

PART ONE
**The context of
international HRM**

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Introduction and background to international HRM

About this book

This book provides a comprehensive yet accessible case-based overview of international human resource management in a global context. By doing so, it makes a timely contribution by not only focusing on HRM in multinational companies, but more importantly, by also examining distinct national-level factors impacting on HRM at the local level. Beyond relevant cultural factors impacting on HRM at national level, the book also explicitly focuses on relevant institutional factors impacting on the nature of HRM across different national contexts. As Chapter 5 will show, these institutional factors, including employment legislation and the nationally distinct interplay between the three key actors (the state, trade unions and employers' associations) arguably continue to exert a strong influence at national level, hence leading to distinct HRM outcomes in different countries, often in close geographical proximity to one another.

As would naturally be expected with a textbook on international HRM, significant attention will be turned to the multinational enterprise and its role in 'diffusing' HR 'best practice' from the home country to the host countries within which it operates, either through wholly owned subsidiaries or via international joint ventures. Conventional approaches to IHRM have examined the issue of multinationals and diffusion of HRM practices mainly from the somewhat ethnocentric vantage point of western (mainly American) multinational companies and the extent to which they cascade their HRM practices 'downwards' to their subsidiaries (see for example Bjorkman and Lu, 2001). In contrast, due to changes in the tide, this book also examines the emergent phenomenon of firms from 'Eastern' as well as emerging economies transferring their HRM practices 'westwards' to subsidiaries in Europe and North America. For example, we will examine the way in which and the extent to which Japanese firms implement

Japanese systems of work organization and job design in mature (UK – see Chapter 5) and emerging (Brazil – see Chapter 12) economies.

Crucially, for a textbook on international HRM, this book contains case studies from numerous countries, including major economies such as the US, UK, China, India, Brazil, Hong Kong, Ghana and Germany.

Who is this book for?

Whether you might be studying an entire master's programme in international HRM, or just taking a module on HRM or international HRM, you are likely to find this book to be an accessible yet comprehensive companion as you engage with the international context of HRM as well as its key functional areas (such as recruitment, selection, reward, and employee engagement). Those taking an HRM or international HRM module as part of an MBA programme are likely to find the practical emphasis on real-life case studies from different countries stimulating and thought-provoking.

The remainder of this chapter provides a brief overview of the context of international HRM (IHRM).

Learning objectives

After reading this chapter, you should have an understanding of the following:

- the key forces (internationalization/transnationalization of business, globalization and free movement of capital) that have led to the development of IHRM;
- the various routes businesses may take towards internationalization and their implications for the IHRM function;
- the key challenges and opportunities emerging for practitioners of international human resource management.

The context of IHRM

Firms rarely start as truly multinational enterprises, but undergo a sometimes lengthy or sometimes brisk process of internationalization. This chapter therefore examines the processes by which firms internationalize, and the impact this has on the HRM function within the organization. In order to come to grips with the process of internationalization, we need

to understand some of the contextual developments (such as globalization) which facilitate the internationalization of businesses. This chapter therefore provides an introduction to the context within which IHRM takes place by highlighting first the changing context of international business and second, the way in which firms internationalize and what impact this process of internationalization has on HRM.

Why do firms internationalize?

One of the key reasons for firms to internationalize is to become more competitive by developing beneficial networks in other countries. Such networks may incorporate production and assembly, as well as sales and distribution. Of course, not all firms internationalize, and whether they do so depends on an array of factors that are internal and external to the firm. One key external factor is the type of industry within which the firm operates; in some industries, comparably greater benefits can be derived from circuits of capital and the new international division of labour (Hymer, 1982). This new international division of labour entails a shift in industrial production from *core* to *periphery*. The core in this context is a term used to describe the old established industrialized countries, whereas the periphery refers to the emerging economies where labour costs are cheaper. For manufacturing firms, for example, the potential benefits derived from shifting labour-intensive production processes to countries with cheaper labour costs are greater than for those firms that specialize in more knowledge-intensive activities. A well-known case in point for this is Apple and their global production value chain. Knowledge activities (such as research and development) have been retained in California, while the labour-intensive activities of production have been outsourced to supplier firms in China, such as the infamous Foxconn, where exceptionally appalling working conditions have recently been documented (see for example Ngai and Chan, 2012). Knowledge-intensive activities such as research and development can be retained in tech hubs in and around the Bay area in California where skilled workers command high wages, but relatively few of them are needed for the more abstract conceptual work associated with the design of new products.

International offshoring and outsourcing are both facilitated by the fact that it is becoming increasingly easy for companies to enter foreign markets. Globalization is viewed by many as an inevitable trajectory resulting from increasing functional integration of economic activities as well as increased geographical spread of economic activities (Dicken, 2015: 2). While organizations internationalize, governments, for reasons outlined in more depth below, are increasingly opening their markets to foreign investment in order to speed up economic growth. With few exceptions (examples of some of which will be provided later in the chapter), firms in most countries compete in a global market. Trade barriers to entering foreign markets are being gradually eroded. An exemplar of this is the international civil aviation industry (see below). As a result of an increasingly free

movement of capital and labour, global competition for goods and services has increased. As a direct result of this, industrialized economies such as the UK and the US have seen jobs in labour-intensive manufacturing sectors such as car production and steel shift to emerging economies, initially to South Korea, but more recently to China and India. This has led to a very different dynamism between 'mature' and emerging markets. Governments in advanced industrial economies (mature markets where labour costs are high) are implementing austerity and labour market reforms to cheapen the cost of labour, and making the terms and conditions on which workers can be hired more employer friendly in attempts to become more competitive with emerging markets. At the same time, emerging economies, notably the 'BRIC' (Brazil, Russia, India and China) have sustained comparably strong GDP growth rates over the past two to three decades, and with rising inflation have seen an increase in labour costs too. India's year-on-year GDP growth rate between 2015 and 2016, for example, was a staggering 7.6 per cent in comparison to only 2.4 per cent in the US and 2.3 per cent in the UK (World Bank, 2017).

As Chapter 3 will highlight in more depth, globalization does not necessarily mean that the above trajectory is inevitable. In fact, the very term 'globalization' needs to be carefully unpicked for clarity regarding the extent to which we view it in *empirical* or *ideological* terms (Dicken, 2015). In empirical terms, we are merely analysing the changes as well as key trends and patterns associated with certain measures of globalization such as the 'transnationality index' provided annually by the United Nations Conference on Trade and Development (UNCTAD). Engaging with globalization in ideological terms is quite different insofar as it involves actively advocating the aforementioned changes (for example through the erosion of trade barriers through deregulation/liberalization of markets). The following case study provides an example of how national governments, in the case of civil aviation, liberalized an industry that was, until recently, heavily regulated in most countries.

CASE STUDY Deregulation and the global civil aviation industry

The airline industry has traditionally been highly regulated, with a complicated series of national and international restrictions on landing rights in different countries. Until the 1970s, all countries had restrictions in place that limited the ability of foreign airlines to use their national airports to carry passengers to another country. The main purpose of these restrictions was to protect national airlines (often state-owned carriers) from cheaper foreign competition in order to preserve jobs and employment terms and conditions at these carriers, as governments were well aware of the threat of foreign airlines (particularly from

countries with lower labour costs) encroaching into the market share of their national carriers by undercutting their prices. Throughout the 1970s and 1980s, the political climate began to change, with the pro-market Ronald Reagan and Margaret Thatcher administrations introducing neo-liberal reforms (ie reforms which seek to remove government restrictions on the free market forces of supply and demand) to the US and the UK respectively. The United States and some European countries such as the Netherlands and the United Kingdom were among the first nations in the world to loosen the traditionally restrictive bilateral air services agreements and move towards what is known today as 'open skies' (Doganis, 2006: 31). The first agreement between the Netherlands and the United States saw the removal of government ability to intervene in matters of capacity, pricing and frequency of flights. This meant, for example, that Americans on flights to Europe via Amsterdam benefitted from stronger competition, as Dutch airlines such as KLM were now able to compete on these routes as well. This agreement put pressure on other European nations to follow suit. After all, countries like Germany and the UK sought to maintain the significance of their international hubs (London Heathrow Airport and Frankfurt Airport respectively) and avoid losing transatlantic travel to Amsterdam. One of the most liberal European bilateral agreements was soon signed between the Netherlands and the UK in 1983. This agreement essentially allowed airlines from both countries full open-route access, removing previous restrictions on points that could be served in each country by the other country's airlines. The result of such liberalization is clearly quantifiable in terms of air fares. Prior to 1983, the cheapest return fare on the London-to-Amsterdam route was an advance fare of £85, with only three discounted alternatives to choose from. Within two years of the new agreement, the cheapest fare was £55, with 22 alternatives to choose from (Doganis, 2006: 35).

The case of the international civil aviation industry illustrates both why governments may seek to protect their markets (preservation of state-owned companies and their jobs) as well as why they liberalize markets (opening to foreign competition and cheapening products and services for the consumer).

The field of IHRM: approaches and level of analysis

The field of international human resource management can be subdivided into three distinct approaches on the basis of their level of analysis, namely the macro (national/regional), meso (enterprise) and micro (individual employee) levels.

Macro level

At the macro level, there is the approach of **comparative HRM**. This is primarily *descriptive* insofar as it describes what is going on in different countries. That is, it examines key similarities and differences between HRM systems in different countries, regions and industrial clusters; it examines HRM at the country and regional level rather than at the individual or enterprise level. It therefore entails an analysis of contextual factors (for example employment systems) as well as relevant institutional factors such as national-level employment legislation and vocational education and training systems and the impact these factors have on HRM within organizations operating in these countries. This approach will be outlined in more depth in Chapter 5.

Meso level

At the meso level (ie company level), the discipline of **international HRM** seeks to understand the impact of a company's international operations on HRM. Contrary to comparative HRM, it seeks to understand what goes on within transnational or multinational enterprises rather than the extent to which external circumstances (such as the institutional factors mentioned above) influence their practices. This approach places more emphasis on functional areas of HRM such as the management of employee voice (eg whether organizations choose to work with or bypass collective bargaining in the form of trade unions and/or works councils) as well as international staffing (ie the factors influencing a firm's decision on who to send for international assignments and the type of pre-assignment training provided). IHRM is underpinned by the assumption that HR practitioners in MNCs have significant capacity to make decisions and act independently of institutional factors, which comparative HRM tends to consider as more binding. Moreover, IHRM tends to be more prescriptive than the comparative approach. In other words, IHRM not only describes key differences in HRM systems in different countries, but tends to offer advice regarding 'best practice' for practitioners. For example, with regards to international staffing, empirical contributions from the IHRM discipline (see for example Scullion and Collings, 2006) not only describe the reasons why international assignments fail, but also offer advice on how to minimize the failure rate of expatriate appointments. Such 'best practice', including pre-screening of candidates for international assignments as well as cross-cultural training, will be discussed in more depth in Chapters 3 and 4 of this book. While the IHRM approach focuses on the firm (meso) level of analysis, it also touches to some extent on the micro (individual) level, for example by dealing with individual (employee-level) psychological factors that may determine effectiveness of expatriates. Nonetheless, there is a significant standalone approach to understanding HRM across cultures, namely that of 'cross-cultural management'.

Micro Level

At the micro level (ie individual employee, group or team level), cross-cultural management has a different approach to IHRM. Rather than describing practices of MNEs, it examines various practices (such as cross-cultural negotiation, communication and teamworking) from the perspective of managers and/or employees. Many scholars in the field of cross-cultural management come from an occupational psychology perspective, which again highlights the role of the individual as a level of analysis. Key contributions to the field of cross-cultural management will be discussed in Chapter 2 of this book.

Reflective questions

- 1 How would you describe the field of IHRM in your own words?
- 2 Revisiting the three aforementioned approaches (comparative and international HRM, as well as cross-cultural management), what in your view are some of the key strengths and weaknesses of each approach? Which one do you believe most closely reflects your idea of how IHRM ought to be studied?

Structure of this book

This book is structured in order to provide a logical progression through key contextual factors influencing IHRM activity.

Chapters 2–6 all contribute to your understanding of the context (both culturally and institutionally) within which IHRM activity takes place, and some of the opportunities and constraints IHRM practitioners need to take into consideration when operating across different countries.

Chapter 2 (the cultural context) discusses some of the relevant cultural frameworks that underpin differences in HRM between different countries.

Chapter 3 (leading and managing across cultures) considers some of the critical success factors of sustainable cross-cultural leadership development, highlighted by two case studies from the global fashion industry.

Chapter 4 (cross-cultural communication) assesses the role of cultural differences in communication in multinational companies (MNCs), particularly

in the context of expatriate work in international management, as well as some of the methods to mitigate cultural obstacles (such as cross-cultural training). This is demonstrated by a case study using empirical evidence from subsidiaries in Ghana.

Chapter 5 (the institutional context of IHRM) examines some of the key institutional factors that may account for differences in HRM patterns and practices across different national contexts. Factors discussed in Chapter 5 and highlighted by two case studies will include more tangible (also known as ‘hard’) institutional factors such as legislation on collective bargaining and minimum standards for training and development, as well as ‘softer’ background institutions such as inter-country differences in customs on rewarding seniority in organizations.

Chapter 6 (global labour governance) seeks to shed some light on the key reasons behind the emergence of a global labour governance regime, and the role played by institutional, structural and political factors in shaping the local impact of global labour norms in various countries, including the Latin American world.

Chapters 7–12 then focus on some of the key functional areas of IHRM activity, ie those practices which IHRM practitioners are likely to deal with on a day-to-day basis.

Chapter 7 (international recruitment, selection and talent management) looks at some of the key processes associated with attracting, recruiting and retaining talent, and the role of employer branding in ensuring that the organization is appealing to potential applicants. Some of the relevant theories and ‘best practice’ will be applied to various international organizations such as Skullcandy in China.

Chapter 8 (international staffing in multinational companies) then discusses the key decisions multinational companies (MNCs) need to make when staffing their overseas subsidiaries, and some of the best practices to ensure that their international assignees can integrate in their host country. These practices include language and culture training amongst other factors. Case study evidence will be presented from a study with expatriates and managers at MNC subsidiaries in Ghana.

Chapter 9 (international reward) then focuses on one of the major functional areas of HRM, namely the discipline (or perhaps art) of remunerating people fairly within organizations and, in the case of IHRM in multinationals, consistently across countries. This chapter considers reward beyond pay, and discusses the relative value placed on different extrinsic (mainly

monetary) but also intrinsic (intangible/unquantifiable rewards more focused on the nature of work and the job itself) such as flexibility and autonomy at work. A case study on a Chinese travel agency's implementation of flexible working will highlight some of the cultural obstacles potentially faced when trying to universally adopt 'western' HRM practices in other countries.

Chapter 10 (international training, development and workforce skills) looks at some of the key inter-country differences in training practices and workforce skills development. We will examine the role of vocational education and training in coordinated market economies such as Germany and compare the outcomes in terms of workforce skills with those countries (such as the US and UK), where a larger proportion of young people opt for general education, and what these differences mean for firms seeking competitive advantage in various sectors, both in manufacturing and services. Chapter 5 (the institutional context of IHRM) provides a useful introduction to the 'varieties of capitalism' debate (Hall and Soskice, 2001), and Chapter 10 will briefly discuss the key features of this framework that can be considered relevant to workforce training and development.

Chapter 11 (international employee relations) then looks at the issue of employee voice in organizations and beyond from an international perspective. The chapter will look at different forms of employee voice, different sources of employee bargaining power in the employment relationship, and how globalization has transformed the employment relationship. The latter point is tied together with a case study on civil aviation, which is an industry that is both an antecedent and consequence of globalization.

Chapter 12 (work organization and job design across national contexts) will deal with key global changes to the organization of work in production and services over the past century, and look at some of the recent trends in the organization of work in manufacturing. A case study on the Brazilian automotive industry will examine the extent to which successful models of work organization can be transferred from their country of origin (Japan in the case study) to emerging economies (as in the case of Brazil).

Chapter 13 concludes the book by bringing together some of the key overarching findings of the preceding chapters and by looking at the likely future opportunities and challenges for IHRM practitioners. Globalization is of course one of the key macro-level trends the chapter will deal with, but it will also examine some of the counter trends such as a global political landscape that is becoming increasingly hostile to globalization. We will also look at some of the recent counter-trends to the consequences of globalization, such as the increasing 'reshoring' of services and manufacturing to mature industrial economies such as the UK and US, where wages and labour costs have

been stagnant for the last decade or so while those in emerging economies such as China have been rapidly catching up.

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