

International human resource management: review and critique

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The research agenda for the field of international human resource management (IHRM) is clear. For a better understanding and to benefit substantially, management scholars must study IHRM in context (Jackson, S.E. and Schuler, R.S. 1995. Understanding human resource management in the context of organizations and their environment. *Annual Review of Psychology*, **46**: 237–264; Geringer, J.M., Frayne, C.A. and Milliman, J.F. 2002. In search of ‘best practices’ in international human resource management: research design and methodology. *Human Resource Management*, forthcoming). IHRM should be studied within the context of changing economic and business conditions. The dynamics of both the local/regional and international/global business context in which the firm operates should be given serious consideration. Further, it could be beneficial to study IHRM within the context of the industry and the firm’s strategy and its other functional areas and operations. In taking these perspectives, one needs to use multiple levels of analysis when studying IHRM: the external social, political, cultural and economic environment; the industry, the firm, the sub-unit, the group, and the individual. Research in contextual isolation is misleading: it fails to advance understanding in any significant way (Adler, N.J. and Ghadar, E. 1990. Strategic human resource management: a global perspective. *Human Resource Management in International Comparison*. Berlin: de Gruyter; Locke, R. and Thelen, K. 1995. Apples and oranges revisited: contextualized comparisons and the study of comparative labor politics. *Politics & Society*, **23**, 337–367). In this paper, we attempt to review the existing state of academic work in IHRM and illustrate how it incorporates the content and how it might be expanded to do so.

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Introduction

International human resource management (IHRM) is about the world-wide management of human resources (e.g. Adler and Ghadar 1990; Brewster 2002; Cascio and Bailey 1995;

Harris and Brewster 1999; Poole 1999; Punnett and Ricks 1992; Tung 1984). The purpose of IHRM is to enable the firm, the multinational enterprise (MNE), to be successful globally. This entails being: (a) competitive throughout the world; (b)

efficient; (c) locally responsive; (d) flexible and adaptable within the shortest of time periods; and (e) capable of transferring knowledge and learning across their globally dispersed units. These requirements are significant, and the magnitude of the reality is indisputable: for example, a substantial majority of industries in the world are under full-scale attack by global competitors (Bartlett and Ghoshal 1998). On the other hand, most of the emerging markets are now bombarded by foreign direct investments (FDIs) and by the MNEs of developed nations (UNCTAD 1999).

IHRM for many firms is likely to be critical to their success, and effective IHRM can make the difference between survival and extinction for many MNEs. Yet, for reasons of cost, time and difficulty, IHRM research has been limited and largely focused on a few issues. Calls are now being made to advance our understanding of this important area in several ways, including: (1) developing models and frameworks to reflect the complex set of environmental factors that impinge upon the global management of human resources (Adler and Ghadar 1990; Brewster 1995; Budhwar and Debrah 2001; Locke and Thelen 1995; Shenkar 1995; Sparrow and Hiltrop 1997); (2) researching international human resource activities in a way that recognizes their systematic interaction (Begin 1997; Clark *et al.* 1999; Punnett and Ricks 1992); and (3) utilizing more theoretical perspectives to predict and explain relationships (Black and Mendenhall 1990; DeCieri and Dowling 1999; Schuler *et al.* 1993; Taylor *et al.* 1996; Teagarden *et al.* 1995).

In this paper, we review what is being done in the IHRM field (Schuler and Florkowski 1998). A strategic framework is utilized to organize our review and evaluation of the existing literature and research. While MNEs are our primary focus, issues associated with traditional comparative HRM research are also briefly examined. Implications and suggestions for future research agendas are offered throughout.

A Model of IHRM

Our model of IHRM is based on the framework offered by Schuler *et al.* (1993); it draws on Sundaram and Black's (1992, 733) definition of a MNE as:

any enterprise that carries out transactions in or between two sovereign entities, operating under a system of decision making that permits influence over resources and capabilities, where the transactions are subject to influence by factors exogenous to the home country environment of the enterprise.

This definition serves to highlight the differences between managing global firms and managing domestic firms and thus establishes the basis for conceptualizing IHRM as substantially more encompassing than domestic HRM (e.g. Adler and Bartholomew 1992; Bartlett and Ghoshal 1992, 1998; Black *et al.* 1999; Dowling *et al.* 1999; Roberts *et al.* 1998). A consequence of this for most MNEs is a human resource department that develops and administers the following policies and practices but across a wide variety of nations, each with its own social, cultural, legal, economic, political and historical characteristics (Morgan 1986):

Human resource planning; staffing; performance evaluation; training and development; compensation and benefits; and labor relations.

The rise of the MNE is being accelerated because the costs associated with the development and marketing of new products are too great to be amortized over only one market, even a large one such as the USA or Europe (e.g. Bartlett and Ghoshal 1998; Buckley and Casson 1998). For many multinationals, the likelihood of competing in several diverse environments has never been greater. While these scenarios suggest paths that multinational enterprises have indeed taken to be competitive, they are superseded by the need to manage globally,

as if the world were one vast market, and simultaneously to manage locally, as if the world were a vast number of separate and loosely connected markets (Bartlett and Ghoshal 1998; Caligiuri and Stroh 1995; Merchant 2000). Bartlett and Ghoshal's (1998) basic premise is that MNEs are represented by units that need to be co-ordinated or integrated in some form and to some degree, spread throughout the world. In essence, MNEs are firms that need to be global and local (multidomestic) at the same time. MNEs, however, need to achieve different levels of globalness and localness (Hamel and Prahalad 1986). There are varying ways to attain such levels (e.g. Adler and Ghadar 1990; Wells 1998).

Simultaneous concerns for being global, transferring learning, and being multidomestic (thereby facilitating local sensitivity) generate important issues relevant to IHRM (Brewster 2002). For example, can MNEs link their globally dispersed units through human resource policies and practices? How do MNEs facilitate a multidomestic response that is simultaneously consistent with the need for global co-ordination and the transfer of learning and innovation across units through human resource policies and practices?

The growing importance of MNEs and use of complex global strategic business decisions have generated a similar phenomenon in the area of IHRM, viz. the linkage of IHRM with the strategic needs of the business (Galbraith and Kazanjian 1986; Wright and Snell 1998). Thus, a more strategic perspective of IHRM has developed (e.g. Adler and Bartholomew 1992; Bartlett and Ghoshal 1992; Schuler and Jackson 1999; Schuler *et al.* 1993; Taylor *et al.* 1996).

Further reasons for the development of a more strategic perspective of IHRM include the recognition that: (a) HRM at any level is important to strategy implementation (e.g. Hamel and Prahalad 1986; Schuler and Jackson 2001; Wright and Snell 1998); (b) major strategic components of MNEs have a significant influence on international

management issues, functions, policies, and practices (Edstrom and Galbraith 1977; Roberts *et al.* 1998); (c) many of these characteristics of IHRM can influence the attainment of the concerns and goals of MNEs (Kobrin 1992); and (d) a wide variety of factors make the relationship between MNEs and IHRM complex, thereby making the study of IHRM challenging as well as important (Bartlett and Ghoshal 1998, 2000; Dowling *et al.* 1999; Oddou and Derr 1999).

By including a more strategic perspective, today's model of IHRM incorporates the broader, contextual reality described by Adler and Ghadar (1990). While Schuler *et al.* (1993) describe this phenomenon as the development of a field called strategic IHRM, we treat it as the evolution of IHRM to encompass a strategic perspective and use their framework as a contemporary description of IHRM. In both cases, the traditional comparative aspect of IHRM and this more recent strategic perspective of IHRM are joined. This facilitates the implementation of the research agenda in IHRM called for by Adler and her colleagues. The model for IHRM that is used here to inventory and appraise what we know today, as well as to suggest a research agenda for tomorrow, appears in Figure 1. This model is now being accepted and utilized by other researchers in the field (e.g. De Cieri and Dowling 1997; Taylor *et al.* 1996) as a way to examine the field of IHRM.

As shown in Figure 1, there are three major components of IHRM: issues, functions, and policies and practices. In the interest of space, we focus our discussion on these components, referring interested readers to Schuler *et al.* (1993) for a thorough description of the entire model. All aspects of the model, however, are woven into the research agenda that is articulated here.

IHRM Issues

IHRM issues are best conceptualized in terms of interunit and intraunit needs and challenges.



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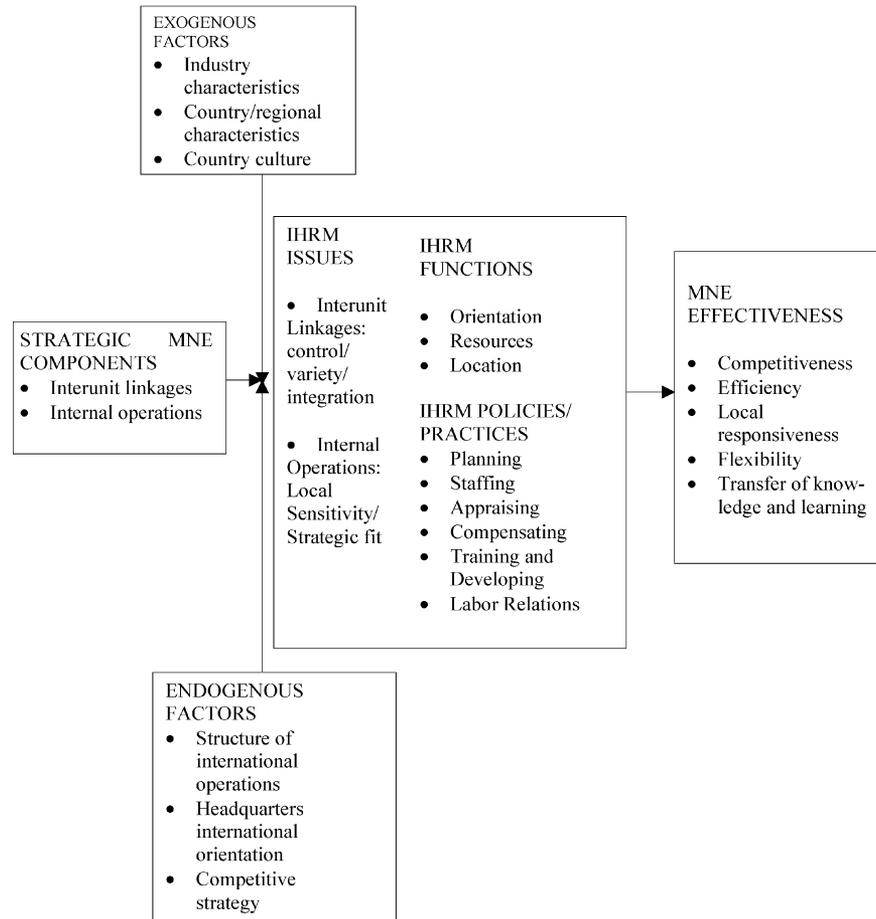


Figure 1. Integrative framework of international human resources management in MNEs. Adapted from R.S. Schuler, P. Dowling, and H. DeCieri (1993) An integrative framework of strategic international human resource management. *International Journal of Human Resource Management*, 4, 722.

Although the MNE is separated across several nations, it remains a single enterprise and therefore must consider how to balance competing pressures for differentiation and integration (Lawrence and Lorsch 1967). Multinationals must decide how to be sensitive to the unique demands of the indigenous environment without inhibiting their ability to co-ordinate the internal operations of local units in pursuit of global strategies. Because these issues of differentiation and integration are often facilitated by HRM activities, they represent

a critical component in IHRM. An example of this dual focus is found in most American-based MNEs, which tend to assign primary responsibility to their subsidiaries for local compensation and benefits, training, and labor relations, with regional units assuming secondary (i.e. co-ordinating) responsibility (Reynolds 1992).

IHRM Functions

IHRM functions represent three areas: (a) an MNE's human resource orientation; (b) the

resources (time, energy, money) allocated to its human resource organization; (c) and the location of those resources and HR decision making. Considerable resources can be devoted to HRM on a transnational scale. The center can staff a rather extensive HR department dedicated exclusively to IHRM tasks, such as deciding how to select and repatriate international assignees (e.g. Caligiuri 2000) as well as how to compensate these employees (Hammer *et al.* 1996; Peterson *et al.* 1996). It can also hire a staff of individuals to focus on managerial training and development, largely to develop a global management cadre (Black and Gregersen 2000). Accordingly, the resources devoted to and the location of IHRM operations can be expected to vary considerably across MNEs (Alder and Ghadar 1990; Bird *et al.* 1998). Dowling (1988) documented several types of IHRM structures within MNEs, including: a totally centralized HR function; centralized HR policy development with regional input in implementation; corporate, group, and divisional HR units with unique responsibilities; and centralized HR decision making for parent country nationals (PCNs) and third-country nationals (TCNs). Of course, IHRM resource consumption should diminish as: (1) the number of PCNs and TCNs decreases; and (2) overseas units are awarded greater decision-making autonomy (i.e. decentralization).

IHRM Policies and Practices

IHRM policies and practices, which constitute the last component of the model, involve the development of general guidelines on how individuals will be managed and specific HR initiatives. IHRM policies and practices relevant to the needs of MNEs include those related to planning, staffing, appraising, compensating, training and developing, and labor relations (Dowling *et al.* 1999). To illustrate, an MNE might have an HR policy that indicates that performance will be rewarded. Given that this is a rather general

statement, each MNE unit could be free to develop specific practices that are simultaneously consistent with local conditions and the general policy. Under this policy, one local unit might develop an individual incentive plan for the general manager tied to the sales of the local operation while another unit might institute a group incentive plan for the entire top management team tied to host-country sales (Fulkerson and Schuler 1992).

As suggested by Adler and Ghadar (1990), Bartlett and Ghoshal (1998), Evans (1986) and Teagarden *et al.* (1995), understanding and doing research in IHRM must encompass a rather complex reality. The model in Figure 1 has tried to capture this fact. It is now used to organize and critique what has been published in the IHRM domain. Our discussion is divided into three broad categories: (1) IHRM and MNE effectiveness; (2) MNEs' impact on host industrial relations (IR) systems; and (3) national HRM systems and competitive advantage.

IHRM and MNE Effectiveness

Because IHRM issues are the main drivers of IHRM functions and policies/practices, the ensuing discussion is structured around these issues, beginning with interunit linkages.

Interunit Linkages

Within our framework of IHRM shown in Figure 1, the interunit linkages have been a traditional focal point for discussion of IHRM (Bartlett and Ghoshal 1998; Pucik 1988; Pucik and Katz 1986). These discussions typically have focused on recognizing the variety of several world-wide units while controlling and co-ordinating that variety (Doz and Prahalad 1986; Edstrom and Galbraith 1977). Indeed, the key objective in interunit linkages appears to be balancing the needs of variety (diversity), co-ordination, and control for purposes of global competitiveness, flexibility, and organizational learning (and transfer of knowledge) (Bartlett and Ghoshal



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2000). The nature of this balance is expected to vary, depending on the characteristics of the particular MNE, such as its stage of globalization (e.g. Adler and Ghadar 1990; Milliman *et al.* 1991).

IHRM Policies and Practices

IHRM policies and practices shown in Figure 1 have also been a traditional focus of researchers and practitioners in IHRM (Pucik and Katz 1986; Oddou and Derr 1999). In addition to being the basic activities in the field of HRM domestically, they serve internationally to strengthen interunit linkages in numerous ways, including: (a) comprehensive human resource planning, ensuring that the MNE has the appropriate people in place around the world at the right time; (b) staffing policies that capitalize on the world-wide expertise of expatriates, third-country nationals (TCNs), and host-country nationals (HCNs); (c) performance appraisals that are anchored in the competitive strategies of MNE headquarters and host units; (d) compensation policies that are strategically and culturally relevant; and (e) training and development initiatives that prepare individuals to operate effectively in their overseas locations and to co-operate with other MNE units. How organizations develop, effectively implement, and institutionalize such policies should be at the heart of our research agenda for IHRM. Some research has been initiated in this regard. For example, Roberts *et al.* (1998) have identified three practical challenges to managing the global workforce: (a) deployment; (b) knowledge and innovation dissemination; and (c) talent identification and development. They have also identified four strategies to meet these challenges. These are: (a) aspirational careers; (b) awareness building assignments; (c) SWAT teams; and (d) virtual solutions. Finally, they propose a diagnostic framework for each of the challenges and when to use each of the strategies. Yet, previous studies have been skewed heavily toward the effects

that staffing or development practices have on individuals – primarily expatriated employees (e.g. Hillary and Brewster 1999; Tung and Punnett 1993). One could argue that this focus is consistent with the efforts of many MNEs (especially those based in North America) to manage interunit operations through PCNs. Even within Europe, such an ethnocentric approach is adopted by most organizations to organize their IHRM (Mayrhofer and Brewster 1996). As more firms think and act globally, however, there is a compelling need to devise and sustain effective transnational HRM systems (Adler and Bartholomew 1992; Brewster 2002; Edwards *et al.* 1996).

Given these caveats, linkage-related IHRM research is reviewed below. Although HCNs and TCNs may enhance such linkages in vital ways, previous investigations have concentrated on the reactions these groups have to host-level HRM policies and practices. As a result, we will examine that segment of the literature later in the section titled 'Internal Operations'.

Human resource planning. Human resource planning should be an indispensable means of engineering effective interunit linkage, most notably by synchronizing the staffing, appraisal, and compensation subsystems of IHRM. Such planning must be comprehensive in scope cognizant of, and responsive to, the MNE's industry characteristics, product stage, organizational phase of international development, global structure, and competitive strategies (Bartlett and Ghoshal 1998). These considerations are reflected in the following critical human resource planning issues facing MNEs:

- management potential at the earliest possible career stage
- identifying critical success factors for the future international manager
- providing developmental opportunities
- tracking and maintaining commitments to individuals in international career paths

- tying strategic business planning to human resource planning, and vice versa
- dealing with the organizational dynamics of multiple (decentralized) business units while attempting to achieve global and regional (e.g. Europe) focused strategies
- providing meaningful assignments at the right time to ensure adequate international and domestic human resources.

Similarly, Wong (2000) has identified 10 major planning and processing activities that international HR executives need to address: assignment and cost planning; candidate selection; assignment terms and condition documentation; relocation processing and vendor management; cultural and language orientation/training; compensation administration and payroll processing; tax administration; career planning and development; handling spouse and dependent matters; and immigration processing.

How best to do any of these activities remains a challenge for some MNEs; how best to do them in an integrative manner through HR planning initiatives is a major challenge for most MNEs (Bartlett and Ghoshal 1998; Evans 1986, 1992). More specific questions about each of these items are addressed below.

International human resource staffing. Staffing is a major IHRM practice that MNEs have used to help co-ordinate and control their far-flung global operations (e.g. Bonache and Cervino 1997; Dowling *et al.* 1999; Harvey *et al.* 2000; Mayrhofer and Brewster 1996; Mendenhall *et al.* 2002; Pucik and Katz 1986; Stroh and Caligiuri 1998). Traditionally, MNEs sent parent-country nationals abroad to ensure that the policies and procedures of the home office were being carried out to the letter in foreign operations (e.g. Brewster and Scullion 1997; Punnett and Ricks 1992). Scullion and Brewster (2001) provide an excellent summary of existing literature that highlights the importance of distinguishing between MNEs, e.g. North American and European. Regardless of

location, however, as costs became prohibitive and career issues made these assignments less attractive, MNEs turned increasingly to third-country and host-country nationals to satisfy international staffing needs (e.g. Black *et al.* 1999).

MNEs nevertheless continue to expatriate PCNs as technical troubleshooters, structure reproducers, and general management operatives. Precise data are lacking on the extent to which there is cross-cultural or industry variation in the utilization of short-versus long-term tours of duty and single postings versus career rotations. Tung (1982) found that Japanese MNEs expatriated more frequently when filling senior- and middle-management positions in advanced industrialized economies than did European or American firms. The staffing approach for lower managerial positions was polycentric (i.e. staffed from the host labor market) in the advanced industrialized countries regardless of MNE home country; however, Japanese multinationals displayed levels considerably below those for their Western-based counterparts. In general, US companies are least likely to staff management vacancies in these locations with PCNs; nevertheless, American companies do use PCNs. Reasons for using these PCNs or expatriates, include: protecting company interests; broadening global perspectives; providing functional perspectives; broadening global knowledge; providing developmental assignments; building local talent via PCN training; orchestrating better career planning; managing mature businesses; and managing new and joint ventures.

MNEs remain concerned about the best way to identify and select expatriates for foreign assignments (e.g. Black *et al.* 1999; Harzing 2001). Davison and Punnett (1995) argue that international managers and researchers need to avoid an 'ostrich-like' attitude of 'gender and race blindness' when dealing with international assignments. The existing research suggests that the foreign assignment selection process should be done more systematically without gender bias and more



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strategically, e.g. using expatriates to help transfer knowledge and learning (Bonache and Fernandez 1999).

The trend here appears to be in the direction of developing a selection process based on the identification of critical job dimensions (such as: accept foreign assignments; spouse and family support; knowledge of foreign language; adjustment to living abroad; adjustment to foreign business practices; establishing/maintaining business contacts; technical competence; working with others; communicating/persuading; initiative/effort; and company support) and the development of predictors that can be used to increase the probability of success (Dowling *et al.* 1999). Ultimately, researchers may want to isolate the relative impact that individual characteristics (e.g. knowledge, skills, abilities) have on successful completion of international assignments as well as other organizational factors, e.g. appraisal and compensation policies, support systems (Petrovic *et al.* 2000; Scullion and Starkey 2000)

The 'spouse and family support' dimension typically rests on assumptions that the spouse is female and will not be working abroad in a career-related position (Punnett *et al.* 1992). However, dual-income and dual-career couples are becoming increasingly important segment of professional managers in the US (Harvey and Buckley 1998). It is now expected that the dual-career couples will increasingly be involved in international assignments, many of which will entail the expatriation of women managers (e.g. Adler 1994, 2001; Harvey and Buckley 1998). There remains a paucity of research on the initiatives that US- and non-US-based MNEs are undertaking to capitalize on these developments (e.g. spousal employment search services, waivers of immigration restrictions on working spouses), a deficiency that should be remedied in subsequent IHRM investigations.

Further research opportunities abound in the area of staffing with third country and host-country nationals. While the use of more

TCNs and HCNs may solve staffing needs, it raises concerns about the ability to satisfy the needs of co-ordination and control and the transfer of learning across regional units (e.g. Dowling *et al.* 1999; Harzing 2001; Ouchi and MacGuire 1975; Pucik 1988). As Pucik and Katz (1986) argued, firms can redress such needs by (a) establishing rules and procedures for HCNs or TCNs to carry out or (b) socializing the HCNs or TCNs to think and behave like expatriates. Of course, these pure archetypes might not be found as MNEs seek the most appropriate solution to fit the circumstances. For example, under conditions of rapid change, high uncertainty, and the need for social information to be gathered and utilized, MNEs would more likely socialize individuals (Van Maanen and Schein 1979). Under conditions of stability, certainty, and the need for technical information to be utilized, firms would more likely establish rules and procedures for individuals to carry out (Banal 1992). Since MNEs rarely find purely one set of conditions or another, combinations of the two approaches are commonplace.

Repatriation. Along with this research on expatriation is the work on repatriation (Mendenhall *et al.* 2002). The quality of the repatriation process is viewed as critical to the overall career success of expatriates. It has also been linked to the adjustment process and turnover of expatriates following their return home (Adler 2001; Black *et al.* 1999; Brewster and Scullion 1997; Stroh 1995). Much progress has been made in capturing the complexity of the repatriation process. For example, Black *et al.* (1999) have presented a rich framework incorporating many variables associated with the anticipatory and in-country repatriation adjustment process. Based on their framework, they presented 18 propositions waiting to be tested. Alternatively, Welch *et al.* (1992) described the process of repatriation as having four phases: preparation, physical relocation, transition, and readjustment. While some would argue

this conceptualization really goes far beyond the process of 'coming home', others would claim that it represents all the variables that potentially impact the longevity and performance of the individual once repatriated. Stroh (1995) examined the main turnover predictors among repatriates in 51 US-based MNCs. Her study revealed: corporate values related to the importance of overseas assignment to the organization, whether the organization has a career development plan for repatriates, and the perceived impact of corporate turbulence on being able to place repatriates adequately upon their return as the main predictors of repatriates turnover. Hammer *et al.* (1998) examined the adjustment of American corporate managers and spouses to their professional and social environments upon their return to the US. They investigated the relationship of background variables (e.g. age, prior national experience), host country variables and re-entry variables of expectations to re-entry satisfaction and re-entry difficulties of 44 returning managers and 33 spouses from two MNCs. Hammer *et al.* (1998) found support for the relationship between re-entry expectations and overall re-entry satisfaction for managers and re-entry expectations and re-entry satisfaction and re-entry difficulties for spouses. Such ongoing research, along with earlier discussed frameworks in the field such as by both Welch *et al.* (1992) and Black *et al.* (1999) reflect the trends in IHRM to be more systematic, strategic, inclusive, and contextual. In doing so, they offer fertile ground for future research.

Socialization/MNE synergy. Concerns remain about the biasing effects that the culture and norms of parent firms can have on socialization processes (Pucik and Katz 1986). These ethnocentric forces can compromise the MNE's ability to identify and benefit from cultural synergies in their operating units. One means of combating management ethnocentrism would be to

engage more TCNs in preference to PCNs, individuals who would be expected to have been previously socialized (Cappelli and McElrath 1992). But we still cannot define the best way to socialize a culturally diverse set of individuals. It appears, however, that as MNEs become more global, their socialization process needs to be less ethnocentric cultural differences are too important to ignore or deny (Adler 2001; Adler and Ghadar 1990). In fact, facilitating and diffusing cultural synergies may be critical to economic success as industries become more transnational in nature (Adler 2001; Adler and Bartholomew 1992). Recently, Caligiuri (2000) examined the relationship between host national contact and cross-national adjustment of expatriates. Her findings suggest that greater contact with host nationals positively relates to cross-cultural adjustment when an expatriate possesses the personality trait of openness. The personality characteristic of sociability was also related to cross-cultural adjustment.

On the way to developing a global workforce and cadre of global managers, MNEs need to open their recruitment process and enhance the attractiveness of global assignments (Adler 1994; Adler and Bartholomew 1992; Harvey *et al.* 1999). Remaining to be researched, however, is the relationship between an open recruiting process and MNE effectiveness. Indeed, yet to be investigated is the extent to which there are gaps between what MNEs 'now do' in recruiting and what they 'should do'.

Staffing research has targeted expatriates, TCNs, and HCNs, but this approach is less true of works examining appraisals, compensation, and training. This shortcoming is being redressed gradually as MNEs seek to globalize their operations in their attempts to increase global effectiveness and facilitate more knowledge transfer and organizational learning.

Appraising performance. While the expatriate is on assignment, the individual performance must be appraised (Brewster and Scullion



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1997; Dowling *et al.* 1999). Peterson *et al.* (1996), in their comparative IHRM study of British, German, Japanese and the US multinationals found that expatriates had performance appraisals while serving in the foreign assignment. Their appraisal mechanisms varied from quantitative (e.g. graphic scale) to qualitative (e.g. MBO or narrative). Many types of assignments exist entailing numerous job performance dimensions. For the expatriate assignment, in contrast to the domestic assignment, MNEs need to evaluate dimensions of performance not specifically job-related, such as cross-cultural interpersonal qualities; sensitivity to foreign norms, laws, and customs; adaptability to uncertain and unpredictable conditions; and the host location's integration with other MNE units. The significance of these factors will vary by the type of expatriate. So far, the research on expatriate performance appraisal has not fully addressed the relative impact of these uniquely international dimensions of performance, regardless of the type of expatriate assignment. Audia and Tams (2002), however, offer some suggestions for moving ahead with research in this area. Thus, the research opportunities in this area are relatively unlimited, but feasible.

While the performance appraisals of expatriates who are assigned for special technical projects and short-term stays tend to be operational and task-focused, evaluations of the expatriate manager tend to be more strategic, more related to the operation of the entire unit and how it relates to the other locations (Evans 1986; Selmer and de Leon 1997). Appraising the performance of this manager, therefore, becomes an important issue at the interunit linkage level of IHRM (Dowling *et al.* 1999; Fulkerson and Schuler 1992). Units within a large MNE may pursue different strategic missions, face different legal conditions, and encounter far different competitive situations. Consequently, MNEs must account for these environmental conditions when constructing appraisal formats and individual objectives for unit

managers. While it appears that this approach to PCN appraisal is not unknown within large multinationals (Fulkerson and Schuler 1992), there is little empirical evidence to suggest how widespread the practice is or under what conditions (e.g. degree of trust) it is more effective. It does appear, however, that performance appraisal of expatriate managers can be a critical means whereby MNEs link their units together (e.g. by appraising cooperative behaviors and incorporating the various environmental dimensions into each manager's appraisal format differently) (Harzing 2001). It can also facilitate the development of a common appraisal format that recognizes and makes situational differences legitimate, so that the relative contributions of managers around the world can be tracked, evaluated, and compared. This strategically and culturally standardized information should guide managerial career development, future promotion decisions, and compensation adjustments. As the next two sections detail, though, there is only modest evidence that strong linkages actually exist.

Compensating the expatriate. It has been argued that expatriate compensation can be as significant as appraisal in fostering interunit linkages and the attainment of international strategic objectives (Dowling *et al.* 1999; Reynolds 1992, 2001). "In theory, [parent country nationals] should have no more or less at risk economically than their domestic counterparts" (Reynolds 1992, 75). The reality is that expatriates tend to have greater income security because performance evaluations usually are a rather modest determinant of their total compensation package. While PCNs may have fewer opportunities to invest in tax shelters and other economic amenities than their functional equivalents at home, the former can cost MNEs up to five times as much (Dowling *et al.* 1999). A side effect of this cost differential is the substantial disparity between the salary of PCNs and that of HCNs or TCNs. This disparity has the potential to create status

distinctions in an MNE's global workforce, thereby inhibiting interunit linkages. The extent to which this actually occurs, however, is not documented publicly. It appears, however, that expatriate compensation as practiced by US MNEs tends to reflect the assumption of the home country (e.g. money is the most important motivator) and thus has been very culture bound (Schuler and Rogovsky 1998).

Similar patterns are evident in the provision of benefits. American and Japanese multinationals normally limit TCNs to the fringe benefits available for indigenous employees at the same time as PCNs receive home-country entitlements (Towers Perrin 1987). European MNEs are more egalitarian as a rule, extending home-country benefits to TCNs and PCNs. Given how little we know about 'standard' international compensation and benefits administration, research opportunities abound (Sparrow 2000). Some of the key issues to be investigated include the following:

- How can MNEs develop pay structures that are cost-effective, fair, and adaptable to different employee groups?
- How can MNEs develop more culturally sensitive compensation schemes that recognize country differences, yet are equally motivating and still equitable?
- How can international-assignee compensation be better linked to the strategy and industry characteristics of a given MNE?

Further issues that can be examined include: managing expatriate expectations; adding 'appropriate' value to expatriate compensation packages; 'localization' of expatriate compensation; cost containment; global pension schemes; integration of HR planning with expatriate compensation; management development as a crucial factor in expatriate compensation planning; regionalization; revisiting the 'balance sheet' concept; and centralizing and decentralizing the assignment policy.

Addressing these several general and specific issues in expatriate compensation is

likely to provide a full research agenda for those interested in IHRM reward structures.

Training and developing. Training and development, or human resource development, is an aspect of IHRM that presents another means of linking the dispersed units of an MNE.¹ Traditionally, research has focused on the predeparture training extended to PCNs and their families. Lack of preparation generally has been associated with a higher expatriate failure rate; US multinationals tend to engage in less training than do their European and Japanese counterparts (Noble 1997; Tung 1982). Moreover, US MNEs ordinarily place less emphasis on language, interpersonal skills, and culture sensitivity in their training programs than do MNEs based elsewhere (e.g. Dowling *et al.* 1999; Tung 1982). Consequently, it is not surprising that US MNEs experience higher expatriate failure rates than do other multinationals. At times, such claims are contradictory: for example, Peterson *et al.* (1996, 550) report lower failure rates than reported by Tung (1982). However, as suggested above, the findings of Peterson *et al.* (1996) also confirm higher expatriate failure rates in American multinationals in comparison with Western European and Japanese MNCs. As much of this research is based on self-reported data, therefore, more rigorous designs are needed to control potential cultural biases better (e.g. home-country differences in the willingness to disclose organizational shortcomings or seek early repatriation).

Increasingly, scholars and professionals are casting the training and developing of international assignees into a much larger frame, one consistent with broader, more theoretical, and systematic description of IHRM, as shown in Figure 1 (Mendenhall *et al.* 2002). For example, the family is now recognized as a very significant factor in expatriate success (Adler 2001; Dowling *et al.* 1999), particularly when dual-career issues are involved (Punnett *et al.* 1992; Harvey and Buckley 1998). Better paradigms (e.g. social



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learning theory and culture theory) have begun to emerge concerning the impact and likely success of cross-cultural training (e.g. Bhawuk 1998; Black and Mendenhall 1990; Kim 1995). International HR planning is seen more often as a key orchestrator of expatriate career development, incorporating expatriate assignment decisions and the repatriation process (Black *et al.* 1999).

Perhaps most indicative of this shift in perspective is the contention that training and development is no more important for PCNs than it is for individuals from other parts of the world (Adler and Bartholomew 1992). In fact, global firms can enhance their interunit linkages by creating a pool of global managers with citizenship from anywhere in the world (Bartlett and Ghoshal 2000; Fulkerson and Schuler 1992). As these 'global' managers are developed, however, it appears they need to have the global awareness of the MNE and the sensitivity to local cultures and knowledge of local conditions, particularly labor relations and laws. Management development activities could be housed in corporate or global headquarters with local, regional, and other HR units assisting in program design and delivery (Bartlett and Ghoshal 1998; Dowling *et al.* 1999; Evans 1992). The efficacy of this or other structural approaches remains an empirical question.

Superordinate Values for IHRM Practice Development

Part of the challenge in developing HR practice to facilitate interunit linkages is to allow simultaneously for some flexibility. Flexibility supports change and enables adaptation to local conditions. Flexibility is attained in part by ensuring that (1) practices are not carved in stone (mentally or physically) and (2) practices are formulated within a larger context, most notably an overriding human resource philosophy and core human resource policies (Buckley and Casson 1998; Schuler 1992). Statements of human resource *philosophy* proscribe limits on

the actual treatment of individuals regardless of location through its top-down impact on HR policy making (Schuler 1992). Core IHRM policies, in turn, operationalize this philosophy and arguably constrain the set of IHRM practices in use (i.e. types of compensation, staffing procedures, appraisal methods, and training and development modes). There are many choices in the array of possible IHRM practices (Schuler and Jackson 1987); because these practices will influence the behaviors, competencies, assignments and motivation of individuals, they need to be closely aligned with other IHRM activities (Begin 1997; Schuler and Jackson 1999; Wright and Snell 1998).

Developing core IHRM policies that facilitate interunit linkages may be easier said than done, especially if units have dramatically different local environments or are pursuing different competitive strategies with different technologies. This confounding may make the task more challenging, but it does not make it impossible. Perhaps, however, it does require more resources to devise systematically HR practices that are anchored in common HR policies. Longitudinal investigations of the growth and allocation patterns of IHRM budgets within MNEs may shed some light on this matter. Discussion now turns to findings associated with the internal operations of MNE units.

Internal Operations and IHRM

Internal operations require the same degree of research attention as interunit linkages, since both have an influence on MNE effectiveness (Punnett and Ricks 1992; Taylor *et al.* 1996). Local units must recognize and abide by indigenous employment law, tradition, and custom, unless variances or exemptions have been granted by the host government; thus, overseas units need to be given some autonomy to adapt HR practices to local conditions. Yet, because they need to be coordinated with the rest of the MNE (e.g. to facilitate the transfer of local managers) some

commonality must exist regarding HR policies. The local unit needs to develop HR practices that advance its own competitive strategy as well (De Cieri and Dowling 1997; Schuler and Jackson 1987). Exactly how this fit might be obtained is only suggested below, but the implication here is that the local unit needs to transcend mere conformity with indigenous culture.

There are at least three ways of enhancing internal operations through IHRM policies and practices. The first entails matching and adapting HR practices to accommodate closely the unit's competitive strategy, local culture, and governing legal system (Hofstede 1998). The second necessitates creating a *modus operandi* whereby HRM practices can be modified swiftly to respond to changing host conditions. The third calls for a set of IHRM policies at the MNE level that can encompass and legitimize the HRM practices of the local units.

Matching and adapting HR practices. One means of ensuring that HR practices are consistent with labor-market requirements would be to staff the HR function with host-country nationals. In fact, this is one of the positions that MNEs seem most prone to fill with indigenous persons (e.g. Dowling *et al.* 1999). To complement this fit, the location manager, in turn, needs to inform the HR manager of the unit's business needs, in particular its competitive strategy.

The process of systematically aligning HR practices, policies, and philosophies with each other and the unit's strategic needs is similar for domestic corporations and MNEs. A major difference, however, lies in the need to balance the competitive strategy and cultural imperatives (Adler 2001; Punnett and Ricks 1992). The cultural imperative is an encompassing term that can include aspects of the local culture, economy, legal system, religious beliefs, and education. Its importance to IHRM resides in the definition of acceptable, legitimate, and feasible work practices and behaviors (e.g. Adler 2001;

Adler and Bartholomew 1992; Bhawuk and Triandis 1996; Laurent 1986). Acceptable in terms of questions such as "Can we pay workers different rates, and thereby differentiate them, according to performance?" Legitimate in terms of questions such as "Are there any legal statutes prohibiting us from not paying workers overtime for work done on Saturday and Sunday?" Feasible in terms of questions such as "While this society espouses hierarchical, authoritarian, and paternalistic values, can we empower the workforce to make workplace decisions in order to facilitate our quality strategy?" All of these components should influence decisions about where to locate units and which HR practices to use therein. The extent to which MNEs deliberate on these matters prior to host entry has not been examined in previous studies.

Local units also must be ready to ensure that HR practices, once developed, can be adapted to fit MNEs' evolving needs and goals. For example, host management might institute much more comprehensive succession planning and development schemes than are warranted in the host environment to accommodate the larger multinational's potential staffing and transfer needs. In all likelihood, this will be done for a limited pool of individuals (i.e. persons targeted as global managers). Future investigations need to identify and critique the incentive mechanisms that MNE headquarters utilizes to secure ongoing co-operation in this regard, especially when host units are pursuing distinct business strategies. Another key issue is the relative impact that organizational and personal factors have on the lag period within MNEs for responsive adaptations in HR practice.

Creating a modus operandi. It is equally important for HR policies and practices to reflect changes in the local environment. To facilitate this, host management must establish procedures for, and recognize the legitimacy of, altering HR practices to fit new conditions (e.g. Walsh 1996). This will help ensure the



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needed flexibility that is a concern and goal for MNEs today. Exactly what these mechanisms are, and what role culture plays in them, awaits future study.

Developing global HR policies. The center has a fundamental responsibility and strategic interest in developing broad HR policies that are appropriate enough for local units to adapt to their local environment and competitive strategy needs (Brewster 2002). This discussion complements the earlier discussion under 'Interunit Linkages'. There it was argued that policies have to be created to facilitate interunit linkage and transfer of learning, while still recognizing the needs of the local units. That discussion suggested host units must not only systematically analyze their own environmental needs, but also ensure that those factors are folded into the process whereby global HR policies are created (Bartlett and Ghoshal 2000; Schuler 2001). As local units become more geographically and culturally dispersed, it becomes more difficult for headquarters to identify and track factors bearing on competitiveness. For example, internal labor-market data that are useful to the larger MNE but unnecessary for local compliance may not need to be maintained by host units unless headquarters exercises some control over local HR information systems (Florkowski and Nath 1993; Niederman 1999).

Schuler *et al.* (1993) proposed that MNEs will devote more resources to the development and implementation of such overarching policies as environmental heterogeneity. Subsequent investigations must verify the extent to which this is true.

Auditing IHRM initiatives. To ensure that all the HR-related challenges are met, MNEs need to evaluate systematically their functional capacity and responsiveness in IHRM. While there has been a growing body of literature devoted to HRM auditing (e.g. Becker *et al.* 2001; Biles and Schuler 1986; Ulrich 1999), this matter receives surprisingly

little attention in practice – the closest approaches are payroll audits or formal reviews of employment-law compliance in domestic operations. Ethnocentrism tends to afflict these auditing paradigms as well, given their inherent reliance on a single cultural, regulatory, and structural context for HR policies (Mayrhofer and Brewster 1996). With few exceptions, they also fail to assess how well HRM profiles fit the business's environment, structure, and strategy or what changes need to occur to foster better alignment.

Florkowski and Schuler (1994) proposed auditing strategic IHRM activities from multi-constituent, strategic fit, and efficiency–effectiveness perspectives. This synergistic approach examines the potential for conflict among the audit's stakeholders; the need to differentiate its contents based on competitive strategy, organizational life-cycle stage, and national culture; and the ways that effectiveness can be operationalized in multinational settings. Several propositions were developed that require close empirical scrutiny. There are also other ways of conducting IHRM audits. For example, Ulrich (1999) suggests that HR audits can be conducted by assessing: (1) HR practices (i.e. assessing the array of services offered by an HR department), (2) HR professionals (for example, doing a 360 feedback on the extent to which an HR professional demonstrates competence), and (3) HR function or department (such as by computing functional competence, by investigating overall indicators of HR functions, or by measuring the competence against established benchmark standards).

So far, discussion has concentrated exclusively on the internal policies and practices of multinational enterprises as they relate to HRM. Two other aspects of IHRM research that warrant attention are (1) the effects of MNEs on the industrial relations systems of host countries and (2) comparisons of national HRM systems. The former offers insight into the propensity of multinational

firms to act as change agents in their operating environments, while the latter begins to clarify the impact that societal HRM policies may have on the international competitiveness of firms operating in particular host settings.

MNEs' Impact on Host IR Systems

So far, we have discussed indigenous labor-market practices as though they were exogenous from the MNEs' perspective. Yet, transnational decision-making structures, superior financial resources, and more extensive information systems arguably equip multinationals substantially to influence, if not dictate, industrial relations patterns in host countries.² Weinberg (1977) alleged that MNEs utilize these advantages to secure regressive changes in collective bargaining and labor legislation, gravitating toward the lowest level of social responsibility tolerated in a given host country. Selective examples of US-owned operations in Europe were presented to buttress this view. The OECD has voiced similar concerns, culminating in non-binding guidelines for the HRM activities of multinationals operating in member countries. Respect for and compliance with local employment standards are stressed throughout the guidelines (see Bamber and Lansbury 1998; Lee 1997). National and local governments of HCNs dictate to a great extent the employment regulations and related guidelines (Peng 2000).

Such dynamics raise critical issues for international HRM researchers. Paramount among them is whether the characterization of MNEs as cultural tsunamis stems from overpublicized, isolated incidents or patterned practice. With one exception (Jain 1990), prior studies have not systematically catalogued the HRM profiles of foreign-owned businesses and compared them with the structural configuration evident in matched domestic companies.³ Lately, Marginson *et al.* (1995) found that a majority of the firms in their study monitored labor performance across units in different countries.

However, there has been a tendency to assess multinationals' sphere of influence on workplace or institutional relationships by (1) aggregating case studies across industries without adequate controls or (2) soliciting generic perceptions of foreign-owned firms via questionnaires.

The first type of design appears in Blanpain (1977). Mixing a diverse set of case reports, he argues that MNEs have not significantly altered major components of the IR systems in the UK or Belgium. On the other hand, owing to the growth of European Union, there is a trend emerging towards the internationalization of industrial relations (Streeck 1998). However, such a development has its own problems (see Blyton and Turnbull 1996). Although larger organizations tended to export 'innovative' policies at the outset, each system rejected those deemed to be culturally unacceptable within a relatively short period of time. Jedel and Kujawa (1977) utilized the second approach to compare foreign- and American-owned businesses in the USA. On balance, neither group of managerial respondents expected MNEs to diffuse HRM innovations into the US labor market. Those affiliated with British enterprises held the strongest belief in this regard. Furthermore, most of the foreign parent organizations had staffed the senior industrial relations position in a polycentric manner, increasing the likelihood of adaptation to local conditions. This is now a more general trend. Presently, MNEs generally delegate the management of labor relations to their foreign subsidiaries. However, a policy of decentralization does not keep corporate headquarters from exercising some coordination over labor relations strategy. Generally, corporate headquarters will become involved in or oversee labor agreements made by foreign subsidiaries because these agreements may affect the international plans of the firm and/or create precedents for negotiations in other countries (Dowling *et al.* 1999, 234–235).



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The USA has shown particular interest in the industrial relations and equal employment opportunity (EEO) posture to foreign subsidiaries. For example, acknowledging several well-known incidents where unfair labor practice charges had been levied against Japanese-owned firms, Marett (1984) indicated that site locations did not necessarily coincide with regions having low unionization levels. Staffing patterns at Japanese-owned facilities have raised the specter of discrimination, though. For instance, their auto plants are consistently situated in areas that have lower black-to-white population ratios than is the norm for US auto plants (Cole and Deskin 1988). A subset of US and Japanese-owned greenfield sites further revealed that the latter had hired significantly fewer minorities than labor market demographics would predict.⁴ Nearly 60% of the Japanese firms doing business in the USA faced possible EEO litigation by the late 1980s (Labor Letter 1989), suggesting once again that the host system actively works to neutralize objectionable MNE policies.

With much of the Western world mesmerized by Japanese-style management over the last few decades, it is not surprising to find a paucity of research on the effects that foreign-owned firms are having on that country's labor market practices. This may prove to be a fruitful area of study over the next decade as Japan undergoes economic restructuring to rebound from the recent global economic downturn. Aggressive long-term downsizing and the refusal to honor job contracts extended to college graduates are two departures from traditional Japanese HRM practices appearing with greater frequency (Miller 1993). So far, these actions have been depicted as domestic initiatives rather than as spillover effects from operations that are foreign-controlled. The impetus for sustained change in the HRM system may shift, though, as Japanese markets and investment opportunities become more accessible to the international community.

It is worth noting that virtually all of the investigations discussed above focused on highly industrialized host countries. The extent to which MNEs drive the HRM policies in developing countries, places where the former's economic leverage should be at its zenith, is also of interest (Wells 1998). Regrettably, the literature offers little insight on this point (Budhwar and Debrah 2001; Napier and Vu 1998). Schregle (1985) discusses the lingering influence that colonizing nations often have on the post-independence labor laws of former colonies. To illustrate, French-speaking African countries drew heavily from France's Labour Code for Overseas Territories when enacting their own national labor codes. Sardi and Williamson (1989) detail the industrial relations strategy of a vertically integrated multinational operating in Nigeria; however, no comparisons were made with indigenous competitors in the same lines of business, nor was an evaluation made of the implications those strategies had for the larger labor market. While valuable, the qualitative insights of the above mentioned would have been bolstered substantially by more rigorous quantitative analyses. For example, regressions could have been run in which HRM policy sophistication indices were treated as dependent variables and various financial, organizational, and operational variables as predictors.

Much still needs to be learned about the dynamics of MNEs' adaptation process within and across host countries. Several studies indicate that the IR decision making is decentralized as a rule (e.g. Reynolds 2001; Roberts and May 1974). Yet, Hamill (1984) cautioned that there might not be uniform application of a single policy within MNEs. He uncovered varying levels of home office involvement across units based on such factors as differences in inter-subsidiary product integration, unit life-cycle stage, local performance, and the scale of parent investment. Discussions by Geary and Roche (2001) and Turner *et al.* (2001) also reinforce

the notion that there is no answer to whether or not MNEs dictate IR practices in host countries.

Another unanswered question is “Is there a learning curve phenomenon across MNEs, in which previous host-country experiences progressively reduce the magnitude and time of adjustment when expansion into new host nations occurs?” If not, then what are the structural and cultural impediments to effective learning and its transfer? One could argue that firms with transnational HR systems have a competitive advantage in recognizing and responding to these challenges (Adler and Bartholomew 1992; Bartlett and Ghoshal 1998). How is the learning rate affected by host mix and home-country base? An appropriate analogy may be the impact that cultural toughness has on expatriate acculturation (Mendenhall and Oddou 1985; Mendenhall and Stahl 2000). MNEs functioning primarily in very ‘foreign’ cultural environments should have a harder time avoiding indigenous backlashes and instituting swift, corrective measures than will those confined to more familiar cultural terrains. This problem will be exacerbated when high levels of regulatory heterogeneity, complexity, and relevance coincide with low levels of regulatory stability and predictability (Florkowski and Nath 1993; Lee 1997).

National HRM Systems and Competitive Advantage

The existing literature is replete with cross-country comparisons of selected HRM practices (e.g. Brewster and Hegewisch 1994; Geringer *et al.* 2001; Sparrow *et al.* 1994; Von Glinow and Chung 1989). However, this genre of work typically documents procedural or ideological differences in HRM without empirically linking such variation to behavioral or economic outcomes for organizations or societies. In an increasingly global economy, researchers need to address how country-level HRM systems impact on international trade and the competitiveness

of national economies (e.g. Kochan *et al.* 1992). Recently, Debrah *et al.* (2000) highlighted the benefits of appropriate HR development policies for the participating governments of a ‘South-east Asian growth triangle’. This growth triangle is a joint collaboration between the governments of Singapore, Malaysia and Indonesia. Further, accompanying methodological and substantive issues are discussed next.

Comparative Framework

Devising an analytic scheme that effectively captures and evaluates the diversity of HRM structures, processes, policies, and policy effects across nations remains a challenge for researchers. Yeung and Wong (1990) devised a 2×2 classification matrix reflecting societal variations in HR orientation and administration. The first dimension indicates whether performance or individual welfare is emphasized in the workplace, while the second refers to a reliance on internal or external labor markets. China, Japan, the USA, and the Scandinavian cluster were used to illustrate the resultant four cells. Although this framework highlights some fundamental HRM differences, its overall utility is very limited. For example, macro-level linkages among governments, employers, and organized labor are not addressed. The same holds true for the legal systems regulating employment relationships. Most significantly, the model provides no insight into the stability of HRM patterns over time or likely direction of future changes.

Convergence theory (e.g. Kerr *et al.* 1973) offers a more dynamic, albeit deterministic, view of societal HRM systems. It postulates that global market and technological forces induce economically advanced societies to erect very similar, increasingly tripartite, superstructures for industrial relations in the long run. Large macro-level differences in these arrangements essentially indicate that nations occupy different points on the maturity curve for industrialization. However,



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available evidence does not support a homogenization of institutions and practices within or among developed economies (e.g. Brewster 1999; Dore 1973; Sparrow and Hiltrop 1997).

Begin (1997) discusses national HRM systems in terms of life-cycle transitions, stressing their ongoing synchronization with a country's dominant industrial structure. He uses information from six countries: Japan, the US, the UK, Germany, Sweden, and Singapore. Unlike the preceding model, changes do not necessarily reflect movement toward a final set of institutional configurations nor are they irreversible. According to Begin, HRM systems containing limited, informal rules should emerge when a nation's firms are operating predominantly in simple but dynamic environments. As the technologically simple environment becomes more stable, there is an expectation that organizations that function as machine bureaucracies will proliferate and eventually alter the general character of HRM systems in that society. This aggregate 'shift' in organizational form and its accompanying formalization of virtually all HRM activities allegedly marks the arrival of a mature market economy (for more details, see Begin 1997).

Movement to the next evolutionary stage of more temporary and adaptable organizations will not be triggered unless a preponderance of firms enter and compete in more complex, dynamic environments.⁵ Here, businesses secure and maintain international competitive advantage through continual innovation, which is fueled by relaxed work/job allocation systems as well as development- and retention-oriented systems for staffing, governance, and rewards (Begin 1997). However, a societal decline in innovative activity eventually leads to some form of retrenchment in HRM systems. Moreover, nations failing to keep abreast of the state-of-the-art in technology risk backsliding further into the machine bureaucracy phase with its restrictive HRM systems. Indigenous employees also find themselves confronted

with a declining standard of living because productivity gains do not generate enough revenue to advance the general social welfare.

Numerous research issues are embedded in Begin's (1997) broad framework. To begin with, how do national reward structures affect a country's competitiveness within and across these life-cycle stages? The level, form, and stability of these components over time are paramount concerns. The ability to compete within and across life-cycle stages may also be a function of organized labor's control over labor costs and industrial conflict levels. Each of these items is addressed more fully below.

Compensation. The US Bureau of Labor Statistics has compiled standardized information on international compensation policies in the manufacturing sector. Unpublished reports are available on hourly compensation costs, which include payments made directly to employees and employer benefit contributions, adjusted for exchange rates.⁶ Begin (1997) classified Mexico, South Korea, Taiwan, Canada, and Great Britain as countries where the dominant HRM systems are machine bureaucracies.⁷ A low-wage strategy seems to endow the first three nations with a distinct labor factor advantage relative to the other two in this stage, not to mention those occupying more industrially advanced states. Cost competition intensified in the 1980s and early 1990s, best illustrated in the disappearing Japanese-American wage differential. French manufacturers also came ever closer to parity with their American rivals. By 1992, Italy and Germany were encumbered with labor costs that were substantially higher than those found elsewhere.

A major shortcoming in this kind of analysis is the failure to integrate productivity and quality measures. These items constitute the return on investment from compensation expenditures. In the USA, for example, many firms that initially relocated in Mexico because of lower wages are repatriating their operations because of low productivity and

ancillary costs (Mayer 1993). While standardized productivity data are available for many countries (e.g. Staff 1991), pertinent quality indices generally are not. Such information must become more accessible before meaningful comparisons can be made. Also, there is a need to understand the assumptions that underlie much reward behavior, and the implications of perceived changes in trust, motivation and commitment. It is also important to understand what pay means to people in different cultures (Sparrow 2000).

Benefits. Appropriately configured benefit plans may be instrumental in securing an employee mix that promotes competitive advantage for individual firms (e.g. Bowen and Wadley 1989). To what extent can this be extrapolated to national economies? Aggregated policies may have distinctive signatures regarding the proportion of total rewards comprising benefits, the benefit options typically offered, and the extent to which these items are privately or publicly financed. International positioning on these dimensions may raise serious motivational (i.e. valences, performance-reward contingencies) and cost concerns within the dominant industrial structures of competitor nations.

Moreover, several US studies indicate that employees tend to underestimate substantially the benefit costs borne by the employer (e.g. Wilson *et al.* 1985). If this can be generalized across cultures, feelings of pay inequity and its dysfunctional organizational consequences should become more widespread in national labor markets as employers channel larger fractions of their labor costs into benefits. Differences in the way benefits are paid for may be more telling of a country's competitiveness (White *et al.* 1998). To illustrate, national health care and/or pension systems potentially free up employer resources to invest in new benefit categories or pay-for-performance schemes. This social reallocation of costs may have a more

significant impact on international trade than the relative level of benefits *per se* (Belous 1984, 23). Recently, Sparrow (2000) examined the dynamics of international reward management in a number of countries. Discussing the importance of culture value orientations, distributive justice and pay differentials, he concludes that MNEs attempting to harmonize reward systems will face predictable patterns of resistance across different nations. Highlighting the importance of local institutional context, Sparrow (2000) suggests that there should be considerable local autonomy of practice allowed within MNEs and distinctive pay and benefit practices will remain within domestic organizations.

Trade Unions. Research shows that American unions generally exert more influence over wages than do their counterparts in other industrialized nations (Blanchflower and Freeman 1992; Katz and Darbishire 2000). A US government study criticized the way that labor leaders wield this power, concluding that import penetration levels stem largely from high union wages in the US (US Federal Trade Commission 1987). Other evidence indicates that import activity creates substantial downward pressures on North American union–non-union wage differentials and union-sector employment (e.g. Macpherson and Stewart 1990).

Economic policies of American unions are one reason why US firms have difficulty competing with foreign producers. Yet, unionization rates are not systematically higher in high net-importing industries than they are in low net-importing ones (Karier 1991a,b). Furthermore, LeGrande (1988) found that changes in the value of the US dollar against foreign currencies had a much more significant effect on the relative labor costs of domestic and foreign manufacturers during the 1980s than did collectively bargained wage levels. If so, then securing wage concessions does not go to the heart of the competitiveness problem – unstable



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exchange rates – which cannot be redressed at the bargaining table. More empirical work is needed to reconcile such divergent findings. It may be particularly fruitful to examine the relationship between union density and import penetration in industries outside the USA.

The propensity for industrial conflict should significantly impede a society's ability to devise and administer competitive HRM systems regardless of the market niche that has been targeted. Ofori-Dankwa (1993) conjectured that conflict levels are dictated by a country's dominant union paradigm and environmental munificence (i.e. resource- or institutional-based buffering). During periods of positive munificence, nations characterized by unions that operate with a high-political low-economic paradigm (e.g. France) should display less conflict than those saddled with unions embracing a low-political high-economic orientation (e.g. USA). The converse is predicted in times of negative munificence, as politically active labor organizations seek to embarrass the opposing ('anti-labor') party in power. High-political high-economic paradigms (e.g. Great Britain, Sweden) should engender responses that are more sensitive to specific combinations of positive/negative resource and institutional buffering (Puchala 1999).

While these hypothesized relationships are intriguing, there are formidable impediments to testing them at this time. Industrial conflict measures are not standardized transnationally, raising serious construct validity concerns in inter-country comparisons. Identical workplace disputes can be treated differently based on the prevailing decision rules governments use for statistical record keeping. There also are several aspects of strikes to consider, including frequency, breadth, duration, and impact (Stern 1978). How does one integrate these factors to provide a comprehensive evaluation of societal performance? Poole (1986) developed strike-activity profiles for 18 countries utilizing the first three dimensions. While this scheme does facilitate assessments within each of the five

patterns that were presented, it is less clear how one makes interprofile judgments without referring to some quantification of impact. For example, is it more desirable to see duration, breadth, or frequency as the dominant structural feature of strikes? One must decide this on the basis of cultural preferences unless information about impact is integrated.

There is even less work regarding union political activities and institutional buffering (Weiss 1998). Neither construct has been sufficiently operationalized for cross-cultural studies. The conventional wisdom is that European unions are much more engrossed in politics than their American cohorts, but it is hard to separate well-publicized, militant rhetoric from actual involvement or effectiveness (e.g. per capita dues allocated to political activity, the relative structure of those activities, impact on regulatory processes, and outcome). Such indicators may be relevant in sorting out unions' concentration on strategic, as opposed to functional or workplace, issues among nations (Kochan *et al.* 1984).

HRM and International Joint Ventures

Shenkar and Zeira (1987) and Shenkar and Li (1999) indicated that research on the HRM aspects of international joint ventures (IJVs) has been sporadic and limited. Additional IJV studies have emerged since then, most of which further conceptualize the HRM challenges of these strategic initiatives. For example, Zeira and Shenkar (1990) devised a research framework for IJV personnel policies that ties a typology of venture employees with characteristics of the parent firms. Others have discussed how socio-cultural factors affect the transferability of HRM practices from foreign parents to their overseas ventures (e.g. Ferner and Varul 2000).

Less attention has been focused on the practices associated with partner selection, IJV startup, or venture control. Geringer (1991) used proxies for managerial and technical talent as possible predictors of

partner selection – the only HRM-related variables that have been tested so far. Yet, a comprehensive case study indicates that screening potential partners on the basis of managerial and HRM compatibility increases the likelihood of successful venture operations (e.g. Schuler *et al.* 1992; Schuler and Van Sluijs 1992). One survey found that less than 5% of the total time associated with venture creation was spent resolving HRM-linked issues (Coopers and Lybrand 1986). This foreshadows an abdication of venture control, since HRM-based mechanisms may be a more significant determinant of IJV control-system effectiveness than are ownership position and related formal controls (Cyr 1997; Frayne and Geringer 1990).

Each of these topics invites a stream of research, demonstrating that the need for more rigorous empirical studies of HRM in IJVs has intensified rather than abated in the 1990s. Schuler (2001) has done an extended review on HR issues and activities in IJVs. He discusses in depth most of the issues raised above. What follows is a summary of HR-related issues in IJVs.

Key HR issues in IJVs. In today's globalized world, partnerships, alliances and IJVs between two or more firms are becoming increasingly common (Merchant 2000). The existing IHRM literature highlights issues such as importance of IJVs (Cyr 1995), reasons for the formation of JVs, success and failures of JVs, conflict in IJVs (Fey and Beamish 2000), culture and control IJVs (Cyr 1997) and learning in and from IJVs (e.g. Child and Faulkner 1998). All these issues have implications for the management of HRs in IJVs. Considering the fact that international alliances and joint ventures are particularly difficult to manage and HR issues and activities are directly associated with the success of IJVs (Child and Faulkner 1998; Cyr 1995), we highlight the key HR issues in IJVs which form an important research agenda.

Of most reasons for the formation of IJVs, the reason that appears to gaining substantial

momentum involves learning and knowledge, sharing and transfer (e.g. Child and Faulkner 1998; Shenkar and Li 1999). In this regard, the role and importance of HRM issues and activities in IJVs become of prime importance. More specifically, within the IJV context, there are a multitude of organizational issues that are at the same time HR issues (Child and Faulkner 1998). Broadly presented, they can be categorized by organizational level and individual/group level. At the organizational level, the organizational/HR issues involve: parent-to-parent relationships; parent-to-IJV relationships; IJV-environmental context relationship; and parent characteristics (for details see Schuler 2001).

Developing and utilizing an organizational-level capability appears to be more important for competitive partners that engage in IJVs (Pucik 1988). Several organizational/HR issues at the individual/group level in IJVs include: learning, sharing, and transferring of knowledge; development of competencies (e.g. knowledge, skills, abilities, personality and habits); relevant behaviors, actions and attitudes; motivation and commitment to be productive; and lack of business success in the IJV due to HR issues (such as lack of competent and motivated staff).

Virtually all of the issues listed above are significant in the IJV process and involve and depend upon HRM. These issues have significant HR implications for HR activities in IJVs (Schuler 2001). The relationships of HR policies and practices with the IJV process are developed through an analysis of the HR implications associated with the organizational/HR issues identified above. These issues and implications are further categorized as they unfold in the IJV process in stages with the HR implications for specific HR activities. Researchers in the field (see Pucik 1988) suggest four stages of the IJV process: (1) formation (the partnership stage); (2) development (the IJV itself); (3) implementation (the IJV itself); and (4) advancement (the IJV and beyond). The organizational/HR issues in each stage of the



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Table 1. HR Implications in the Four Stages of the IJV Process: IJV Stage

<i>Organizational/HR issues</i>	<i>HR implications</i>
<i>Stage 1 Formation</i>	The more important learning is, the greater the role for HRM
Identifying reasons	Knowledge needs to be managed
Planning for utilization	Systematic selection is essential
Selecting dedicated manager	Cast a wide net in partner search
Finding potential partners	Be thorough for compatibility
Selecting likely partners	Ensure extensive communications
Resolving critical issues	More skilled negotiators are more effective
Negotiating the arrangement	Integrative strategies for learning
<i>Stage 2 Development</i>	Concerns of multiple sets of stakeholders need to be considered for long term viability and acceptance
Locating the IJV	The structure will impact the learning and knowledge management processes. These are impacted by the quality of IJV managers
Establishing the right structure	Recruiting selecting and managing senior staff can make or break the IJV
Getting the right senior managers	
<i>Stage 3 Implementation</i>	These will provide meaning and direction to the IJV and employees
Establishing the vision, mission, values, the strategy and structure	These will impact what is learned and shared
Developing HR policies and practices	Need to design policies and practices with local global considerations
Staffing and managing the employees	The people will make the place
<i>Stage 4 Advancement and beyond</i>	Partners need to have the capacity to learn from each other
Learning from the partner	HR systems need to be established to support knowledge flow to the parent and learning by the parent
Transferring the new knowledge to the parents	Sharing through the parent is critical
Transferring the new knowledge to other locations	

IJV process are numerous and so are their implications for HRM. There are then a multitude of organizational and HRM issues at each stage that are filled with HR implications. Some of these implications are presented in Table 1. These implications form the basis for describing the HR activities in the IJV process and should form the agenda for future research.

Similarly, there are a large number of HR issues critical for the success of mergers and acquisitions. Research opportunities in this area are in abundance (for details, see Schuler and Jackson 2001).

Conclusion

Over the last decade or so, the IHRM research has covered a lot of ground; however, the published research to date raises many more questions which should be the focus of future research. This review of the literature was couched in a strategic context based on the expectation that IHRM increasingly will become a source of competitive advantage in global as well as multi-domestic markets.

Accordingly, there is a strong need to improve our understanding of the approaches that MNEs utilize to satisfy the competing needs for integration and differentiation in

their operations (Brewster 2002). Adler and Bartholomew (1992) found that a growing proportion of published OB/IHRM research is focusing on international interactions (i.e. interactions among organizational members from two or more countries). Improving MNEs' ability to manage cultural interactions enhances the prospects of satisfying both needs. And as Brewster (2002) suggests, this applies to small as well as large MNEs. It also applies to not-for-profit international organizations.

Specific IHRM policies and practices have commanded varying levels of research attention, clustering primarily in staffing and training. We have pointed out where future studies can make incremental advances in these functional areas as well as in those that have been largely overlooked in the past. Even stronger is the need to link international HRM policies empirically with behavioral and financial outcomes/firm's performance in individual business units and the overall firm (Becker *et al.* 2001).

All this goes beyond descriptive case studies and surveys conveying frequency distributions, modes of analysis that still represent a large proportion of reported research in this field. More rigorous designs must be devised that operationalize international HRM variables better, formally test *a priori* hypotheses about their impact on efficiency and effectiveness, and incorporate adequate controls (see also Boyacigiller and Adler 1991, 279–280; Guest 1997; Wood 1999). Such refinements will greatly improve our ability to document the value-added that flows from international HRM initiatives a prerequisite to meaningful comparisons of transnational HR systems and less sophisticated alternatives. Qualitative research remains an essential tool in studying the process by which international HRM policies evolve, diffuse, and are institutionalized in multinationals. Qualitative research can also be useful in investigating the several questions regarding IJVs, particularly those around the significance of knowledge transfer and learning.

Finally, researchers should not lose sight of the interface between HRM systems that MNEs utilize and the national HRM systems that comprise their operating environment. Prior studies indicate that multinationals have a limited capacity to alter the entrenched features of indigenous employment relationships. It remains unclear how multinationals react to impending HRM life-cycle transitions in a given country. Are MNEs prone to adapt to such changes faster than their domestic competitors? What role do MNEs play in the rate of change and stabilization of new HRM systems? Do host countries selectively pressure multinationals with 'deviant' HRM systems to conform to prevailing practices based on their home country? For example, advanced industrialized nations may enforce their employment laws more vigorously against MNEs from other developed nations with objectionable trade barriers than against those based elsewhere. Ultimately then, IHRM research must unite these micro- and macro level-perspectives.

As demonstrated by this review, interested scholars have a myriad opportunities to help international business organizations develop and sustain HR-based competitive advantages. Researchers and firms that chart these waters effectively will secure enviable market positions in the decades ahead.

Acknowledgements

The authors wish to thank David McGuire, Ibraiz Tarique, Oded Shenkar, BJ Punnett, Peter Dowling and Helen De Cieri for their invaluable input.

Notes

- 1 Given the strategic context within which this paper is written, use of the concept of Human Resource Development (HRD) might be preferable to Training and Development because for some HRD is seen as more closely linked to the strategic needs of the business imperatives (Sambrook 2000), and because HRD is more closely linked



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with HRM and the mutual attainment of individual and organizational goals (Legge 2001; McGuire, D., personal correspondence with first author, 2 August 2001). While the authors appreciate these sentiments, they use the more traditional terminology for its consistency with the literature.

- 2 Some controversy exists regarding the extent to which MNEs operate as change agents within the industrial relations systems of host countries. Available evidence on this point is reviewed later in the papers
- 3 Hamill (1984) analyzed numerous labor relations practices of US- and British-owned MNEs in three British industries and found some differences. As noted earlier, Tung (1982) found that the deployment patterns for host top management differed by MNE home-country and assignment region. Training content also varied with home office location. Other investigations have compared the compensation/benefits packages of MNEs and domestic firms in industrialized host countries, reporting that multinationals generally meet or exceed what domestic firms provide. It is our contention that the complete set of HRM policies must be inventoried and evaluated to ascertain their cultural ramifications, as well as their ability to elicit the role behaviors essential to a particular competitive strategy (Schuler and Jackson 1987).
- 4 However, the authors noted that US firms in other industries have not behaved markedly differently when launching greenfield operations.
- 5 Begin also contends that adhocratic HRM systems may serve as an alternative starting point, although it is difficult to envision how this would occur.
- 6 The former component encompasses take-home pay, payments for non-work time (i.e. holidays, vacations), and the cost of in-kind benefits; the latter covers payments for legally required insurance programs and collectively bargained/private benefits.
- 7 The first three countries are solidifying their recent entry into this life-cycle stage, the fourth never really evolved beyond it, while the fifth has receded back into it during the post-World War II era.

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