

CHAPTER OBJECTIVES

When they have read this chapter, students will:

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

INTRODUCTION

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

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

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

LEARNING ACTIVITY

- From your experience and study of the subject, what do you consider to be the key elements of 'best practice' in HRM?
- To what extent can these be applied on a global level?

(Identify the reasons underlying your arguments.)

WHAT IS NEW ABOUT THIS EDITION?

The aim of this text remains the same: to help you explore the meaning and implications of the concepts of international and comparative human resource management. We do not assume that there is only one

way of defining or understanding the nature of HRM. On the contrary, we believe that HRM varies according to the cultural and institutional environment in which it is conducted. A crucial aspect of this environment is the country in which HRM is conducted. This text addresses directly the issues raised by the fact that HRM is different from country to country. One effect that this must have is on people like you, who are trying to gain an understanding of the full range of meanings of HRM. Another effect is on those, like some of you, trying to manage HRM in organisations whose reach crosses national boundaries. These issues are covered in this text.

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

We believe that the text will be of value to anyone involved in, or interested in, comparative and international human resource management. However, in writing it we have kept a close eye on the CIPD’s International Personnel and Development Standards. If you are teaching a course, or studying for the CIPD qualification, this book will form a comprehensive course text.

ACTIVITY

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

Provide examples for each perspective.

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

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

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A free sample from *International Human Resource Management 2nd Edition* by **Chris Brewster, Paul Sparrow and Guy Vernon**.
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We note in the *Outline* of the book the details of the new topics that we have addressed chapter by chapter. Here it suffices to say that we have responded to the book's users by adding specific chapters detailing comparative aspects of training and development and reward, and have used the latest research to extend the material on the way that international organisations manage their workforces internationally.

KEY TRENDS

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

- Multinationals are economically dominant – 63,000 transnational companies dominate world trade, accounting for two thirds of all of it. And the top 100 corporations account for 14% of worldwide sales, 12% of assets and 13% of employment (UNCTAD, 2004). The ten biggest of those industrial multinationals each have annual sales larger than the Australian government's tax revenues (*Economist*, 2000a). Around 60% of international trade involves transactions between two related parts of multinationals (*Economist*, 2000b).
- The physical location of economic value creation is difficult to ascertain. Multinational companies increasingly operate as seamless global organisations, with teams of workers based all over the world, passing projects backwards and forwards via the Internet or the companies' private in-house intranets. This makes it difficult for tax authorities to demand that economic activity and value creation be attributed to a particular physical location (*Economist*, 2000b).
- Economic consolidation through mergers and acquisitions remains a potent force for globalisation. The *Economist* Intelligence Unit analysed foreign direct investment (FDI) flows for 60 countries for the years 2001 to 2005 (*Trends International*, 2001) using econometric and competitiveness data. Despite the recent slump, overall investment rose from \$6,500 billion in 2000 to \$10,000 billion by 2005. The USA received 26.6% of global investment in this period, followed by the UK (9.3%), Germany (7.8%) and China (6.5%).

We are also witnessing the global transfer of work – either in terms of the creation of new jobs or through the global sourcing of certain parts of an individual's or unit's work. This is having a major impact on the type of organisations and nature of work that remain viable in different parts of the world. In the first wave of globalisation two decades ago, low-level manufacturing work began to transfer to low-cost locations. In the second wave, simple service work such as credit card processing began to relocate. In the third wave, higher-skill white-collar work is being transferred. By 2015 it is estimated that 3.3 million US white-collar jobs and \$136 billion of wages will shift to low-cost countries (Engardio, Bernstein and Kripalani, 2003).

A few brief examples capture the issues. Bank of America is outsourcing up to 1,100 US jobs to Indian companies where work can be done at 20% of US labour cost; Philips has shifted research and development on most TVs, cell phones and audio products to Shanghai; and Boeing has faced industrial action after it opened its Moscow Design Centre, initially employing 700 Russian engineers.

INTERNATIONAL HUMAN RESOURCE MANAGEMENT

In all these international organisations or multinational enterprises (MNEs) human resource management (HRM) is a key to success. For the vast majority of organisations, the cost of the people who do the work is the largest single item of operating costs. Increasingly, in the modern world, the capabilities and the knowledge incorporated in an organisation's human resources are the key to success. So on both the cost and benefit sides of the equation, human resource management is crucial to the survival, performance

and success of the enterprise. For international organisations, the additional complications of dealing with multicultural assumptions about the way people should be managed and differing institutional constraints become important contributors to the chances of that success.

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

Any review of world events over the last few years will emphasise the essentially unpredictable and rapidly changing nature of political, economic and social upheavals. Vaill (1989; p.2) used the metaphor of 'permanent white water' to describe the nature of doing business in the latter part of the twentieth century:

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

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

LEARNING ACTIVITY

- Imagine that you are a human resource manager in a domestically based company that has decided to operate internationally. You have been charged with sorting out the HR effects of the decision.

What questions should you be asking?

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

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

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

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

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

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

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

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

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

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

- cross-cultural management
- comparative human resource management

- international human resource management.

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

Cross-cultural management

A key factor in the increasing internationalisation of employment is that there are cultural differences between nations – differences in national values and attitudes. Many of us have stereotypes of taciturn Finns, ebullient Spaniards, work-obsessed Americans, polite Japanese, modest Malays, etc. These are stereotypes: even though the next Finn we meet may be loud and confident, the next Spaniard quiet and reserved, and so on, they indicate real, general, truths. There is now plenty of research evidence (see Chapter 2) that different nationalities do have different values and that these affect the way people organise, conduct and manage work.

An awareness of cultural differences is therefore an essential part of an international HR manager's brief. The normal HR activities such as recruitment and selection, training and development, reward and performance appraisal, may all be affected by cultural values and practices in the respective host countries. As a result, great care must be taken when deciding whether or not to adopt standardised HR policies and practices throughout the world.

Comparative human resource management

The distinction between comparative human resource management and international human resource management has been clearly made by Boxall (1995). Comparative human resource management explores the extent to which HRM differs between different countries – or occasionally between different areas within a country or different regions of the world, such as North America, the Pacific Rim states or Europe (Brewster and Larsen, 2000). We know that countries may be small or large, have more or fewer regional differences, include one or many language groups, and be more or less economically developed. More immediately, we know that they may have different labour markets and education systems, different employment laws and trade unions, and the different cultural expectations that we have already noted. It should be no surprise, therefore, to find that employment systems differ noticeably between countries and that managing human resources has to vary from country to country.

International human resource management

International HRM examines the way in which international organisations manage their human resources across these different national contexts. The international context adds extra complexity to the management of people beyond that found in a purely national setting.

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

some of the Pacific countries. It may even be unlawful in some states. The literature is replete with examples of such home-country practices that may be allowed in other countries but which depress rather than improve productivity and effectiveness.

Organisations that address IHRM, therefore, have to deal not just with a variety of practices but also with a range of policy and even strategy issues. IHRM explores how MNEs manage the demands of ensuring that the organisation has an international coherence in and cost-effective approach to the way it manages its people in all the countries it covers, while at the same time ensuring that it is responsive to the differences in assumptions and in what works from one location to another. This includes, in particular, the management of those people who have to work internationally.

AN OUTLINE OF THE BOOK

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

Part One deals with national cultures.

- *Chapter 2 The impact of national culture* on managing people defines the meaning of culture, outlines the literature on cultural differences, and explores the extent to which aspects of work practices are nationally or locally based. It uses some previously developed frameworks and applies these to the world of work.
- *Chapter 3 Culture and organisational life* continues this exploration, looking at the implications of operating across national cultures for concepts of business, management and human resource management. It first examines concepts of leadership – a key influence on the shape of HR policies and practices. The extent to which national cultures have different styles of leadership are discussed, and whether organisations can create global leaders. It also examines what makes for successful international/multinational teams (real and virtual). Finally, it considers the debates over the nature of cultural intelligence.

Part Two addresses the issue of comparative HRM. There is an overall theory chapter and then a series of chapters exploring the way that different aspects of HRM practices vary across national boundaries. It is important for readers to understand that in teaching these topics there is no longer a simple divide between Comparative and International HRM modules. Many of the topics and issues covered under a Comparative theme would find relevance on a course on International HRM. To provide an example: in the chapter on recruitment and selection (Chapter 6), the discussion of the impact of culture on practices is used to show how an in-country business partner of an MNE has to understand the local complexities of practice – a topic easily taught under an IHRM banner. Similarly, the coverage of new developments in global mobility and resourcing in that chapter could well be taught alongside traditional IHRM topics of expatriation. We have adopted this structure to best organise the material, but would emphasise that the conceptual divide between Parts Two and Three – and the relative number of chapters in each Part – should not be seen as indicative of the best way to either teach or learn about these topics. In the world of actual HR practice, the two perspectives are increasingly blended together. Part Two therefore concentrates principally on key HR functions.

- *Chapter 4 Comparative HRM: theory and practice* identifies the differences between the universalist and the contextualist paradigm and explores the contextual determinants for differences in country-level HR practices. Attention is paid to the different employment law and institutional contexts within which HRM specialists have to operate. This chapter also explores the attempts that have been made to group countries in relation to similarities of HR practices, explores whether

HRM in different countries is converging as a result of globalisation, and, given the origin of the notion of HRM in the USA, explores how far HRM prescriptions from the United States might apply in the rest of the world.

- *Chapter 5 Comparative HRM: the role of the HR department* looks at similarities and differences at country level in relation to the meaning of HRM, the role of the national institutes, and the role of the HR department in terms of issues such as strategic integration and devolvement. The changing nature of HRM is briefly considered, but particular attention is given to the role of line management in HRM.
- *Chapter 6 Comparative HRM: recruitment and selection* explores and compares some of the ways in which organisations across different countries act in order to obtain and retain the kinds of human resources they need. The chapter examines the resourcing process: making sure that the organisation has people of the right quality. It therefore looks first at recruitment and selection and considers the ways in which culture can be seen to influence such local HR practices. However, a good deal of international recruitment today is carried out in the context of global resourcing strategies and increasingly global labour markets. The chapter accordingly also looks at global skill supply strategies and the role of recruitment in the internationalisation of the organisation. Finally, it introduces some of the questions that these developments raise about the recruitment of international employees.
- *Chapter 7 Comparative HRM: rewarding* explores the nature of rewards and the different bases of pay. It considers a number of theoretical perspectives important for the study of rewards, such as agency theory, socially healthy pay and distributive justice. The links between national culture and rewards practice are examined and attention is given to the international differences in the incidence of pay for performance and comparative evidence on best practice.
- *Chapter 8 Comparative HRM: training and development* identifies key trends, similarities and differences at country level in relation to vocational education and training systems. It also explores workplace and on-the-job training. Finally, attention is given to development through participation and competence profiles.
- *Chapter 9 Comparative HRM: flexibility and work–life balance* explores trends in the issue of flexible working practices and patterns. Flexible working practices include the development of such approaches as part-time employment, short-term employment and a host of other non-standard working forms. It explores the similarities and differences in the use and meaning of such practices across national boundaries and considers the impact of these practices at national, employer and individual levels, as well as the implications for HRM specialists. Finally, it looks at developments concerning work–life balance in an international context.
- *Chapter 10 Comparative HRM: employee relations and communications* outlines the issues raised by individual and collective communications around the world. It identifies the range of employee relations systems around the world and examines the ways in which employers relate to trade unions in different countries.

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

- *Chapter 11 International HRM: theory and practice* begins by examining the different levels of analysis across which globalisation might be studied. It covers some of the main models that have influenced the field of IHRM such as life cycle, organisation design and contingency models. It then reviews theoretical perspectives in the field of strategic IHRM (SIHRM).

- *Chapter 12 Managing international working* considers the most widely discussed aspect of international HRM activities – managing people on international assignments. We start with an area that often gets less attention: analysing the function of and need for expatriates in the first place, or setting expatriation policies in a strategic context. We note trends in expatriation. Then we identify the critical components of the human resource management of the expatriation cycle.
- *Chapter 13 Managing diversity in international working* addresses issues of diversity in international organisations. These include new forms of international working, the nature of international working and its impact on individuals and on traditional career management processes in organisations, and the implications of international working on work–life balance for individuals. We also look at the ways in which the positive benefits of diversity can be harnessed.

Part Four of the book deals with new developments and the role of the HR function.

- *Chapter 14 New developments in international HRM*. In the last two chapters we make a distinction between those developments that are affecting the overall nature of international HRM inside organisations and the actual role of international HR professionals. In exploring the first of these issues, this chapter looks at some new developments, such as organisational capability, the impact of technology, models of shared service delivery and centres of excellence, and issues associated with levels of outsourcing, and global offshoring of HR activities.
- *Chapter 15 Managing international HRM* assesses the critical components of effectiveness for HR on a global scale. This involves understanding how the function can help develop global competitiveness and manage talent, the employee value proposition and employment brand on a global basis. The chapter evaluates the need to reconfigure the nature of HR in an international context.

SUMMARY

This chapter has introduced you to the overall aims and objectives of the book. In particular, it has examined the growing internationalisation of the world economy and detailed the additional complexity of human resource management in an international context. It has also introduced the three key approaches to the study of international human resource management. A central theme throughout the book is the need to balance integration and differentiation in human resource policy and practice.

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