

HRM, strategy and the global context

LEARNING OUTCOMES

By the end of this chapter, readers should be able to:

- advise senior managers about how to recognise and respond to a wide range of stakeholder influences on business and HR strategies to enhance organisational and individual performance
- demonstrate an ethical and professional approach to HRM taking into account its multiple meanings
- contribute to recommendations about how organisations manage HR both in the UK and overseas.

In addition, readers should understand and be able to explain:

- the competing meanings of the term 'strategy', and their implications for HRM
- the nature and importance of ethics, professionalism and diversity and their contribution to the business and moral case for HRM
- the basis on which HR policies are established in multinational organisations due to the influence of home- and host-country factors.

INTRODUCTION

HRM is now often seen as the major factor differentiating between successful and unsuccessful organisations, more important than technology or finance in achieving competitive advantage. This is particularly pertinent in the service sector where workers are the primary source of contact with customers, either face-to-face in a service encounter or over the telephone or the Internet. Even in manufacturing firms the way in which human resources are managed is seen as an increasingly critical component in the production process, primarily in terms of quality and reliability. Much of this revolves around the extent to which workers are prepared to use their discretion to improve products and services. In this argument a particular style of HRM is envisaged: one that can be broadly termed the 'high commitment' model.

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But HRM – as the management of employment – can take many forms in practice and it may vary between organisations and the occupational group that is targeted. There have been major debates about precisely what is meant by HRM, how it differs from personnel management and industrial relations, and in the extent to which it is seen to serve employer objectives alone rather than aiming to satisfy the expectations of other stakeholders. This means that HRM cannot be analysed in isolation from the wider strategic objectives of employers and measured against these, specifically the need to satisfy shareholders or (in the public sector) government and societal demands for efficiency and effectiveness. However, strategy itself is also a multidimensional concept and, despite common usage of the term, it is more complex than the simple military analogy implies. Strategies emerge within organisations rather than being set merely by senior managers (generals) and cascaded down the hierarchy by more junior managers to the workers (the troops). Moreover, as we show graphically in Chapters 1 and 2, strategies are also influenced by wider societal objectives, legislative and political frameworks, social and economic institutions, and a range of different stakeholder interests. This is most apparent when we analyse the way in which multinational companies (MNCs) operate in different countries and how the interplay between home- and host-country influences shapes HRM. In short, although this book examines HRM, it has to be viewed in relation to organisational strategies, labour market contexts and wider institutional forces. This chapter examines the first of these – the interplay between HRM, strategy and globalisation – while Chapter 2 reviews some of the forces beyond the individual organisation that shape HRM at work.

THE MEANINGS OF HRM

HRM is still a relatively new area of study that is seeking to gain credibility in comparison with more established academic disciplines – such as economics, psychology, sociology and law – which have a much longer history. HRM is often contrasted with industrial relations and personnel management, with the former laying claim to represent the theoretical basis of the subject while the latter is viewed as the practical and prescriptive homeland for issues concerning the management of people. In addition, there are so many variants of HRM it is easy to find slippage in its use, especially when critics are comparing the apparent *rhetoric* of ‘high commitment’ HRM with the so-called *reality* of life in organisations that manage by fear and cost-cutting (Keenoy 1990; Caldwell 2003). Similarly, HRM often attracts criticism because it can never fully satisfy business imperatives or the drive for employee well-being. Because the remainder of the book explores issues such as these in depth, we focus here on a brief résumé of the main strands of the subject. In the concluding section of the chapter we outline what we see as the main components of HRM.

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THE ORIGINS OF HRM IN THE USA

There is little doubt that the HRM terminology originated in the USA subsequent to the human relations movement. According to Kaufman (2007, pp33–4), the term first appeared in the textbook literature from the mid-1960s, specifically in relation to the specialist function which was interchangeably termed ‘personnel’ or ‘human resources’. What really helped HRM to take root a couple of decades later, however, was the Harvard framework developed by Beer *et al* (1985). Here, HRM was contrasted with ‘personnel’ and ‘industrial relations’; the latter were conceptualised as reactive, piecemeal, part of a command-and-control agenda, and short-term in nature, whereas HRM was seen as proactive, integrative, part of an employee commitment perspective and long-term in focus. In line with this perspective, human resources were perceived as an asset and not as a cost. The Harvard framework consists of six basic components. These are:

- 1 *situational factors*, such as workforce characteristics, management philosophy and labour market conditions, which combine to shape the environment within which organisations operate
- 2 *stakeholder interests*, such as the compromises and tradeoffs that occur between the owners of the enterprise and its employees and the unions. This makes the Beer *et al* framework much less unitarist than some of the other models (Bratton and Gold 2007, p.23)
- 3 *HRM policy choices*, in the areas of employee influence, HR flow, reward systems and work systems. Employee influence is seen as the most important of these four areas, again making this model somewhat different from some other versions of HRM
- 4 *HR outcomes*, in terms of what are termed the ‘4Cs’ – commitment, competence, cost effectiveness and congruence. This incorporates issues connected with trust, motivation and skills, and it is argued that greater employee influence in the affairs of the company is likely to foster greater congruence (Beer *et al*, 1985, p.37)
- 5 *long-term consequences*, such as individual well-being, organisational effectiveness and societal goals. Unlike many other models of HRM, this framework is explicit in recognising the role that employers play in helping to achieve wider societal goals such as employment and growth
- 6 *a feedback loop*, which is the final component in the framework, demonstrating that it is not conceived as a simple, unilinear set of relationships between the different components.

A key feature of the Harvard approach is that it treats HRM as an entire system, and it is the combination of HR practices that is important. As Allen and Wright (2007, p.91) note: ‘This led to a focus on how the different HRM sub-functions could be aligned and work together to accomplish the goals of HRM.’ The issue is taken up in detail in Chapter 3, and is often referred to as *horizontal* alignment or integration. While acknowledging the role for alternative stakeholder interests – including government and the community – this framework is essentially positivist because it assumes a dominant direction of influence from broader

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situational and stakeholder interests through to HR outcomes and long-term consequences. In reality, the relationship is much more complex and fragmented as employers are unable to make policy choices in such a structured way, especially if they operate in networks of firms up and down supply chains or across national boundaries.

The other main school of thought which developed in the USA was the matching model (Fombrun *et al*, 1984). This emphasises the links between organisational strategy and specific HR practices, concentrating on *vertical* rather than horizontal alignment. The HR practices are categorised into selection, development, appraisal and reward. The human resource cycle – as the four components are known – are tied together in terms of how effectively they deliver improved performance. In Devanna *et al*'s (1984, p.41) words:

Performance is a function of all the HR components: selecting people who are the best able to perform the jobs defined by the structure; appraising their performance to facilitate the equitable distribution of rewards; motivating employees by linking rewards to high levels of performance; and developing employees to enhance their current performance at work as well as to prepare them to perform in positions they may hold in the future.

The focus is on ensuring that there is a 'match' or 'fit' between overall organisational goals and the way in which its people should be managed. The approach to rewards, for example, is expected to vary dependent on strategy; it is suggested that a single-product firm would deal with this in an unsystematic and paternalistic manner while a diversified firm would operate through large bonuses based on profitability and subjective assessments about contribution to company performance. With regard to selection, the criteria used range from the subjective to the standardised and systematic depending on the strategy and structure of the firm (Devanna *et al*, 1984, pp38–9). It is essentially a unitarist analysis of HRM whereby the management of people is 'read-off' from broader organisational objectives. No account is taken of the interests of different stakeholders nor is there much room for strategic choice (Bratton and Gold, 2007, p22). This is considered more fully in Chapter 4. It should be noted at this stage that both these models were derived within the context of developed countries operating within an Anglo-Saxon business environment, thus raising questions about their applicability to very different cultures.

THE EMERGENCE OF HRM IN THE UK

Interest in HRM in the UK – both as an academic subject and a source of interest for practitioners – developed in the late 1980s, and contributions have come from a plurality of disciplinary backgrounds. Drawing on Bach and Sisson (2000) and developing their categorisation, it is possible to identify four different traditions:

- *prescriptive* – This used to be the dominant approach in the literature, stemming from the domain of personnel management, and it examined and prescribed the 'best' tools and techniques for use by practitioners. It was essentially vocational in character, although the universal prescriptions that

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were put forward had much greater resonance in large firms with well-staffed personnel functions. In line with the US literature, its underpinning values were essentially unitarist, assuming that workers and employers could work together, wherever possible, to achieve mutual gains within the framework of traditional hierarchical and capitalist relations. Within the prescriptive tradition personnel tended to be seen as an intermediary between the harsher extremes of cost-driven business goals and the needs and motivations of workers.

- *labour process* – This contrasted sharply with the benevolent, yet paternalist, image of the prescriptive tradition, and focused on HRM as an implicit or explicit device to control and subjugate labour. While helping, initially at least, to introduce more critical accounts of HRM, and later providing a more nuanced and more subjective understanding of how organisations work, it tended to critique management for everything it did. In the more extreme cases it assumed that managers' sole objective in life was to control and manipulate workers, rather than meet production or service targets laid down by senior management. Although the HR function might appear as a human face, according to critics that made it even more dangerous because workers could be conned into meeting targets that essentially only helped the organisation to meet its goals – and ultimately operated to the detriment of workers' objectives.
- *industrial relations* – Within this tradition, HRM was seen as 'part of a system of employment regulation in which internal and external influences shape the management of the employment relationship' (Bach and Sisson, 2000, p.8). Using both detailed case study and quantitative techniques, often from the Workplace Employee Relations Surveys, students have analysed HRM *in practice* in order to develop our understanding of the main elements of the employment relationship. Although crucially bringing in a pluralist perspective on HRM, this tended to focus on collective aspects of the employment relationship, and in particular view all forms of employment – including non-union firms – against the template of a unionised environment.
- *organisational psychology* – Although common in the USA, the contribution from this tradition has become more significant in the UK as scholars analyse HR issues connected with selection, appraisal, learning and development, and the psychological contract. As we see throughout this book, this tradition has been at the forefront of studies examining the links between various aspects of HR strategy and practice and employee outcome measures such as commitment and satisfaction. In contradistinction to the industrial relations tradition, this approach tends to downplay notions of conflict and resistance, as well as overlook the realities of HRM at the workplace.

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REFLECTIVE ACTIVITY

What does HRM mean to you? Is it solely the specialist function or is it part of the role of every manager who has responsibilities for supervising staff?

Is it realistic to conceive of HRM as potentially capable of producing mutual gains, or is

it merely a device to ensnare workers into accepting management plans just because they are delivered with a human face?

Work in groups to consider these questions and the contrasting traditions which underpin HRM.

The British debate initially focused on the distinction between ‘hard’ and ‘soft’ models of HRM (Storey, 1989; Legge, 1995). The ‘hard’ model – as with Fombrun *et al*’s approach – stresses the links between business and HR strategies and the crucial importance of a tight fit between the two. From this perspective, the human resource is seen as similar to all other resources – land and capital, for example – being used as management sees fit. Under this scenario, which stresses the ‘resource’ aspect of HRM, there is no pretence that labour has anything other than commodity status even though it may be treated well if the conditions are conducive – that is, when it is in short supply or it is central to the achievement of organisational objectives. Broadly, however, it would downplay the role of industrial relations – such as procedures for dealing with redundancy – because they reduce employer flexibility to select on the basis of who they think is most/least valuable to the organisation.

By contrast, the ‘soft’ model focuses on the management of ‘resourceful humans’, assuming that employees are valued assets and a source of competitive advantage through their skills and abilities. Within this conception of HRM, there is one best way to manage staff, and this requires managers to engender commitment and loyalty in order to ensure high levels of performance. Storey (2001, p.6) defines the soft version in the following way:

HRM is a distinctive approach to employment management which seeks to achieve competitive advantage through the strategic deployment of a highly committed and capable workforce using an array of cultural, structural and personnel techniques.

Whereas the ‘hard’ model allows for a range of different styles, the ‘soft’ variant argues that one style is superior to all others in promoting levels of employee motivation, commitment and satisfaction that are necessary for excellent performance. In short, HRM can be viewed as a particular *style* of managing that is capable of being measured and defined, as well as compared against the template of an ideal model.

The soft/high commitment version of HRM has attracted a lot of interest, as we see in Chapter 3, especially for those seeking links between HRM and performance. Although important at the time, it also stimulated what might now be seen as a series of somewhat sterile debates about whether the management

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of employment equates more closely with HRM or with industrial relations and personnel management. For example, Guest (1987) differentiated between personnel and HRM in terms of how they viewed the psychological contract, locus of control, employee relations, organising principles and policy goals. HRM was seen to incorporate a more organic, flexible, bottom-up and decentralised approach than personnel management, which relied on mechanistic, formal rules delivered in a top-down and centralised manner. Storey (1992) compared HRM with personnel management and industrial relations, identifying 27 points of difference between the two in terms of beliefs and assumptions, strategic aspects, line management and key levers. Broadly, HRM – again seen as a distinct style – was regarded as less bureaucratic, more strategic, more integrated with business objectives, and substantially devolved to line managers. The key elements of the HRM model are outlined in the box below.

HRM AT WORK IN FOCUS



Storey's model of HRM

Beliefs and assumptions

- The human resource gives organisations a competitive edge.
- Employee commitment is more important than mere compliance.
- Careful selection and development are central to HRM.

Strategic qualities

- HR decisions are of strategic importance.
- Senior managers must be involved in HRM.
- HR policies need to be integrated into business strategy.

Critical role for line managers

- HR is too important to be left to personnel specialists alone.

- Line managers need to be closely involved as deliverers and drivers of HR.
- The management of managers is critically important.

Key levers

- Managing culture is more important than procedures and systems.
- Horizontal integration between different HR practices is essential.
- Jobs need to be designed to allow devolved responsibility and empowerment.

Source: Adapted from Storey J. (ed.) (2007) *Human Resource Management: A critical text*, 3rd edition. London, Thomson, p9

An evidently key feature of the Storey model is the significance given to the role of line managers rather than the HR function, and this makes sense in that HRM is essentially embedded at workplace level in interactions between members of staff (individually or collectively) and their supervisors. Because of this he argues that HRM is fundamentally concerned with the *management* of managers, with their training and development, their selection via the use of sophisticated techniques, and with their performance management and career development, as opposed to that of the people who work for them (Storey, 2007, p.10). As we see in Chapter 5, the way in which HR work is divided up between line managers

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and HR specialists (where they are employed) can have a sizeable impact on the success of HR initiatives. Unlike some of the more positive and celebratory accounts of how HRM can make the difference, Storey (2007, p.17) accepts that HRM is no panacea; no set of employment practices ever will be. But as a persuasive account of the logic underpinning choice in certain organisations and as an aspirational pathway for others, it is an idea worthy of examination.



Who needs workers and HRM?

HRM AT WORK IN FOCUS

The problem with employees is everything. You have to pay to hire them and you have to pay to fire them, and in between you have to pay them. They arrive with no useful skills, and once you've trained them, they leave. And don't expect gratitude! If they are not taking sick leave, they're requesting compassionate leave. They talk about unions. They want raises. They want management to notice when they do a good job. They want to know what's going to happen in the next corporate reorganisation.

The truly flexible company does not employ people at all. This is the siren song of outsourcing, the seductiveness of the sub-contract. Just try out the words – *no employees*. A company without employees would be a wondrous thing.

The above is adapted from *Company*, by Max Barry (2006), a novel about a hypothetical organisation which does things in different ways, published by Vintage Books, New York. It is a really good book to read in order to get an alternative view of the HR function and how organisations might operate under a different set of rules.

BUSINESS AND CORPORATE STRATEGIES

THE CLASSICAL PERSPECTIVE

Most definitions of strategy in the business and management field stem initially from the work of Chandler (1962), who argued that the structure of an organisation flowed from its growth strategy. Since then there have been major differences of opinion about the extent to which a strategy is deliberate or emergent, and about the extent to which organisations are able to determine strategies without taking into account wider societal trends and forces, and in particular the economic, legal and political frameworks within the countries in which they are located. Of course, some large multinational companies are able to exercise influence beyond national boundaries, and actually affect the development of policy within countries, but this amount of power is usually reserved for a small number of global players. The reality for most organisations is that strategic choices are shaped by forces beyond their immediate control. Nevertheless, organisations do have some room for manoeuvre to create their own strategies for the business.

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Grant (2008, p.4), one of the leading US texts, makes it clear that

strategy is about winning . . . [It] is not a detailed plan or programme of instructions; it is a unifying theme that gives coherence and direction to the actions and decisions of an individual or an organisation.

The best-known British text on the subject (Johnson *et al*, 2005, p.9) defines strategy as:

the direction and scope of an organisation over the long term, which achieves advantage in a changing environment through its configuration of resources and competences with the aim of fulfilling stakeholder expectations.

Drawing on these two definitions (Grant, 2008, pp7–11; Johnson *et al*, 2005, pp6–9), the principal elements of ‘strategy’, in the classical sense of the word, are:

- 1 Establishing the *long-term* direction of the organisation, looking a number of years ahead and attempting to identify the product markets and geographical locations in which the business is most likely to survive and prosper. Goals need to be simple, consistent and long-term, and they need to be pursued with a single-minded commitment. The chosen strategy has clear implications for HR policy and practice, as well as for the types of workers needed in future. Of course, shocks to the system – such as major new inventions, political upheaval or changes in the nature of the working population or demography – may disrupt strategic plans, but without them organisations are likely to be rudderless. Shifts in decisions about the long-term direction of an organisation can impact heavily on HRM. For example, a move to manufacture products in a different country has major implications for future employment. Similarly, an influx of migrant workers might provide new sources of highly qualified and/or cheap labour which can lead to changes in the organisation’s goals.
- 2 Driving the organisation forward to achieve *sustained competitive advantage*. This may emerge through the creation of new products or services or in providing better value in a way that can be sustained even if competitors also take advantage of similar gains or move in other equally or more profitable directions. In HR terms this may lead to decisions about whether higher levels of performance are more likely from a quality enhancement or innovation route or one that focuses almost exclusively on cost reduction. This has implications for the type of labour that is required in the organisation, and in situations where there is a shortage of skills it may prevent employers from attaining their overall goals. Moreover, as Boxall and Purcell (2008, p.37) note, other organisations do not stand still but also adapt continuously to achieve their own competitive advantage. Staying ahead of the game is thus critical.
- 3 Determining the *scope* of the organisation’s activities, in terms of whether it chooses to remain primarily in one sector and line of business or diversify into other areas. This can be done so as to spread risk by creating a balanced portfolio or seeking success from growing markets and higher-profit-margin products. Decisions are also required to determine geographical market coverage. Each of these different strategies has HR implications, for example in

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terms of the type of staff required or the extent to which services are provided by in-house personnel or subcontracted labour. Decisions concerning scope centre on the boundaries of organisations, and ultimately power differences between organisations up and down the supply chain can have a significant impact both on business decisions and HR practices. This means that decisions about HRM may be beyond the control of an individual employer, either due to pressures from a powerful customer such as a large food retailer or because decisions are taken to set up joint ventures between organisations (Marchington *et al*, 2005).

- 4 *Matching* their internal resources and activities to the environments in which the organisation operates so as to achieve strategic fit. This requires an assessment of internal strengths and weaknesses as well as external opportunities and threats (SWOT) in order to decide how best to design the organisation to meet current and future needs. Grant (2008, pp12–13) argues that the best-equipped strategists have a profound understanding of the competitive environment and are able concurrently to systematically appraise the resources available to them. He actually prefers the use of an internal–external categorisation to the SWOT analysis because it prevents an arbitrary classification into strengths and weaknesses versus opportunities and threats. In HR terms, major problems can occur if not enough adequately qualified and trained staff have been employed to enable the organisation to meet its strategic objectives and satisfy customer demand. However, because other organisations are also trying to achieve this match, they may poach the best staff, so compounding the problem.
- 5 Recognising that top-level decisions have major implications for *operational* activities, especially when there is a merger or takeover, a joint venture or public–private partnership, or even a change in the organisation’s strategic direction following a review of its activities. Grant (2008) particularly emphasises the need for effective implementation because if operational activities cannot adapt to new strategic goals, competitive advantage is hardly likely to flow. For example, deciding to grow the business through the creation of an IT-led customer service model will fail if HR issues have not been properly considered, and there are not enough staff to receive calls or they are poorly trained. One of the biggest problems in any large organisation, especially one that operates across a number of different product areas, is determining the most appropriate structures and systems to put strategies into effect.
- 6 Appreciating that the *values and expectations* of senior decision-makers play a sizeable part in the development of strategy because it is how they choose to interpret advice about external and internal resources that ultimately shapes strategic decisions (Lovas and Ghoshal, 2000). Although many organisations within the same market choose to follow a similar path, some may decide to differentiate themselves from the competition by adopting different strategies. This may or may not appear ‘logical’ from a rationalist perspective, but entrepreneurs typically mould organisations in their own image. In HR terms their attitudes towards trade unions or the employment of people with criminal

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records, for example, may set them apart from the rest of the market. Decisions about whether or not to establish an HR function may also be influenced by past experience, as Finegold and Frenkel (2006) found in their comparative study of bio-tech firms; this is dealt with in more detail in Chapter 4. There can be problems here as well, especially when a founder refuses to shift from his or her preferred position or a family-owned firm decides or is forced to bring in professional managers from outside.

Within this perspective, strategy is seen to operate at three levels. *Corporate* strategy relates to the overall scope of the organisation, its structures and financing, and the distribution of resources between its different constituent parts. *Business* or *competitive* strategy refers to how the organisation competes in a given market, its approaches to product development and to customers. *Operational* strategies are concerned with how the various subunits – marketing, finance, manufacturing and so on – contribute to the higher level strategies. HRM would be seen as an element at this third level, but it is rare for texts on strategy to pay much attention to HRM issues – for example, Johnson *et al* (2005) devote about ten pages to people and organisations, while Grant (2008) allocates just one page to HRM.

The traditional top-down perspective, in which it is assumed that strategies are formulated by boards of directors and then cascaded down the organisation, represents the dominant view of strategy in most published literature on the subject, and it is derived from military roots. Lundy and Cowling (1996, p.16) note that the dictionary definition of strategy conveys this: ‘the art of war, general-ship, especially the art of directing military movements so as to secure the most advantageous positions and combinations of forces’. Quinn (1988) suggests there are four dimensions to formal strategy:

- information, policies to guide or limit action, and action sequences to be accomplished
- the development of a few key concepts that need to be balanced and co-ordinated
- strength and flexibility to deal with uncertain events
- a supportive and cohesive hierarchy of mutually supporting strategies.

In short, the classical version of strategy relies upon an image of detached senior managers who determine the best plans for deploying workers to achieve victory over the competition in chosen market situations.

ALTERNATIVE PERSPECTIVES ON STRATEGY

The ‘classical’ model is not the only way to analyse strategy, however (Hussey 1998), and an alternative approach put forward by writers such as Quinn and Mintzberg treats strategy as *emergent* rather than deliberate. Quinn (1980, p.58) regards the most effective strategies as those that tend to ‘emerge step by step from an iterative process in which the organisation probes the future, experiments, and learns from a series of partial (incremental) commitments

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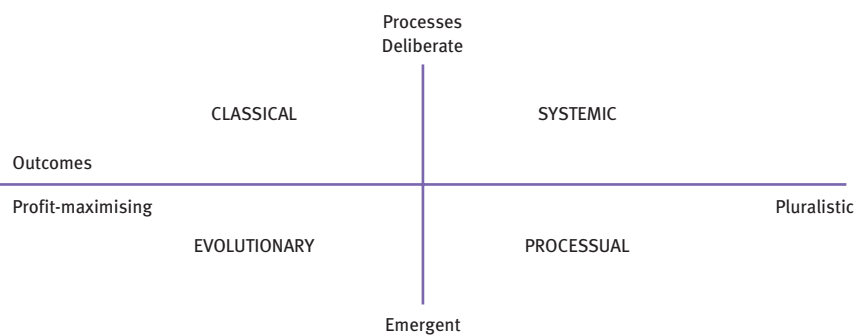
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rather than through a global formulation of total strategies.' Quite rightly this casts doubt on the perspective that organisations make decisions on the basis of cold, clinical assessments in an 'objective' manner. Decisions are taken by people whose own subjective preferences and judgements clearly influence outcomes. Mistakes are made for a variety of reasons, and conditions change so as to render decisions that seemed sensible at the time totally inappropriate at a later date. Interpersonal political tensions and battles also play a major part in the outcome of decision-making processes within organisations. Mintzberg's (1987) notion of strategy being 'crafted' evokes ideas of skill and judgement, as well as people working together to make sense of confusing situations before reaching a conclusion that appears to offer a way forward. Of course, neither the classical nor the emergent perspective is correct in its entirety. Mintzberg and his colleagues (1998, p.11) have suggested that strategies are neither purely deliberate nor purely emergent as 'one means no learning, the other means no control. All real-world strategies need to mix these in some ways; to exercise some control while fostering learning.' Deliberate and emergent strategies form the poles of a continuum along which actual practice falls (Stiles, 2001). Moreover, as we see below, strategy is sometimes used as a device for rationalising and legitimising decisions after they have been made.

Whittington's (1993) fourfold typology – shown in Figure 1 – is extremely useful in helping us to understand the complex and multidimensional ways in which strategy might be conceived. It is based upon distinctions between the degree to which outcomes are perceived purely in either profit-maximising or pluralistic terms, and the extent to which strategy formulation is seen as either deliberate or emergent. The four types are:

- *Classical* (profit-maximising, deliberate) – As we have seen, under this conception, strategy is portrayed as a rational process of deliberate calculation and analysis, undertaken by senior managers who survey the external environment searching for ways in which to maximise profits and gain

Figure 1 Whittington's typology of strategy



Source: Adapted from Whittington R. (1993) *What Is Strategy and Does It Matter?* London, Routledge

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competitive advantage. It is characterised as non-political, the product of honest endeavour by managers who have nothing but the organisation's interests at heart, and who are able to remain above the day-to-day skirmishes that typify life at lower levels in the hierarchy. The image conveyed is that senior managers are independent professionals who make decisions in the interests of all stakeholders. Using the military analogy by separating formulation from implementation, Whittington (1993, pp15–17) notes that 'plans are conceived in the general's tent, overlooking the battlefield but sufficiently detached for safety . . . the actual carrying-out of orders is relatively unproblematic, assured by military discipline and obedience.' The classical view of strategy leaves little room for choice when devising HR plans because these are operational matters, which assume there is 'one best way' to manage people.

- *Evolutionary* (profit-maximising, emergent) – From this angle, strategy is seen as a product of market forces, in which the most efficient and productive organisations succeed. Drawing on notions of population ecology, 'the most appropriate strategies within a given market emerge as competitive processes allow the relatively better performers to survive while the weaker performers are squeezed out and go to the wall' (Legge, 2005, p.136). For evolutionists 'strategy can be a dangerous delusion' (Whittington, 1993, p.20). Taken to its extreme, it could be argued there is little point in planning a deliberate strategy since winners and losers will be 'picked' by a process of natural selection that is beyond the influence of senior managers. They might, however, see some advantage in keeping their options open and learning how to adapt to changing customer demands, a process that Lovas and Ghoshal (2000) refer to as 'guided evolution.' Under this scenario, the maintenance of flexible systems, whether in HRM or elsewhere, is an important component of competitive advantage. Boxall and Purcell (2008, pp37–9) make the very useful differentiation between the problem of viability (remaining in business) and the problem of sustained advantage (playing in the 'higher-level tournament' through superior performance). Since so much of the debate about strategy focuses on the latter, this is a very useful corrective; we return to this issue in Chapter 4.
- *Processual* (pluralistic, emergent) – This view stems from an assumption that people are 'too limited in their understanding, wandering in their attention, and careless in their actions to unite around and then carry through a perfectly calculated plan' (Whittington, 1993, p.4). There are at least two essential features to this perspective. First, as Mintzberg (1978) argues, strategies tend to evolve through a process of discussion and disagreement that involves managers at different levels in an organisation, and in some cases it is impossible to specify a precise strategy until after the event. Indeed, actions may only come to be defined as strategies with the benefit of hindsight, by a process of post hoc rationalisation in which events appear carefully planned in retrospect. Quinn's (1980) notion of 'logical incrementalism', the idea that strategy emerges in a fragmented and largely intuitive manner, evolving from a combination of internal decisions and external events, fits well with this perspective. Second, the processual view takes a micropolitical perspective, acknowledging that organisations are beset with tensions and contradictions, with rivalries and conflicting goals, and with behaviours that seek to achieve

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personal or departmental objectives (Pettigrew, 1973; Marchington *et al*, 1993). Strategic plans may be worth little in reality but they help to give some credibility to decisions, as well as forming a security blanket for decision-makers who operate with severely bounded knowledge about future events. From this perspective, strategy can never be perfect and, as Whittington (1993, p.27) notes, it is 'by recognising and accommodating real-world imperfections that managers can be most effective' rather than naively following a classical version of strategy that does not exist in practice.

- *Systemic* (pluralistic, deliberate) – The final perspective follows Granovetter (1985) in suggesting that strategy is shaped by the social system in which it is embedded – factors such as class, gender, legal regulations and educational systems play a major part – often subconsciously – in influencing the way in which employers and workers behave. From this perspective, strategic choices are governed not so much by the cognitive limitations of the actors involved but by the cultural and institutional interests of a broader society. For example, institutional forces in countries such as France and Germany shaped HRM rather differently from the way they did in Anglo-Saxon countries such as Britain and the USA (Lane, 1989; Ferner and Quintanilla, 1998; Rubery and Grimshaw, 2003), although at least in Germany these differences are now less clear-cut. Additionally, Whittington (1993, p.30) argues that the very notion of 'strategy' may be culturally bounded because it arose in the particular conditions of post-war North America. In other countries, the dominant perspective may be that the fate of organisations is pre-ordained and therefore unaffected by managerial actions, or it could be based upon philosophies that regard the provision of continuing work for families and local communities as much more desirable than short-term gains for shareholders. A further advantage of viewing strategy from this perspective is that it highlights how – under the classical approach – management actions are legitimised by reference to external forces, so cloaking 'managerial power in the culturally acceptable clothing of science and objectivity' (p.37). Ultimately, the systemic perspective challenges the universality of any single model of strategy (and HRM, for that matter) and demonstrates the importance of seeing organisational goals in the context of the countries and cultures in which they are located; 'strategy must be sociologically sensitive' (p.39).



REFLECTIVE ACTIVITY

Discuss these competing versions of strategy with colleagues from other organisations,

cultures or societies, and then try to take a fresh look at your original views.

It should be apparent that seeing strategy in different ways suggests interesting implications for how we view its links with HRM. Under the *classical* perspective this is unproblematic, merely a matter of making the right decision and then cascading this through the managerial hierarchy to shopfloor or office workers,

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who then snap into action to meet organisational goals. The *evolutionary* view complicates the situation, in that it puts a primacy upon market forces and the perceived need for organisations (which are seen in unitarist terms) to respond quickly and effectively to customer demands. This introduces notions of power and flexibility into the equation compared with notions of objectivity that underpin the classical perspective. The two pluralist perspectives take it for granted that organisational life is contested. The *processual* perspective demonstrate the barriers to fully fledged vertical integration in practice, whether this be due to tensions within management or to challenges which may be mounted by workers. Under this scenario, HRM styles also emerge in a fragmented and uneven manner, influenced by the relative power and influence of the HR function compared with other parts of senior management. The *systemic* perspective forces us to look beyond the level of the employing organisation and be aware that employers are not generally free to determine their own strategies in many situations. Problems are bound to arise if critical social norms or cultural traditions are ignored or it is assumed that HR practices that work in one country can be parachuted automatically into others. Indeed, as Paauwe (2004, pp170–3) shows clearly in his study of a US firm operating in the USA and the Netherlands, planned change was typical in the former, whereas in the Dutch plants ample room was allowed for employee influence and for changes in the content of decisions during the process. These points are borne in mind in Chapter 4 because most of the models assume the predominance of classical perspectives on strategy.

STAKEHOLDERS, CORPORATE RESPONSIBILITY AND DIVERSITY

THE BALANCED SCORECARD

Strategy is not simply about financial returns to shareholders but also involves a rather wider base of stakeholders that includes customers, local communities, the environment, and of course workers. We take a similar line to Paauwe (2004) in stressing that HRM is different from other managerial functions because of its professional and moral base, and – in some countries more than others – its rejection of the simplistic view that people are merely a means to achieve greater corporate profits and shareholder returns. This is not to deny it is important for people to make an effective contribution to organisational goals but to note that trust and integrity are also critically important elements in how HRM is practised at work.

In a series of publications Kaplan and Norton (1996) argue that traditional approaches to management accounting focus on short-term financial performance and shareholder value alone. Instead, firms must take into account the longer-term needs and expectations of other stakeholders and the way in which they are linked to organisational goals. They suggest (1996) that there should be a balance between four perspectives on business performance:

- how to appear to our shareholders to achieve financial success (*financial*)

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- how to satisfy our shareholders and customers through the choice of excellent business processes (*internal business processes*)
- how to appear to our customers to achieve our vision (*customers*)
- how to sustain our ability to change and improve in order to achieve the vision (*learning and growth*).

It will be seen there is no specific category for employees within the scorecard but they figure principally within the learning and growth perspective. This is in terms of the strategic skills and knowledge of the workforce to support strategy and in the cultural shifts required to motivate, empower and align the workforce behind the strategy (Boxall and Purcell, 2008, p.299). In other words, the balanced scorecard does not specifically suggest that employees are stakeholders in their own right, but only in so far as they can enhance customer satisfaction and financial performance through their ability to support business strategy – not through any moral perspective. The balanced scorecard used by Philips is provided in Johnson *et al* (2005, p.420), and this shows clearly the ‘employee’ factor is limited to two metrics: training days per employee, and participation in quality improvement teams. Despite this, Kaplan and Norton (1996, p.75) feel the scorecard enables ‘companies to track financial results while simultaneously monitoring progress in building the capabilities and acquiring the intangible assets they would need for future growth. The scorecard wasn’t a replacement for financial measures; it was their complement.’ Evidence from an IRS survey (*IRS Employment Review* 796a, 2004, p.14) shows that only a minority of organisations make use of balanced scorecards but that those that do seem to be enthusiasts, especially from amongst the HR community.

While accepting it is helpful to try to integrate ‘key HR performance drivers into the strategic management framework’, Boxall and Purcell (2008, pp303–7) are concerned that the balanced scorecard approach does not go far enough in relation to HRM. There are two major concerns. First, HRM is not just about satisfying corporate objectives but also relates to social legitimacy in terms of compliance with labour laws and the provision of policies which build long-run succession and development opportunities for managers and workers. Second, the balanced scorecard tends to assume that certain HR practices, in particular incentive pay systems, are universally effective in promoting better performance. By contrast, they argue that the alignment of employer and employee interests depends greatly on the circumstances and the institutional regimes within which organisations operate, and that what might appear highly appropriate in a US context could well prove counterproductive in another. Moreover, it could be argued that the balanced scorecard approach includes additional processes merely in terms of their contribution to improved performance. It is very ‘top-down’ in its approach; for example, a key feature is communicating and educating the vision, HR processes that are seen as important in ensuring that all employees understand the strategy and the ‘critical objectives they have to meet if the strategy is to succeed’ (Kaplan and Norton, 1996, p.80). Similarly, some of the organisations they studied were solely interested in employee morale because of its links with customer satisfaction. Nothing is wrong with these objectives, but

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they are hardly 'alternative' in the sense of seeking to satisfy needs for equality at work or in addressing issues of corporate responsibility. Maltz *et al* (2003, p.197) have attempted to rectify the lack of focus on the employee strand of the balanced scorecard by including a 'people development' dimension that explicitly recognises the critical role of employees in organisational success.

There have also been some attempts to develop HR scorecards as a means of measuring the return on investment in HR programmes, specifically in terms of the value created by deliverables and the control of costs through more efficient operations (Sparrow *et al*, 2004, p.170). These tend to rely on a similar range of metrics to those used in other approaches, basically relying on factors that impact directly on organisational performance – such as labour turnover, absence levels and productivity. An alternative – the *real* balanced HRM scorecard – is proposed by Paauwe (2004). This starts from the stance that HR specialists cannot focus solely on organisational criteria such as efficiency, effectiveness and flexibility, and that – like Legge's deviant innovator which we discuss in Chapter 5 – they should be prepared to risk unpopularity by questioning the short-term approaches that are so widespread in business. He argues (p.184) that 'other appropriate criteria are those of fairness (in the exchange relationship between the individual and the organisation) and legitimacy (the relation between society and organisation)'. The 4logic HRM scorecard that Paauwe (pp194–208) develops consists of four components – strategic, professional, societal and delivery. The professional and societal logics comprise factors such as the following:

- providing assurance and trust about financial reporting of organisations
- maximising both tangible and intangible rewards to employees
- delivering reliable information to works council members
- offering information and individual help to employees
- safeguarding fairness in management–worker relations.

During the early part of this century, there was extensive interest in the idea of human capital reporting, stimulated by the Kingsmill Report, *Accounting for People* (2003), and the requirement that by 2006 quoted companies would have to provide a 'high-level strategic commentary on a range of issues that includes the people dimension' (*IRS Employment Review* 802, 2004, p.12). Not unusually for the UK, there were tensions between members on the Kingsmill Task Force about whether organisations should be given flexibility to select from a wide menu of measures that reflected their own circumstances or prescribed a common core of areas in order to ensure rigour and comparability (Kingsmill, 2003, p.14). The type of information companies would have been required to report on is presented in the box below.

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Accounting for people: some key questions

HRM AT WORK IN FOCUS

Information on the size and composition of the workforce

- What strategic trends are affecting the size of the workforce, either overall or in particular geographic areas or occupational groups?
- Are the age, gender and ethnic profiles of its workforce appropriate for the strategy it is pursuing?

Information on retention and motivation of employees

- Is the level of staff turnover 'efficient' in terms of the business strategy or it too high or too low to achieve the desired balance between new blood and experience?
- Do indicators of possible lack of engagement point to a lack of 'buy-in' to the organisation's strategy and what are the implications for the organisation's ability to pursue that strategy?

Information on training and the fit between skills and business needs

- How does the skills base relate to current and future business needs?

- How do actual and planned training and development contribute?

Information on remuneration and employment practices

- What is the structure of remuneration and do the resulting differentials fit with the business strategy?
- How does the organisation satisfy itself that it does not discriminate unfairly in pay and employment?

Information on leadership and succession planning

- What are the leadership skills and characteristics needed to implement the strategy the organisation is pursuing?
- What initiatives does the organisation have to develop future leadership internally, and how successful are these?

Source: Adapted from *Accounting for People: Report of the Task Force on Human Capital Management*, presented to the Secretary of State for Trade and Industry, October 2003, pp17–19

Ultimately, in late 2005, the government decided not to make it mandatory to require an HR component in corporate reporting, although some organisations have pursued human capital reporting. For example, the CIPD (2006a, p.11) outlines the measures used by Centrica. These include return on investment for training; cost of absence; cost of resignations; employee engagement, annual pay audits, and diversity and inclusion. At the same time, the Companies Act 2006 has focused attention on a wider notion of stakeholders (Pendleton and Deakin, 2007). For example, directors are required in good faith to promote the success of the company 'for the benefit of its members as a whole' with regard to factors such as the interests of the company's employees, its impact on the environment, its business relationships with suppliers and customers, and to act fairly between the members of the company. Of course, this can be interpreted widely, and it is entirely feasible that actions to promote the success of the company for the benefit of all its members could include redundancies in order to maintain organisational viability.

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PRIVATE EQUITY FIRMS

Although there are examples of organisations, in both the public and the private sectors, that are keen to be more transparent in reporting what they do, and show evidence that they are taking HR seriously, there has also been a challenge to greater transparency and the idea of high commitment HRM by the increased role that private equity firms (PEFs) are playing in the UK and elsewhere. Whereas some PEFs are actually the result of management buy-outs, in which individual managers and workers employed by the firm prior to its collapse or sale bought a controlling interest in it, others – and the ones that are of relevance here – arise through buy-outs by an *external* source. Media interest has focused on these sorts of firms due to the high returns individuals gain from controlling PEFs and the low level of tax they pay, as well as on high-profile cases such as that involving Sainsbury's. PEFs now control firms employing vast numbers of workers. Clark (2007) estimates it is 2.8 million – about 20% of private sector employment – while Thornton (2007) reckons it is about half this number. Either way, a significant number of workers are employed by these types of organisation. Some of the firms currently owned by PEFs are household names – Alliance Boots, AA, United Biscuits, Saga, Bird's Eye – and some, such as Hertz, have now been sold on. Given the downturn in economic fortunes in the UK following the collapse of Northern Rock and problems with the sub-prime mortgage market in the USA, PEFs have found it more difficult to raise highly leveraged loans and there are suggestions that their profile and presence may be weakening.

Unlike public limited companies, PEFs are in private ownership and therefore are not required to operate with the same rules of transparency and corporate governance. PEFs utilise a business model that requires them to make rapid returns on their investment because such a lot of this (typically 70%) is financed by debt rather than equity (Froud and Williams, 2007). The fact that PEFs generally operate according to short-term principles implies that they will be less interested in high commitment HRM for their staff – especially career development. Even if they do show an interest, it will tend to be restricted to a small number of key players (Clark, 2007). Part of the problem is that so little is known about HRM in PEFs (Mahony, 2007). Trade unions are highly critical of them, arguing that workers are less well-off and have lower levels of employment protection in these PEFs than they do in PLCs, whereas the industry denies this. Indeed, although a Commons Select Committee had the chance to ask leaders of three of the biggest funds about this, Mahony (2007, p.18) reckons they 'did not seem willing to follow up on the HR implications when they had the industry giants before them'. The box below outlines some of the figures produced by The Work Foundation.

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Private equity firms, pay and employment

HRM AT WORK IN FOCUS

Research suggests that PE ownership overall does result in employment growth, with 60% expanding and 36% cutting jobs over six years.

A distinction must be made between management buy-outs, where employment was increased by 13% over five years, and external PEFs, where jobs were cut by an average of 18% over this period.

Wages in PEFs grow more slowly than in the private sector as a whole, with those in external buy-outs most affected, to the tune of about £4.50 per week.

Those at the top of firms are rewarded very well, general partners earning an annual management fee of between 1 and 2% of the value of the fund plus a share of the profits, often up to 20%.

PEFs tend to favour variable pay systems to a greater extent than other companies.

Source: Adapted from Thornton, I. (2007) *Inside the Dark Box: Shedding light on private equity*. London, The Work Foundation

CORPORATE RESPONSIBILITY

The DTI definition of Corporate Social Responsibility (CSR or CR) relates to 'how business takes account of its economic, social and environmental impacts in the way it operates'. This implies going beyond compliance with legal standards and takes into account wider societal interests (Egan, 2006, p.9), or what Collier and Esteban (2007, p.9) call externalities – that is, the costs of business activity that fall on society. As they point out, 'the activities of legitimate global business cause havoc with climate, environment, biodiversity and the very basis of life on the planet' (p.19). They use the example of BP's 2006 £11 billion profit – a profit that the UK Treasury calculated would translate into an £18 billion loss if the costs of the greenhouse gas emissions it generated were taken into account (Mathiason, 2006, cited in Collier and Esteban, 2007). CR might include secondments to community work, charitable donations, responsible/fair trading, human rights, ethical investment; and environmental policies such as recycling and better use of chemicals, packaging and sourcing as well as fair treatment of staff, and diversity. It involves fundamentals about the purpose of business as many continue to take Friedman's (1970) view that the only social responsibility of business is to maximise profits. This perspective is challenged by the stakeholder model that regards business as not just about profit but also about the well-being of individuals and society.

Awareness of CR is currently high on the corporate agenda, possibly because of lack of trust in business brought about by major scandals such as Bhopal, Brent Spar, Enron, Work Com, Union Carbide, Exxon, Nestlé (Nijhof *et al*, 2002, pp83–90) as well as major global challenges such as eradicating poverty and tackling global warming. Many organisations now produce Social Responsibility reports, and there are a variety of reasons why they engage with CR. Firstly,

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there is the business case based on evidence that company reputation impacts on recruitment, retention and motivation (Peterson, 2004; Brammer *et al*, 2007) and firms with high ethical performance achieve competitive advantage and therefore higher profits. CR creates product differentiation and adds value to a brand as long as customers are aware of companies' ethical profiles. In some cases this may involve paying a premium, and this may not work in highly competitive markets where price is the key determinant (McWilliams *et al*, 2006). Companies are all too aware of the risks associated with bad publicity. The Internet and magazines like the *Ethical Consumer* can mobilise a rapid backlash that damages reputations, profits and prospects of longer-term survival. The Co-operative Bank's research, for example, shows that 24% of its profits are attributable to customers who cite ethics as their reason for being with the bank (Co-operative Bank 2002, p.18). Pressure also comes from financial markets and shareholders, as the Cadbury (1992), Greenbury (1995) and Hampel (1998) Reports testify. Firms are increasingly sensitive to risk, and this is mirrored by the growth of socially responsible investment (SRI) in the stock market as the FTSE4Good and the Dow-Jones Sustainability Index (DJSI) evidence.

Finally, there is increasing legislative and regulatory pressure, in part recognising that ambitious social agendas – such as those set down at the UN Millennium Summit, Kyoto and Bali – cannot be achieved without the support of the business community. The UN Global Compact, OECD guidelines, ILO Labour Standards, the EU Green Paper on CSR, the Charter of Fundamental Rights, and the Sustainability Strategy for Europe are all examples.



REFLECTIVE ACTIVITY

Bill Ford (Chairman of Ford) has stated that whereas 'a good company delivers excellent products and services, a great company delivers excellent products and services and strives to make the world a better place'. Do you agree with this statement?

Discuss with your colleagues the idea that large organisations care about objectives other than making short-term profits.

Despite its current high profile, it is not hard to see why there remains such scepticism about CR. Curtis (2006, p.32) maintains that 'company abuses are increasing precisely when their commitment to CSR has taken off'. He cites examples of UK mining companies which espouse CR while polluting lands and water sources, and forcing native peoples to relocate in Africa, India and South America. Nearer to home, where companies offer clothes and other goods for under £5, it is hard to believe that they can sign up to the Ethical Trading Initiative or ILO Labour Standards. Similarly, community support is likely to be sports sponsorship which provides free advertising, rather than a service of value to the community. Collier and Esteban (2007) point out that despite the fact that the majority of companies in the FTSE-100 have codes of conduct, few train staff or include ethics in induction training; and only a quarter of CEOs thought that they were responsible for the CR of their companies. It is all too easy

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for ethics to be completely decoupled from the organisation, particularly when it is outsourced (Plender and Persaud, 2007) and the fact that CR is often located within PR and Marketing speaks volumes.

By contrast, just as with the high commitment HRM, some organisations view CR as a means of providing competitive advantage through differentiation. There will always be some organisations which operate on a values-based platform, in which ethics come before profit. It would seem highly unlikely that change will come without legislation – something that business dislikes, and something that the UK government generally backs away from. This is further complicated by the multinational context. Curtis (2006, p.32) emphasises the urgent need for laws to remedy global activity; that all organisations should be required to report on social and environmental impacts; that directors should be legally responsible for ensuring minimum damage to communities; and that people harmed overseas by UK companies should be able to access UK justice.

Clearly, there is a long way to go with CR, and both McWilliams *et al* (2006) and Collier and Esteban (2007) call for increased research into the best ways in which to generate change, as well as to evidence this through rigorous standards of reporting and verification, so that those firms that use CR as a PR fig-leaf and a means of advertising will no longer be able to do so.

DIVERSITY AT WORK

As Dickens states (2007, p.468), discrimination is a moral issue about human rights, but it is also about addressing legal obligations, and deriving business benefit. Because of new labour market demographics, globalisation and competitive pressures, diversity management is important to business. It includes factors such as gender, age, ethnicity, political and religious belief, disability, and sexual orientation and encompasses such issues as family-related leave. According to the CIPD (2006b) the proven business benefits that can accrue to organisations that effectively manage workforce diversity include:

- improved customer satisfaction and increased market penetration by employing a diverse workforce whose composition is similar to that of the local population
- increased creativity and problem-solving skills as a result of employing a diverse workforce
- improved motivation, recruitment and retention because of the organisation's reputation as a 'good' employer
- avoidance of costly discrimination cases because action has been taken to ensure the use of systematic and professional HR practices.

Despite arguments in favour of employing a more diverse workforce, doubts remain about the durability and likely conversion of these potential benefits into everyday HR practice, and it is very difficult to change beliefs that may be deep-rooted and implicit. The 'business case' can be fragile because it is so reliant on the specific circumstances confronting each organisation, as well as

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changes in the wider legal, political, economic and social context, which may lead employers to downgrade equality arguments if they are not perceived to be of pressing concern. Employers may have little interest in the long-term case for equality because they can gain substantially (in the short term, at least) from employing low-paid workers. Diversity may be accepted by employers in the case of professionals whose skill is scarce but ignored for casual or unskilled employees (Cassell, 2001, p.419). Moreover, despite national or corporate policies supporting diversity, there can be pressure from existing staff who are male, white and able-bodied to protect their interests rather than those of disadvantaged groups. The CIPD (2006b) suggests that diversity must be managed effectively if it is not to generate negative outcomes. Dickens (2007) criticises the use of the business case to promote equality because it reinforces the view that women are the primary carers and therefore the 'problem' (rather than men); Fagan *et al* (2006, p.575) add that this may result in an increase in low-paid, low-status jobs labelled as suitable for women, rather than generating quality jobs on reduced hours to accommodate family needs.

As Kandola and Fullerton (1998) argue, diversity management needs to be systemic with a widespread and deep-rooted commitment to maximising the potential of the workforce, regardless of its age, gender or sexual orientation. It is only when 'women's, disabled or black issues' are recast as 'people's issues' that any real moves towards equality can take place. The move from anti-discrimination law towards equality has been slow, but the new single equality body in the UK and the proposed Single Equality Act will hopefully help to promote effective equality based on attitudes, beliefs and values. (See Chapter 2 for more on this.) Nonetheless, it will remain the case that some organisations engage in diversity management merely in order to comply with the law, others because of the economic benefits, while a relatively small number see it as part of their CR and a moral imperative.



REFLECTIVE ACTIVITY

Make out a case for increasing diversity at your workplace or one with which you are familiar.

To what extent would you draw upon the 'business case' to convince line managers of the value of equality provisions?

INTERNATIONAL AND COMPARATIVE HRM

Although the principal focus in this book is on HRM in the UK, we need also to examine how HR practices might be transferred across nation states and international boundaries. This can have a direct impact on workers in the UK if they are employed by foreign-owned firms but also on comparisons that may be made between their performance and those of others working at overseas locations within the same company, or indeed in firms up and down the international supply chain. As we have already argued, organisations do

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not have total control over their own fate – or indeed their ‘culture’ – because these are shaped by legal, political, economic and institutional forces. At the same time, some organisations – especially those with significant financial power – are able to leave their ‘footprints’ on the nation states within which they operate, especially if their sales are larger than the GDP of the relevant country. Before examining the role of multinational corporations, we must analyse the assumptions underpinning international and comparative HRM.

THE DEBATE ABOUT CONVERGENCE AND DIVERGENCE

Rubery and Grimshaw (2003), borrowing from Lane (1989), argue three broad schools of thought and theoretical frameworks (the universal, the cultural and the institutional) are used when examining HRM across international boundaries. While acknowledging that this framework is inevitably oversimplified and overlapping, it does make it easier to analyse international and comparative HRM. In this section of the book we focus most attention on the cultural and institutional perspectives; universalism is addressed extensively in Chapter 3 while the institutional perspective is central to the whole book.

The universalist perspective

This view suggests that although HRM may be at different stages of development in different countries, there is a gradual shift towards *convergence* – at least across developed nations. This happens for a variety of reasons but principally because it is assumed there is ‘one best way’ of managing HRM and its associated practices – such as job design, work organisation and quality control – which is permeating throughout the developed world. Convergence can occur, according to this approach, across nations as a whole (say, in the so-called modernisation of public services where ‘new’ practices are picked up both from the private sector and from the public sector in other countries) as well as across particular industries. Rubery and Grimshaw (2003, p.31) feel that Womack *et al*’s view is the most explicit of these, being based on ‘an unequivocal espousal of the notion of a new universalist best-practice technique, based on the lean production model developed within the Japanese car industry’. According to Womack *et al* (1990, p.278) the standard production model, with its associated HR practices, will make the world a much better place. The types of HR practice populating this model are primarily American in form, albeit with some influence from Japanese systems, in seeking to individualise the workforce through rewards for outstanding performance (Brewster *et al*, 2007, p.66). The likelihood that these practices can be applied in a non-Anglo-Saxon environment is limited, as is the evidence, and there are major doubts about their theoretical and empirical relevance (Marchington and Grugulis, 2000).

The culturalist perspective

The culturalist perspective offers a strong critique of universalist approaches, in particular in postulating that clear and unambiguous differences between nation states are enduring and have to be recognised. This sort of thinking is implicit

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in TV adverts that stress the importance of knowing what particular gestures or mannerisms mean in different countries, and in academic terms it is best exemplified by the work of Hofstede (1980, 1991, 2001, 2002). His model, based on questionnaire responses from over 100,000 IBM employees across the world, it is exceptionally well-known, it has been widely quoted and it appears to carry enormous weight. Hofstede (1980, p.26) states that his book is about

differences in national culture among 40 modern nations. It will show evidence of differences and similarities among the cultural patterns of countries; differences and similarities that have very old historical roots (some, for example, going back as far as the Roman Empire).

He argues that stabilising forces maintain continuity over time – factors such as forces of nature; geographic, demographic and genetic origins; societal norms; and consequences (such as social stratification and family patterns) that reinforce existing culture. These are grand claims indeed. Initially, Hofstede argued that there were four distinct factors across which national cultures vary, although as we see later the reification of ‘society’ is massively problematic:

- 1 *Power distance (PDI)* – the extent to which societies accept that power in institutions and organisations is and should be distributed unequally. Countries that are high in PDI include several in Latin America, Arab states and India, whereas those that are low on this index include Scandinavian countries, Ireland and New Zealand. In organisational terms this is reflected in the degree of centralisation and length of the hierarchy, the size of wage differentials and harmonisation (Hofstede, 1980, p.135).
- 2 *Uncertainty avoidance (UA)* – the degree to which societies feel threatened or uncomfortable by ambiguous situations and the extent to which they try to avoid them. Countries high on the UA index are less easily classifiable into regional stereotypes than with PDI. For example, although Greece and Portugal score very highly on the index, other southern European countries, such as Italy, are mid-way. On the other hand, most of Scandinavia and Anglo-Saxon countries tend to be low with a propensity for flexibility and the acceptance of more diverse views. In organisational terms low UA is reflected in fewer written rules, greater managerial openness to ideas and less ritual behaviour (Hofstede, 1980, p.187).
- 3 *Individualism/collectivism (I/C)* – the degree to which individuals are integrated into strong and cohesive groups or – conversely – have a quest for personal achievement. Where individualism is high, people are expected to take personal responsibility as opposed to a strong familial network which would be part of a high collectivism index. Countries that are high on individualism include the Anglo-Saxon economies (USA, UK, Australia, Canada) and other parts of Europe, whereas those high on collectivism are often from Central and South America, and large parts of the Pacific Rim. Arab countries are once again lumped together as a unified mass, and are located in the middle of the range. In organisational terms high collectivism is reflected in expectations of employment security, promotion from within and high levels of employer commitment to staff, while high individualism is reflected in lower levels of

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expressed loyalty to the organisation, promotion from outside as well as inside, and lower levels of employer commitment (Hofstede, 1980, pp238–9).

- 4 *Masculinity/femininity (M/F)* – the extent to which the dominant values are stereotypically ‘male’, such as assertiveness or focus on work as a central life interest. Regional classification is difficult to establish on the basis of high masculinity, such that Venezuela and Mexico are towards the top of the index whereas Uruguay and Costa Rica (other Latin American countries) are low. As anticipated, the Scandinavian countries are more overtly feminine in their culture, according to Hofstede, whereas the UK and USA are towards the masculinity end of the index. In organisational terms, masculinity is reflected in higher levels of conflict, lower interest in work–life balance and fewer women in well-paid jobs. The opposite is the case in those with a high femininity index.



REFLECTIVE ACTIVITY

Do these categorisations make any sense to you, and do you see these attributes as typical of the country you live in or come from?

Debate Hofstede’s ideas with colleagues from other countries or even other regions within the same country.

Readers who want more development of what this work says, as well as details on the countries examined, should look at Hofstede (1991), Brewster *et al* (2007, pp22–6), Lucas *et al* (2006, pp19–23) and Edwards and Rees (2006, pp29–32).

A fifth factor – labelled ‘Confucian dynamism’ or ‘long-term versus short-term orientation’ – was added later specifically for Chinese populations because uncertainty avoidance was felt not to be particularly appropriate. A high score on long-term orientation indicated that a high value was placed by society on characteristics such as perseverance, recognition of status and thrift (Brewster *et al*, 2007, p.25). However, this has not been as widely used by researchers (McSweeney, 2002a).

Hofstede’s work has been applied to a number of areas of HRM but it has been rare for there to be any empirical research trying to assess its usefulness, and in addition much of it has been US-based according to Chiang (2005). Her research on international reward management in the banking industry in four countries is briefly presented in the box below.

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Patterns of reward management in China, the UK, Finland and Canada

This study was undertaken through initial interviews with about 40 HR managers and other senior decision-makers across the four countries, and the distribution of a survey to bank employees. In total just over 1,000 completed questionnaires were received from staff in 120 banks. Responses were received from front-line, back-office, management and executive employees. Preferences for 40 different types of rewards (extrinsic and intrinsic, financial and non-financial) were measured using a five-point Likert rating scale, and control variables were put in place to account for demographic factors. Financial rewards included items such as basic salary, individual incentives and annual salary increase. Extrinsic rewards meant practices such as job security, appraisal system and work-life balance. Intrinsic rewards covered issues to do with opportunity to use skills, job challenge and job satisfaction.

The four countries were located at different points on the four indices, with quite large differences between them in terms of individualism and masculinity but rather less on power distance and uncertainty avoidance. In broad terms the findings were as follows.

- Irrespective of cultural orientation, intrinsic rewards were rated more

highly than financial rewards, albeit to varying degrees. This refutes the hypotheses that masculine (as opposed to feminine) and individualistic (as opposed to collectivist) value financial and material rewards more than non-financial rewards.

- The hypothesis that individuals from high UA countries should prefer fixed rather than variable rewards (and vice versa for low UA countries) is not fully supported either.
- Contrary to expectations, bank staff from Canada (high I and low PD) placed greatest value on group-oriented reward schemes, much more so than Hong Kong where the combination of low I and high PD would have predicted higher levels of interest.

The author concludes that preferences in this area of HR practice may well be complicated by the complexity inherent in reward management systems and levers. This means that rather than adopting a cultural approach, it is important for MNCs to take into account a much wider range of factors.

Source: Adapted from Chiang, F. (2005) 'A critical examination of Hofstede's thesis and its application to international reward management', *International Journal of Human Resource Management*, Vol.16, No. 9 1545-63

The Hofstede study is very well known and is apparently highly regarded by managers, but it receives little direct critique in most publications (eg Lucas *et al*, 2006; Brewster *et al*, 2007). However, it has been criticised both on theoretical and empirical grounds (see, for example, McSweeney, 2002a, 2002b; Rubery and Grimshaw, 2003; Chiang, 2005, Gerhart and Fang, 2005). There are at least four sets of concerns.

- *Representativeness* – Because the initial research was conducted solely on IBM employees, there are major doubts about the extent to which the results can

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be generalised to a wider population within each of the countries examined. Moreover, that the respondents were principally from sales and marketing further undermines the potential for generalisation beyond the specific occupational groups that were surveyed within IBM – and other companies in later research (Chiang, 2005). Even more worryingly, the sample sizes in some of the countries were very low – eg 37 on one of the surveys in Pakistan (McSweeney, 2002a, p.94). A further question arises over the sponsorship and purpose behind the research because it was not independent of IBM and was used for development needs within the company (McSweeney, 2002a). Yet another issue is the limited number of countries on which the research was done, with no material on Eastern European and less developed countries (Lucas *et al*, 2006, p.20), and the fact that Arab countries are given a single score raises questions about the degree to which they can be categorised as a cohesive and coherent entity (eg Dubai compared with Saudi Arabia). Gerhart and Fang (2005, p.977) have estimated that, rather than explaining 50% of the variance between countries, Hofstede's results only explain 2 to 4% of the variance. This means that 'individuals vary much more *within* countries than they do *across* countries' (our emphasis). Their own research (2005, p.983) shows that white-collar workers in Taiwan (characterised as a collectivist country) show great interest in individual performance-related pay.

- *Perpetuation of national stereotypes* – The research assumes that cultures are long-standing and not subject to change, but this is clearly open to question when societies adapt through the influx of different communities and traditions that could alter the scores on each of the factors. Moreover, it ignores the existence of subcultures and profoundly different sets of values in different parts of a country; even in a relatively small country such as the UK, there are likely to be major differences between groups on the basis of factors such as social class, gender and region (Rubery and Grimshaw, 2003, p.36), as well as by country. To be fair to Hofstede (1980, p.399), however, he did accept that further work was needed to see how culture might differ within countries according to regional, ethnic, organisational and occupational subcultures. Nevertheless, McSweeney (2002b) finds it hard to believe there is a single 'culture' for the USA, such as between a massively multicultural city such as New York and the more 'closed' populations in the deep south or the mid-west. Edwards and Rees (2006) raise similar concerns both on empirical and theoretical grounds, something which should be equally apparent in the UK as notions of 'Britishness' change and are adapted through processes of immigration and increasing foreign ownership and the use of migrant workers. Some organisations in Dubai employ people from 30–40 different countries, who may well be very 'different' on their cultural indices, so it is impossible to imagine how a 'national' stereotype could ever be constructed, even more so when very few Emiratis currently work for private sector firms.
- *Explanatory power* – Even if we accept the culturalist data at face value, the models do not seek to explain *why* these differences occur or why seemingly very different nations might appear at similar places in the rankings (Rubery and Grimshaw, 2003, p.35) as we saw above. This also limits the extent to

which we can properly analyse how societies may change due to pressures from multinational companies or changes in religious traditions or demography. As Ferner and Quintanilla (1998, p.713) note, such ‘approaches to differences between countries are inadequate, treating cultural variables such as “power distance” (themselves somewhat artificial constructs) in an ahistorical and static fashion as immanent properties of nations, rather than as dynamic and emerging characteristics linked to patterns of historical development and distinctive national institutions.’ To take one of the examples raised by McSweeney (2002b, pp1368–70), industrial conflict is meant to be more likely in masculine countries as people prefer to flex their muscles rather than seek a co-operative solution. Data comparing Spain (high on femininity) with the UK and Ireland (high on masculinity) supports Hofstede’s hypothesis for the period between 1961 and 1975 when there were higher levels of strike action in the latter than the former, but not between 1976 and 1990, when Spain experienced considerably more lost working days than the UK and Ireland. To focus on some enduring national characteristic – difficult enough within both countries due to regional differences between, say, England and Scotland or between Madrid and Barcelona – is bad enough, but the comparison takes no account of other economic or political forces such as military dictatorship, national patterns of collective bargaining or levels of unemployment.

- *Complexity* – While the decision to focus on workers from one organisation makes some sense from an experimental angle because it controls for one variable, it ignores the complexity and interaction between different factors in explaining how cultures might vary. For example, it is not plausible to assume no influence on these workers from IBM’s corporate policies, which in themselves are the product of forces and tensions from different countries, a factor in itself which could weaken any concept of national culture. Indeed, as we see in the next section, some MNCs are well known for operating a similar system globally (eg McDonalds) and for seeking – as in the case of the car industry – similar production systems worldwide. IBM is one of those firms that has been known as aiming to create a strong internally driven corporate culture, which at the very least could compete with a so-called national culture as a source of influence at workplace level. Moreover, there are likely to be different levels of access to training and other forms of development across the sample, based not just on national differences but also on personal attributes within workers from the same country. Indeed, research on ABB shows how similarities may depend upon technological and product market factors as much as they are on national culture (Martin and Beaumont, 1998), and indeed how HR practices and cultures can vary significantly between plants in the same country (Bélanger *et al*, 2003).

In summarising the evidence, McSweeney (2002a, p.112) argues that

Hofstede’s claims are excessive and unbalanced: excessive because they claim far more in terms of identifiable characteristics and consequences than is justified; unbalanced because there is too great a desire to ‘prove’ his a priori convictions rather than evaluate the adequacy of his ‘findings’.

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The institutionalist perspective

This perspective accepts that there are differences between societies that need to be understood and recognised but that these are the product of a wide range of forces that can either facilitate/support or hinder/undermine specific models of HRM. It rejects the universal approach for failing to acknowledge that HR practices – such as selection techniques, performance review or employee voice – that are prevalent in certain countries and organisations can mean quite different things in others due to institutional and societal forces. Given that much of the research relates to US and UK models of HRM, or to other northern European countries, it is hard to assess how these ideas can be easily transported into quite different regimes – such as those in Africa, South America, the Gulf, or even Mediterranean countries. Equally, the culturalist approach is rejected, not so much for its belief that convergence is unlikely as because it lacks a theoretical and explanatory basis for its views, and because there is limited empirical support for its prescriptions. Differences in HR practices between countries owe more to the institutional forces which shape society than to any supposed national culture – forces such as the education and training system, the legal framework, and political, social and economic factors that impinge on and influence how employers deal with employment issues. It can also include other factors such as the organisation of family and support networks, the provision of health care and the informal economy (Rubery and Grimshaw, 2003, p.37). It is acknowledged that although all societies might face similar pressures as a consequence of greater international integration and globalisation, ‘these pressures will lead to modification and change of societal institutions, but the particular form of the response will reflect each country’s own societal logic’ (p.39). Nowhere is this more apparent than in Germany where major reductions in staffing and other changes have increased the pressure on stakeholder capitalism and historical styles of HRM. But as Clark (2006, p.604) notes, the institutional framework is so embedded in Germany that the Anglo-American model of shareholder value will struggle to be implemented due to long traditions of employment protection, legal safeguards and employee voice at high levels in organisations.

The institutionalist perspective is not without its shortcomings, and in particular there are concerns that, just like the culturalist perspective, it is static and deterministic in assuming that forces beyond the workplace are not open to influence. Rubery and Grimshaw (2003) recognise this potential problem and suggest a much more dynamic framework for analysing HRM. There is not the space here to examine this issue in detail but broadly it consists of four sets of interacting pressures: *systems* effects such as technology and global market structures; *political* systems effects felt through international trade and finance; *international transmission* of ideologies, tastes and fashions such as liberalism and deregulation; and the *power of global corporations*, for example through their pressure on nation states to provide attractive conditions for investing in new locations (pp43–50). We take up the final of these factors below.

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HRM IN MULTINATIONAL ORGANISATIONS

A number of typologies of multinational corporations (MNCs) have been developed to analyse how they conduct business as a whole, not just in HR terms. One of the most enduring is by Bartlett and Ghoshal (1989) who classified MNCs into four groups. First is the multi-domestic company, which grows by diversification, setting up new subsidiaries that adapt to local conditions and are organised on a decentralised federal basis. Second is the international company, based on exploitation of the parent company's knowledge through professional managers as a co-ordinated federation. Third, the global corporation treats the world market as an integrated whole, operating as a centralised hub and only allowing limited autonomy for local subsidiaries. Finally, the transnational corporation is expected to combine aspects of the first three categories, being both sensitive to local conditions and developing strategies at a global level. Since this type of firm is likely to have multiple centres, national units can make a distinctive and differentiated contribution to the company as a whole (Rubery and Grimshaw, 2003, pp201–2). We see an example of this in the case study examples listed below, where we present brief details of how a US firm with subsidiaries in Italy and the UK adapted to a range of local institutional and market pressures in the two countries (Pulignano, 2006). An alternative categorisation by Adler and Ghadar (1990) relates the character of the organisation's development to phases in the product life cycle. Broadly, according to this approach companies become more global as they mature and seek to penetrate new markets. A third well-known categorisation, albeit of international HRM styles and cultures rather than broader business styles, was by Perlmutter (1969). This has implications for staffing decisions in the following way:

- *ethnocentric*, where the majority of managers are recruited from the home country
- *polycentric*, where local nationals are appointed
- *geocentric*, where managers are not appointed according to their country of origin but from countries other than the host or home country.

Although these strategies can be beneficial, they can each also generate problems due to a focus on one particular approach to the exclusion of others. Also, as with any ideal type, it is sometimes difficult to determine which approach might suit organisational circumstances because so much depends on the availability of managers who possess appropriate qualities. Some authors focus on specific HR practices, such as expatriation or the choice of recruitment method, essentially treating these as if they are choices made internally by each firm in the light of information about the country to which staff are to be relocated. There is not enough space here to examine specific HR practices, and readers who need to know more about this should consult sources such as Brewster *et al* (2007), Edwards and Rees (2006), Lucas *et al* (2006), and Sparrow *et al* (2004). At a more conceptual level, studies on international HRM tend to adopt either an *internal* or an *external* perspective. The former focuses on the way in which MNC head offices make strategic decisions about HR styles and practices at subsidiaries, whereas the latter concentrates on forces external to the individual

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MNC, typically examining the national business systems operating in the MNC's home country and comparing these with those of the host country where the subsidiary is located; see above for the discussion of institutional approaches. An additional variant examines isomorphic pressures both from the MNC itself and via mimicry of other firms in the same sector or that operate in similar global markets.

A good example of the *internal* perspective is Björkman and Lervik (2007), who focus on internal factors because they feel the focus has primarily been on home and host country contexts. They do not argue that institutional forces are insignificant – far from it – but suggest that we need to know much more about how transfer outcomes are implemented, internalised and integrated within MNCs. Their conceptual model comprises four sets of factors:

- *governance mechanisms* – such as the degree of autonomy the subsidiary enjoys and the extent to which its performance is evaluated by HQ. The more senior managers at local level believe they are expected to comply with head office diktats, the greater the extent to which we can expect to see conformity across the board
- *intra-organisational social capital* – such as the degree to which informal integration mechanisms (short-term visits to other sites, participation in joint training exercises) exist across the organisation, the level of shared cognition and understanding, and the level of trust managers at the subsidiary have with staff at HQ. For example, 'the ability to communicate in a shared natural language such as English or Chinese is important, as is the parties' overlap in terms of vocabulary and the meaning attached to highly specialised terms in a certain language' (Björkman and Lervik, 2007, p.328)
- *the subsidiary HR system* – such as the degree of satisfaction local managers have with their existing practices or with the capability of HR staff at the subsidiary, which is also likely to influence willingness to comply with or actively opt to take up HQ initiatives
- *how the HQ manages the process* – such as evidence of open management and due process, especially in change programmes. This is a final set of factors influencing the take-up of HR practices at subsidiary level.



REFLECTIVE ACTIVITY

Read the paper by Björkman and Lervik in the *Human Resource Management Journal*, and provide examples of how each of these factors works in practice.

If possible, discuss this with someone from another country in order to see how the transfer of HRM within MNCs might vary.

Ferner and Quintanilla (1998) focus on factors both internal and external to the individual firm; their work is especially helpful in tracking the complexities of HRM across international boundaries because they focus on the source of

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‘isomorphic pressures’ on an organisation. *Isomorphism* refers to the degree of similarity in organisational practice produced by pressures to conform, such as through shared recipes of action for the same sector or through a process of mimicry by which organisations merely follow the lead of another firm in the same sector or country. It also relates to the institutional forces operating within a country (eg the legal framework) or sector (eg employers’ organisations) that lead to similarity in ‘choice’ of HR practices. They distinguish between four different ways in which isomorphic pressures operate:

- *local isomorphism* – in which the subsidiary behaves like any other organisation within the host-country environment and adopts policies and practices that are seen as appropriate in that context. In this case, a decision is made to fit in with local norms and values even if they are contrary to those that are dominant in the home country or within the MNC more generally. A good example of this was IBM’s decision some years ago to deal with unions at its Irish subsidiaries even though the company – drawing on its US roots – tended to operate, wherever possible, in a union-free environment. This happened because the company realised that the role of social partners in Ireland at the time meant it would have faced difficulty operating in any other way. Similar arguments are made about firms that have opened subsidiaries in co-ordinated market economies such as Japan, France or Germany. In these countries, the strength of local institutions (eg legislation and social norms) is such that even if the MNC wanted to adopt different HR practices, it would be difficult to impose them for fear of breaking the law or putting off job applicants who were used to working in deeply embedded regimes. As Geppert and Williams (2006, p.51) put it: ‘The implementation of global best practices and the ability to change local practices in subsidiaries situated in highly integrated national business systems will be more restricted and less radical than in less integrated systems.’ This also applies in the case of what is called ‘reverse transfer’, whereby HR practices that work well in one of the subsidiaries (host country) are then implemented at the HQ (home country) or at a subsidiary operating in the home country. Thory (2008) found that it was very hard to gain acceptance for HR practices that worked well at the Scottish establishments back in France, to a large extent because they were so different from the expectations of French managers and workers. Even when there was pressure to implement HR practices at variance with their own experiences, these were adapted and ultimately had ‘little erosive impact on the country-of-origin effect’ (Thory, 2008, p.66).
- *cross-national isomorphism* – in which the subsidiary is expected to conform with home-country HR systems and philosophies that are themselves embedded within the wider institutional structures in the country where the HQ is located. In this case, HR practices are likely to be rather different from those of similar organisations within the same sector in the host country, instead resembling those of similar firms in the home country. Once again, attitudes towards unions and collective employee relations are particularly significant, say, in terms of union-free arrangements in US firms that have invested in other countries (and the role of union-busting) or the development

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of works councils in German MNCs with subsidiaries in countries where this is not part of the tradition. The debate has raged about whether the Japanese entrants to the UK in the 1980s adopted specific home- or host-country HR practices; indeed, it was difficult to pinpoint the source of HR practices by companies such as Nissan because they comprised elements both of Japanese and UK approaches (Oliver and Wilkinson, 1992) and the HR director at the time merely referred to them as HR practices that made sense for Nissan in the context of entering the UK vehicles market (Wickens, 1987). It must be recognised that MNCs may find it easier to implement home-country policies – if they so desire – in liberal market economies such as the UK where there are rather fewer legal or other institutional constraints on flexible working (Geppert and Williams, 2006, p.52). As we see later in what Edwards *et al* (2007) term the ‘integrated approach’, the importance of the subsidiary to the MNC as a whole is also a critical factor, because it is much less likely that HQ will force change upon an establishment that is essential to future commercial success and that has the power to resist change (see also Geppert and Williams, 2006).

- *corporate isomorphism* – in which the MNC has a strong and essentially universal approach to HRM, to some extent free of both the home and the host country. In this case HR practices central to the MNC’s corporate philosophy are regarded as so essential to its culture that they are transported into different countries and implemented in a way that pays little attention to either the host or home countries’ institutional regimes or the HR practices of other organisations in the same product market. Of course it is difficult to disentangle where the motivation for such HR practices comes from – home country or MNC. Some large US firms have introduced novel arrangements into their UK operations, such as prizes for the best team or encouragement to wear baseball caps at work, which might be expected to meet major opposition from workers who see these as inappropriate or embarrassing. The move to call employees ‘partners’ does, however, seem to have caught on more widely so lessening the opportunity for a potentially unique approach.
- *global inter-corporate isomorphism* – an approach that would be expected if MNCs broke free totally from home-country institutional forces and adopted HR policies and practices similar to those of their major international competitors in the global market. According to Ferner and Quintanilla (1998, p.713) this can be seen as a mimetic response by copying the HR practices used by leading international competitors and effectively adopting a position that is beyond national borders; it may be particularly evident in the recruitment and training of senior managers who are in strong demand across a range of sectors. However, as with the previous category, it is hard for organisations to ignore their home country, provided they retain a strong core of employment there and continue to be influenced by home-country institutional pressures. Moreover, financial reporting mechanisms and shareholder expectations can be expected to reinforce the power of home-country effects. On the other hand, the more these organisations are run by senior managers from different countries and institutional backgrounds, and the lower the proportion of staff

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employed in the home country, the easier it is to be influenced by a different set of institutional pressures – in this case, those operating at a global level.

Useful though these ideal types are in providing a focus, in reality the situation is not so simple. Quintanilla and Ferner (2003, p.364) have subsequently acknowledged that home or host country represents a relatively crude level of aggregation, and that we must pay attention to sectoral levels of determination as well as to management's strategic choices. This means there is always a tension between at least three potentially conflicting isomorphic pulls – from the home country, from the host country and from company-specific rules and operating processes. This leads to interaction between the different forces, such that on some occasions pressures exerted by forces in the home country outweigh those of the host country or the MNC, or vice versa. Moreover, this may even vary between plants owned by the same company in the same 'host' country, as we saw with ABB in Canada (Bélanger *et al*, 2003). Nevertheless, we must still remain alert to the fact that 'strategic choice' is always shaped by factors external to the organisation. In other situations, despite what appears at face value to be an acceptance of Anglo-Saxon business processes by German firms operating in the UK, Ferner and Quintanilla (1998, pp724–5) show how these were actually adapted to provide a specifically German interpretation. For example, Daimler-Benz has been a major proponent of shareholder value, but unlike the British version of this philosophy, at its British plants the company was keen to emphasise medium- and long-term profitability. Similarly, German companies in the UK retained a strong commitment to their employees and to social responsibility in a way that would not figure highly in the board-level statements of similar UK companies. How long this can be preserved is another matter, as the study by Gunnigle *et al* (2005) – one of three cases summarised in the case studies listed below – suggests about US companies in Ireland. In essence this reinforces the fact that the relationship between home country, host country and MNC pressures is unstable, uneven and dynamic, and that reverse transfer can apply when national systems face pressure to change because of influences from foreign-owned firms.

Bringing these different perspectives (culturalist, home and host country, institutional, market forces, micropolitical) together, Edwards *et al* (2007) propose an integrated approach. This, they argue, accounts for the fact that market pressures and national institutional frameworks exert strong forces on the transfer of HRM, but allows room for local actors to make choices about how they operate in the context of specific conditions. Influences from the founder of the MNC were seen in attempts to change HRM and other aspects of management to suit his own preferences and philosophy. Yet this was not achieved without opposition or amendment to the original principles, as managers and workers used political connections to prevent a closure of the plant (2007, p.213). In other words, it is the interplay of forces internal and external to the firm that must be taken into account when seeking to explain how HR practices are implemented at the local subsidiaries of MNCs. The three case studies below provide examples of this complexity.

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Changing patterns of HRM in MNCs: three case studies

Case 1: Varying approaches in different subsidiaries

This case is about how a US multinational implemented its HR policies and practices in three Italian and two UK subsidiaries in the manufacturing sector. It offers a more developed version of the home- and host-country institutional effects by including company-specific factors as they impact on internal processes within the firm, as well as the way in which power might be affected by the subsidiary's product market position. This latter factor can be critical if the subsidiary is in a strategically important position within its product market, and senior managers at local level are able to exercise influence upon the MNC to resist, amend or delay attempts to impose home-country standards and operating procedures.

The MNC is a significant global player with a workforce of over 300,000 staff worldwide which has grown consistently and has high levels of profitability. Some years ago, in order to maintain its competitive position, the company moved to a system of global sourcing with plants in different countries meeting different market needs. The HR policy became more overtly individualistic with an increased prominence for direct employee involvement and communications and performance management and a reduced emphasis on collective labour relations. However, it was also apparent that HQ varied in its implementation of these principles, some sites being mandated whereas others were allowed to use their discretion in deciding whether or not to adopt the new HR approach in its entirety. Of course, host-country factors were important in explaining this variation, and in general the greater employment protection

enjoyed by workers in Italy had an impact. But so too did the subsidiary's market position and prominence. For example, one of the Italian subsidiaries was able to deflect central HR initiatives because it was a key centre in Europe for new product development and it was well-placed geographically for large numbers of customers. Conversely, the weak competitive position of a UK establishment meant it had few resources to challenge edicts from HQ.

Case 2: Diverse approaches by MNCs from different countries

During the last decade there has been considerable investment by foreign-owned MNCs in China, often via joint ventures with local firms. Previous studies have suggested that there was a distinctive model of HRM including practices such as lifetime employment security, extensive welfare benefits, little wage dispersion between employees except by seniority and nepotism rather than due to explicit performance assessment. Recent years have seen signs of change (Cooke, 2005) as more MNCs have started to move in to China, but most of the research has not differentiated between the home-country origins of this foreign direct investment.

This case compares and contrasts how HRM has developed in Chinese subsidiaries of firms with HQs in the USA, Japan, Germany and one European-owned firm with no single home-country location. *Recruitment* processes did not vary dramatically apart from the extensive use of testing by the US firms, including competency in English at some of these. All the firms had invested heavily in *training*, both on-the-job and at university, in order to enhance and maintain the quality of their staff. *Pay* and reward practices appeared to be more heavily

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influenced by Chinese host-country regulations at the joint venture firms, with the traditional model to the fore, whereas the Japanese-owned companies favoured group incentives and flatter wage differentials, and the American MNCs preferred individual incentives alongside a relatively large pay differential between the top and bottom income earners. *Employment contracts* also tended to vary between the US and European firms on the one hand and the Japanese on the other, the former going for fixed-term appointments and an individualised approach wherever possible, and the latter being keen on permanent contracts and contracts negotiated with enterprise unions. *Employee involvement* typically took the form of top-down communications, and in the case of US firms this was all they offered. In contrast Japanese-owned companies inherited a legacy of union representation and kept this.

Apart from favouring these specific HR practices, MNC parent companies exercised little direct involvement in the day-to-day affairs of their Chinese subsidiaries or joint venture partners. Instead they relied on indirect reporting via regional subunits. All of this suggests an increasing segmentation of employment systems in China as foreign involvement becomes more significant.

Case 3: Changing approaches by MNCs over time

Two of the US-owned case study firms in Ireland that were examined by Gunnigle and his colleagues were experiencing changes in their approach to HRM. Initially, both firms followed the Irish tradition of recognising trade unions, setting up post-entry closed shops and engaging in collective bargaining. This showed how the firms clearly aligned themselves with the prevailing trend amongst inward-investing companies in the host country at the time, and operated in contradistinction to their non-union stance in the home country.

In recent years, these companies have started to pay above the norm, as well as start to establish new plants on a non-union basis. Interestingly, the actual decision to do this was taken by the Irish management team, albeit in the knowledge that it accorded with the preferences of top management at the US corporate HQ. In one of the cases, the rationale for going non-union stemmed from a number of arguments: it was felt that little opposition would be encountered to the decision; on balance it was felt that a non-union plant would make management's task easier; and it was felt that the new workers – technicians and professionals/managerial grades – would not push for union membership. At the institutional level, the company felt that the Irish government would not want to challenge this stance because it was so keen to retain and get new foreign direct investment into the country. A critical factor in this is the high concentration of US firms that operate in Ireland.

In evaluating the dynamic between home and host country the authors suggest that this case shows how national business systems evolve in the context of management practices used by leading firms. It also shows how US firms are able to implement HR practices that are more in line with those operating in the home country and in the MNC more broadly.

Sources: Case 1 is adapted from Pulignano, V. (2006) 'The diffusion of employment practices of US-based multinationals in Europe; a case study comparison of British- and Italian-based subsidiaries', *British Journal of Industrial Relations*, Vol.44, No. 3, 497–518; case 2 is adapted from Walsh, J. and Zhu, Y. (2007) 'Local complexities and global uncertainties: a study of foreign ownership and human resource management in China', *International Journal of Human Resource Management*, Vol.18, No. 2, 249–67; case 3 is adapted from Gunnigle P., Collings D. and Morley M. (2005) 'Exploring the dynamics of industrial relations in US multinationals: evidence from Ireland', *Industrial Relations Journal*, Vol.36, No. 3, 241–56

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REFLECTIVE ACTIVITY

Read the case studies above. Do a group exercise around the three cases, each case being taken by one group. Groups should then present their findings briefly to the other

groups, and explain why patterns of HRM emerged in the way they did.

Draw on the material in this section to help formulate your answers.

CONCLUSIONS

In this chapter, we have provided a brief analysis of the links between strategy and HRM, paying particular attention to the main arguments and debates in the subject area. Students need to be aware that HRM does not take place in a vacuum but operates within frameworks that tie it to the strategy of the firm, as well as through influences from the wider institutional framework within which organisations are located. This complexity increases yet further when we examine HRM from an international and comparative perspective, as should be apparent from the previous section. The precise interplay of forces from home country, host country, market forces and internal MNC influences makes it difficult to identify a peculiarly British, European or global style of HRM in practice.

Before moving on to examine other forces shaping workplace relations, we need briefly to explain how we view HRM. Many of the frameworks and models tend to assume there is a specific model of HRM – the universal, high commitment, ‘best practice’ model that we explore in detail in Chapter 3. Conversely, if we assume that HRM is a field of study rather than a distinct style, we can then examine how the management of employment varies between organisations and workplaces, as well as over time, because it can be shaped by the range of influences we examine in Chapters 1 and 2. This approach also allows us to assess the extent to which factors external to the workplace – such as legislative, political and economic changes – can impact differentially depending upon management choice, management–employee relations and worker attitudes and behaviours. Working with this conception of the subject means that HRM can exist just as easily in a small owner-managed sweatshop as it can in a large and sophisticated high-tech organisation. It just takes different forms.

HRM can therefore be defined as *the management of employment*, so incorporating individual and collective relations, the whole range of HR practices and processes, line management activities and those of HR specialists, managerial and non-managerial actors. It is more than just another version of the ‘hard’ model because it assumes that management styles depend not only on business goals but also on influences from a range of different stakeholder interests. Accordingly, HRM may include a role for unions, the development of so-called leading-edge HR practices, evident commitment to employment security, and have line managers at the helm of organisational change. Conversely, HRM may be individualised, HR policies can rely on cost reduction and rationalisation, and there may be no provision for an internal HR function. Irrespective of

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the approach adopted, however, employers should be keen to enhance the contribution of HR practices to performance.

In addition to academic interest in defining HRM, not surprisingly there has also been a keen practitioner and professional interest, principally through the CIPD. Its Professional Development Scheme (PDS) was launched in 2001 and the Leadership and Management Standards (previously Core Management) followed in 2005. Key features of the PDS are that it is positioned at Master's level, it is based around the concept of the 'thinking performer' and the completion of a management research report is now a requirement for entry into the CIPD. The twin elements of the 'thinking performer' concept are that graduates of the CIPD should be professionally competent – in being able to 'do' HR using skills acquired across the board – and academically capable – in being able to critically analyse situations, make independent judgements about HRM and know where and how to search for updated information. A requirement to interpret findings from contemporary research, from refereed journals and from the vast range of CIPD sources, is perceived as essential for the future development of the profession. The box below illustrates the ten key elements in the 'thinking performer' role.



Key elements of the 'thinking performer' role

HRM AT WORK IN FOCUS

- 1 Personal drive and effectiveness
Sets out own professional objectives with a prioritised plan for managing time and service delivery
- 2 People management and leadership
Demonstrates a level of knowledge and understanding about managing people and leadership that meets the CIPD Professional Development Scheme Standards
- 3 Business understanding
Demonstrates an understanding of the business needs and issues of various types of organisation
- 4 Professional and ethical competence
Meets a defined range of the CIPD's professional standards
- 5 Added value
Identifies opportunities for adding value and makes appropriate recommendations
- 6 Continuing learning
Adopts a considered approach to continuing learning and professional personal development
- 7 Analytical and intuitive/creative thinking
Demonstrates use of a range of analytical, intuitive and creative abilities, tools and processes
- 8 Customer focus
Shows empathy for and responsiveness to customers of the P&D function(s) and of employing organisations generally
- 9 Strategic capabilities
Understands the concept of strategy and the required contributions to it at all levels
- 10 Communication, persuasion and interpersonal skills
Uses 'active listening' with feedback; communicates clearly and positively; generates empathy with others

Source: Chartered Institute of Personnel and Development, Professional Development Scheme Standards

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Underpinning the PDS and the People Management and Development (PM&D) Standards is a clear message that a sound professional base is required for all activities in the area, irrespective of the precise role that is occupied or the type of organisation for which a person works. The skills, knowledge and understanding that are developed are also appropriate for individuals who are not part of an internal HR function, but are employed as consultants, academics or line managers, or work in shared service centres. Increasingly, practitioners move between functions and organisations throughout their working lives, as well as between different forms of employment status. As a consequence it is important that all HR practitioners are aware not only of their own area of specialist expertise but also of the wider contribution that HRM can make to organisational success and employee engagement. They need to be able to justify how they contribute to improved performance and to understand the integration of HRM with other organisational activities. In addition, specialists in discrete areas – people resourcing, learning and development, reward management, and employee relations – need to understand how their activities fit with other elements of HRM, and the extent to which they may support or conflict with overall strategies. They need to realise that a range of stakeholder interests, and not just short-term financial gain, is a key component of professionalism in HRM (Pauwe, 2004).

Four key points are central to our understanding of HRM; these continually reappear throughout the remainder of this book.

- 1 *The subject matter of HRM* – We regard HRM as those aspects of people management that need to be understood by all HR specialists and others with a major responsibility for managing people. Using Torrington's (1998) medical analogy, these are the subjects the 'general practitioner' must understand, and which remain critical for the specialist consultant even though he or she is not explicitly aware they are being used. The categorisation of these varies from one author to the next but we have chosen to use the CIPD distinction between the four generalist areas of resourcing, development, relations and reward that are central to the PM&D standards. They also have a logic in that all aspects of HRM are covered by these four areas despite inevitable overlaps between specific topics.
- 2 *Integration* is at the heart of HRM – This takes two forms: *vertical integration*, which refers to the links between HRM and both wider business strategies and the political, economic, social and legal forces that shape (and to some extent are shaped by) organisations; and *horizontal integration*, which refers to the 'fit' between different HR policies and practices (bundles), and the degree to which they support or contradict one another. Readers will find that similar processes are addressed repeatedly in this book but this should be recognised as a positive sign of complementarity, integration and reinforcement rather than unnecessary repetition. We assume that both vertical and horizontal integration probably need to be strengthened in order to maximise the HR contribution, as well as minimise the likelihood of conflicting messages.
- 3 *Line manager involvement* – Irrespective of the role played by an internal HR

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function or by external agencies that provide HR support, line managers are central to the delivery of HRM at the workplace. If HRM policy and practice is to be effective, HR specialists must gain line management commitment to and buy-in for their proposals and recommendations. It matters little that a course of action impresses other HR specialists if it fails to convince line managers – the people who have to put most policies into effect. This is not to say that HR specialists should become the servants of line managers, merely recommending what line managers want to hear in order to gain ‘customer’ approval. It does mean, however, that HR specialists have to be acutely aware of their audience, of the purpose of HR policies and their contribution to organisational success. On some occasions the views of line managers will have to be challenged and the basis for their perspectives questioned, while on others their needs can be satisfied with clear professional judgement and sound practical advice.

- 4 *Ambiguity and tension* – Although there are increasing pressures to demonstrate added value to organisations, as we saw earlier HRM is often in an ambiguous position within employing organisations. The HR function is sometimes criticised for occupying the middle ground between management and workers, because it is dealing with issues for which it is difficult to identify a simple best option. For instance, there can be conflicting and often equally strong arguments in favour of the dramatically different approaches an employer can take in relation to trade unions – for example, partnership or arms’-length relations – or to the development of skills – for example, internal or external supply. In HRM, perhaps more than in any other area of management, the choices that are made can have significant implications for the future and lead an organisation down a path that is difficult to alter without lots of effort. Because the employment relationship is incomplete, ambiguous and contested, this means that HRM can never be a simple technical exercise whereby answers are read off according to some scientific formula, and implemented without problem. HR professionals have to become accustomed to the fact – especially as they reach the higher echelons of the occupation – that their work is going to be fraught with tensions and contradictions, and with situations that are characterised by uncertainty, indeterminacy and competing perspectives.

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