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International HRM

INTERNATIONAL HRM DEFINED

International human resource management is the process of employing, developing and rewarding people in international or global organizations. It involves the world-wide management of people, not just the management of expatriates.

An international firm is one in which operations take place in subsidiaries over-seas, which rely on the business expertise or manufacturing capacity of the parent company. International firms may be highly centralized with tight controls. A multi-national firm is one in which a number of businesses in different countries are managed as a whole from the centre. The degree of autonomy they have will vary. Global firms offer products or services that are rationalized and standardized to enable production or provision to be carried out locally in a cost-efficient way. Their subsidiaries are not subject to rigid control except over the quality and presentation of the product or service. They rely on the technical know-how of the parent company, but carry out their own manufacturing, service delivery or distribution activities.

ISSUES IN INTERNATIONAL HRM

Bartlett and Goshal (1991) argue that the main issue for multinational companies is

the need to manage the challenges of global efficiency and multinational flexibility – 'the ability of an organization to manage the risks and exploit the opportunities that arise from the diversity and volatility of the global environment'. The dilemma facing all multinational corporations is that of achieving a balance between international consistency and local autonomy. Laurent (1986) commented that:

> In order to build, maintain and develop the corporate identity, multinational organizations need to strive for consistency in their ways of managing people on a worldwide basis. Yet, and in order to be effective locally, they also need to adapt those ways to the specific cultural requirements of different societies. While the global nature of business may call for increased consistency, the variety of cultural environments may be calling for differentiation.

International HRM involves a number of issues not present when the activities of the firm are confined to one country. These issues comprise the variety of international organizational models that exist, the extent to which HRM policy and practice should vary in different countries (convergence or divergence), the problems of managing in different cultures and environments, and the approaches used to select, deploy, develop and reward expatriates who could be nationals of the parent company or 'third-country nationals' (TCNs) – nationals of countries other than the parent company who work abroad in subsidiaries of that company.

INTERNATIONAL ORGANIZATIONAL MODELS

Four international organizational models have been identified by Bartlett and Goshal (1993):

1. *Decentralized federation* in which each national unit is managed as a separate entity that seeks to optimize its performance in the local environment. This is the traditional multinational corporation.
2. *Coordinated federation* in which the centre develops sophisticated management systems enabling it to maintain overall control, although scope is given to local management to adopt practices that recognize local market conditions.
3. *Centralized hub* in which the focus is on the global market rather than on local markets. Such organizations are truly global rather than multinational, which is the case when adopting a federated approach.
4. *Transnational* in which the corporation develops multi-dimensional strategic capabilities directed towards competing globally but also allows local responsiveness to market requirements.

Perkins and Hendry (1999) argue that notwithstanding this fourfold model, international firms seem to be polarizing around two organizational approaches: 1) regionalization, where local customer service is important; and 2) global business streams, which involve setting up centrally controlled business segments that deal with a related range of products worldwide.

CONVERGENCE AND DIVERGENCE

An issue facing all international firms is the extent to which their HR policies should either 'converge' worldwide to be basically the same in each location, or 'diverge' to be differentiated in response to local requirements. There is a natural tendency for managerial traditions in the parent company to shape the nature of key decisions, but there are strong arguments for giving as much local autonomy as possible in order to ensure that local requirements are sufficiently taken into account.

As noted by Adler and Ghader (1990), organizations have to follow very different HRM policies and practices according to the relevant stage of international corporate evolution: domestic, international, multinational and global. Harris and Brewster (1999) refer to this as 'the global/local dilemma', the issue being the extent to which operating units across the world are to be differentiated and at the same time integrated, controlled and coordinated. They suggest that the alternative strategies are the global approach in which the company's culture predominates and HRM is centralized and relatively standardized (an 'ethnocentric' policy), or the decentralized approach in which HRM responsibility is devolved to subsidiaries. They state that the factors affecting choice are:

● the extent to which there are well-defined local norms;
● the degree to which an operating unit is embedded in the local environment;
● the strength of the flow of resources – finance, information and people – between the parent and the subsidiary;
● the orientation of the parent to control;
● the nature of the industry – the extent to which it is primarily a domestic industry at local level;
● the specific organizational competences including HRM that are critical for achieving competitive advantage in a global environment.

Brewster (2004) believes that convergence may be increasing as a result of the power of the markets, the importance of cost, quality and productivity pressures, the emergence of transaction cost economies and the development of like-minded international cadres. The widespread practice of benchmarking 'best practice' may have contributed to convergence.

However, Brewster considers that European firms at least are so locked into their respective national institutional settings that no common model is likely to emerge in the foreseeable future. Since HR systems reflect national institutional contexts and cultures, they do not respond readily to the imperatives of technology or the market. Managers in each country operate within a national institutional context and share a set of cultural assumptions. Neither institutions nor cultures change quickly and rarely in ways that are the same as other countries. As Hofstede (1980) points out, it follows that managers in one country behave in a way that is noticeably different from managers in other countries.

Brewster (2004) concludes on the basis of his research that there is some convergence in Europe in the general direction of developments (directional convergence) such as the decreasing size of the HR function, increases in training and development and the increasing provision of information about strategy and finances. But there is little evidence of final convergence in the sense of companies becoming more alike in the way in which they manage their human resources.

Developing an international approach

Laurent (1986) proposes that a truly international approach to human resource management would require the following steps:

1. An explicit recognition by the parent organization that its own peculiar ways of managing human resources reflect some of the assumptions and values of its home culture.
2. An explicit recognition by the parent organization that its peculiar ways are neither universally better nor worse than others, but are different and likely to exhibit strengths and weaknesses, particularly abroad.
3. An explicit recognition by the parent organization that its foreign subsidiaries may have other preferred ways of managing people that are neither intrinsically better nor worse, but could possibly be more effective locally.
4. Willingness from headquarters not only to acknowledge cultural differences, but also to take action in order to make them discussable and therefore useable.
5. The building of a genuine belief by all parties that more creative and effective ways of managing people could be developed as a result of cross-cultural learning.

CULTURAL DIVERSITY

Cultural and environmental diversity is a key issue in international HRM. As Haley (1999) remarks:

In cultures where people are emphasized, it is the quality of interpersonal relationships which is important. In cultures where ideologies are emphasized, sharing common beliefs is more important than group membership. In cultures where action is emphasized, what is done is more important than what is said.

Hofstede (1980) emphasizes that there are a number of cultural dimensions that affect international operations. His framework has been adapted by Bento and Ferreira (1992) to produce the following cultural dualities:

- equality versus inequality;
- certainty versus uncertainty;
- controllability versus uncontrollability;
- individualism versus collectivism;
- materialistic versus personalization.

Sparrow and Hiltrop (1997) note the following HR areas that may be affected by national culture:

- decisions on what makes an effective manager;
- giving face-to-face feedback;
- readiness to accept international assignments;
- pay systems and different concepts of social justice;
- approaches to organizational structuring and strategic dynamics.

Harris *et al* (2003) provide the following instance of cultural differences:

A performance management system based on openness between manager and subordinate, each explaining plainly how they feel the other has done well or badly in the job, may work in some European countries, but is unlikely to fit with the greater hierarchical assumptions and 'loss of face' fears of some of the Pacific countries.

Sparrow (1999a) gives examples of different approaches to managerial qualities. The Anglo-Saxon sees management as something separate and definable, based on general and transferable skills, especially interpersonal skills. In Germany, an entirely opposite view is adopted: value is placed on entrepreneurial skills, technical competence, functional expertise and creativity, and managers rely more on formal authority than in other European countries. In France, management is seen as an intellectually demanding task and management development systems are elitist.

Brewster (1999) comments that the 'universalistic' approach to HRM prevalent in the USA is rejected in Europe where the basic functions of HRM are given different

weights between countries and are carried out differently. If a convergent and therefore universalistic approach is adopted by a US international company, it might be difficult to get it accepted in Europe. Divergences to respect cultural differences may be more appropriate if the full potential of the overseas company is to be realized.

THINK GLOBALLY AND ACT LOCALLY

The cultural differences mentioned above have produced the slogan 'think globally and act locally'. This means that an international balancing act is required, which leads to the fundamental assumption made by Bartlett and Ghoshal (1991) that: 'Balancing the needs of co-ordination, control and autonomy and maintaining the appropriate balance are critical to the success of the multinational company.'

Ulrich (1998) suggests that to achieve this balancing act, there are six capabilities that enable firms to integrate and concentrate international activities and also separate and adopt local activities:

1. being able to determine core activities and non-core activities;
2. achieving consistency while allowing flexibility;
3. building global brand equity while honouring local customs;
4. obtaining leverage (bigger is better) while achieving focus (smaller is better);
5. sharing learning and creating new knowledge;
6. engendering a global perspective while ensuring local accountability.

INTERNATIONAL HR POLICIES

International HR policies will deal with the extent to which there should be convergence or divergence in the HR practices adopted in overseas subsidiaries or units. These will have to take account of differences in employment law, the character of the labour market, different employee relations processes and any cultural differences in the ways in which people are treated.

MANAGING EXPATRIATES

The management of expatriates is a major factor determining success or failure in an international business. Expatriates are expensive; they can cost three or four times as

much as the employment of the same individual at home. They are difficult to manage because of the problems associated with adapting to and working in unfamiliar environments, concerns about their development and careers, difficulties encountered when they re-enter their parent company after an overseas assignment, and how they should be remunerated. Policies to address all these issues are required, as described below.

Resourcing policies

The challenge is that of resourcing international operations with people of the right calibre. As Perkins (1997) points out, it is necessary for businesses to 'remain competitive with their employment offering in the market place, to attract and retain high quality staff with worldwide capabilities'.

Policies are required on the employment of local nationals and the use of expatriates for long periods or shorter assignments. The advantages of employing local nationals are that they:

● are familiar with local markets, the local communities, the cultural setting and the local economy;
● speak the local language and are culturally assimilated;
● can take a long-term view and contribute for a long period (as distinct from expatriates who are likely to take a short-term perspective);
● do not take the patronizing (neo-colonial) attitude that expatriates sometimes adopt.

Expatriates (nationals of the parent company or third-country nationals) may be required to provide the experience and expertise that local nationals lack, at least for the time being. But there is much to be said for a long-term resourcing policy that states that the aim is to fill all or the great majority of posts with local people. Parent companies who staff their overseas subsidiaries with local nationals always have the scope to 'parachute in' specialist staff to deal with particular issues such as the start-up of a new product or service.

Recruitment and selection policies

Policies for recruitment and selection should deal with specifying requirements, providing realistic previews and preparation for overseas assignments.

Role specifications

Role specifications should take note of the behaviours required for those who work internationally. Leblanc (2001) suggested that they should be able to:

- recognize the diversity of overseas countries;
- accept differences between countries as a fact and adjust to these differences effectively;
- tolerate and adjust to local conditions;
- cope in the long term with a large variety of foreign contexts;
- manage local operations and personnel abroad effectively;
- gain acceptance as a representative of one's company abroad;
- obtain and interpret information about foreign national contexts (institutions, legislations, practices, market specifics, etc);
- inform and communicate effectively with a foreign environment about the home company's policies;
- take into account the foreign environment when negotiating contracts and partnerships;
- identify and accept adjustments to basic product specifications in order to meet the needs of the foreign market;
- develop elements of a common framework for company strategies, policies and operations;
- accept that the practices that will operate best in an overseas environment will not necessarily be the same as the company's 'home' practices.

Realistic previews

At interviews for candidates from outside the organization, and when talking to internal staff about the possibility of an overseas assignment, it is advisable to have a policy of providing a realistic preview of the job. The preview should provide information on the overseas operation, any special features of the work, what will need to be done to adjust to local conditions, career progression overseas, re-entry policy on completion of the assignment, pay, and special benefits such as home leave and children's education.

Preparation policy

The preparation policy for overseas assignments should include the provision of cultural familiarization for the country(ies) in which the expatriate will work (sometimes called 'acculturization'), the preferred approach to leading and working in international teams, and the business and HR policies that will apply.

Training

Tarique and Calligiri (1995) propose that the following steps should be taken to design a training programme for expatriates:

1. Identify the type of global assignment, eg technical, functional, tactical, developmental or strategic/executive.
2. Conduct a cross-cultural training needs analysis covering organizational analysis and requirements, assignment analysis of key tasks and individual analysis of skills.
3. Establish training goals and measures – cognitive (eg understanding the role of cultural values and norms) and affective (modifying perception about culture and increasing confidence in dealing with individual behaviours to form adaptive behaviours such as interpersonal skills).
4. Develop the programme – the content should cover both general and specific cultural orientation; a variety of methods should be used.
5. Evaluate training given.

Assimilation and review policies

Assimilation policies will provide for the adaptation of expatriates to overseas posts and their progress in them to be monitored and reviewed. This may take the form of conventional performance management processes, but additional information may be provided on potential and the ability of individuals to cope with overseas conditions. Where a number of expatriates are employed it is customary for someone at headquarters to have the responsibility of looking after them.

Re-entry policies

Re-entry policies should be designed to minimize the problems that can arise when expatriates return to their parent company after an overseas posting. They want to be assured that they will be given a position appropriate to their qualifications, and they will be concerned about their careers, suspecting that their overseas experience will not be taken into account. Policies should allow time for expatriates to adjust. The provision of mentors or counsellors is desirable.

Pay and allowances policies

The factors that are likely to impact on the design of reward systems as suggested by Bradley *et al* (1999) are the corporate culture of the multinational enterprise, expatriate and local labour markets, local cultural sensitivities and legal and institutional

factors. They refer to the choice that has to be made between seeking internal consistency by developing common reward policies in order to facilitate the movement of employees across borders and preserve internal equity, and responding to pressures to conform to local practices. But they point out that: 'Studies of cultural differences suggest that reward system design and management need to be tailored to local values to enhance the performance of overseas operations.' As Sparrow (1999b) asserts: 'Differences in international reward are not just a consequence of cultural differences, but also of differences in international influences, national business systems and the role and competence of managers in the sphere of HRM.'

The policy of most organizations is to ensure that expatriates are no worse off because they have been posted abroad. In practice, various additional allowances or payments, such as hardship allowances, mean that they are usually better off financially than if they had stayed at home. The basic choice is whether to adopt a home-based or host-based policy for expatriates.

Home-based pay

The home-based pay approach aims to ensure that the value of the salary of expatriates is the same as in their home country. The home-base salary may be a notional one for long-term assignments (ie the salary which it is assumed would be paid to expatriates were they employed in a job of equivalent level at the parent company). For shorter-term assignments it may be the actual salary of the individual. The notional or actual home-base salary is used as the foundation upon which the total remuneration package is built. This is sometimes called the 'build-up' or 'balance sheet' approach.

The salary 'build-up' starts with the actual or notional home-base salary. To it is added a cost of living adjustment, which is applied to 'spendable income' – the portion of salary that would be used at home for everyday living. It usually excludes income tax, social security, pensions and insurance and can exclude discretionary expenditure on major purchases or holidays on the grounds that these do not constitute day-to-day living expenses.

The expatriate's salary would then consist of the actual or notional home-base salary plus the cost of living adjustment. In addition, it may be necessary to adjust salaries to take account of the host country's tax regime in order to achieve tax equalization. Moves of less than a year that might give rise to double taxation require particular attention.

Some or all of the following allowances may be added to this salary:

- 'incentive to work abroad' premium;
- hardship and location;

- housing and utilities;
- school fees;
- 'rest and recuperation' leave.

Host-based pay

The host-based pay approach provides expatriates with salaries and benefits such as company cars and holidays that are in line with those given to nationals of the host country in similar jobs. This method ensures equity between expatriates and host country nationals. It is adopted by companies using the so-called 'market rate' system, which ensures that the salaries of expatriates match the market levels of pay in the host country.

Companies using the host-based approach commonly pay additional allowances such as school fees, accommodation and medical insurance. They may also fund long-term benefits like social security, life assurance and pensions from home.

The host-based method is certainly equitable from the viewpoint of local nationals, and it can be less expensive than home-based pay. But it may be much less attractive as an inducement for employees to work abroad, especially in unpleasant locations, and it can be difficult to collect market rate data locally to provide a basis for setting pay levels.