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CHAPTER FOUR

INTERNATIONAL HUMAN RESOURCE MANAGEMENT

Abdul Fattaah Mohamed, Washika Haak-Saheem and Chris Brewster

Introduction

Competing demands of global integration and local differentiation have highlighted the need to develop human resources as a critical source of competitive advantage (Caligiuri & Stroh 1995; Schuler, Dowling, De Cieri1993; Minbaeva, 2018). However, sources of advantage vary depending on the level of analysis adopted. A critical challenge for organizations from both the public and private sectors in the 21st century is the need to operate across national borders. The complexities of international business are no longer restricted to multinational enterprises (MNEs) but are also of concern for small to medium sized enterprises (SMEs) (Brewster and Scullion, 1997), international joint ventures (IJVs) (Child and Faulkner, 1998; Cyr, 1995; Cyr and Schneider, 1996; Lu and Bjorkman, 1997: Schuler 2001) and not-for-profit organizations (Lee and Brewster, 2005).

In the 1980s 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 international human resource management (IHRM) field as well as more critical discussion of whether this evolution has been towards an expanded field or represents a process of fragmentation. Globalization is a relevant process to understand the changing nature of businesses at level of industry, firm and function. Thus, globalization has been seen as a direct factor influencing firm's levels of international trade, intensity of international competition, product standardization, presence of international competitors in geographic markets, cost

drivers and location of value-adding activities (Johansson & Yip, 1994; Morrison and Roth, 1992). Firm-level globalisation studies consider factors such as foreign subsidiary sales, export sales, level of foreign assets, number of foreign subsidiaries, and level and dispersion of top managers international experience (Ramaswamy et al, 1996; Sullivan, 1994, 1996). Functional-level globalisation studies concentrate on different mechanisms of people, information, formalization or centralization-based integration, organization design features and attitudinal orientations (Kim & Gray, 2005). The changes in the ways of international operating companies have been managed in the last decades have implication on their HRM policies and practices.

Thus, this chapter explains and discusses the concepts and theories behind human resource management (HRM) and IHRM, as well as exploring the various concepts that may affect the ways HRM is utilised by MNEs. Additionally, we review and critically discuss the theoretical and empirical work that has been carried out to explain the differences in HRM in domestic and MNEs, highlighting the importance of understanding these differences when looking at the relationship between HRM and performance. Despite a wealth in existing literature, the field of international human resource management (IHRM) is changing rapidly and, arguably, theorising has not kept up with developments in practice.

The International Dimension of HRM

Since its inception, the human resources of an organisation are considered valuable assets that need to be handled efficiently and effectively in order to maximise returns from these assets (Collings, Wood & Szamosi, 2018). However, scholarly discussion used a number of definitions and interpretations for HRM. However, as the nature of businesses changes and ways of they manage their human resources change rapidly, a widely accepted definition of it is as yet to be formed (Guest, 1997; Paauwe and Boselie, 2005; Darwish et al. 2015), and the

definitions of HRM given by the different scholars differ depending on their approach and areas of interest.

Historically, the concept of HR as a management science originated in the USA in the 1960s and was further developed in the 1970s and early 1980s by changes in organisational planning and approaches towards employees. The shift towards the utilisation of HRM can be seen to have started in the late 1980s. With the introduction of HRM as a required subject on the MBA programme by the Harvard Business School in 1981, the concept has attained a great level of importance (Poole, 1990; Keenoy, 1990). As the concept of HRM sees people as valued resources in whom companies should invest in order to improve current performance and ensure future growth, Guest (1989) states that SHRM is the integration of HRM policies into strategic planning, to ensure the coherence of HRM policies applied by line managers in their everyday work. This is echoed in a definition of SHRM offered by Wright & McMahan (1992) where SHRM is the pattern of planned HR deployments and activities envisioned to support the organisation to achieve its goals as well as in definitions by Wright and Snell (1991) and Ulrich and Lake (1991) where the concept is seen as systems designed to ensure that people can be a sustainable source of competitive advantage linking both HR practices and business strategy.

Owing to the increasing importance of HRM in enterprises and the rapidly changing environment in which they operate, the concept is constantly evolving to keep up with the more complex needs. Two prominent concepts have been developed from the concept of HRM: Strategic Human Resource Management (SHRM) and International Human Resource Management (IHRM). The latter emerged from strong focus of companies to do business outside of their home countries. IHRM in international operating firms gas become a key success factor. For many of the MNEs and international SMEs the cost for their human resources is the largest single item of their operating costs. With the growing number of

international businesses, the knowledge and capabilities incorporated in a firm's human resources are critical to the business performance. Thus, HRM has been considered as a key element determining the competitiveness of the firm. For firms operating internationally, the level of complexity increases with the degree of international business activities.

The international orientation of the firm requires the active support of its deployed human resource management practices. The increasing economic interaction in the 21st century, the reducing barriers to labour mobility across the globe, and the development of new technologies have encouraged companies to establish international operations. As mentioned above, this trend is has not only been overserved in the private sector. Government and non-government organizations (NGOs) need to manage their employees around the world. For example, international organisations such as those in the United Nation (UN) or the International Labour Office (ILO) are heavily engaged in activities across national borders (Brewster and Lee, 2006).

Nonetheless, considerable attention has been directed towards HRM research in the WEIRD – western, educated, industrialized, rich, democratic – countries (Henrich, Heine, & Norenzayan, 2010). IHRM research underlies similar focus.

The context in this stream of international HRM is reflected in an over-representation of studies looking at Western developed-country MNEs transferring HRM practices to non-Western developing host-country settings. Studies on developing-country MNEs are also under-represented, although they have been increasing (e.g. Cooke, Wood & Horwitz, 2015; Haak-Saheem, Darwish, Festing, 2016; Tatoglu, Glaister & Demirbag, 2016).

In addition to the Western countries focused mainstream research, international business (IB) scholars therefore do not always ask the same questions of people management in international organisations. They tend to have their own perspective and views. However, it is

relevant to HRM researchers and practitioners to understand the IB perspectives as they inform our IHRM approach. There are few debates that are of relevance to the field of IB:

Globalisation

Globalisation is a phenomenon that has increased in importance throughout the late 20th century and even more so in the 21st century. It is still an ambiguous concept whose impact has been subject to much debate. These debates also include the process through which globalisation occurs and the different outcomes that result from this phenomenon.

There have been many definitions of globalisation, but most are ambiguous or inconsistent, and it is defined by scholars differently depending on their field. Scholars such as Todaro (1997) see it as the process through which the world increasingly functions as a single community rather than as many widely separated communities.

A certain ambiguity arises from the lack of a precise definition and this is highlighted in the way some authors used globalisation interchangeably with other similar concepts such as internationalisation and Westernisation. The situation is not helped by the many aspects of globalisation, which can range from political and economic aspects to sociological perspectives. Scholte (2000) observed a range of 8 different themes that summarise the areas where globalisation can occur:

- Global communications which include transportation and communications;
- Global markets which include products and organisational strategies;
- Global production which includes production chains and collection of resources;
- Global money which includes currencies and credit cards;
- Global finance which includes banking and foreign exchange markets;
- Global organisations which include NGOs and MNEs;
- Global social ecology which includes the atmosphere and geosphere;

- Global consciousness where the world is a single place and communities are closer.

When put into a more economic context, it can be seen as the process through which the consumer markets, production lines, labour, technology and investments can be seen as more globally integrated (O'Neil, 1991; Lall, 1999; Held *et al.*, 1999). As a result of globalisation, many organisations have to compete on a global scale rather than just focusing on regional markets, as was previously favoured (Bartlett and Ghoshal, 1998). It must be noted, however, that some argue that the majority of MNEs should and do compete strategically on a regional or even local basis (Ghemawat, 2005; Greenwald and Kahn, 2005; Rugman, 2003). Furthermore, authors such as Prahalad (1976), Doz (1979) and Bartlett and Ghoshal (1998) have stressed the importance of national responsiveness which takes into account the fact that customers in different markets do not have identical tastes and it would be strategically advantageous to adapt products tailored to the local demand.

This places new burdens on firms and organisations seeking to improve their competitiveness. As competition in their economic arenas increase, their ability to set prices decreases and this leads to situations where their profitability is increasingly dependent on their ability to cut the costs of inputs as well as enhancing their productivity. MNEs, which operate across national boundaries, are most susceptible to the forces of globalisation and are therefore more likely to implement more dominant global practices to enhance their competitiveness in the foreign markets in which they operate.

Country of origin

Research in the area of business systems has suggested that home country institutions heavily influence an MNE's behaviour and structure. For example, the level at which the MNE is embedded in the home country affects the transfer of operational modes, competencies and

frameworks, as they are developed there. This is important as the transfer of these developments to subsidiaries in the different host countries will need to take into account the level of organisational structures there as well as the level at which the country of origin needs to be mediated.

Internationalisation strategies are strategies employed by multinationals when headquarters handle subsidiaries and the different markets and situations where they operate. Following Bartlett and Ghoshal (1998), the main dimensions of internationalisation strategies involve 'global integration' which refers to the inter-dependence of subsidiaries and headquarters and the need to cater to local markets and other situational specificities. Corporate control is a huge concept but basically has two dimensions: the directness and explicitness of control, and the impersonality of control (see March and Simon, 1958; Lawrence and Lorsch, 1967; Child, 1973, 1984; Galbraith, 1973; Mintzberg, 1979, 1983; Hennart, 1991).

Considering MNEs' need to be both 'globally integrated' and 'locally responsive', they should be less clearly tied to a single context of origin as they may share ownership and utilise diverse human and capital resources. However, the style of HRM transfer very much depends on the country of origin itself, as can be seen on the basis of the ratio of invested capital and human resources inside the country of origin to those outside. Of the world's top 10 multinationals, only two are North American (not US enterprises), and the rest are European (Dowling and Welch, 2004). This is striking as the largest multinationals in the world are North American and a majority are from the US, but they are fewer in number than others in this case. This is supported by Bartlett & Ghoshal (1998) who found that European MNEs have high local responsiveness and low inter-dependence, while Japanese MNEs were the opposite. American MNEs fell between these two extremes.

Method of establishment

HRM transfer from the headquarters to a subsidiary can be an important indicator of the level of control held by the headquarters over the subsidiary. However, the MNE's ability to control its subsidiaries can also be affected by the ownership structure of the MNE or the level of ownership held in a particular subsidiary. The level of control exerted by the parent company is reflected in its choice of whether to have 'high control' which occurs in wholly owned subsidiaries or 'low control' establishment which happens in joint ventures in foreign markets (Kogut and Singh, 1988; Agarwal, 1994; Cho and Padmanabhan, 1995). The need for greater control over wholly-owned subsidiaries (WOS) than over joint ventures (JVs) is strongly related to the degree of resources committed to WOS compared to JVs. The greater level of control would mean the subsidiary adhering more closely to the MNE's standard of HRM practices rather following those of domestic enterprises.

Organisational culture

The issue of culture is not new. It has been explored as early as the 1930s and its prominence has increased due to the works of Hofstede (1980) who argues that culture is the 'collective programming' of a group that shares the same beliefs, assumptions and norms. Values as defined by Hofstede (2001) are "a broad tendency to prefer certain states of affairs over others" and are normally formed by social interactions in the early years of an individual's life. It is because of the importance placed on these values that many scholars have emphasised differences in culture as an increasingly important variable when looking at management, including HRM. These scholars believe that there are no universal solutions when it comes to solving problems that arise in management due to culture. Hofstede (2001) instead proposes distinct 'national economic cultures' which divide countries along an axis of his famous four (later five) cultural dimensions.

In general, due to the nature of their international engagement and activities, MNEs face competitive environments than domestic enterprises. The threat of competition arises from domestic enterprises, as well as from the affiliates of fellow MNEs, who often follow their rivals overseas to protect their markets (Porter, 1996). In order remain competitive, MNEs, it is argued, are always looking to excel in their operations to enhance their competitive advantage and to accordingly stay ahead of the competition. As a result, on issues of central importance, such as HRM, MNEs take a much more methodical and structured approach which, *a priori*, can be argued to be more rigorous than those in the local environment. Therefore, all MNEs need to be concerned, on an operational basis, with HRM issues on an international or global platform (Sparrow and Brewster, 2006).

Previous research argues, that HRM practices may differ across different countries because of certain tendencies that can be found in their laws, policies and the multiple cultures that may be inherent in them (Hofstede, 1993 Ferner, 1997; Zhang, 2003). Conflicts may occur when the parent and subsidiary face different and sometimes contradictory economic, social and political systems in the countries where they operate. Some parent enterprises will insist on pushing policies that reflect the views of headquarters as well as their own corporate culture (Di Maggio and Powell, 1983; Rosenzweig and Singh, 1991), which may be constrained by the host country environment. This will require these foreign enterprises to conform to local management practices and policies to implement their global strategies.

There are many examples of the wholesale adoption of parent company practices being seen as disadvantageous and inappropriate due to the differences between the cultures of the home and host countries (Trompennars, 1993; Shenkar & Von Glinlow, 1994; Cascio & Bailey, 1995). Therefore, subsidiaries of MNEs are faced with dual pressures: whether to be consistent with the rest of the MNE or to conform to the local environment (Hedlund, 1986; Porter, 1986; Bartlett and Ghoshal, 1998; Rosenzweig and Singh, 1991). It has also been seen

that the inherent cultures in a society may influence how the different HR practices are implemented in those countries.

However, there are many criticisms of the cultural approach. Scholars such as Rowley and Lewis (1996) see national cultures as complex systems that make the separation and comparison of the different cultural attributes difficult and dangerous. The cultural approach also emphasises history and individual perceptions whilst forgetting that these may change over time, as generations pass. Values on their own are also insufficient as it is necessary to look at values within the societal and economic structures of a society (Evans and Lorange, 1989; Whitehill, 1991).

International HRM

The concept of IHRM has followed a significant trend during the past quarter of a century, especially in North America (Schuler, 2000; Reynolds, 2001; Briscoe and Schuler, 2004; Schuler and Jackson, 2005; Stahl and Bjorkman, 2006).

Early research on international business assumed that there would be a general global organizational practice caused by isomorphism and that this would apply to HRM too (Kidger, 2002). Other scholars noted they internationalization of businesses, in fact, often regionalisation rather than globalized (Collinson &Rugman, 2008;

Shenkar & Luo, 2008). The focus of this research was on the particular advantages that firms gain from operating internationally. There has been a general understanding that MNEs would impose change on the host country –towards the US, 'best practice', model. Hence, firms were expected to focus on the standardisation side of the standardisation/ differentiation dilemma (Ashkenas, Ulrich, D., Jick & Kerr, 1995). Pressures to comply to local norms are seen as a limitation to be overcome and firms operate 'guided by unambiguous preferences' for standardization and with 'bounded rationality' (Gooderham Nordhaug & Ringdal, 1999: 507).

In a similar vein, research on IHRM assumes that MNCs tend to gain international advantage by diffusing what they see as the most efficient ways of handling HRM (normally the way it is done at head offices) in international locations (Myloni, Harzing & Mirza, 2007).

Accordingly, practitioners and scholars often consider that standardization of HRM practices as a winning strategy across the globe (Sparrow, Brewster & Harris, 2004). However, if internationally operating firms apply standard policies in different contexts, they will either spread modern practices around the world; or it will mean that they are applying inappropriate policies that will not achieve what they look for.

The policies may be standardized but there is a lot of evidence that practices are not. The literature is beginning to develop and investigate the argument that there is a distinction between HRM policies (set by the head office HRM experts), and HRM practices (utilized by managers how they treat the employees in foreign subsidiaries) (see e.g. Nishii, Khattab, Shemla & Paluch, 2018). In other words, even in the most centralised MNE there is a considerable variation in actual practices. Generally speaking, policies are in fact subject to a wide range of different responses from local managers and employees (Oliver, 1991). HRM policies get either explicitly or more often implicitly negotiated or varied at a national level (Ferner, 1997). Moreover, HRM is highly contextual (Baron & Kreps, 1999)

Therefore, literature on IHRM considers the differences in different countries Brewster, Mayrhofer and Morley, 2004). Clearly, these international differences mean that managing HRM across many countries will be different from managing HRM in only one country. Moreover, IHRM has been considered to have the same main dimensions as HRM in a national context but to operate on a larger scale, with more complex strategic considerations, more complex co-ordination and control demands, and some additional HR functions (Engle, Dowling & Festing, 2008). Hence, HRM in international operating firms are considered to

accommodate the need for greater operating unit diversity, more external stakeholder influence, higher levels of risk exposure, and more personal insight into employee's lives and family situation (Tarique & Schuler, 2010). The research focused on understanding those HR functions that changed when the firm went international. The literature has also begun to identify important contingencies that influenced how certain HR functions were internationalised; into which countries, the size and life cycle stage of the firm, types of employee, etc (Aycan, 2005).

The literature on IHRM has broadened its focus from a narrow view on the practical issues raised by relocating people around the world to more ambitious attempts to understand the strategic value of HR policies and practices within international organizations. Thus, the field has expanded from a focus on the management of expatriates (Mendenhall and Oddou 1985; Tung 1981) into a growing literature on international business strategy (Bartlett and Ghoshal 1989; Porter, 1996), examining issues of managing people in international organizations. Clearly, the field of IHRM has become substantially more important in every way because of globalisation as it relates to movement and change. It deals with the movement of goods, information and knowledge, as well as people and services, across borders, facilitated and accelerated by changes in every environment, from the economic and political to the social and cultural, as well as any advances in the technological and legal arenas. It is the characteristics of these conditions that are important for MNEs and IHRM. IHRM has its roots in the research conducted on MNEs and their tendency to utilise expatriates in subsidiaries, as well as the selection, training and managing of these employees (Dowling & Welch, 2004). And although expatriates remain an important part of MNEs' operations overseas, the scope of research has broadened from long-term expatriation to take into account the increasing portfolio of activities that an MNE could be involved in outside its home country.

There are other critical mechanisms that can be seen to affect coordination and control in MNEs. Organisations may choose many different paths in order to achieve the same results (Hendry & Pettigrew, 1992) as there are many linkages between the external environmental which includes the legal, socio-economic, political, technological and competitive environments, and the internal organisational culture which includes organisational culture and structure, leadership styles, technology and business output (Budwar & Debrah, 2001). Therefore, understanding the relationships between firms' international strategies and IHRM policies and practices are critical for the their international competitiveness.

Summary

In general, HRM focuses on people management policies and practices of organisations that operate across international boundaries. As this chapter illustrates, a key component of IHRM is the management of expatriates (Dowling, 1999) but the scope of IHRM is much wider (Brewster, Sparrow & Houldsworth, 2011)

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