

International HRM

Key concepts and terms

- Convergence
- Globalization
- Host-based pay
- Divergence
- Home-based pay

Learning outcomes

On completing this chapter you should be able to define these key concepts. You should also know about:

- The meaning of international HRM
- The impact of globalization
- Factors affecting the choice between convergence and divergence
- Managing expatriates
- Issues in international HRM
- International environmental and cultural differences
- Global HR policies

Introduction

It has been stated by Brewster *et al* (2005) that: 'A critical challenge for organizations from both the public and private sectors in the twenty-first century is the need to operate across national boundaries.' In this chapter consideration is given to how organizations respond to this challenge through the practice of international HRM. The chapter includes a definition of international HRM, an examination of the issues involved in international HRM, the practice of global HRM and the management of expatriates.

International HRM defined

International human resource management is the process of managing people across international boundaries by multinational companies. It involves the worldwide management of people, not just the management of expatriates.

Companies that function globally comprise international and multinational firms. International firms are those where operations take place in subsidiaries overseas that rely on the business expertise or manufacturing capacity of the parent company; they may be highly centralized with tight controls. Multinational firms are ones in which a number of businesses in different countries are managed as a whole from the centre; the degree of autonomy they have will vary.

Dr Michael Dickman of the Cranfield School of Management, as reported by Welfare (2006), believes that the main contrast between national and global HR practice is the need to see the bigger picture: 'The difference is the higher complexity and the need for sensitivity to different cultures and different business environments.' He stated that understanding the local context is key and an international HR person needs to be asking questions such as: What is the business environment here? What is the role of the trade unions? What is the local labour law? Are these people different? Are their motivation patterns different?

Issues in international HRM

There are a number of issues that specifically affect the practice of international as distinct from domestic HRM. These are the impact of globalization, the influence of environmental and cultural differences, the extent to which HRM policy and practice should vary in different countries (convergence or divergence), and the approaches used to employ and manage expatriates.

Globalization

Globalization is the process of international economic integration in worldwide markets. It involves the development of single international markets for goods or services accompanied by an accelerated growth in world trade.

Any company that has economic interests or activities extending across a number of international boundaries is a global company. This involves a number of issues not present when the activities of the firm are confined to one country. As Ulrich (1998) put it: ‘Globalization requires organizations to move people, ideas, products and information around the world to meet local needs.’

SOURCE REVIEW

The distinction between international and global HRM, Brewster *et al* (2005)

Traditionally, international HR has been about managing an international workforce – the higher level organizational people working as expatriates, frequent commuters, cross-cultural team members and specialists involved in international knowledge transfer. Global HRM is not simply about these staff. It concerns managing all HRM activities, wherever they are, through the application of global rule sets.

Bartlett and Ghoshal (1991) argue that the main issue for multinational companies is the need to manage the challenges of global efficiency and multinational flexibility – ‘the ability of an organization to manage the risks and exploit the opportunities that arise from the diversity and volatility of the global environment’.

Research conducted over a number of years by Brewster and Sparrow (2007) has shown that the nature of international human resource management is changing fast. Among some of the larger international organizations, these changes have created a completely different approach to international human resource management, one we have dubbed ‘globalized HRM’. Whereas international human resource management has tended to operate in the same way as local HRM but on a wider scale, globalized HRM exploits the new technologies available to manage all the company’s staff around the world in the same way that it has traditionally managed staff in the home country.

Environmental differences

Environmental differences between countries have to be taken into account in managing globally. As described by Gerhart and Fang (2005), these include ‘differences in the centrality of markets, institutions, regulations, collective bargaining and labour-force characteristics’. For example: in Western Europe, collective bargaining coverage is much higher than in countries like the United States, Canada and Japan. Works councils are mandated by law in Western European countries like Germany, but not in Japan or the United States. In China, Eastern Europe and Mexico, labour costs are significantly lower than in Western Europe, Japan and the United States.

Cultural differences

Cultural differences must also be taken into account. Hiltrop (1995) noted the following HR areas that may be affected by national culture:

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

The significance of cultural differences was the influential message delivered by Hofstede (1980, 1991). He defined culture as ‘the collective mental programming of people in an environment’, referred to cultural values as broad tendencies ‘to prefer certain states of affairs over others’, and described organizations as ‘culture-bound’. Using worldwide data on IBM employees he identified four national cultural dimensions: uncertainty avoidance, masculinity/femininity, power distance and individualism/collectivism.

One of the conclusions Hofstede reached was that the cultural values within a nation are substantially more similar than the values of individuals from different nations. This has been taken up by subsequent commentators such as Adler (2002) who claimed that Hofstede’s study explained 50 per cent of the difference between countries in employees’ attitudes and behaviours. But this view has been challenged by Gerhart and Fang (2005). They subjected Hofstede’s findings to further analysis and established that at the level of the individual as distinct from the country, only 2 to 4 per cent was explained by national differences and that therefore ‘Hofstede’s study should not be interpreted as showing that national culture explains 50 per cent of behaviours’. They also established from Hofstede’s data that culture varies more between organizations than countries. In their view, cross-country cultural differences, while real, have been over-estimated and may well pale in importance when compared with other unique

country characteristics when it comes to explaining the effectiveness of HR practices. But they accepted that national culture differences can be critical and that insensitivity to national culture differences can and does result in business failure (as well as failure and career consequences for individual managers).

On the basis of research conducted in 30 multinational companies by the Global HR Research Alliance (the Judge Business School, University of Cambridge and Cornell, Insead, Erasmus and Tilburg Universities) Stiles (2007) commented that ‘while national cultural differences were not unimportant, organizational culture actually had more influence on HR practice’. The conclusion from the research was that: ‘To think there is one best way to manage human resources is simplistic and wrong, but the variation and contextualization of HR, at least for the companies we studied, owes little to national culture.’

Convergence and divergence

According to Brewster *et al* (2002) the effectiveness of global HRM depends on ‘the ability to judge the extent to which an organization should implement similar practices across the world (convergence) or adapt them to suit local conditions (divergence)’. The dilemma facing all multinational corporations is that of achieving a balance between international consistency and local autonomy. They have to decide on the extent to which their HR policies should either ‘converge’ worldwide to be basically the same in each location, or ‘diverge’ to be differentiated in response to local requirements.

Convergence and divergence issues, Perkins and Shortland (2006)

Strategic choices surrounding employment relationships may be influenced primarily by ‘home country’ values and practices. But those managing operations in one or a range of host country environments face the challenge of transplanting ‘ethnocentric’ principles, justifying the consequential policies and practices in their interactions with local managers, other employees and external representatives.

There is a natural tendency for managerial traditions in the parent company to shape the nature of key decisions, but there are strong arguments for giving as much local autonomy as possible in order to ensure that local requirements are sufficiently taken into account. Hence the mantra ‘Think globally but act nationally.’ This leads to the fundamental assumption made

by Bartlett and Ghoshal (1991) that: ‘Balancing the needs of coordination, control and autonomy and maintaining the appropriate balance are critical to the success of the multinational company.’ As Brewster *et al* (2005) point out:

Where global integration and coordination are important, subsidiaries need to be globally integrated with other parts of the organization and/or strategically coordinated by the parent. In contrast, where local responsiveness is important, subsidiaries will have far greater autonomy and there is less need for integration.

Brewster (2004) believes that convergence may be increasing as a result of the power of the markets, the importance of cost, quality and productivity pressures, the emergence of transaction cost economies, the development of like-minded international cadres and benchmarking ‘best practice’. Stiles (2007) notes that common practices across borders may be appropriate: ‘Organizations seek what works and for HR in multinational companies, the range of options is limited to a few common practices that are believed to secure high performance.’ Brewster *et al* (2005) think that it is quite possible for some parts of an HR system to converge while other parts may diverge. But there is choice and they have listed the following factors affecting it.

SOURCE REVIEW

Factors affecting the choice between convergence and divergence, Harris and Brewster (1999)

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

Dickmann, as reported by Welfare (2006), instanced organizations such as IBM and Oxfam that operate a model based on universal principles or values across the organization that are then implemented differently at regional or national level. He suggested that the extent of integration or convergence depends on the business model of the organization:

If the company is basically a McDonald's, where there are only limited local variations but the product is essentially the same all over the world, then the approach is likely to be different to a company like Unilever, whose products and processes tend to be much more responsive to the local market.

Global HR policies and practices

The research conducted by Brewster *et al* (2005) identified three processes that constitute global HRM: talent management/employee branding, international assignments management, and managing an international workforce. They found that organizations such as Rolls Royce had set up centres of excellence operating on a global basis. They observed that global HR professionals are acting as the guardians of culture, operating global values and systems.

It was established by the Global HR Research Alliance study (Stiles, 2007) that global HR policies and practices were widespread in the areas of maintaining global performance standards, the use of common evaluation processes, common approaches to rewards, the development of senior managers, the application of competency frameworks and the use of common performance management criteria.

Generally the research has indicated that while global HR policies in such areas as talent management, performance management and reward may be developed, communicated and supported by centres of excellence, often through global networking, a fair degree of freedom has frequently been allowed to local management to adopt their own practices in accordance with the local context as long as in principle these are consistent with global policies.

Managing expatriates

Expatriates are people working overseas on long- or short-term contracts who can be nationals of the parent company or 'third country nationals' (TCNs) – nationals of countries other than the parent company who work abroad in subsidiaries of that company.

The management of expatriates is a major factor determining success or failure in an international business. Expatriates are expensive; they can cost three or four times as much as the employment of the same individual at home. They can be difficult to manage because of the problems associated with adapting to and working in unfamiliar environments, concerns about their development and careers, difficulties encountered when they re-enter their parent company after an overseas assignment, and how they should be remunerated. Policies to address all these issues are required, as described below.

Resourcing policies

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

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

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

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

Recruitment and selection policies

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

Role specifications

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

- recognize the diversity of overseas countries;
- accept differences between countries as a fact and adjust to these differences effectively;
- tolerate and adjust to local conditions;
- cope in the long term with a large variety of foreign contexts;
- manage local operations and personnel abroad effectively;

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

Realistic previews

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

Preparation policy

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

Training policy

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

1. Identify the type of global assignment, eg technical, functional, tactical, developmental or strategic/executive.
2. Conduct a cross-cultural training needs analysis covering organizational analysis and requirements, assignment analysis of key tasks and individual analysis of skills.

3. Establish training goals and measures – cognitive (eg understanding the role of cultural values and norms) and affective (modifying perception about culture and increasing confidence in dealing with individual behaviours to form adaptive behaviours such as interpersonal skills).
4. Develop the programme – the content should cover both general and specific cultural orientation; a variety of methods should be used.
5. Evaluate training given.

Career management policy

Special attention has to be paid to managing the careers of expatriates as part of their experience overseas, or on return permanently or for a period to their home country.

Assimilation and review policies

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

Re-entry policies

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

Pay and allowances policies

The factors that are likely to impact on the design of reward systems, as suggested by Bradley *et al* (1999) are the corporate culture of the multinational enterprise, expatriate and local labour markets, local cultural sensitivities and legal and institutional factors. They refer to the choice that has to be made between seeking internal consistency by developing common reward policies to facilitate the movement of employees across borders and preserve internal equity, and responding to pressures to conform to local practices. But they point out that: 'Studies of cultural differences suggest that reward system design and management need to be

tailored to local values to enhance the performance of overseas operations.’ Although, as Sparrow (1999) asserts: ‘Differences in international reward are not just a consequence of cultural differences, but also of differences in international influences, national business systems and the role and competence of managers in the sphere of HRM.’

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

Home-based pay

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

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

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

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

- ‘incentive to work abroad’ premium;
- hardship and location;
- housing and utilities;
- school fees;
- ‘rest and recuperation’ leave.

Host-based pay

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

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

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

International HRM – key learning points

The meaning of international HRM

International human resource management is the process of managing people across international boundaries by multinational companies. It involves the worldwide management of people, not just the management of expatriates.

Issues in international HRM

International HRM issues comprise the impact of globalization, the influence of environmental and cultural differences, the extent to which HRM policy and practice should vary in different countries (convergence or divergence), and the approaches used to employ and manage expatriates.

The impact of globalization

Globalization requires organizations to move people, ideas, products and

information around the world to meet local needs (Ulrich, 1998).

International environmental differences

Environmental differences between countries have to be taken into account in managing globally. These include markets, institutions, regulations, collective bargaining and labour-force characteristics.

International cultural differences

National cultural differences can be critical and insensitivity to them can result in business failure (as well as failure and career consequences for individual managers).

Factors affecting the choice between convergence and divergence (Harris and Brewster, 1999)

- The extent to which there are well-defined local norms.

International HRM – key learning points (continued)

- The degree to which an operating unit is embedded in the local environment.
- The strength of the flow of resources between the parent and the subsidiary.
- The orientation of the parent to control.
- The nature of the industry.
- The specific organizational competencies, including HRM, that are critical for achieving competitive advantage in a global environment.

Global HR policies

Three processes that constitute global HRM are: talent management/employee branding, international assignments management, and managing an international workforce (Brewster *et al*, 2005).

Managing expatriates

Expatriates can be difficult to manage because of the problems associated with adapting to and working in unfamiliar environments, concerns about their development and careers, difficulties encountered when they re-enter their parent company after an overseas assignment, and how they should be remunerated. Special policies for them are required, covering:

- recruitment and selection;
- assimilation and review;
- training;
- career management;
- re-entry;
- pay and allowances (home-based or host-based pay).

Questions

1. The conclusions reached by Brewster *et al* (2005) after their extensive research were that: ‘Our study has revealed an increasing emphasis on globalizing HR processes, with intense discussion around what needs to be global, regional or national. This new definition of global HR positions the global HR professional as the guardian of culture, operating global values and systems.’ What do you think this means in practice for anyone involved in international HRM?
2. You are director of HRM (international) for an international firm operating mainly in Africa. The business strategy is to expand operations into the Far East, starting in Malaysia. A number of medium-sized firms based in Kuala Lumpur have been

Questions (continued)

identified as possibilities for acquisition. It will, however, be necessary to place a number of expatriates in those firms to facilitate the acquisition and ensure that their operations fit into the strategic pattern envisaged for the company. Due diligence has established that these firms have a number of capable executives who are paid above the going rate locally. However, their pay is well below the level of remuneration that would be required to attract and retain expatriates to work there. You have been asked by the managing director, international operations, to propose a remuneration policy for expatriates. What do you recommend and why?

3. The chief executive officer of one of your company's overseas subsidiaries has e-mailed you as follows: 'I have come across the terms "convergence" and "divergence" in an *Economist* article about managing international businesses. Apparently they refer to the choice of how far either employment conditions should be standardized worldwide or local companies should adopt their policies. In these terms we are pretty convergent. Are there any arguments I could use to achieve a more divergent policy for us?' Draft your reply.

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