost as soon as they are established. It is also worth reminding ourselves that international organisations do not have to be in the private sector. Governments have staff working around the world. Many international organisations such as those in the UN family, the OECD, the regional trade bodies, etc have employees working across national borders. So do many charities and religious groups (Brewster and Lee, 2006).

Any review of world events over the last few years will emphasise the essentially unpredictable and rapidly changing nature of political, economic and social upheavals. Vaill (1989; p2) used the metaphor of 'permanent white water' to describe the nature of doing business in the latter part of the twentieth century:

Most managers are taught to think of themselves as paddling their canoes on calm, still lakes . . . Sure, there will be temporary disruptions during changes of various sorts – periods when they will have to shoot the rapids in their canoes – but the disruptions will be temporary, and when things settle back down, they'll be back in a calm, still lake mode. But it has been my experience that you never get out of the rapids!

Managers working in an international environment are obviously more subject to the impact of multi-country, regional and global change and dynamism than managers in a single-country operation. And this applies to HR managers as much as any others (Stiles, 2006). Hardly surprisingly, choices in this context become complex and ambiguous.

HRM professionals who contemplate internationalisation typically need to address the following:

- Do we have a strategy for becoming an international firm?
- What type of managers will we need to be successful? And how do we find or develop them?



- How can I find out about the way that HRM is conducted in other countries: the laws, trade unions, labour market, expectations, etc?
- What will be the impact of local cultural norms on our home-based ways of working? Can we use all or any of them in other countries?
- How will we choose whether to send expatriates or use local employees?
- How do we manage international moves if we choose to send some people out from home?
- How do we manage knowledge across geographical and cultural distance?

The additional complexities of managing an international workforce in any of these organisations call for a different mindset and different skills for practitioners. A publication for the Chartered Institute of Personnel and Development (CIPD, 2002) argued that individuals working in an international context need to be competent in:

- interpersonal skills (especially cultural empathy)
- influencing and negotiating skills
- analytical and conceptual abilities
- strategic thinking

and that they will also need a broader base of knowledge in such areas as:

- international business
- international finance
- international labour legislation
- local labour markets
- cultural differences
- international compensation and benefits.

Furthermore, and to complete for a moment the list of complexities that internationalisation adds to the role of HR managers, they will have to manage a wider set of multiple relationships. HR managers in the European context, for instance, might find themselves having to deal with such groups as:

- headquarters, regional and subsidiary line managers
- headquarters and subsidiary employees
- national, European-level and international trade union bodies
- national and European-level legislative bodies
- local and regional communities.

From the mid-1980s to the turn of the 1990s the field of IHRM was considered to be in its 'infancy' (Laurent, 1986). Since its early beginnings, there has both an evolution of territory covered by the IHRM field as well as more critical discussion of whether this evolution has been towards an expanded field, or represents a process of fragmentation.

Scullion (2005) tracked the evolution of definitions of IHRM. He observed that although there has been little consensus, definitions have broadly concentrated on examining the HRM issues, problems, strategies, policies and practices which firms pursue in relation to the internationalisation of their business. Schuler *et al* (2009) similarly recently positioned the different views that have existed about the nature of IHRM.

#### DEFINITIONS OF IHRM

IHRM encompasses:

- ‘... the worldwide management of people in the multinational enterprise’ (Poole, 1990; p1)
- ‘... human resource management in an international environment ... problems created in an MNC performing business in more than one country, rather than those posed by working for a foreign firm at home or by employing foreign employees in the local firm’ (Briscoe and Schuler, 2004; p1)
- ‘... how MNCs manage their geographically dispersed workforce in order to leverage their HR resources for both local and global competitive advantage’ (Scullion, 2005; p5)
- ‘... a branch of management studies that investigates the design of and effects of organisational human resource practices in cross-cultural contexts’ (Peltonen, 2006; p523)
- ‘... all issues related to the management of people in an international context [including] human resource issues facing MNCs in different parts of their organisations [and] comparative analyses of HRM in different countries’ (Stahl and Björkman, 2006; p1)
- ‘... complex relationship between globalisation, national systems and companies [which provides us with] three distinct “levels of analysis” for interpreting and understanding HRM strategies and practices [the globalisation effect, the regional and national effect, and the organisation effect]’ (Edwards and Rees, 2008; p22)
- ‘... the subject matter of IHRM [must be] covered under three headings: cross-cultural management; comparative human resource management; and international human resource management’ (Brewster *et al*, 2007, p5)
- ‘... how MNCs manage the competing demands of ensuring that the organisation has an international coherence in and cost-effective approach to the way it manages its people in all the countries it covers, while also ensuring that it can be responsive to the differences in assumptions about what works from one location to another’ (Dickmann *et al*, 2008; p7)
- ‘... the ways in which the HRM function contributes to the process of globalisation within multinational firms’ (Sparrow and Braun, 2008; p96)
- ‘... the implications that the process of internationalisation has for the activities and policies of HRM’ (Dowling *et al*, 2008; p293).



#### REFLECTIVE ACTIVITY

Look at the sequence of definitions used above to define what IHRM is about. How do the definitions change over time? What do these changing definitions tell you about the sorts of knowledge – and the theoretical understanding – that might be important for the field and that should be incorporated into a textbook like this?

## STRUCTURING THE FIELD INTO THREE COMPONENTS

How are we to start the process of understanding all this complexity? The first step is to be clear about different kinds of analysis. These are not always defined in the literature – partly perhaps because of a confusion in the USA, where ‘international’ is often applied to anything outside the USA. However, generally, the subject matter of IHRM is covered under three headings:

- cross-cultural management
- comparative HRM
- IHRM.

In broad terms, authors in the *cross-cultural* tradition argue that every nation has its own unique sets of deep-lying values and beliefs, and that these are reflected in the ways that societies operate, and in the ways that the economy operates and people work and are managed at work. The *comparative* HRM tradition focuses more specifically on the way that people work and explores the differences between nations in the way that they manage this process. In general, the comparative tradition makes more of the institutional differences than the cultural differences. *International* HRM (and its more recent ‘strategic’ derivative, SIHRM) examines the way organisations manage their human resources across these different national contexts.

## CROSS-CULTURAL MANAGEMENT

A key factor in the increasing internationalisation of employment is that there are cultural differences between nations – differences in national values and attitudes. Many of us have stereotypes of taciturn Finns, ebullient Spaniards, work-obsessed Americans, polite Japanese, modest Malays, etc. These are stereotypes: even though the next Finn we meet may be loud and confident, the next Spaniard quiet and reserved, and so on, they indicate real, general, truths. There is now plenty of research evidence (see Chapter 2) that different nationalities do have different values and that these affect the way people organise, conduct and manage work. An awareness of cultural differences is therefore an essential part of an international HR manager’s brief. The normal HRM activities such as recruitment and selection, training and development, reward and performance appraisal, may all be affected by cultural values and practices in the respective host countries. As a result, great care must be taken when deciding whether or not to adopt standardised HRM policies and practices throughout the world.

## COMPARATIVE HUMAN RESOURCE MANAGEMENT

The distinction between comparative HRM and IHRM was clearly made by Boxall (1995). Comparative HRM (CHRM) explores the extent to which HRM differs between different countries – or occasionally between different areas within a country or different regions of the world, such as North America, the Pacific Rim states or Europe (Brewster and Larsen, 2000). We know that countries may be small or large, have more or fewer regional differences, include



one or many language groups, and be more or less economically developed. More immediately we know that they may have different labour markets and education systems, different employment laws and trade unions, and the different cultural expectations that we have already noted. It should be no surprise, therefore, to find that employment systems differ noticeably between countries and that managing human resources has to vary from country to country.

As should already be clear, 'HRM' is a term with widely disputed definitions: many books and articles have attempted to pinpoint its meaning. One less often explored source of variation arises from national differences. The concept of HRM itself originates in and builds on a particular view of the world, a view initially from the USA. As Legge (1995; pxiv) put it in her typically trenchant way:

Why the appeal of HRM's particular rhetoric? Because its language . . . celebrates a range of very WASP [White Anglo-Saxon Protestant] values (individualism, work ethic, those of the American Dream) while at the same time mediating the contradictions of capitalism.

Other countries have been more resistant to the notion of HRM, either taking it up as a concept much later or staying with the 'personnel management' label. It is notable, for example, that the European and the world professional bodies still call themselves, respectively, the European Association of Personnel Management and the World Federation of Personnel Management Associations. This is not a question of backwardness: the New Zealand association is one of the most modern, but still uses the Personnel Management title. In many cases, the 1990s and the first decade of the twenty-first century saw academics and consultants in a country taking up the term while practitioners in the same country remained stubbornly attached to 'personnel' as the title of their area of work.

Whereas some commentators look for universal issues, others are more concerned about understanding their local contingencies. Researchers in the USA typically assume that the focus of HRM is on the well-being of the organisation. On the other hand, in many other countries, commentators tend to be more critical and to take account of a number of stakeholders whose interests do not always overlap – and they are less than committed to the idea that the shareholders' interests are always paramount. This is summed up in a quotation (Storey, 1995; p23) about the way HRM is presented in US texts:

I believe HRM to be amoral and anti-social, unprofessional, reactive, uneconomic and ecologically destructive.

Even when the terminology has been adopted, we should not assume that the subject matter is uniform across the world. When the multinational team involved in running the Cranet surveys on HRM policy and practice (Tregaskis *et al.*, 2003) met to decide on the areas their survey would cover, there was far from total unanimity in understanding the nature of the topic. 'Where,' the Swedish colleagues wanted to know, 'are the questions about the relationship of the organisation to the natural environment?' They saw this as an element of the HRM role. German colleagues wanted more on the role of works councils,

French colleagues more on the social environment. When the Japanese joined the network, they felt that despite the importance of national comparisons they could not use all of the questions, some of which would be perceived as too intrusive.

Research in the CHRM field, then, which has generally but not exclusively been of more interest to European researchers, has typically incorporated a country comparison perspective.

#### TYPICAL QUESTIONS ASKED BY COMPARATIVE RESEARCHERS

How is HRM structured in individual countries?

What strategies are discussed?

What is actually put into practice?

What are the main differences and similarities between countries ?

To what extent are HRM policies influenced by national factors such as culture, government policy, and educational systems?

The bulk of work in the CHRM field has thus concentrated on the nature and impact of institutional differences between countries, the consideration of which HRM practices are more or less culturally sensitive, and an empirical examination of patterns of convergence or divergence in HRM practices across national borders. The CHRM field has covered comparisons of management practices across different cultures and nations and studies that look at management in specific (single) countries. It concentrates on how people are managed differently in different countries by analysing practices within firms of different national origin in the same country or comparing practices between different nations or regions.

#### INTERNATIONAL HUMAN RESOURCE MANAGEMENT

IHRM has traditionally examined the way in which international organisations manage their human resources across these different national contexts. Early research in the field of IHRM reflected that in the broader field of international management, and focused on the role of MNCs and MNEs. Research has since focused on understanding those HRM functions that had to change when firms went international. Finding and nurturing the people able to implement international strategy was seen as critical for such firms, and considerable attention was given to the management of expatriates.

The organisation that manages people in different institutional, legal, and cultural circumstances has to be aware not only of what is allowed and not allowed in the different nations and regions of the world, but also of what makes for cost-effective management practices. To take one often-quoted example: a performance appraisal system which depends upon US-style openness between manager and subordinate, each explaining plainly how they feel the other has done well or badly in their job, may work in some European countries. However,

it is unlikely to fit with the greater hierarchical assumptions and 'loss-of-face' fears of some of the Pacific countries. It may even be unlawful in some states. The literature is replete with examples of such home-country practices that may be allowed in other countries but which depress rather than improve productivity and effectiveness.

Organisations that address IHRM therefore have to deal not just with a variety of practices but also with a range of policy and even strategy issues. IHRM explores how MNEs manage the demands of ensuring that the organisation has an international coherence in and cost-effective approach to the way it manages its people in all the countries it covers, while at the same time ensuring that it is responsive to the differences in assumptions and in what works from one location to another. This includes, in particular, the management of those people who have to work internationally. IHRM research has also identified the important contingencies that influenced the HRM function as it became more internationalised, such as the country that the MNC operated in, the size and life-cycle stage of the firm, and the type of employee (parent-company national, home-country national and third-country national). IHRM, then, is focused on how different organisations manage their people across national borders.

The international context adds extra complexity to the management of people beyond that found in a purely national setting. IHRM has the same main dimensions as HRM in a national context, but is understood to operate on a larger scale, with more complex strategic considerations, more complex co-ordination and control demands. Some additional HRM functions were considered necessary to accommodate four additional pressures when going international (Dowling *et al*, 1998):

- the need for greater operating unit diversity
- more external stakeholder influence
- higher levels of risk exposure
- more personal insight into employees' lives and family situations.

## HOW IS THE OVERALL FIELD OF IHRM EVOLVING?

What does this sequence of definitions tell us? There have been three directions of travel:

- a growing influence of an institutional perspective
- a critical perspective on IHRM
- a problem-solving perspective on IHRM.

Recently, Delbridge *et al* (2011) edited a special issue of *Human Relations* on 'Beyond the enterprise: Broadening the horizons of international HRM', situating IHRM within wider economic, organisational, political and institutional contexts. The critical perspective runs as follows (Peltonen, 2006; De Cieri *et al*, 2007; Hippler, 2008; Delbridge *et al*, 2011). The field is very

fragmented. The majority of theories that the field draws upon – as is indeed made clear throughout this chapter – have been created outside the field of IHRM. This has been reflected in a degree of experimentation and abstractness in the issues that are typically covered. De Cieri *et al* (2007) argue that globalisation – when seen in terms of the worldwide flow of capital, knowledge and other resources necessary to interconnect international product markets – is associated with concomitant processes involved in the growth in scope and scale of competition. IHRM academics are therefore forced to understand the (many) ways in which MNEs operate effectively. Rather than leading to any integration of ideas, imitation of ideas from outside HRM becomes more important. If you look at what is being said by academics and researchers, more and more attention is being given to the politics of globalisation and the importance of local context.

Rather than attempt to integrate ideas and claim that there can be all-encompassing approaches to the study of IHRM, the critical view argues that we should draw reference from theory in existing practices and disciplines that help explain the complex problems (and often dysfunctional impacts) faced when trying to manage across national boundaries. As attention turns from understanding the policy and practice needed to manage international cadres of people, and internationalising organisations, towards the need to understand any one HRM policy and practice in its broader international or institutional context, many academic fields argue that they have something to say about the phenomena of IHRM. The critical view of IHRM is (Sparrow, 2009; p7):

an acknowledgement that we are examining organisational issues that are of high complexity, in an environment of changing context, and with questionable assumptions about the existence of rules of the past that can be generalised to future actions, and therefore concerns that there are too many predictable and contingent solutions that can help organisations explain how best they can solve IHRM problems.

There is, then, still an evolutionary view of the field (Stahl and Bjorkman, 2006; Sparrow and Braun, 2008; Dickmann *et al*, 2008; Sparrow, 2009). By following a problem-solving approach to IHRM – ie by focusing on the progressive issues that have been created in the conduct of business operations as a consequence of internationalisation – this perspective sees IHRM as entailing an explainable set of explorations (Sparrow, 2009, p4):

IHRM has moved not through a haphazard and opportunistic expansion, but through a sequential development of thinking that has captured the successively evolving cultural, geographical and institutional challenges faced by the multinational corporation . . . Whilst IHRM indeed now covers a large and complex territory, it has come to represent an accepted set of doctrine about the nature of IHRM . . . There is a logical pattern to the ‘issues-driven’ concerns that the field of IHRM has to face, absorb, interpret, then reanalyse through international lenses . . . with a number of contemporary issues – reverse knowledge flows, skill supply strategies,

employer branding, e-enablement, outsourcing, global networks – now needing to find [more] voice within the literature.

The problem-solving perspective acknowledges that there is an increasingly complex set of contextual factors at play, but also considers that the IHRM field has expanded in parallel with – and has been driven by the drumbeat of – progressive problems of internationalisation. These problems have undoubtedly become more deeply embedded within organisations.

## AN OUTLINE OF THE BOOK

Following this introductory chapter, the text is divided into the three areas of theory we have already identified, and a section examining new developments and the role of HRM.

**Part One** deals with **cross-cultural management**.

- *Chapter 2 The impact of national culture* defines the meaning of culture, outlines the literature on cultural differences, and explores the extent to which aspects of work practices are nationally or locally based. It uses some previously developed frameworks and applies these to the world of work.
- *Chapter 3 Culture and organisational life* continues this exploration, looking at the implications of operating across national cultures for concepts of business, management and HRM. It first examines the impact of culture on organisational behaviour and HRM. It then examines concepts of leadership. The extent to which national cultures have different styles of leadership are discussed, and whether organisations can create global leaders. Finally, it considers the debates about the nature of cultural intelligence.

**Part Two** addresses the issue of **comparative human resource management**.

There is an overall theory chapter and then a series of chapters exploring the way that different aspects of HRM practices vary across national boundaries. It is important that readers understand that in these topics there is no longer a simple divide between comparative and international HRM modules. Many of the topics and issues covered under a comparative theme would find relevance on a course on international HRM. To provide an example: in the chapter on *Recruitment and selection*, the discussion of the impact of culture on practices is used to show how an in-country business partner of an MNE has to understand the local complexities of practice – a topic easily taught under an IHRM banner. Similarly, the coverage of new developments in global mobility and resourcing in that chapter could well be taught alongside traditional IHRM topics of expatriation. We have adopted this structure to best organise the material, but stress that the conceptual divide between Parts Two and Three – and the relative number of chapters in each Part – should not be seen as indicative of the best way to either teach or learn about these topics. In the world of actual HRM practice, the two perspectives are inherently interconnected. Part Two, therefore, concentrates principally on key HRM functions.

- *Chapter 4 Comparative HRM and institutional influences* identifies the differences between the universalist and the contextualist paradigm and explores the contextual determinants for differences in country-level HRM practices. Attention is paid to the different employment law and institutional contexts within which HRM specialists have to operate. This chapter also explores the attempts that have been made to 'group' countries in relation to similarities of HRM practices, explores whether HRM in different countries is converging as a result of globalisation and, given the origin of the notion of HRM in the USA, explores how far HRM prescriptions from the USA might apply in the rest of the world.
- *Chapter 5 Employee relations and communication* explores the range of structures of employee relations common in Europe and around the world. It examines the differences in the meaning and role of unions and other representative employee bodies. It draws attention to the role of history, national cultures and legal institutions in influencing these structures and bodies, and signals what this means for the managers of people.
- *Chapter 6 The organisation of work* is a new chapter that introduces the topic of work organisation and reviews international variation in practices of direct communication. It considers Taylorism and other broader-based alternatives. It examines how these alternatives are applied in different countries and explains the bases of cross-national comparative variation in work organisation.
- *Chapter 7 Flexibility and work-life balance* explores trends in the issue of flexible working practices and patterns. Flexible working practices include the development of such approaches as part-time employment, short-term employment and a host of other non-standard working forms. It explores the similarities and differences in the use and meaning of such practices across national boundaries and considers the impact of these practices at national, employer and individual levels, as well as the implications for HRM specialists. Finally, it looks at developments concerning work-life balance in an international context.
- *Chapter 8 Recruitment and selection* explores and compares some of the ways in which organisations across different countries act in order to obtain and retain the kinds of human resources they need. The chapter examines the resourcing process: making sure the organisation has people of the right quality. It therefore looks first at recruitment and selection and considers the ways in which culture can be seen to influence such local HRM practices. However, much international recruitment today is carried out in the context of global resourcing strategies and increasingly global labour markets. The chapter therefore also looks at global skill supply strategies and the role of recruitment in the internationalisation of the organisation. Finally, it introduces some of the questions that these developments raise about the recruitment of international employees.
- *Chapter 9 Performance management* is a new chapter which defines performance management and performance appraisal, and provides an overview of their Western origins. Typical approaches to performance management within MNCs are described with reference to the elements of planning, managing and reviewing. The chapter then considers the factors



which impact on performance management in different contexts and presents a comparative analysis which includes the influence of culture.

- *Chapter 10 Rewards* explores the nature of rewards and the different bases of pay. It considers a number of theoretical perspectives important for the study of rewards such as agency theory, socially healthy pay and distributive justice. The links between national culture and rewards practice are explored and attention is given to the international differences in the incidence of pay for performance and comparative evidence on best practice.
- *Chapter 11 Training and development* identifies key trends, similarities and differences at country level in relation to vocational education and training systems. It also explores workplace and on-the-job training. Finally, attention is given to management development and comparative experiences of this.
- *Chapter 12 The role of HRM departments* looks at similarities and differences at country level in relation to the meaning of HRM, the role of the national institutes, and the role of the HRM department in terms of issues such as strategic integration and devolvement. The changing nature of HRM is briefly considered, but particular attention is given to the role of line management in HRM.

**Part Three** of the book deals with **international human resource management**, the way that different organisations respond to, deal with and exploit the different cultural and national institutional contexts within which they have to operate.

- *Chapter 13 International HRM: theory and practice* begins by examining the different levels of analysis across which globalisation might be studied. It covers some of the main models that have influenced the field of IHRM, such as life cycle, organisation design and contingency models. It then reviews theoretical perspectives in the field of strategic IHRM (SIHRM).
- *Chapter 14 Managing expatriation* considers the most widely discussed aspect of international HRM activities – managing people on international assignments. It examines how international assignments link to an organisation's international strategy and evaluates the main trends in the nature of expatriation. It looks at the whole expatriate management cycle, giving particular attention to theory versus practice in international manager selection. The antecedents to adjustment in international assignments are considered, as is the challenge of designing appropriate pre-departure preparation programmes for expatriates. Finally, the issue of repatriation is examined.
- *Chapter 15 Managing diversity in international forms of working* addresses issues of diversity in international organisations. This chapter examines the various forms of international working and assesses the pros and cons for international enterprises of using each form. It considers what should be involved in measuring the value of international assignments. Attention is given to the strengths and weaknesses of various forms of diversity initiatives in international organisations, and how organisations could increase the number of women in international management. The problems of assessing performance in international work are discussed. Finally, the chapter examines the challenge of managing international management teams.

- *Chapter 16 Globalising international HRM and contemporary challenges.* In the last chapter we examine some of the recent activities in MNCs as they continue to attempt to globalise their HRM provision. We discuss the adoption of global HRM delivery models, the e-enablement of HRM processes on a global basis, and the use of integration mechanisms such as global knowledge management strategies, management through global networks, and the pursuit of global talent management, strategic workforce planning, and employer branding.



### KEY LEARNING POINTS

- Much of our initial understanding about IHRM was traditionally based on the study of multinationals (MNCs).
- Definitions of IHRM have concentrated on examining the HRM issues, problems, strategies, policies and practices which firms pursue in relation to the internationalisation of their business.
- The additional complexities of managing an international workforce in organisations that are internationalising call for a different mindset and different skills for practitioners.
- Internationalisation is also becoming more widespread. The levels of foreign direct investment can be huge – over \$1 trillion a year – although these developments are always fraught with risks and uncertainties.
- There are continental shifts occurring in the focus of this economic activity, leading to new patterns of mobility and trade, and MNCs dominated by new mindsets and approaches.
- We are also witnessing the global transfer of work – either in terms of the creation of new jobs or through the global sourcing of certain parts of an individual's or unit's work. This is having a major impact on the type of organisations and nature of work that remain viable in different parts of the world.
- Rather than just studying the operation of MNCs, the subject matter of IHRM is best covered under three headings: cross-cultural management, comparative human resource management, and international human resource management.
- These three fields each show that there is an increasingly wide set of contextual factors at play. Each field has expanded in depth, in parallel with the progressively complex problems of internationalisation. We devote a separate Part of the book to each approach.



### LEARNING QUESTIONS

- 1 From your experience and study of the subject, what do you consider to be the key elements of 'best practice' in HRM? To what extent can these be applied on a global level? Identify the reasons underlying your arguments.
- 2 Imagine that you are a HR manager in a domestically based company that has decided to operate internationally. You have been charged with sorting out the HR effects of the decision. What questions should you be asking?





## EXPLORE FURTHER

The following websites provide useful information:

The United Nations Conference on Trade and Development (UNCTAD) website can provide updated information on transnational organisations:  
<http://www.unctad.org/>

OECD guidelines for multinational enterprises:

[http://www.oecd.org/department/0,3355,en\\_2649\\_34889\\_1\\_1\\_1\\_1,00.html](http://www.oecd.org/department/0,3355,en_2649_34889_1_1_1_1,00.html)

CIPD International Research:

[http://www.cipd.co.uk/research/\\_inthrm.htm](http://www.cipd.co.uk/research/_inthrm.htm)