

International Human Resource Management

4th edition



**Chris Brewster, Elizabeth Houldsworth,
Paul Sparrow and Guy Vernon**

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International Human Resource Management

Fourth edition

Chris Brewster, Elizabeth Houldsworth, Paul Sparrow, Guy Vernon

Chartered Institute of Personnel and Development

Published by the Chartered Institute of Personnel and Development
151 The Broadway, London SW19 1JQ

This edition first published 2016

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Designed and typeset by Exeter Premedia Services, India
Printed in Great Britain by Ashford Colour Press Ltd
British Library Cataloguing in Publication Data
A catalogue of this publication is available from the British Library

ISBN 9781843983750
eBook ISBN 9781843984184

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Walkthrough of textbook features and online resources

LEARNING OUTCOMES

When you have read this chapter, you will:

- appreciate the growing internationalisation of the world in which human resource management (HRM) is conducted
- understand the additional complexity of HRM in an international context
- be able to describe the strengths and weaknesses of the universalist and contextualist paradigms
- be able to describe the key features of the three main approaches to international HRM (IHRM)
- be able to identify some of the key HRM challenges facing organisations working internationally
- understand the format of the rest of the book.

LEARNING OUTCOMES

At the beginning of each chapter a bulleted set of learning outcomes summarises what you expect to learn from the chapter, helping you to track your progress.



THEORY AND PRACTICE

KEY FRAMEWORK

What is meant by convergence or divergence?

Mayrhofer et al(2004) differentiated a number of forms of change:

Directional convergence: When comparing changes in HRM practices between two countries directional convergence exists when the trend (developmental tendency) goes in the same direction. Each country might start with a different proportion of organisations using a specific practice, and over time the difference in the proportion of organisations using that particular practice in the two countries might actually have grown larger. However, in both cases, a greater proportion of organisations now use the practice, there is convergence in direction – in this case going up. Similarly the opposite might apply, with change in a negative direction.

Final convergence: When changes in the use of an HRM practice in two different countries mean that the two countries' practices get more similar (the differences in use of the practice between the countries decreases in magnitude over time) then there is convergence to some final point.

THEORY AND PRACTICE: KEY FRAMEWORKS

Key theoretical frameworks are highlighted throughout the text, helping you get to grips with these important ideas and debates.



CASE STUDY 4.6

MY GENERATION

Costanza et al (2012) found 20 reliable studies conducted between 1995 and 2009, of which 16 were conducted within the USA, and only four outside, including one in Canada, one in Europe, and two in New Zealand. Together they allowed for 18 generational pairwise comparisons, across the four generations, covering 19,961 respondents.

The results of the meta-analysis generally do not support the notion that there are systematic, substantive differences among generations in work-related outcomes. (Costanza et al 2012, p387)

CASE STUDIES

A range of case studies from different countries illustrate how key ideas and theories are operating in practice around the globe, with accompanying questions or activities.



REFLECTIVE ACTIVITY 1.2

Look at the sequence of definitions used above to define what IHRM is about. How do the definitions change over time? What do these changing definitions tell you about the sorts of knowledge – and the theoretical understanding – that might be important for the field and that should be incorporated into a textbook of like this?

REFLECTIVE ACTIVITIES

In each chapter, a number of questions and activities will get you to reflect on what you have just read and encourage you to explore important concepts and issues in greater depth.

LEARNING QUESTIONS

- 1 From your experience and study of the subject, what do you consider to be the key elements of "best practice" in HRM? To what extent can these be applied on a global basis? Identify the reasons underlying your arguments.
- 2 Imagine that you are a HR manager in a domestically based company that has decided to operate internationally. You have been charged with sorting out the HR effects of the decision. What questions should you be asking?

LEARNING QUESTIONS

Learning Questions at the end of each chapter will test your understanding of the chapter and highlight any areas of development before you move on to the next chapter.

KEY LEARNING POINTS

- Any analysis of HRM needs to be clear about its level of analysis.
- There will be some aspects of HRM which may be applicable in any country and any circumstances: every organisation in every country has to conduct basic HRM practices such as recruitment, payment, etc.
- There will also be many aspects of HRM which cannot be understood at that level and which must be explored at different levels: workplace, sector, national or regional. A focus on any one of these areas will, like focusing a camera, clarify some areas but blur others. It does not make either true or false – they are merely different perspectives.
- The national level of analysis is particularly informative, and it is often given less priority than it should be. We provide evidence on these issues in the following chapters.
- At the national level, as we show in Chapter 3, HRM can be very different. This is because of cultural and institutional differences between countries.

KEY LEARNING POINTS

At the end of each chapter, a bulleted list of the key learning points summarises the chapter and pulls out the most important points for you to remember.

EXPLORE FURTHER

The following websites provide useful information:

The United Nations Conference on Trade and Development (UNCTAD) website can provide updated information on transnational organisations:
<http://unctad.org/en/pages/home.aspx>

CIPD International Research:
<http://www.cipd.co.uk/global/>

OECD guidelines for multinational enterprises:
<http://www.oecd.org/daf/imv/mne/oecdguidelinesformultinationalenterprises.htm>

The International Labour Organization publications and reports can be found at:
<http://www.ilo.org/global/publications/lang-en/index.htm>

EXPLORE FURTHER

Explore further boxes contain suggestions for further reading and useful websites, encouraging you to delve further into areas of particular interest.

ONLINE RESOURCES FOR STUDENTS

- PowerPoint slides – design your programme around these ready-made lectures.
- Lecturer's guide – including guidance on the activities and questions in the text.
- Additional case studies – these can be used as a classroom activity, for personal reflection and individual learning, or as the basis for assignments.

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International HRM: An Introduction

LEARNING OUTCOMES

When you have read this chapter, you will:

- appreciate the growing internationalisation of the world in which human resource management (HRM) is conducted
- understand the additional complexity of HRM in an international context
- be able to describe the strengths and weaknesses of the universalist and contextualist paradigms
- be able to describe the key features of the three main approaches to international HRM (IHRM)
- be able to identify some of the key HRM challenges facing organisations working internationally
- understand the format of the rest of the book.

1.1 INTRODUCTION

This chapter is a general introduction to the book – it outlines the main objectives of the text and the rationale behind its structure. We begin by briefly noting the changing context to international business and the implications for HRM. In explaining the nature of international HRM (IHRM): we outline the importance of countries and present the three main sections of the book: the institutional and cultural context; aspects of comparative HRM; and IHRM. In so doing we explore the differences between domestic and international HRM for practitioners. Then we provide an outline of the book, offering a guide to each chapter. The final section explains what is new about this latest edition.

Whilst all the chapters in this edition of the book have been updated to pick up developments in both the literature and practice since the previous edition was published in 2011, the aim remains the same: to help you explore the meaning and implications of the concepts of contextual, comparative and international HRM. We do not assume that there is only one way of defining or understanding the nature of HRM. On the contrary, we believe that HRM varies according to the country in which it is conducted: the country that provides the institutional and cultural environment for HRM. We address the issues raised by the fact that HRM is different from country to country. This must have an effect on people like you, who are trying to gain an understanding of the full range of meanings of HRM. It will also affect those, like some of you, who are trying to manage HRM in organisations whose reach crosses national boundaries. These issues are covered in this text.

A key task for organisations which operate across international boundaries is to manage the different stresses of the drive for integration (being coherent across the world) and differentiation (being adaptive to local environments). Reading this text will give you some flavour of the way that HRM – and particularly what is seen as ‘good’ HRM – is

defined differently in different national cultures, and is presented and operates differently in different national institutional environments; some flavour too of the ways in which international organisations attempt to deal with the issues these differences create.

We believe that the text will be of value to anyone involved in, or interested in, comparative and international HRM. Whereas in the past the book has focused particularly on HRM specialists, for this edition we have sought to take a more general approach, acknowledging that some readers may only be studying IHRM as one component in a broader qualification programme.



REFLECTIVE ACTIVITY 1.1

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

Provide examples for each perspective.

For many of you, these first paragraphs will already be raising some key questions. What is the culture of Spain, with its mix of Castilian, Catalan, Andalucian, Basque, and other heritages? Or of Singapore, with its Malay, Indian and Chinese populations? What is the institutional and labour market position of the EU where many laws apply across national boundaries and there are few institutional limitations to cross-border labour markets? Do our findings apply to emerging market countries and under-developed countries in the same way that they apply to the rich countries of the world? Inevitably, basing the text on national differences blurs important 'within-nation' and 'beyond-country' issues. These are critical matters – but outside the scope of this text. We have chosen here to concentrate upon the national differences partly because they are so powerful (institutional differences like employment laws, labour markets, trade unions, etc. tend to operate at national level, even where the cultural boundaries are blurred), and partly as an introduction to an often-neglected element of HRM – the fact that it does vary considerably around the world. Our consideration of these issues is focused on Europe, but we will take the opportunity to draw on examples from other continents whenever that is appropriate.

The number of books and articles on international and comparative HRM has expanded almost exponentially since the first edition of this text was published a decade or more ago. Whereas in many organisations IHRM used to be the concern of a rather separate department arranging terms and conditions for expatriate employees, it is increasingly becoming a more significant part of organisations' attempts to manage their entire workforce across the world in the most cost-effective manner possible. As such, it is becoming a key contributor to organisational success. It is little wonder that it is beginning to attract the attention of more researchers, publishers and consultancies.

It is a truism to point out that the world is becoming more international. This applies to our technology, our travel, our economies and our communications – if not always obviously to our understanding. The growth of global enterprises leads to increased permeability in traditional business boundaries, which in turn leads to high rates of economic change, a growing number and diversity of participants, rising complexity and uncertainty. Traditionally much of our understanding of IHRM has been based on the study of multinational corporations (MNCs). An MNC is defined as an enterprise that operates in several countries but is managed from one home country. MNCs may be of four forms: a decentralised corporation that has a strong home country presence; a global

and centralised corporation that can acquire a cost advantage through centralised production; an international company that builds on the parent company's technology or research and development; or a transnational enterprise that combines all three of these approaches. In general, MNCs may not have co-ordinated product offerings in each country, because they are more focused on adapting their products and service to each individual local market. Even some famously international brands (MacDonalds, Coca Cola) vary in different markets. Some people prefer to use the term multinational enterprise (MNE) because the word corporation implies a business organisation, whereas many other forms of organisation such as non-governmental bodies or charities might be deemed to have multinational characteristics. The term transnational corporation (TNC) is typically used to describe much more complex organisations that have invested in foreign operations, have a central corporate facility, but have decision-making, R&D and marketing powers in a variety of foreign markets. As we do not here focus on governments' international operations (Liesink et al 2016), or intergovernmental organisations (Brewster et al 2016) or international charities or religious groups (Brewster and Lee 2006), we shall generally use the abbreviation MNCs throughout the textbook for the sake of convenience and simplicity.

MNCs are presented as being economically dominant – the world's 1,000 largest companies produce 80% of the world's industrial output. They are seen as being crucial to the vitality, health and level of innovation of a geographic location, notably because they help connect it to other and distant international sources of complementary specialised knowledge and expertise. In the process MNCs build and discover new opportunities for themselves as well as for others (Cantwell 2014). Each year the United Nations Conference on Trade and Development (UNCTAD) issues a World Investment Report focused on trends in foreign direct investment (FDI) worldwide and at the regional and country levels. At the time of writing, the latest data, the World Investment Report, the 25th in the series (UNCTAD 2015), covers 2014. Foreign Direct Investment (FDI) inflows in 2014 declined by 16% to \$1.2 trillion mainly because of the fragility of the global economy, policy uncertainty for investors and elevated geopolitical risks. As one of the major developed markets in the world, Europe, and the Eurozone area within it, faced major challenges to its stability over the treatment of Greek debt and US economic recovery remained fragile.

In 2003 economists at Goldman Sachs bracketed Brazil with Russia, India and China as the BRIC economies that would come to dominate the world. Developing economies extended their lead in global inflows of FDI, with China becoming the world's largest recipient of FDI. Developing economies now make up five of the top ten FDI recipients in the world. However, interpreting trends in IHRM that might result from shifts in economic power is never easy and complex factors are always at play. Although the Chinese economy has continued to grow, though less rapidly, and so has the Indian economy, the performance of emerging markets is still very volatile. Brazil seems to have stalled and at the time of writing it is difficult to know what is happening in Russia, as a combination of sanctions and falling oil prices seem to be leading to a recession there. Doubts are also beginning to be expressed even about growth in China, with stock market crashes and worries about unsustainable levels of debt featuring in the business press.

We see a number of traditional regional strategies, often reflecting past cultural and institutional linkages. These create new patterns of mobility and trade. There is also much discussion about relative levels of productivity around the world driving investment and growth and the role of labour arbitrage, with MNCs being able to take advantage of lower wages abroad. In reality, MNCs consider many factors when they think about locating activities in various markets. The behaviour of MNCs is driven by many issues, such as complex supply chains at risk of disruption, energy prices, and inventory costs associated with importing. We also witness different responses internationally within the labour force. These shifts are not always as easy or rapid as made out in the business press.

Whatever the driving factors, we do nonetheless seem to be witnessing the global transfer of work – either in terms of the creation of new jobs or through the global sourcing of certain parts of an individual's or unit's work. This is having a major impact on the type of organisations and nature of work that remain viable in different parts of the world. In the first wave of globalisation two decades ago, low-level manufacturing work began to transfer to low-cost locations. In the second wave simple service work such as credit card processing began to relocate. In the third wave higher-skill white-collar work is being transferred.

1.2 WHAT IS INTERNATIONAL HUMAN RESOURCE MANAGEMENT?

In all these MNCs or MNEs, HRM is a key to success. For the vast majority of organisations, the cost of the people who do the work is the largest single item of operating costs. Increasingly, in the modern world, the capabilities and the knowledge incorporated in an organisation's human resources are the key to performance. So on both the cost and benefit sides of the equation, HRM is crucial to the survival, performance and success of the enterprise. For international organisations, the additional complications of dealing with differing institutional constraints and multicultural assumptions about the way people should be managed become important contributors to the chances of that success.

The need for human resource specialists to adopt an increasingly international orientation in their functional activities is widely acknowledged and becoming ever clearer. It is important not just to people working in the giant MNCs, but also to many others in small and medium-sized enterprises (SMEs). The freer economic environment of the twenty-first century, the reduction of restrictions on labour movement in areas such as the European Community, and the advent of new technology, have combined to mean that many fledgling enterprises operate internationally almost as soon as they are established.

Any review of world events over the last few years will emphasise the essentially unpredictable and rapidly changing nature of political, economic and social upheavals. Vaill (1989, p2) used the metaphor of 'permanent white water' to describe the nature of doing business in the latter part of the twentieth century. And whilst we might doubt the extent or novelty of change it is clear that managers working in an international environment are impacted more by multi-country, regional and global change and dynamism than managers in a single-country operation. And this applies to HR managers as much as any others (Stiles and Trevor 2006). Hardly surprisingly, choices in this context become complex and ambiguous.

The additional complexities of managing an international workforce in any of these organisations call for a different mindset and different skills for practitioners. Sparrow et al (2004) argue that individuals working in an international context need to be competent in:

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

They add that individuals will also need a broader base of knowledge in such areas as:

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

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

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

From the mid-1980s to the turn of the 1990s the field of IHRM was considered to be in its 'infancy' (Laurent 1986). Since its early beginnings, there has been both an evolution of territory covered by the IHRM field as well as more critical discussion of whether this evolution has been towards an expanded field, or represents a process of fragmentation.

Scullion (2005) tracked the evolution of definitions of IHRM. He observed that whilst there has been little consensus, definitions have broadly concentrated on examining the HRM issues, problems, strategies, policies and practices which firms pursue in relation to the internationalisation of their business. Budhwar et al (2009) similarly positioned the different views that have existed about the nature of IHRM.



KEY FRAMEWORK

Definitions of HRM

IHRM encompasses:

'the worldwide management of people in the multinational enterprise' (Poole 1990, p1)

'human resource management in an international environment. . . problems created in an MNC performing business in more than one country, rather than those posed by working for a foreign firm at home or by employing foreign employees in the local firm' (Briscoe and Schuler 2004, p1)

'how MNCs manage their geographically dispersed workforce in order to leverage their HR resources for both local and global competitive advantage' (Scullion 2005, p5).

'a branch of management studies that investigates the design of and effects of organisational human resource practices in cross-cultural contexts' (Peltonen 2006, p523)

'all issues related to the management of people in an international context. . . [including] human resource issues facing MNCs in different parts of their organisations. . . [and] comparative analyses of HRM in different countries' (Stahl and Björkman 2006, p1).

'complex relationship between globalisation, national systems and companies' which provides us with 'three distinct "levels of analysis" for interpreting and understanding HRM strategies and practices [the globalisation effect, the regional effect, the national effect, and the organisation effect]' (Edwards and Rees 2008, p22)

'the subject matter of IHRM [must be] covered under three headings: cross-cultural management; comparative human resource management; and international human resource management' (Brewster et al 2007, p5)

'how MNCs manage the competing demands of ensuring that the organisation has an international coherence in and cost-effective approach to the way it manages its

people in all the countries it covers, while also ensuring that it can be responsive to the differences in assumptions about what works from one location to another' (Dickmann et al 2008, p7)

'the ways in which the HRM function contributes to the process of globalisation within multinational firms' (Sparrow and Braun 2007, p96)

'the implications that the process of internationalisation has for the activities and policies of HRM' (Dowling et al 2008, p293)



REFLECTIVE ACTIVITY 1.2

Look at the sequence of definitions used above to define what IHRM is about. How do the definitions change over time? What do these changing definitions tell you about the sorts of knowledge – and the theoretical understanding – that might be important for the field and that should be incorporated into a textbook of like this?

1.3 WHY STUDY INTERNATIONAL HUMAN RESOURCE MANAGEMENT?

Why should we be considering the international and comparative dimensions of HRM? After all, every organisation has to recruit workers, deploy them, pay them, motivate them and eventually arrange for their departure. Indeed, many texts are written as if their messages are universal. However, there is little doubt that things are done differently in different countries: each country has its own institutional environments – with differently educated and skilled workforces, in different economic situations, with different labour laws, trade union arrangements, government support or control (covered in Chapter 2), and internationally operating organisations have to cope with different cultures (see Chapters 3 and 4). In order to understand how organisations operate across these different national contexts we need to understand the differences as clearly as possible. There is now extensive research showing that HRM not only varies between countries in the way that it is conducted, but that how it is defined and what is regarded as constituting good practice are also very distinct (Brewster and Mayrhofer 2012).



REFLECTIVE ACTIVITY 1.3

- Examine existing HRM practices in your company or one that you know about.
- Which of them are the product of your country's legal, economic, political or social institutions?

Provide explanations for your answer.

There are two fundamental paradigms in the exploration of HRM: the universalist and the contextual (Brewster 1999). Comparative HRM is intrinsically contextual, generally focused at the national level. IHRM, however, is often (though not in this book) universalist, assuming that the same things will work in every context. Linked to this

debate is another: the debate between those who embrace notions of convergence and those who do not. Whereas researchers have to choose between the universalist and the contextual paradigms, they may decide that, for example, some aspects of HRM may be converging whilst others are not or that HRM converges at the level of rhetoric but less so at the level of practice.

Here we explore briefly these conceptual choices as an introduction to the rest of the book.

1.4 UNIVERSALIST VERSUS CONTEXTUAL HRM

Universalism and contextualism are paradigms: that is, they are taken-for-granted truths that the proponents of each simply assume must be correct. The fact that both paradigms are supported by different scholars indicates that both are intellectual constructs capable of being challenged. But for the proponents of each one, they are 'obviously' correct and the 'only' way to think about management science and HRM.

1.4.1 UNIVERSALIST HRM

The universalist paradigm is dominant in the USA but is widely used elsewhere. This paradigm assumes that the purpose of the study of HRM, and in particular strategic human resource management (SHRM – see for example Tichy et al 1982; Ulrich 1987; Wright and McMahan 1992), is to improve the way that human resources are managed strategically within organisations. The ultimate aim of this work is to improve organisational performance, as judged by its impact on the organisation's declared corporate strategy (Tichy et al 1982; Huselid 1995), the customers (Ulrich 1989) or shareholders (Huselid 1995; Becker and Gerhart, 1996; Becker et al 1997). It is implicit in these writings that this objective will apply in all cases. Thus the widely cited definition by Wright and McMahan (1992, p298) states that SHRM is:

the pattern of planned human resource deployments and activities intended to enable a firm to achieve its goals.

Much of the universalist writing assumes that HRM, like management generally, is a science and that 'proper science' (Beer et al 2015) requires the search for universal truths, usually couched in HRM as 'best practice' and that understanding can be achieved by testing yes/no hypotheses. Searching for 'best practice' often means finding out what currently successful 'leading edge' companies are doing.

Arguably, there is a degree of coherence in the USA around what constitutes 'good' HRM, and views tend to coalesce around the concept of 'high-performance work systems'. Many years ago these were characterised by the US Department of Labor (1993) as having certain characteristics:

- careful and extensive systems for recruitment, selection and training
- formal systems for sharing information with the individuals who work in the organisation
- clear job design
- local-level participation procedures
- monitoring of attitudes
- performance appraisals
- properly functioning grievance procedures
- promotion and compensation schemes that provide for the recognition and financial rewarding of high-performing members of the workforce.

It would appear that, although there have been many other attempts to develop such lists (see, for example, from the UK, Storey 1992, 2007), and they all differ to some degree, the Department of Labor list can be taken as an exemplar of the universalist paradigm.

Few researchers in HRM in the USA would find very much to argue with in this list. Researchers and practitioners in other countries, however, find such a list contrary to experience and even to what they would conceive of as good practice. So they might argue for sharing information with representative bodies such as trade unions or works councils, for flexible work boundaries, for group or company-wide reward systems. And they might argue that attitude monitoring, appraisal systems, etc are evidence of low trust and culturally inappropriate.

Universalists often produce their work in one country and base it on a small number of 'exemplary' cases. As long as this work is read by specialists in the relevant country, with interests in these kinds of organisations, this may not be too much of a problem. But the world, and especially the academic world in HRM, is becoming ever more international. This is a major problem in relation to the US literature. The cultural hegemony of US teaching, publishing, websites and US journals means that these texts are often utilised by other readers. US-based literature searches generally fail to note much writing outside the universalist tradition. These universalist notions are widely adopted by management consultancies, business schools and HRM gurus across the world. There is an explicit or implicit lesson drawn that countries and organisations that do not adopt the appropriate policies and practices are in some way 'backward'. For analysts and practitioners outside the USA, and even, we might argue, for many inside the country, and for those international firms with interests in different countries, many of these descriptions and prescriptions fail to meet their reality.

1.4.2 CONTEXTUAL HRM

In contrast, the contextual or comparative paradigm searches for an overall understanding of what is contextually unique and why. In our topic area, it is focused on understanding what is different between and within HRM in various contexts, and what the antecedents of those differences are. The policies and practices of the 'leading-edge' companies (something of a value-laden term in itself), which are the focus of much HRM research and literature in the USA, are of less interest to contextualists than identifying the way labour markets work and what the more typical organisations are doing.

Among most researchers working in this paradigm, it is the explanations that matter – any link to organisational performance is secondary. It is assumed that HRM can apply to societies, governments or regions as well as to firms. At the level of the organisation (not just the 'firm', for public-sector and not-for-profit organisations are also included), the organisation's objectives and strategy are not necessarily assumed to be 'good' either for the organisation or for society. There are plenty of examples, particularly in the financial sector in the last few years, where this is clearly not the case. The contextual paradigm is more concerned about the other stakeholders in HRM – the employees and their dependents, and society as a whole (Beer et al 2015). While noting their common interests, it does not assume that the interests of everyone in the organisation will be exactly the same; nor is there any expectation that an organisation will have a strategy that people within the organisation will support.

The assumption is that not only will the employees and the unions have a different perspective from that of the management team (Keenoy 1990; Storey 1992; Purcell and Ahlstrand 1994; Turner and Morley 1995), and different groups of employees within the organisation will have different needs and requirements (Lepak and Snell 1999), but that even within the management team there may be different interests and views (Koch and McGrath 1996; Hyman 1987). These, and the resultant impact on HRM, are issues for empirical study. Contextualist researchers explore the importance of such factors as culture, ownership structures, labour markets, the role of the state and trade union organisation as aspects of the subject rather than as external influences upon it. The scope

of HRM goes beyond the organisation to reflect the reality of the role of many HRM departments: for example, in lobbying about and adjusting to government actions, in dealing with such issues as equal opportunities legislation or with trade unions and tripartite institutions.

1.4.3 THE VALUE OF THE DIFFERENT PARADIGMS

So many management researchers find that the universalist paradigm, ironically, excludes much of the work of HRM specialists in such areas as compliance, equal opportunities, trade union relationships and dealing with local government and the environment. In addition, the universalist paradigm only operates at the level of the organisation, ignoring policy at the national or international level. This is not helpful in regions like Europe, where much employment contract bargaining is still often conducted above the organisational level and significant HRM legislation and policy (for example, freedom of movement, employment and remuneration, equal treatment) is enacted at EU level as well as at the level of particular countries or sectors (Sparrow and Hiltrop 1994; Brewster 2004). Ignoring national policy makes even less sense in countries like China and Vietnam (Warner 2013). The contextual paradigm provides better insights into these issues.

Nevertheless, the universalist paradigm exists because it has strengths – a simple, clear focus, a rigorous methodology, and clear relationships with the needs of industry. Neither paradigm is right or wrong. Both these approaches, and the others that exist in other parts of the world, have a contribution to make. The difficulty comes when writers are unaware of the paradigm within which they are working.

It is to some degree the difference between these paradigms, lack of awareness of them, and the tendency for commentators to drift from one to another that has led to the confusion about the very nature of HRM as a field of study, as pointed out by many of its original leading figures (including Boxall 1993; Legge 1995; Storey 1992). In practice, these are often debates between the different paradigms used to understand the nature of HRM.

1.5 CONVERGENCE AND DIVERGENCE IN HRM

1.5.1 CONVERGENCE IN HRM

A second, and linked, debate is between those who believe in globalisation, arguing that all aspects of management, including HRM, are becoming more alike; and those who believe that each country continues to have its own approach to management in general and HRM in particular. For Pudelko and Harzing (2007), at the country level the debate has always been about convergence or divergence of HRM practice, whilst at the organisational level it has been about standardisation versus localisation of practice.

There is more than one version of the convergence concept. Comparative HRM researchers have analysed changes in the adoption of a range of specific tools and practices across countries. In examining changes over time in HRM practice between European countries, and attempting to link the pattern of these changes to competing theoretical explanations of what is happening, Mayrhofer et al (2004) noted that

[i]t is by no means clear what is meant by convergence. Although the general meaning, intuitively, is clear, it becomes more complex at a closer look. We therefore need a 'more nuanced picture of convergence'. (p434)



KEY FRAMEWORK

What is meant by convergence or divergence?

Mayrhofer et al (2004) differentiated a number of forms of change:

Directional convergence: When comparing changes in HRM practices between two countries directional convergence exists when the trend (developmental tendency) goes in the same direction. Each country might start with a different proportion of organisations using a specific practice, and over time the difference in the proportion of organisations using that particular practice in the two countries might actually have grown larger. However, in both cases, a greater proportion of organisations now use the practice, there is convergence in direction – in this case going up. Similarly the opposite might apply, with change in a negative direction.

Final convergence: When changes in the use of an HRM practice in two different countries mean that the two countries' practices get more similar (the differences in use of the practice between the countries decreases in magnitude over time) then there is convergence to some final point. This might imply that the country with less uses increases faster, or that one country increases a usage whilst another one decreases it – as long as they get closer together there may be said to be final convergence.

Stasis: When there is no change over time in the proportion of organisations using an HRM practice and a state of stability thus exists.

Divergence: When the changes in use of an HRM practice in two different countries are progressing in truly different directions, one increasing and the other decreasing.

In addition, we might note that HRM might not be uniform – for example, some practices may converge whilst others diverge, or there may be convergence at the policy level but not at the operational level.

Some see convergence as a global market-based issue. They argue, using a kind of Darwinian 'survival of the fittest' analogy, that the logic of technology and its increasing diffusion mean that eventually, in order to compete, everyone will have to adopt the most efficient management and HRM practices (Kidger 1991). The underlying assumption here is that the predominant model will be the US universalist model (Pudelko and Harzing 2007; Smith and Meiksins 1995). There is also a regional institutional perspective, which argues that whilst institutional differences in legal, trade union and labour market conditions can create differences in HRM then where, as in the EU similar legislation covers a number of countries, this might lead to a diminution in the differences between the ways in which countries handle their HRM. The EU is passing legislation for all the member states, including social and employment legislation. There is a free labour market in the EU and some companies now try to operate as if the EU was one country. A developing European model of HRM would reinforce the idea of a move toward convergence – but in the form of regional convergence rather global convergence.

1.5.2 DIVERGENCE IN HRM

Opposed to the idea of convergence are the institutional theories and the concepts of cultural differences outlined in the next three chapters. Proponents of the various versions of each of these two main streams of explanation are unlikely to accept that there is any point at which the same practices will be utilised to the same degree and would have the same effect irrespective of country or location. This book is firmly based on such a notion.

This, of course, gives IHRM practitioners a key paradox. Internationally operating organisations may want to standardise practices wherever possible. But in many areas of management, and particularly HRM, they also have to be aware of and respond to or even utilise national differences. This standardisation/localisation debate is a central issue in IHRM and one that, once we have explored and understood the national variations found in HRM approaches, policies and practices around the world, we explore in the third section of the book.

1.5.3 THE EVIDENCE

There is little empirical data on the issue of convergence versus divergence, and that is largely the result of the difficulties of researching the issue. A number of articles which claim to have researched convergence of HRM practices either use case studies, which are inappropriate for identifying whether national practices are becoming more alike, or use convergence to apply only to directional convergence – they find the same trends in different countries but can say nothing about whether the countries are becoming more alike. Others use single point in time data to explore issues of convergence towards assumed best practices. Obviously, researching convergence seriously would require longitudinal comparative research programmes – but these are expensive and rare. Even this would not resolve the problem entirely. Which issues are we researching? Are we to research institutional arrangements or how they operate? Are we to research at a national level, an organisational level, or a workplace level? Whose opinions are we to canvass?

Katz and Darbishire (2000) identified what they term ‘converging divergences’. Looking at the USA, Australia, Germany, Italy, Japan, Sweden and the UK, they argued that they had found not one universal type of employment system but many – the more regulated systems are breaking down to develop more varied systems, like the less regulated economies. They suggested that, although globalisation and internationalisation might be argued to foster a general converging trend in employment systems, such an analysis does not allow for managerial agency – managers can do different things. As a result, they argue that all societies will gradually develop a range of work practices. However, the literature on convergence shows that national differences remain.

The best evidence we have on convergence and divergence comes from the ongoing surveys of HRM policy and practice by the Cranet network. They have been able to provide supporting evidence of similar trends in HRM across a range of countries (Croucher et al 2014; Mayrhofer et al 2011; Poutsma et al 2006; Tregaskis and Brewster 2006; Wood et al 2014), but they have also confirmed that there is no evidence for final convergence – the countries start from different points and develop within their own trajectories and at different speeds, so that even though the trends might be similar, the countries each remain quite distinct. Mayrhofer et al (2011, p60) carried out careful and detailed statistical analysis of the data over 15 years and summarise their findings on convergence and divergence as follows:

Empirically, the results support the notion that converging and non-converging developments occur simultaneously. While no final convergence can be observed for HRM in Europe... directional similarity is visible in a majority of the areas of HRM analyzed. The results also show the effects of the embeddedness of HRM in national institutional contexts and the interplay between supra-national drivers and national institutional forces.

In other words, there are common trends, but no evidence even in Europe that countries are becoming more alike in the way that they manage their human resources.



REFLECTIVE ACTIVITY 1.4

This evidence refers to European countries: what about further afield? It has been argued that introducing emerging economies and under-developed economies into the picture will extend the variety that we see and will show even less divergence (Brewster et al 2015). Think of a non-European country and ask yourself: is HRM here becoming more like that seen in the USA or more like that seen in Europe? Or is it different from both?

1.6 STRUCTURING THE FIELD INTO THREE COMPONENTS

How are we to start the process of understanding all this complexity? The first step is to be clear about different kinds of analysis. These are not always defined in the literature – partly perhaps because of confusion in the USA, where ‘international’ is often applied to anything outside the USA. Although we appreciate that over the years the different elements of the subject of IHRM have become more interwoven so that to understand one it is necessary to know something of the others (Brewster and Wood 2015), in order to structure the subject we cover it under three headings:

- national institutional and cultural differences
- aspects of comparative human resource management
- international human resource management.

In broad terms, the national institutional and cultural differences section of the book covers the explanations for national differences and their impact on HRM. Every nation has its own unique set of institutions and many share a common culture, the deep-lying values and beliefs reflected in the ways that societies operate, and in the ways that the economy operates and people work and are managed at work. In the second section of the book, we examine particular aspects of the way that people work and explore the differences between nations in the way that they manage this process. In general, the comparative tradition makes more of the institutional differences than the cultural differences. The third section of the book explores IHRM (and its more recent ‘strategic’ derivative, SIHRM) and examines the way organisations manage their human resources across these different national contexts.

1.7 HOW IS THE OVERALL FIELD OF INTERNATIONAL HRM EVOLVING?

HRM and IHRM are no longer in their ‘infancy’ as Laurent (1986) originally had it. IHRM has evolved in three directions, with a growing influence of an institutional perspective; the development of a critical perspective; and a problem-solving perspective on IHRM. The institutional perspective has developed rapidly in the last decade and has arguably overtaken the cultural explanation in explaining the differences between countries. These issues are addressed in the next three chapters.

The critical perspective (Peltonen 2006, 2012; Delbridge et al 2011) brings together a number of considerations, rather than bringing together an agreed set of theories, but basically argues that to understand IHRM we have to ask questions about who it serves, who the key stakeholders are and the context in which it operates. Comparative HRM therefore often bears marks of a critical approach. The majority of theories that the field draws upon have been created outside the field of IHRM. This has been reflected in a degree of experimentation and abstractness in the issues that are typically covered. De Cieri et al (2007) argue that globalisation – when seen in terms of the worldwide flow of

capital, knowledge and other resources necessary to interconnect international product markets – is associated with concomitant processes involved in the growth in scope and scale of competition. IHRM academics therefore need to understand the (many) ways in which MNCs operate often using ideas from outside HRM. Academics and researchers are increasingly giving attention to the politics of globalisation and the importance of local context. As attention turns from understanding the policy and practice needed to manage international cadres of people in MNCs, towards the need to understand any one HRM policy and practice in its broader international or institutional context, many academic fields have something to say about the phenomenon of IHRM.

Delbridge et al (2011) critiqued the field of IHRM arguing that it had become limited by economic and managerialist perspectives, with too much attention to the organisational level of analysis. They argued that the traditional comparative perspective, or focus on MNCs, should be broadened to incorporate the nature of IHRM both in alternative forms of organisation that often extend beyond the boundaries of the traditional corporation, and also into more diverse economic structures, such as in local economies, regional districts, national institutions, international networks and transnational regulation. There is useful work in the fields of cross-national organisation, comparative political studies and economic geography that could inform our practice. This call has been reflected in work that has extended analysis into multi-stakeholder contexts, for example, the not for profit sector (Lodge and Hood 2012; Beer et al 2015; Brewster et al 2016).

The critical view of IHRM is:

An acknowledgement that we are examining organisational issues that are of high complexity, in an environment of changing context, and with questionable assumptions about the existence of rules of the past that can be generalised to future actions. (Sparrow 2009, p7)

There is then still an evolutionary view of the field (Stahl and Björkman 2006; Sparrow and Braun 2008; Dickmann et al 2008; Sparrow 2009; Stahl et al 2012). By following a problem solving approach to IHRM – that is, by focusing on the progressive issues that have been created in the conduct of business operations as a consequence of internationalisation – this perspective sees IHRM as entailing an explainable set of explorations:

IHRM has moved not through a haphazard and opportunistic expansion, but through a sequential development of thinking that has captured the successively evolving cultural, geographical and institutional challenges faced by the multinational corporation. . . whilst IHRM indeed now covers a large and complex territory, it has come to represent an accepted set of doctrines about the nature of IHRM. . . There is a logical pattern to the ‘issues-driven’ concerns that the field of IHRM has to face, absorb, interpret then re-analyse through international lenses. . . with a number of contemporary issues – reverse knowledge flows, skill supply strategies, employer branding, e-enablement, outsourcing, global networks – now needing to find [more] voice within the literature’ (Sparrow 2009, p4)

The problem-solving perspective acknowledges that there is an increasingly complex set of contextual factors at play, but also considers that the IHRM field has expanded, in parallel with – and has been driven by the drumbeat of – progressive problems of internationalisation. These problems have undoubtedly become more deeply embedded within organisations.

A number of research handbooks on IHRM, including those by Sparrow (2009), Björkman et al (2012), and Dickmann et al (2016), have pointed out the tension between relevance and coherence. Björkman and Welch (2015, p136) capture this as follows:

While the need to broaden the scope and diversity of IHRM research has generally been regarded as essential to the continuing growth of the field, there has been some concern that such developments might come at the expense of cohesion and relevance. . . [an] issue that may contribute to a sense of lack of cohesion and relevance is the ‘research boundary’: the overlap between what constitutes IHRM and related areas such as cross-cultural management and comparative employee relations. Without consensus, it is difficult to explain to other scholars in international business what IHRM really is. . . [but] looking back over the IHRM body of work, it is possible to identify and articulate the overarching key question in IHRM research. It has been and remains: ‘(i) how are people managed in multinational corporations and (ii) what are the outcomes?’

Björkman and Welch (2015) characterise the field as covering four different levels or areas of analysis:

- macro (encompassing countries, regions and industries)
- MNC (global headquarters and the parent country, how MNCs from different home countries differ in their global practices, contingency factors such as the corporate structure, their control mechanisms, the features of their HRM departments, the role of international experience and organisational learning, and the human, social and organisational capital that this can build)
- unit (typically a subsidiary, but may also be a production unit, sales office, project, inter-organisational alliance or any other such entity that constitutes a relevant whole)
- individual (including teams, various categories of employees deemed to be international workers, and their family members).

Then, within each of these areas of analysis, attention is typically given to the factors that influence behaviour, the structure and role of the HRM department, immediate outcomes (such as control and co-ordination, employment, human capital, shared values, knowledge sharing, adjustment), and finally the more distal performance consequences (topics such as financial performance, efficiency, innovation, flexibility, job performance, or career progression).

Pudelko et al (2015, p128) note the expansion of IHRM concerns into topics such as

knowledge management, change management, the management of joint ventures and of multinational teams, the management of post-merger and post-acquisition processes, the transfer of management practices within a global corporation and the definition and implementation of the strategy of a global corporation.

Far from suggesting that the field has therefore lost its direction, this expansion is seen as a logical consequence of the growing relevance of IHRM research. It is, however, breaking down some of the previous specialisation in academic backgrounds, and leading to a process of ‘unsystematic enrichment’ by bringing in researchers with backgrounds in strategy, international business (IB), macro-level institutional behaviour and micro-level organisational behaviour.

One could gain the impression that IHRM has ultimately become too important to be left to IHRM scholars alone, just like the management of human resources in companies might have also become too important to be left only to members of the HR department. (Pudelko et al 2015, p128)

1.8 AN OUTLINE OF THE BOOK

Following this introductory chapter, the text is divided into the three areas of theory we have already identified.

Part One deals with the background to and explanations for cross-cultural HRM.

Chapter 2 Differing National Contexts introduces the differences between countries in the way that human resources are managed and gives some detail of the institutional differences that form part, indeed we argue the major part, of the explanation of these differences. The chapter outlines briefly some of the theoretical approaches to institutional differences between countries and market economies and indicates how these apply to HRM.

Chapter 3 The Impact of National Culture defines the meaning of culture, outlines the literature on cultural differences, and explores the extent to which aspects of work practices are nationally or locally based. It uses some previously developed frameworks and applies these to the world of work.

Chapter 4 Culture and Organisational Life continues this exploration, looking at the implications of operating across national cultures for concepts of business, management and HRM. It acts as a bridge chapter between Part One and some of the topics covered later in the book. It signals the complexity of linking culture to organisational life, and places cultural analysis into some broader frames. It outlines the impact of culture on organisational behaviour and HRM practices, and the mechanisms through which national culture shapes HRM. It applies culture to some other developments, such as corporate social responsibility or changes in attitudes across generations. Finally, it examines some of the individual-level consequences of culture such as multiculturalism and cultural intelligence. It places these in the context of the cultural interpretation work that takes place inside international organisations.

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

Chapter 5 Employee Relations and Collective Communication explores the range of structures of employee relations common in Europe and around the world. It examines the differences in the meaning and role of unions and other representative employee bodies. It draws attention to the role of history, national cultures and legal institutions in influencing these structures and bodies, and signals what this means for the managers of people.

Chapter 6 The Organisation of Work is a new chapter that introduces the topic of work organisation and reviews international variation in practices of direct communication. It considers Taylorism and other broader-based alternatives. It examines how these alternatives are applied in different countries and explains the bases of cross-national comparative variation in work organisation.

Chapter 7 Flexibility and Work–Life Balance explores trends in the issue of flexible working practices and patterns. Flexible working practices include the development of such approaches as part-time employment, short-term employment and a host of other non-standard working forms. It explores the similarities and differences in the use and meaning of such practices across national boundaries and considers the impact of these practices at national, employer and individual levels, as well as the implications for HRM specialists. Finally, it looks at developments concerning work–life balance in an international context.

Chapter 8 Recruitment and Selection explores and compares some of the ways in which organisations across different countries act in order to obtain and retain the kinds of human resources they need. The chapter examines the resourcing process: making sure the organisation has people of the right quality. It therefore looks first at recruitment and selection and considers the ways in which culture can be seen to influence such local HRM practices. However, much international recruitment today is carried out in the context of global resourcing strategies and increasingly global labour markets. The chapter therefore also looks at global skill supply strategies and the role of recruitment in the internationalisation of the organisation. Having outlined the main practices involved, it looks at the comparative factors that lead to differences in labour markets, the role of legislation and institutional influences on resourcing. Finally, it introduces some of the questions that these developments raise about the recruitment of international employees.

Chapter 9 Performance Management defines performance management and performance appraisal and provides an overview of their western origins. Typical approaches to performance management within MNCs are described with reference to the elements of planning, managing and reviewing. The chapter then considers the factors which impact performance management in different contexts and presents a comparative analysis which includes the influence of culture.

Chapter 10 Rewards explores the nature of rewards and the different bases of pay. It considers a number of theoretical perspectives important for the study of rewards such as agency theory, socially healthy pay and distributive justice. The links between national culture and rewards practice are explored and attention is given the international differences in the incidence of pay for performance and comparative evidence on best practice.

Chapter 11 Training and Development identifies key trends, similarities and differences at country level in relation to vocational education and training systems. It also explores workplace and on-the-job training. Finally, attention is given to management development and comparative experiences of this.

Chapter 12 Global HRM Departments looks at similarities and differences at country level in relation to the meaning of HRM, the role of the national institutes, and the role of the HRM department in terms of issues such as strategic integration and devolvement. It examines the cross-national differences in the place or role of HRM departments and outline the differences between countries in the allocation or assignment of HRM tasks to line managers. It considers the potential effects of outsourcing, shared services and e-HRM on the role of the HRM function and evaluates the bases of cross-national comparative variation in the role of HRM departments. Finally, it considers the potential of MNCs' global HR departments to fulfil global roles, and the challenges they face in so doing.

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

Chapter 13 International HRM: Theory and Practice examines the link between strategic IHRM and international business strategy, applying various theoretical perspectives to strategic IHRM. The chapter explores key issues in IHRM, such as the importance of context, forms of organisation and the ever-present tension between

differentiation and integration. A range of different theories that can act as lenses for examining these issues are outlined and evaluated. Finally, the chapter explores a potential model of global HRM.

Chapter 14 Managing Expatriate Assignments considers the most widely discussed aspect of IHRM activities – managing people on international assignments. It examines how international assignments link to an organisation's international strategy and evaluates the main trends in the nature of expatriation. It looks at the whole expatriate management cycle, giving particular attention to theory versus practice in international manager selection. The antecedents to adjustment in international assignments are considered, as is the challenge of designing appropriate pre-departure preparation programmes for expatriates. Finally, the issue of repatriation is examined.

Chapter 15 Managing Diversity in International Forms of Working addresses issues of diversity in international organisations. This chapter examines the various forms of international working and assesses the pros and cons for international enterprises of using each form. It considers what should be involved in measuring the value of international assignments. Attention is given to the strengths and weaknesses of various forms of diversity initiatives in international organisations, and how organisations could increase the number of women in international management. The problems of assessing performance in international work are discussed. Finally, the chapter examines the challenge of managing international management teams.

Chapter 16 Integrating Global HRM Practices takes a strategic view of some of the developments in IHRM that are occurring as a result of decisions being made about the function and the scope and scale of its activities. It examines how, as organisations implement global operations, the IHRM function can help facilitate this. It looks at the integration mechanisms provided by the corporate centre, and how they manage the balance between global integration and local responsiveness. It reviews debates around country of origin, country of management and hybridising processes on the nature of IHRM and analyses the processes involved in the transfers of HRM practices. By focusing on the nature of operational integration in IHRM, it looks at three particular practices: global leadership and management development, global performance management and global talent management.

Chapter 17 Globalising HRM, the final chapter, explains the nature of subsidiary knowledge flows in MNCs and the challenges they face when trying to manage multi-directional knowledge transfers in MNCs. It identifies a series of integration mechanisms used in the pursuit of global knowledge management strategies in order to create intellectual, social and emotional integration within the global organisation. It examines the role of knowledge management and knowledge transfer between international operations, and the issues involved in building organisational capability through global expertise networks. It reviews how different types of 'HRM architecture' help enable these knowledge flows. Finally, it positions employer branding as part of a longer-term strategy to create social and emotional integration within an organisation and examines what is involved in managing the perceptions of the external and internal labour market.

1.9 WHAT IS NEW ABOUT THIS EDITION?

This is the fourth edition of this book. As can be seen, the chapters in this edition are a little different from the previous edition. In general terms we have broadened the geographical coverage of the vignettes and case study examples, with more examples from Asia. We have strengthened and updated the institutional perspectives throughout the book, and in Part One through the addition of a chapter on differing national contexts. We have updated the coverage of national culture, in terms of methodological critiques and advances, a review of the work that has applied the concept of culture in the last five years, but also by bringing in more material around individual consequences of culture,

such as multiculturalism, and the cultural interpretation work that is done by international managers. All of the functional chapters in Part Two of the book have been updated to pick up developments in both the literature and practice in the last five years. Chapter 12 has undergone a very significant review and updating and serves as a bridge chapter into Part Three of the book. Part Three of the book on IHRM has undergone a significant set of revisions. We have re-balanced the number of chapters and have introduced more material into this part. Chapter 13 on IHRM theory has more material on the 'born global' issue, and brings in more discussion of the knowledge-based view of the firm and absorptive capacity. Chapters 14 and 15 on expatriation and the variety of forms of international working have been updated to include the latest trends and developments. Chapter 16 provides a deeper analysis of the issues involved in HR practice transfer, global integration and local responsiveness, and management development, and introduces global talent management. Finally, we have also brought in much new work on global knowledge management and employer branding to Chapter 17.



REFLECTIVE ACTIVITY 1.5

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

(Identify the reasons underlying your arguments.)



REFLECTIVE ACTIVITY 1.6

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



KEY LEARNING POINTS

- Much of our initial understanding about IHRM was traditionally based on the study of MNCs.
- Definitions of IHRM have concentrated on examining the HRM issues, problems, strategies, policies and practices which firms pursue in relation to the internationalisation of their business.
- The additional complexities of managing an international workforce in organisations that are internationalising call for a different mindset and different skills for practitioners.
- Internationalisation is also becoming more widespread. The levels of foreign direct investment can be huge although these developments are always fraught with risks and uncertainties.
- There are continental shifts occurring in the focus of this economic activity, leading to new patterns of mobility and trade, and MNCs dominated by new mindsets and approaches.

- We are also witnessing the global transfer of work – either in terms of the creation of new jobs or through the global sourcing of certain parts of an individual's or unit's work. This is having a major impact on the type of organisations and nature of work that remain viable in different parts of the world.
- Rather than just studying the operation of MNCs, the subject matter of IHRM is best covered under three headings: exploration and explanation of national differences in HRM; specific aspects of comparative HRM practice; and international HRM.
- These three fields each show that there is an increasingly wide set of contextual factors at play. Each field has expanded in depth, in parallel with the progressively complex problems of internationalisation. We devote a separate Part of the book to each approach.

LEARNING QUESTIONS ?

- 1 From your experience and study of the subject, what do you consider to be the key elements of 'best practice' in HRM? To what extent can these be applied on a global basis? Identify the reasons underlying your arguments.
- 2 Imagine that you are a HR manager in a domestically based company that has decided to operate internationally. You have been charged with sorting out the HR effects of the decision. What questions should you be asking?



EXPLORE FURTHER

The following websites provide useful information:

The United Nations Conference on Trade and Development (UNCTAD) website can provide updated information on transnational organisations:

<http://unctad.org/en/pages/home.aspx>

CIPD International Research:

<http://www.cipd.co.uk/global/>

OECD guidelines for multinational enterprises:

<http://www.oecd.org/daf/inv/mne/oecdguidelinesformultinationalenterprises.htm>

The International Labour Organization publications and reports can be found at:

<http://www.ilo.org/global/publications/lang-en/index.htm>

The World Federation of People Management Associations website:

<http://www.wfpma.com>

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PART ONE

CROSS-CULTURAL HUMAN RESOURCE MANAGEMENT

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Differing National Contexts

LEARNING OUTCOMES

When you have read this chapter, you will:

- understand the cultural and institutional bases for differences between countries in the way they manage their HRM
- appreciate the arguments concerning convergence and divergence
- be able to identify some key areas of similarity and difference in HRM practice between countries.

2.1 INTRODUCTION: CULTURE AND INSTITUTIONS

We have made the point that HRM is thought of, understood as, carried out, and measured and judged in different and distinct ways in different countries. So what explains these differences? We reject the notion that the reason is just that some countries are more backward than others and have yet to adopt 'best practice'. We believe that the differences exist because people are trying to do different things to achieve different objectives in different circumstances (Brewster and Mayrhofer 2012). And the reasons that they have different HRM policies and practices may lie in either cultural differences between societies or in institutional differences between them.

We explore the notion of culture and its effect on the objectives and practices of HRM in detail in the next two chapters and by implication throughout the book. Here we just 'headline' the topic and address the relationship between cultures and institutions before going into more detail on the institutional differences between countries and groups of countries.

There are numerous definitions of culture and, taking into consideration different proxies used in social science literature (for example, country of origin, world outlook, philosophy of life, etc) to equate to culture, it is becoming increasingly difficult to come up with the definitive definition! Popular definitions are those by Hall (1977) – a sum of a people's learned behaviour, patterns, and attitudes; Hofstede (1993) – the collective programming of the mind that differentiates members of one social group from another; and Trompenaars (1993) – a shared system of meanings, the way a societal group tends to solve the problems related to relationships with others, time and the environment. Clearly, the deep-seated values that people hold, especially around relationships with other human beings in terms of the importance of family, hierarchy and communitarianism, for example, will have a significant impact on the way people are managed within organisations.

Of course it is difficult, theoretically and empirically, to establish how to measure cultures, which partly explains why the measures used by the most popular authors are incompatible (Avloniti and Filippaios 2014). It is also difficult to prove that values related

to HRM are determined by culture (Gerhart and Fang 2005; Taras et al 2009) and, indeed, most cross-cultural studies suffer from a failure to demonstrate a causal link between cultural dimensions of a nation and its specific behaviours and actions (McSweeney 2002). In other words, not all actions can be explained by cultural motives, and other factors, institutional effects, need to be considered also. Cullen et al (2004) proved that such seemingly exclusive cultural factors as achievement, individualism, and universalism positively relate to four institutional factors: economy, welfare socialism, family strength, and the level of education. Chiang (2005) found that employee preference for individual/group rewards was in part caused by a perceived link between performance and rewards, and not purely by the national culture of the respondents. Similarly, the relevance of job security was affected by factors other than culture, such as downsizing and layoffs (institutional practices) and a current recession (external environment). To summarise, national culture, albeit an important concept, is not the only explanatory factor behind differences in behaviours across nations (Tsui et al 2007).

Kostova and Roth (2002) suggest that it is not the national culture but rather the institutional environment that is 'responsible' for differences in organisational behaviours in different national markets. The institutional approach emphasises the clearly measurable differences in practical, generally physically existing, differences between countries. There is, although not much discussed, the basic physical environment: the size, natural climate, infrastructure, age profile and wealth of a country. These affect the ways that businesses can function in that particular environment. Then there are the ways that society is structured: its systems of politics, law, education, labour markets, class structures and social relationships. These form the background of the differing business systems within each country (Brewster and Mayrhofer 2012; Wood et al 2012). Each of these relationships, factors, and systems directly affects the way that businesses operate and how they manage their people. Meyer and Rowan (1977, p341), in their now-classic definition state that institutionalisation is the means

by which social processes, obligations, or actualities come to take on a rule-like status in social thought and action.

What is the relative impact of culture and institutions on HRM (Vaiman and Brewster 2014)? Some aspects of the cultural environment (levels of corruption in a society, respect for hierarchy and the importance of networking between key elites) are obviously beyond the control of the employing organisation. They can, however, do something to affect even these factors, as evidenced by the spread of anti-corruption policies, the introduction of consultative programmes and the attempts that MNCs make to integrate themselves into significant networks, or to hire people who have those links. Other aspects of culture, however, can be relatively easily 'managed out'. Any organisation, particularly the subsidiary of an MNC, can deliberately recruit employees who are just not 'typical' of the culture or cultures of that country. MNCs can, perhaps, look for locals who share some of the values and beliefs of the organisation's home culture. Extensive induction and training programmes and the widespread 'corporate culture change' programmes are attempts to modify employees' national cultural beliefs. And, if they do not work, extensive monitoring and appraisal programmes attempt to force employee behaviour into a common mould, despite cultural differences.

This is not necessarily the case for the national institutions. The size of the country and its population and the general infrastructure will impact on HRM. The country's wealth, the mix of formal and informal economies, the education system, the role of the government and the labour market in general are all largely beyond the control of individual businesses. Businesses have to adapt to the legal system, to the kind of politics and the political leanings of the government. And beyond all these embedded general institutional factors there are specific issues applying to HRM more directly. Employment laws differ between countries so that, for example, the laws on equal opportunities for

women require different behaviours from organisations in the USA and the EU – what is required on one side of the Atlantic is unlawful on the other. In Latin American countries and the Gulf States the picture changes again. Trade unions are illegal in some countries, required in others and may be more or less supported in yet others. Their role, their objectives, their structures and their activities vary from country to country (Hyman 1997). Government-provided childcare, training and employment support – and a range of other programmes – vary significantly between countries. So the business, or its subsidiaries in other countries, has to cope with the institutional setting in which it operates. Oddly, this may impact the subsidiaries of foreign multinationals more than local businesses – MNCs are often under much more scrutiny from pressure groups and trade unions than local businesses are and legitimacy and acceptance may be more important to them. It is easier for local businesses to ‘find ways round the legislation’ or to become overtly involved in political processes than it is for MNCs.

Overall then, the impact of institutions on multinational enterprises is heavy, but the impact of culture may be less and may be more easily managed (Vaiman and Brewster 2014). In areas where institutional impacts are largely absent (performance appraisal, perhaps) then culture may play a bigger role in explaining differences between countries in their HRM. Where the impact is direct (employment legislation on dismissals in some countries, for example), then any cultural influence is likely to be weak or channelled through the institution – in this case the law.

2.2 INSTITUTIONAL APPROACHES TO COMPARATIVE HRM

Hence, given the power of the institutional analysis in explaining national differences in HRM we need to understand the nature of institutional theory. In comparative HRM there are very obvious and visible institutional differences which explain most of the variation. In HRM terms, for example, it is not likely that the same approach to recruitment would be as cost-effective in an African country, with only 20% of the population in a formal job and few people with good education, as in a Scandinavian country where almost everyone already has a job and all are well educated. MNCs do not pay people in Samoa the same rates that they pay in Canada. Consulting with the workforce in a fully unionised country is not the same as consulting with one in a country where trade unions are illegal. Non-discrimination policies in Malaysia, where the law gives a privileged position to native Malays, is not the same as it is in the Netherlands, where discrimination on the grounds of race is unlawful. Gender equality looks different in the USA, where quotas are allowed, to the EU, where quotas are unlawful, and different again in Saudi Arabia. The examples could be multiplied.

Organisations operate within a specific political, economic, social and technological environment largely determined by history. In order to be effective in that environment these organisations need to manage in ways that recognise the local circumstances and create and sustain legitimacy with key stakeholders. This view is drawn from socio-economics and is known as institutional theory. We will draw out the HRM implications of such an approach. We shall apply these ideas to the challenge of globalising HRM, and in particular trying to transfer practices around the world, in Chapters 16 and 17.

However, at this stage it is important to note that the socio-economic school developed largely in opposition to the rational hierarchical view common in modern economics that sees human beings, and the organisations they control, as making logical decisions, based on strong property rights for owners, that are designed to maximise their own self-interest (Powell and Di Maggio 1991; Shleifer and Vishny 1997; North 1990). It has been argued that the socio-economic literature can be divided into three main schools or traditions: the comparative capitalisms literature, business systems theory, and regulationist thinking (Wood et al 2011). For all these schools the central notion is that an organisation is embedded in the society in which it operates and whilst that provides a series of

supportive complementarities (one part of the system ensures the success of other parts) it also provides a series of constraints on how the organisation can behave. One problem that the socio-economic theories are now struggling with is, if societies are embedded and complementary, then how does the change that we see going on around us occur? That generally ignored question is beginning to be addressed in the latest literature on the topic (Thelen 2014).

The different forms of society that institutions produce have been divided by researchers according to relationships between organisations (such as between different companies, between companies and the state, etc), and within organisations – between the owners, managers and employees and other workers (Whitley 1999). Hence, institutional theories may go much wider than HRM but they have an obvious relevance for it.

In each society there is of course room for variation (Walker, Brewster and Wood 2014). But, despite this, according to institutional theory, each society tends to have a common paradigm about ‘appropriate’ or even ‘effective’ ways to do things. Most organisations within a society operate in broadly the same way, because there are a range of pressures on them to do so (DiMaggio and Powell 1983; Meyer and Rowan 1977; Strauss and Hanson 1997). Organisations that step too far out of line – break the law for instance – get pressures that do not apply to those who conform. So firms operating in the same environment tend to adopt similar HRM practices – referred to as ‘isomorphism’ (Kostova and Roth 2002). Rosenzweig and Nohria (1994), using institutional theory, argued that, of all the management functions, it is HRM that tends to most closely adhere to local practices, which are often mandated by local regulation and shaped by strong local conventions. Within HRM they see the order in which six key practices most closely resemble local practices as: time off, benefits, gender composition, training, executive bonus and participation. Where there are well-defined local norms for the HRM practices, and they affect the employees of the affiliate organisation, practices are likely to conform to the practices of local competitors.



REFLECTIVE ACTIVITY 2.1

Think of three or four other HRM practices.

In what order would they fit onto this list, in terms of their likely alignment with local practices?

For the rational hierarchical theorists, if society is to work best then profit-seeking individuals must be as free as possible to pursue their objectives – it is not possible for them to be entirely free but clearly institutions like trade unions, for example, are a restriction on their effectiveness (North 1990). North, whilst noting the relationship between the organisation and its context, believed in the minimum of regulation and interference. There is a resonance from such theories to neo-liberalism in politics and to ‘flat world’ theories which argue that the world is converging, through technology, to being ever more similar, leading, eventually, to convergence in management practices globally (Friedman 2007; Kidger 1991). La Porta et al (1998) argued that the common law (judge-made) legal systems were likely to privilege owner rights whereas civil law (constitution-based) systems would provide rights to a much wider grouping. There have been other suggestions that variations are determined by, for example, political systems (Pagano and Volpin 2005) or political ideology (Roe 2003). Common to these views is the notion that rights are a zero-sum game: if owner rights are stronger, then others’ rights must be weaker (Djankov et al 2003). The notion (see Kochan and Ostermann

1994, for example) that mutual co-operation would be beneficial to all is not acknowledged.

Interestingly, when these theories have been tested against HRM practice (Goergen et al 2009a, 2009b; Wood et al 2009), it seems that the political theories explain almost nothing and the legal theories only a little, and then not quite as those authors expected.

2.3 COMPARATIVE CAPITALISMS

Institutions do not exist in a vacuum. They evolve with history and practice (Hall and Soskice 2001; Boyer 2006). The fall of the Berlin Wall and 'market' reforms in China led to a reduced focus on the capitalism/communism divide and increased attention to the different forms that capitalism takes. Why did the more regulated economies in continental western Europe and Japan out-perform more 'archetypal' capitalist economies such as Britain and the USA through much of the 1980s; why did the latter outperform the former in the 1990s and early 2000s and why has the pattern reversed again in the recent past? (As Wood et al 2010 point out, the even better performance of the Nordic countries was largely ignored). There have been attempts to create comprehensive syntheses that cover ownership rights, legal and political institutions and many other institutions in over-arching theories.

In *Capitalisme contre Capitalisme* (1991), Michel Albert, a former director of the French Planning Agency, distinguished an 'Anglo-Saxon' capitalism (principally the USA, but also the UK) from a continental, West European type of capitalism which he labelled the 'Rhineland' model. The former is a 'shareholder economy' under which private enterprise is about maximising short-term profits for investors rather than any broader harmony of interests. In contrast, the 'Rhineland' model may be seen as a regulated market economy with a comprehensive system of social security. Government, employers' organisations and labour unions consult each other about economic goals in order to try to achieve a harmony of interests (Bolkestein 1999). In short the Rhineland model is a 'stakeholder economy' in which competition and confrontation are avoided in the belief that they undermine sustainable, stable economic growth. Patrolling this economy is the state, which variously acts as a referee, guarantor, employer and owner.

The comparative capitalisms literature (Dore 2000; Hall and Soskice 2001; Hancké et al 2007; Jackson and Deeg 2008; Lincoln and Kalleberg 1990; Thelen 2014) followed this analysis. It saw societies as webs of relationships that were interdependent. The earlier accounts drew a dichotomous distinction between two distinct varieties of capitalism: the Anglo-Saxon, liberal market economies (LMEs) and the collaborative market economies (CMEs) of continental north-western Europe (particularly Germany) and Japan. In the LMEs, shareholders are more powerful and the system largely works to maintain their freedom to pursue their rational hierarchical interests. Within the latter, other stakeholders – such as governments, local governments, trade unions and consumer groups – share power (Dore 2000). Unlike previous approaches, these authors argued that both systems were self-reinforcing and both could be successful in terms of organisational and societal performance. Societies that did not fall into one of these two categories would be less successful and pressured to move towards either the LME or the CME model.

The differences between the two systems are reflected in HRM institutions. For instance, in LMEs, trade unions have fewer members and are weak, external labour markets (with as few limitations on hire and fire as possible) predominate; individuals have fewer rights at work; much of education, training and welfare relies on the private sector or is absent; and employment legislation puts few constraints on the kinds of contracts that can be applied in the workplace. In CMEs, unions often are well supported and have influence through legal and industrial muscle; internal labour markets are preferred where people stay with the same employer; the state supports

education and training and provides welfare provisions (so that, for example, employees who have lost their jobs can be paid whilst they retrain for another one); and employment legislation determines important elements of the employment contract – working hours, holidays, non-discrimination, communication rights, and security of tenure.

The comparative capitalisms literature has been criticised for assuming that all complementarities are positive (Crouch 2005a; Deeg 2005; Streeck 2005); for ignoring substantial differences within nation states (Hollingsworth 2006; Whitley 1999) and for not being able to explain change (Boyer 2005; Hollingsworth 2006). The dichotomous approach has been critiqued as being too simplistic and Hall and Thelen (2006) proposed a third set: ‘mixed market economies’ found in France and southern Europe. Despite this, however, survey evidence does point to the persistence of widespread packages of practices in LMEs and CMEs such that the dichotomy can provide a theoretical basis for comparison. The research has found that LMEs and CMEs have quite distinct practices in relation to financial participation (Croucher et al 2010; Le et al 2013; Poutsma et al 2013); working time flexibility (Richbell et al 2011); in corporate social responsibility policies and on the link between HRM and firm performance (Goergen et al 2012).

2.4 BUSINESS SYSTEMS THEORY

The business systems literature attempts to overcome some of the limitations of the varieties of capitalism theories. As the name implies, the business systems approach is also rooted in the embeddedness of organisations within a network of complementary relationships, but argues that these are constantly under pressure from firms innovating and experimenting in order to gain competitive advantage (Morgan 2007, p136).



KEY FRAMEWORK

Comparative characteristics of business

The nature of the firm

- the degree to which private managerial hierarchies co-ordinate economic activities
- the degree of managerial discretion from owners
- specialisation of managerial capabilities and activities within authority hierarchies
- the degree to which growth is discontinuous and involves radical changes in skills and activities
- the extent to which risks are managed through mutual dependence with business patterns and employees

Market organisation

- the extent of long-term co-operative relations between firms within and between sectors
- the significance of intermediaries in the co-ordination of market transactions
- stability, integration and scope of business groups
- dependence of co-operative relations on personal ties and trust

Authoritative co-ordination and control systems

- integration and interdependence of economic activities
- impersonality of authority and subordination relations

- task, skill and role specialisation and individualisation
- differentiation of authority roles and expertise
- decentralisation of operational control and level of work group autonomy
- distance and superiority of managers
- extent of employer–employee commitment and organisation-based employment system.

(Whitley 1991)

In business systems theory relationships within the organisation are a central feature (alongside the links between organisations) and the link to HRM is even clearer. Whitley (1999) defines the links in terms of the degree of employer-employee interdependence and the degree of delegation to employees. The former includes the extent of security of tenure and the extent to which each side has committed resources to continuing the relationship: spending on training by the employer and the development by the employee of capability specific to that firm. Delegation might include the extent of collective bargaining, works councils, consultation, team working, suggestion schemes and quality circles. Brewster et al (2008) found a strong relationship between variations in delegation and interdependence and country context.

On this basis, the business systems literature has identified a more complex range of model variations. Thus, for example, Whitley (1999) identified six archetypical business systems (see Table 2.1).

Wood and Frynas (2006) identify a seventh business system archetype: the segmented business system found in tropical Africa, where a large proportion of jobs are in the informal sector and a tradition of patriarchal management means delegation is unlikely. Jobs tend in the main to be short-term, poorly paid and insecure (Wood et al 2006).

Amable (2003) identifies five systems: the Anglo-Saxon Market (LME) model, a continental European (CME) model, Asian capitalism, social democratic (Nordic) economies and a Mediterranean model. These categories seem to work well against large-scale HRM survey data (Goergen et al 2009a). Research has found these categories fit the national differences too: on individual voice (Brewster et al 2014); on collective voice (Brewster et al 2007a; Goergen et al 2009b); and on training and development (Goergen et al 2009a; Goergen et al 2012) and on the role and structure of the HRM department (Brewster et al 2015).

Against these research findings, neither the dyadic options in the varieties of capitalism literature nor the longer lists in the comparative capitalisms literature and the business system literature, are particularly helpful in explaining differences in trust (Goergen et al 2012, 2014), recruitment and selection (Wood et al 2014), turnover (Croucher et al 2012) or downsizing (Goergen et al 2013).



REFLECTIVE ACTIVITY 2.2

Why might it be that some HRM practices are best explained by the varieties of capitalism categories, some by the wider comparative capitalisms literature and some exhibit country differences but do not fit into these categories?

Table 2.1 National Business System Archetypes

Type	Fragmented	Co-ordinated industrial district	Compartmentalised	State organised	Collaborative	Highly co-ordinated
Form						
Examples	Hong Kong	Italy	USA, UK, New Zealand, Australia	Post-war South Korea	Sweden, Austria, Norway	Japan
Ownership co-ordination						
Owner control	Direct	Direct	Market	Direct	Alliance	Alliance
Ownership integration of production chain/sectors	Low	Low	High	Some to high	High/limited	Some/limited
Non-ownership co-ordination						
Alliance co-ordination of production chains/sectors	Low	Limited/low	Low	Low	Limited/low	High/some
Collaboration between competing firms	Low	Some	Low	Low	High	High
Work and employment relations						
Delegation to employees	Low	Some	Low	Low	Some	High
Interdependence between managers and workers	Low	Some	Low	Low	High	Considerable

Source: Brookes et al 2005; derived from Whitley 1999, pp41–44

2.5 REGULATIONALISM

Regulation theory provides a somewhat different perspective on national differences, arguing that the key is the way that national regulation provides sets of rules (both formal and informal) that control the innovation and experimentation of firms (Jessop 2001). The social processes through which institutions develop such regulations form a central concern of these theorists. Hence, unlike the varieties of capitalism or the business systems theorists, regulationists assume that change is endemic and every situation is open to dynamic forces that may lead to change (Jessop 2001; Hollingsworth 2006). And regulations may be found at every level – supra-national (EU rules or United Nations goals, for example), national, regional, sectoral, etc (Boyer and Hollingsworth 1997; Hudson 2006).

Regulationist thinking tends to be in the critical tradition and argues that the elitist short-termism of the shareholder model is dysfunctional for society as a whole and that, despite the pressures of globalisation, regulation to control owner power and to develop work and employment relations that entrench worker rights and promote dignity will also lead to economic success and long-term growth. The global financial crisis that began in 2008 provided a significant challenge to the LME-style shareholder value orientated model; an excessive concentration on short-term shareholder value led to uncontrollable speculation and a lack of attention to developing sustainable methods of wealth creation. It seems that many of the export-reliant CME economies, though initially hit by reduced opportunities to sell their product to the USA and the UK, for example, have proved better at coping with the economic stresses and have come through the crisis in better shape.

An important critique of all these institutional theories is that they are heavily focused on the WEIRD (Western, Educated, Industrialised, Rich, Democratic) countries (Henrich et al 2010) and ignore many parts of the world. This is gradually changing. Researchers have applied institutional theory to the European ex-communist countries (Lane and Myant 2007), including classifying Russia as Kremlin Capitalism (Blasi et al 1997) and Serbia as ‘wild capitalism’ (Upchurch and Marinkovi 2011), and to Latin American, or ‘hierarchic market economies’ (Schneider 2009). Indian capitalism seems to remain unclassified and it is unclear where the capitalist/communist states of China and Vietnam fit in (Collins et al 2012). The field is developing (see also Demirbas et al 2012; Karademir and Yaprak 2012; Wood and Frynas 2006), but significant gaps remain in this literature.

In summary, looking back over the last three sections, institutional theory focuses on the ‘taken-for-granted’ character of social institutions such as religion, work, family, politics (Berger and Luckman 1967) and explains how these realities are created and then institutionalised. In the management sphere, organisational structures, to take one example, are not determined by an organisation’s work activities, and the demands made by competition and the needs for efficiency as much as we might believe (DiMaggio and Powell 1983). Rather, they arise as a reflection of rules that become rationalised in the search for legitimacy and recognition. From the perspective of institutional theory, organisational decision-making is not an outcome just of strategic choice, but also of powerful social forces within and outside organisations. External ‘institutional agencies’ can create a drive for similarity in unrelated forms (called ‘isomorphic processes’) within any particular organisational field (which is defined as an aggregate set of organisations that constitute a recognised area of institutional life). There are three isomorphic pulls (DiMaggio and Powell 1983):

- Coercive: pulls resulting from pressures of external institutions such as the state, legal environment, cultural expectations of societies.
- Mimetic: where organisations model themselves on other organisations in their ‘field’ as a standard response to uncertainty (triggered for example through attempts at

benchmarking, global performance metrics, employee transfers or through agencies such as consultancies).

- Normative: the pulls that result from the professionalisation of functions and individuals, such as through educational institutions or through practice dissemination by professional networks.

Institutional theory also focuses on the role of agencies within an organisation. The environment is considered to 'enter' the organisation through processes of 'imposition', 'acquisition' and 'authorisation'. There is also a series of 'pulls' exerted by the internal agents from within an organisation (Scott 1987; Westney 1993). These include:

- 'inducement' of organisational structure (for example where an organisation that lacks power to impose patterns on other organisations instead offers inducements such as funding or certification)
- 'incorporation' (for example where organisations come to replicate salient aspects of differentiation that can be found in their environment within their own structures)
- 'bypassing' (for example where shared values are so institutionalised they can substitute for any formal structure)
- 'imprinting' (for example where an organisational form retains some of the patterns that were institutionalised at the time its industry was founded).

Institutional theories (Amable 2003; Hall and Soskice 2001; Westney 1993; Whitley 1999) have examined sectoral or occupational variations and variations between states and have developed a number of different forms. However,

'[a]lthough new institutionalism has many faces and indeed has taken on a number of guises, its central tenets remain consistent'. (Wood et al 2012, p28)

There have also been calls for more research into IHRM to take account of these frameworks (Delbridge et al 2011). That was already being done, but has now developed considerably and these theories have now been tested on a number of aspects of IHRM. The institutional theories have left a strong mark on conceptual work in the area of IHRM and increasingly on the empirical work where institutional theory has been used to:

- examine the HRM practices found in foreign-owned subsidiaries of multinationals in terms of the degree of global 'integration' or 'standardisation' versus local 'responsiveness' or 'local adaptation' (Rosenzweig and Nohria 1994; Björkman and Lu 2001; Rosenzweig 2005)
- attempt to identify how differently foreign MNCs manage their people compared to indigenous MNCs (Farndale et al 2008; Ferner and Quintanilla 1998; Wood et al 2009)
- compare HRM practices across countries (Brewster et al 2006; Gooderham et al 1999; Tregaskis and Brewster 2006).

2.6 WHAT DO THESE THEORIES MEAN FOR HUMAN RESOURCE MANAGEMENT?

The link between these institutional theories and HRM is clear. Like the cultural theories (as discussed in the following chapters) they imply that it is unlikely that HRM practices will work the same way in all contexts. Institutionalism reminds us that some practices that are seen as standard in some countries will be seen as unusual or even unlawful in others (Brewster and Mayrhofer 2011). Even where they are not, if they cut too radically across the local norms they will risk employee or trade union or pressure group reaction. Either way, imposing such practices may be dysfunctional for internationally operating organisations (Brewster et al 2008; Farndale et al 2008; Stavrou et al 2010). The debate between the desire of many organisational leaders to standardise their policies and practices and the need to be conscious of and adapt to local requirements is addressed in

detail in Chapter 16. The institutional theories, like the cultural theories, steer us towards specific aspects of what needs to be managed.

What about the other side of the coin – the effect of the MNCs on local economies? Do MNCs in fact introduce new practices from their home base into local economies, thus enhancing globalisation and convergence? It is true that they do behave differently in HRM from local companies – but not so differently (Brewster et al 2008; Farndale et al 2008). And even here the different business systems of the host countries influence and constrain the business strategies and managerial practices of the subsidiary, despite headquarter pressures (Lane 1998). We explore this issue further in Chapter 13 when we look at IHRM theory.

2.7 THE USA AND THE REST OF THE WORLD

So if there are these differences, what does that imply for our understanding of HRM? The concept of HRM was developed first in the USA and it is still the American specialists and the US-based journals that drive the subject. Our critique of the universalist paradigm, however, indicates that US conceptions of HRM may not apply around the world. Whilst there is much to be learned from the USA, and the policies and practices of US MNCs and the academic conferences and journals remain the touchstone for thinking about HRM, it is also important to understand what and why things are done differently elsewhere.

Brewster (1994) has pointed out that a core assumption of North American HRM is that the employing organisation has a considerable degree of latitude in regard to taking decisions on the management of personnel, including inter alia: the freedom to operate contingent pay policies; the option of an absence of or at least a minimal influence from trade unions; and an assumption that the organisation has sole responsibility for training and development. In other words, central to the notion of North American HRM is an assumption of considerable organisational independence and autonomy. This assumption is reasonable for companies in the USA, given the weakness of the trade union movement there and the comparatively low levels of state subsidy, support and control. It also fits comfortably with the neo-liberal notion that the state should interfere in business as little as possible and that it is the right of individuals to do the best for themselves that they can without external interference (Guest 1992). The question is: how viable are such assumptions elsewhere in the world?

In this section, we look critically at a number of issues that make the USA, as one cultural authority put it, 'quite untypical of the world as a whole' (Trompenaars 1993). Many of our examples are taken from the European context, but we argue that they also apply elsewhere around the world. We examine:

- the role of the state
- the role of legislation
- the role of trade unions
- the role of ownership patterns.

2.7.1 THE ROLE OF THE STATE

In terms of the role of the state, the legislation that determines the firm–employee relationship is a product of a wider, normative conception of what role the state should play within the economic arena. In Europe it is typical for governments to be major employers in their own right, since the public sector forms a substantial proportion of the total economy (as much as half in Norway, for example). In addition, these governments subsidise jobs extensively. At the end of the twentieth century nearly a quarter of the French labour force, at least in the formal sector, relied on government support, whether in the form of unemployment benefit or subsidised jobs (Pedder 1999, p11). In other

countries, particularly for example amongst employed people in some African states, these figures may be higher.

On becoming unemployed, workers in the USA initially receive a level of benefit of about two-thirds their income – not far below levels in much of Europe. But those benefit levels reduce very quickly. In many European countries, in contrast, benefits are either not time-limited or last for a long time. It has been argued that this minimal margin between benefits and wages for the low-skilled unemployed represents a serious disincentive to seek new jobs: a French study reported by Pedder (1999) showed that people at work in France are five times less likely to lose their jobs than those in the USA, but that the unemployed in France take five times longer to find a new job. On the other hand, the ‘flexicurity’ economies of Denmark and the Netherlands are built on the assumption that people will lose their jobs, the state will support and retrain them, and that they will then quickly find a new job (Wilthagen and Tros 2004).

2.7.2 THE ROLE OF LEGISLATION

Second, in terms of the role of legislation, we can distinguish three aspects of the legal influence on HRM:

- employment protection
- legislation on the form of the employment contract
- legislative requirements on the terms of the contract.

In regard to the first of these, Blanchard and Katz (1999) attempted to quantify differences in employment protection within Europe and the USA. The argument is that employment protection has three main dimensions:

- the length of the notice period
- the amount of severance pay
- the nature and complexity of the legal process involved in laying off workers.

Blanchard and Katz find that the USA is significantly different from Europe in general and Italy, Spain and Portugal in particular. There is less protection in the USA. Of course, in many countries around the world, employment protection does not exist at all.

Legislation on employment contracts exists everywhere but the legislation varies country by country. In Europe, again, employment contracts are the subject of European-level legislation. Legislation in Europe goes beyond anything found in the USA, limiting the ways people can be recruited, the documentation necessary when they start work, how much they can be paid, how management must consult with them, and a host of other matters.

There are also marked differences in the legislative requirements on the terms and conditions allowed in employment contracts. For example, International Labour Organisation figures show that in the USA almost 80% of male workers and 65% of working women now work more than 40 hours in a typical week. By contrast, in France the working week is by law limited to 35 hours, with overtime limited to 130 hours a year. This policy even extends to making unpaid overtime by senior employees a penal offence. Subject to health and safety legislation and anti-discrimination legislation employment contracts in the USA are set by the parties: anything (legal) that an employer and an employee agree, or are forced to accept, will by and large be accepted by the courts. Elsewhere, especially in Europe, but also in Canada, New Zealand, Australia and other countries, employment contracts are constrained – as well as hours restrictions there may be minimum pay requirements, communication requirements, holidays minima, rules about the documentation that the parties must provide and so on.

One German authority (Pieper 1990, p82) pointed out that:

The major difference between HRM in the USA and in Western Europe is the degree to which [HRM] is influenced and determined by state regulations. Companies have a narrower scope of choice in regard to personnel management than in the USA.

This statement could be applied to many other countries outside Europe – but there are also countries where state regulation of employment is effectively zero.

2.7.3 THE ROLE OF TRADE UNIONS

Another core feature of the USA is the limited role for trade unions. Most workplaces in the USA are not unionised. In general, studies of HRM in the US universities and HRM departments in companies do not deal with trade unions – that is the role of labour relations specialists or departments. In many other countries the role for unions is also limited – in some they are illegal, but in others the opposite is true. In European states, legislative status and influence is accorded to unions. Most European countries are more heavily unionised in terms of union membership than the USA (see Chapter 5) and employers are more likely to deal with a trade union in a collective bargaining relationship which sets terms and conditions for all or most of the employees (Morley et al 2000). Chapter 5 explores this issue in more detail. Closely related to the issue of trade union recognition is the European practice of employee involvement, with employee representation required by law in a number of states.

2.7.4 THE ROLE OF OWNERSHIP PATTERNS

Patterns of ownership also differ in different countries. Public ownership has decreased to some extent in many countries in recent years; but it is still far more widespread elsewhere than it is in the USA. In some African states and in China, for example, most employment is in the public sector. And private-sector ownership may not mean the same thing. In many countries, ownership of even major companies remains in the hands of single families rather than in the hands of shareholders. By contrast, in Germany a tight network of a small number of substantial banks owns a disproportionate number of companies. Their interlocking shareholdings and close involvement in the management of these corporations mean less pressure to produce short-term profits and a positive disincentive to drive competitors out of the marketplace (Randlesome 1994).



CASE STUDY 2.1

ORGANISATION AND MANAGEMENT IN AN ANGLO-FRENCH CONSORTIUM: TRANSMANCHE-LINK

The Channel Tunnel was a technologically unique project and built under enormous pressure and conflict between partners. It was also the subject of international comparative organisational and cultural research to explore the behaviour of British and French managers under a common structure (Winch et al 2000). A series of organisational and behavioural variables was measured across more than 200 managers. The French managers reported higher unit cohesion based on competition between units. They had significantly more work and decision-

making autonomy and were less procedurally oriented than the British, but provided less feedback and opportunity for mutual adjustment. While both nationalities had high personal accountability and followed the procedures that existed, the French had more control of their work by knowing more about it in advance. Power emanated more from the personal responsibility of the senior managers than from the position and control systems. The French were more action-oriented (*fonceur*) and the British

more procedural. There were no differences between the two in terms of job satisfaction or motivation from pay and promotion. However, the British were far more motivated through the use of feedback (praise and encouragement from others). This was unimportant to French managers. The British were also more directly job-involved, in that they expressed unhappiness when performing

badly on the job. The boundary between work and home life was more porous for the British, and reported stress was lower. The French managers were by contrast more distant from colleagues and shouldered more personal responsibility, and therefore carried more stress.

Source: Winch et al (2000)

What does all this mean for IHRM practitioners? It implies that – despite the work outlined in Chapters 3 and 4 – they cannot just simply measure cultural values across their operations and predict the behaviours that are related to such values. Instead, the development and success of any specific managerial structures and practice (such as HRM) can only be explained by giving due cognisance to the various institutional contexts. Not all management methods are transferable, even where employee values have converged. The effectiveness therefore of any universal conceptualisation of HRM will very probably be constrained by the different institutional contexts. This is a powerful argument in favour of the need for local responsiveness.



REFLECTIVE ACTIVITY 2.3

Take a few minutes to think about the following options.

- Is the way organisations have to go through the processes of recruiting, inducting, developing, paying and working with staff so similar in every country that general points about how human resources are managed (or perhaps should be managed) are valid?
- Or, is it the case that things are done so differently in different countries that we have to be very aware of the location in which human resources are being managed before we can understand them?
- Or, can we combine these two accounts and, if so, how?

2.5 REGULATIONALISM

What can we conclude from the discussion presented in this chapter? Part of the answer lies in the need to be clear about our level of analysis. There will be some aspects of HRM which may be applicable in any country and any circumstances: every organisation in every country has to conduct basic HRM practices such as recruitment, payment, etc. There will also be many aspects of HRM which cannot be understood at that level and which must be explored at different levels: workplace, sector, national or regional. A focus on any one of these areas will, like focusing a camera, clarify some areas but blur others. It does not make either true or false – they are merely different perspectives. In this chapter we have argued that the national level of analysis is particularly informative, and that it is often given less priority than it should be. We provide evidence on these issues in the following chapters.



REFLECTIVE ACTIVITY 2.4

Fortunately, perhaps, the field is still open. We can each have our views and our different interests. Before going further it may be worth asking yourself:

- Where do I stand on the universalist/contextual axis?
- What are my views about the dominance of the US approaches to HRM?
- And what are the implications of my views for my interests in and study of HRM?



KEY LEARNING POINTS

- Any analysis of HRM needs to be clear about its level of analysis.
- There will be some aspects of HRM which may be applicable in any country and any circumstances: every organisation in every country has to conduct basic HRM practices such as recruitment, payment, etc.
- There will also be many aspects of HRM which cannot be understood at that level and which must be explored at different levels: workplace, sector, national or regional. A focus on any one of these areas will, like focusing a camera, clarify some areas but blur others. It does not make either true or false – they are merely different perspectives.
- The national level of analysis is particularly informative, and it is often given less priority than it should be. We provide evidence on these issues in the following chapters.
- At the national level, as we show in Chapter 3, HRM can be very different. This is because of cultural and institutional differences between countries.
- This means that universal 'best practice' approaches to HRM, often originating in the USA (or for multinational organisations at headquarters), should always be considered critically – are they appropriate for other environments?
- There are signs of these national differences reducing, but the best evidence we have says that they remain critical. Whilst globalisation seems to be creating some common trends in HRM it is not reducing the difference between countries in the way HRM is managed and conducted.



LEARNING QUESTIONS

- 1 Argue for or against the statement that we are seeing an increasing convergence of HRM practices within Europe/across the world.
- 2 In the light of the arguments produced in this chapter, how do you assess the notion of 'best practice' in HRM?
- 3 What is the role of individual national governments in HRM policies? What arguments would you offer for the views that the role of the state is increasing/decreasing?



EXPLORE FURTHER

BREWSTER, C. and MAYRHOFER, W. (2011) *A handbook of comparative HRM*. Edward Elgar, Cheltenham. This book explores these issues in depth, looking at concepts, specific comparative aspects of HRM policies and practices, and the different ways that HRM is conceived of and carried out in the different regions of the world.

The CIA world factbook (www.cia.gov/library/publications/the-world-factbook/fields/2015.html) is an excellent source of information about countries and their institutions.

2.5 REGULATIONALISM

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The Impact of National Culture

LEARNING OUTCOMES

When you have read this chapter, you will:

- understand what culture is
- appreciate how national cultures differ
- be able to interpret the major cultural frameworks
- know how to use culture to define attitudes and behaviours at work
- be aware of the dangers of over-generalising from the study of culture.

3.1 INTRODUCTION

In trying to understand the limits to organisational action, there has long been a debate about the relative importance of either cultural or institutional factors in shaping HRM practice at the national level (see the previous chapter). For institutionalists, such as Vaiman and Brewster (2015), people do different things in order to achieve different objectives; there is as such no need for there to be any conformed doctrine or received wisdom about best practice, and therefore there is considerable latitude for organisations to decide in which areas of HRM they can act independently of the host environment, and in which areas they might have to make more effort to adjust policies. They argue:

much of the differences in HRM between countries are determined by institutional factors, and that management has more influence over the effect of national cultural differences than it has over institutional differences and therefore in most cases the appropriate tests will be tests against institutional differences. Where institutions are less constraining, cultural differences may be the appropriate template (Vaiman and Brewster 2015, p151).

Institutional explanations highlight the role of social structures (laws that provide enforcement, educational and training systems that shape socialisation, and economic systems that shape incentives) that help individuals make sense of, and in turn make decisions about, work that will be deemed legitimate, reasonable and appropriate. Cultural explanations, in contrast, highlight the role of historically determined notions that are accepted by groups of individuals who share some common historical experience about what is good, right and desirable (Berry et al 2011). Culturalists would agree with the view that institutions are politically harder to change than cultures (be they professional, organisational, or indeed national), but that in history we tend to get the institutions our culture deserves – that is, cultures play a role in begetting and shaping the attractiveness of different institutional solutions, and serve to underpin the behaviours within institutions that sustain such institutions.

HRM practitioners may wish to temper or intervene to bring about changes in both cultures and institutions (Sparrow 2009). Neither is easy to achieve, though of course possible (if the labour market allows it, an organisation might purposefully select people who are atypical of the local context and attempt to impose an over-riding corporate culture, or they might purposefully create new institutions or coalitions of actors to override existing ones).

Differences in national cultures are apparent to any of us, even if we never step outside our own countries. Information technology and global media bring the world into our living rooms. We experience many of the manifestations of different cultures through the films, soaps and documentaries that abound on our screens. Travelling to another country heightens this sense of difference: food, customs, language, transport, housing, entertainment – all these everyday things may have to be reconsidered and seen through other eyes.

At the same time, although we have gained more knowledge about different cultures, the increasing globalisation of markets, competition and organisations has led many people to believe that cultures are converging. Advances in telecommunications, information technology, lifestyles and global consumer products are thought of as leading to a 'global village' in which everyone will be wearing the same brand-name jeans and trainers while watching MTV on Japanese digital televisions, texting their friends with the latest mobile phone technology, and sharing what they perceive to be inner truths on social media websites. The rush to adopt 'world-class' manufacturing, logistics and marketing processes brings with it a belief in the convergence of management practice and the creation of a global corporate village. Under the convergence argument, management is management, consisting of a set of principles and techniques that can be universally applied.

In contrast, relatively recent world events reflect a move towards divergence in cultures. For example, the tensions in world politics since 11 September 2001 have vividly illustrated the deep and enduring nature of differences between the values and beliefs of the western (capitalist) world and those of many Muslim societies. Ethnic conflicts in Central Europe, Africa and South Asia in the last 30 years have revealed a desire to protect and reinforce cultural differences between groups.

In this chapter we first explain the nature of national culture and the way in which it has been studied. In the next chapter we examine the ways in which culture affects organisational life. In Chapter 16 we explain the ways in which many organisations attempt to improve inter-cultural competence.

3.2 PUTTING THE STUDY OF CULTURE INTO CONTEXT

We introduced the field of cross-cultural management in Chapter 1. This field – the topic of this chapter – concerns the understanding, researching, applying and revising of our assumptions about the core values that differentiate cultures, and then understanding their implications for behaviour at work.

A number of academic professions have contributed to our understanding of how and why behaviour appears in specific cultural contexts – anthropologists, sociologists, cross-cultural psychologists, cultural psychologists, indigenous psychologists, and international management researchers have all contributed to our understanding of how and why behaviour appears in specific cultural contexts (Smith et al 2001; Sparrow 2006). This has led to a host of models, frameworks and theoretical propositions to explain the connection between national culture, ethnicity and human thought and behaviour, but a good deal of debate remains (Menon 2004, p135):

National culture has long been an elusive construct, seemingly offering a ready explanation for observed cross-national differences in values and behaviour, and yet

very difficult to pin down in terms of definition, structure, or invariant processes that can yield infallible behavioural prescriptions.

The IHRM field has done much to bring the topic of national culture to the attention of researchers (Aycan et al 2000). There are many conceptualisations of cultural variation across nations, with perhaps the most prominent being the works of Hofstede (1980, 2001), the GLOBE-project proposed by House et al (2004), Trompenaars (1993), Hall (1976) and Schwartz (1992, 1994, 2006, 2011).

It is important to realise that people who study culture have to make a number of tacit assumptions and each of these carries potential biases (Sackmann and Phillips 2004). A 'framework' can be seen as a conceptual or real structure that can be used to help build or expand on an idea. The way in which we conceptualise culture tends to make it more or less legitimate to ask certain questions and identify different effects of culture. Using this, we can think about three approaches that have been used in cultural research.



KEY FRAMEWORK

Three streams of CULTURAL research

Cross-national comparisons: driven by a logic and assumption that 'culture equals nation'. This kind of research has been guided by a quest to identify universally applicable dimensions of national culture to help managers 'navigate' in different countries while doing their work. These dimensions of culture have generally been identified in large-scale quantitative studies. In this chapter we outline the best-known of these models.

Study of intercultural interactions: generally initiated once the competitive success of non-US management models was being questioned (such as the success of Japanese transplant factories in the USA and the growth of European and Asian multinational corporations). National culture is still seen as a fundamental source of individual identification, but within an organisational setting culture is considered to emerge as a result of a 'hidden negotiation' between interaction partners. More attention in this type of study is given to how people interact across cultures and the characteristics and processes through which new cultures are formed.

The multiple cultures perspective: based on more recent conceptions of organisations operating in a multi-cultural context. Organisations are considered to be home to and carriers of several cultures at levels that include function, organisation and business unit, profession and occupational group, ethnic group, project-based network, regional institution, geographical and economic region, ideology and religion. Developments in information technology have enabled and accelerated the process of globalisation and new communication media have brought a wealth of real-time information from remote cultures, thereby changing patterns of problem solving at work. This approach argues that individuals may identify with and hold simultaneous membership in several cultural groups.

Today we have therefore 'inherited' a number of dominant constructs from these early studies – and these will be covered in this chapter. But first it is important to note how we got to the understanding that we have today.

Much work in IHRM has been driven by assumptions that national culture constrains rationality in organisational behaviour, management philosophies and practices, and in

society at large. Therefore we need to think about the idea of 'fit' – that certain HRM practices better fit into specific cultural contexts. Theories have examined national culture at different levels of analysis, ranging from behaviours and practices, through underlying values, down to underlying assumptions (Erez and Gati 2004).



KEY FRAMEWORK

Six implications of culture at work

Sparrow et al (2009) argue that cross-cultural HRM requires an understanding of:

- the ethnocentric management of what are called theories of action dominant in different countries
- the processes through which managers become socialised into these different theories of action
- the ideological assumptions that managers make through this socialisation
- comparisons of the actual organisational behaviours of people across countries and cultures
- the degree to which cultural environments influence such behaviours
- the way in which cross-cultural differences may be linked to other domains of behaviour, such as models of leadership, motivation, or HRM.

To provide a balanced and contemporary understanding of the issues involved, we now go on to explain:

- key perspectives on the cross-cultural management field
- dimensions and models of culture
- methodological insights and more critical views of the evidence.

3.1 INTRODUCTION

The opening section has indicated the all-pervading influence of culture on our actions and values, and also the ongoing tensions between the forces of convergence of cultures and those of divergence. The concept of culture is deeply rooted in human history and its scope extends far beyond the boundaries of organisational activity. However, organisations are the product of the societies and times in which they exist, and as such are important manifestations of prevailing values and belief sets. But what is culture, exactly?



REFLECTIVE ACTIVITY 3.1

Think about the differences between countries – and try to write a definition of 'culture'.

Attempting a definition of culture is difficult, as the concept of culture is often seen as being vague and hard to grasp. At present there are estimated to be over 200 different definitions. Here are just a few of the better known ones:

- knowledge, beliefs, art, morals, laws, customs and any other capabilities and habits acquired by man as a member of society (Tylor 1873)
- a sum of a people's learned behaviour, patterns and attitudes (Hall 1976)
- values, beliefs and expectations that members come to share (van Maanen and Schein 1979)
- the collective programming of the mind that differentiates members of one social group from another (Hofstede 2001)
- a pattern of basic assumptions – invented, discovered, or developed by a given group as it learns to cope with its problems of external adaptation and internal integration – that has worked well enough to be considered valid and, therefore, to be taught to new members as the correct way to perceive, think, and feel in relation to those problems (Schein 1985)
- a shared system of meanings, the way a societal group tends to solve the problems related to relationships with others, time and the environment (Trompenaars 1993)
- behaviour that becomes the norm because a large percentage of people either ascribe to it or break it while acknowledging it is a norm in which they don't believe (Brislin 1996)
- acquired knowledge that shapes values, originates attitudes and affects behaviour, and which members of a society (or a social group) use to interpret experience and generate social behaviour (Luthans and Doh 2009).

One of the core elements of culture is that it is a shaping process. For a culture to exist, members of a group or society share a distinct way of life with common values, attitudes and behaviours that are transmitted over time in a gradual, yet dynamic, process.

Although the problems that all human societies face are universal (called 'etic'), different groups will resolve them in different ways (called 'emic'). The resolutions are internalised and become taken for granted, but shape the way in which groups of people live and think. They represent the 'why' – why people behave the way they do, and why they hold the beliefs and values they espouse (Schneider and Barsoux 1997).

It was in the early to mid-1980s that mainstream HRM writing began to acknowledge the importance of culture. André Laurent (1983, 1986) studied different conceptions of what an organisation is. He showed the importance of exploring national differences through the implicit management and organisational theories that managers carried in their heads – that is, that the best way to understand the role of culture is to ask managers questions and see how they solve the problem. He embarked upon his research having taught on international MBAs, and finding that project teams of different nationalities tended to favour different solutions to the assignment. Their solution showed how they thought about the role of managers, hierarchies and power.

For Laurent (1986, p96) 'the art of managing has no homeland'. He argued that HRM is itself a cultural artefact, that universalist management principles needed to be differentiated, and that examinations of culture internationally should focus more on understanding how behaviours might be adaptable to an organisational culture without being immersed in the 'deeper ideological textures' or 'fabrics of meaning' associated with national cultures (Laurent 1986, p98), and that without understanding these different levels of culture, international organisations likely had illusions of control with regard to many of their international subsidiaries.

Asking questions such as 'it is important for a manager to have at hand precise answers to most of the questions that his or her subordinates may raise about their work', 'through their professional activity, managers play an important role in society', and 'in order to have efficient work relationships, it is often necessary to bypass the line'. On analysing the national scores on the answers to such questions, he found that nationality had three times more influence on the shaping of managerial assumptions than any of the respondent's other characteristics such as age, education, function, or type of company. He characterised organisations as being dominantly of three different types:

- *Political systems*, in which managers are seen to play a political role and negotiate to obtain power, to which achieving specific objectives becomes subordinate. Latin European managers were more likely to adhere to this view than their Nordic and Anglo counterparts.
- *Role-formalisation systems*, where managers prefer detailed job descriptions and well-defined roles and functions. Germanic managers felt at ease in this type of system, whereas Nordic and Anglo managers felt that the world was too complex to be able clearly to define roles and functions.
- *Hierarchical systems*, where the boss is expected to be respected through the possession of expert knowledge.

Schein's (1985) model of organisational culture can also be applied to the broader concept of culture. This model sees culture in terms of three levels, each distinguished by its visibility and accessibility to individuals, and each needing to be peeled off, rather like the different layers of an onion.

The *first level* consists of easily observed artefacts, rituals and behaviour. At this level culture is manifested in objects, customs, language and architecture. Within an organisational context we can observe many examples, such as differences in office space – a preference for open or closed offices, for example. In Japan, a highly collectivist country, large, open offices are the norm, whereas in Germany, a society where privacy is valued, separate offices are more likely. Where management fads impose practices that do not fit the culture of the society, we see adaptations such as the use of partition walls in open-plan offices by US and British workers, immortalised in the Dilbert cartoons. Dress codes, greetings rituals, the level of formality in addressing people – all these things and more make up the easily perceivable culture of the organisation (and likewise the nation).

The *second level* concerns values and beliefs. These are located below the surface manifestations and underpin them. Management scholars such as Hofstede, Trompenaars and Laurent (see later sections of this chapter) have shown that employees and managers around the world differ widely in their values regarding work practices. Indeed, most work on national culture has concentrated on this level of analysis. Values, defined by Schwartz (1992, 1994, 1999) as cross-situational principles, lend themselves to easier measurement and can be linked to a lot of other work on individual psychology.

Finally, at the *third level* basic assumptions are the core of the culture. They include assumptions that individuals hold about societies and organisations and how they function. They relate to aspects of human behaviour, the nature of reality and the community's relationship to its environment. They are invisible, preconscious and 'taken for granted', and are therefore difficult to access.

Across these levels, cultural differences can be seen to lead to strongly contrasting ideas about what constitutes good management. In countries such as France, a leader has to stand apart and be the expert. In contrast, Scandinavian countries prefer a more democratic and participative style of leadership. These issues are explored in more detail later in this chapter and in Chapter 4.



REFLECTIVE ACTIVITY 3.2

What is the predominant style of leadership within your organisation?

How does this reflect cultural influences?

3.4 ELEMENTS OF CULTURE

Triandis and Wasti (2008, p1) explain that Kluckhohn argued that culture is to society what memory is to individuals:

It consists of what 'has worked' in the experience of a group of people so it was worth transmitting to peers and descendants.

The basic elements making up national-level cultures were seen by anthropologists Kluckhohn and Strodtbeck (1961) to lie in the responses that nations make in relation to six fundamental questions:

- 1 *Who are we?* How does a society conceive of people's qualities as individuals? If societies believe that people are basically good, they will try to exercise social control through praise and encouragement. If people are seen as fundamentally bad, control will be exercised via rules, laws and policing. If societies see people as capable of being changed, they will prefer reform to punishment. In management, this assumption can be seen in McGregor's (1960) Theory X and Theory Y. Under Theory X, workers are seen to be lazy and therefore to require as much direction and control as necessary. In contrast, under Theory Y, workers are seen as self-directed and responsible and requiring very little direct management.
- 2 *How do we relate to the world?* How important is nature and the environment in our thinking? And how do we conceive of nature? Some societies feel that it is important to fit in with the world and accept it, as expressed in the Arabic 'insh'allah' or 'God willing'. In contrast, countries like the USA expect to overcome the constraints imposed by the environment. The American belief, continually voiced by celebrities such as Oprah Winfrey, that 'Anyone can be whatever they want' is exemplified in the Nike slogan 'Just do it!' This belief in individuals' ability to change strong environmental constraints is viewed by many in Europe and the East as naïve, where the influence of context in terms of societal norms and history is acknowledged.
- 3 *What do we do?* How do we think of ourselves and our situation? If you ask Britons 'What do you do?', they will tell you what profession they are in. If you ask the Japanese the same question, they will tell you who they work for. Are the most important things those you have done for yourself, or are they connected to your background and your group? Basically, status can be based either on what someone does, or on what someone is. In an ascriptive society, such as China or Venezuela, status is usually attributed to those who 'naturally' evoke admiration – for example, males and older people, or members of high-ranking families. In an achievement-based society, in contrast, a person gains status as a result of his or her own efforts and the climb up the organisational hierarchy.
- 4 *How do we relate to each other?* Do we think of ourselves as individuals or as members of a group? In many western cultures we are happy to live far from members of our family and to have non-emotional links with the organisations we work for. In contrast, members of collectivist societies expect support from and loyalty to the extended family. In the business world, this aspect of culture affects the extent to which countries are happy with individual leadership and individual responsibility and target-setting, or the extent to which they prefer group-working and shared responsibility instead.
- 5 *How do we think about time?* In a cultural sense, time has two elements, locus and speed. In western societies time moves in one direction, with the locus of attention on the future. In other societies – in much of the AsiaPacific region, for example – all parts of time are connected. The past is as important as the present, with the future seen as less important. In a business context, western societies see time as a commodity to be managed and used well. Other societies have a more relaxed

approach to the timing of things, causing problems with perceptions of correct business conduct.

- 6 *How do we think about space?* The amount of space we feel we need varies around the world. In the northern hemisphere, the further west you go, the larger the rooms and offices tend to be. Physical space between people is also culturally determined. In Arab societies it is common to stand close to the person one is talking to; the British prefer to stand at about an arm's length away. The use of space in organisations gives clues as to the status of the person occupying the area, but these need to be interpreted from a cultural perspective.

These dimensions are amongst the most commonly used by management scholars. The increasing internationalisation of business has made the concept of culture and its impact for good or bad on organisations' operations a critical topic for study. An extensive literature has emerged in respect of both organisational culture and national cultural differences as they relate to work.

3.5 NATIONAL CULTURES AND ORGANISATION

Early research on the influence of cultural conditioning on collective human behaviours challenged the assumption of the universalism of management practices emanating from the USA (and, indeed, from other countries such as Japan). In an increasingly borderless world, managers need to know how national cultural differences might affect organisation structure and processes, notions of leadership, HRM practices, etc. Management scholars have consequently been inspired to translate the work of social anthropologists to the world of work.

We now lay out four dominant, but contrasting, approaches to the study of culture. We use:

- the work of Edwin Hall to outline the study of national culture through a communication-orientated and anthropological perspective on culture
- the work of Geert Hofstede to outline the study of national culture through the examination of values, and various ways of capturing the dimensions on which values differ, in order to explain many important differences in organisation behaviour at the level of country
- the work of Shalom Schwartz to outline the study of the structure of values at the level of the individual, asking not what are the differences in value priorities, but what are the similarities around which there is a degree of consensus across individuals and societies
- the work of Robert House and colleagues in the GLOBE project to understand, and predict the impact of specific cultural variables on leadership and organisational processes, and the effectiveness of these processes.

It is interesting to note that these first insights were arrived at in the 1970s, 1980s and 1990s. As with all management research, the ideas therefore became extremely dominant and influential, and of course still underpin much of our understanding today, but they also become the subject of criticism as the years go by.

There is another cross-cultural framework new to the literature which concerns the topic of global leadership and findings from the GLOBE project. We discuss this framework in Chapter 16 when we examine ideas about global leadership. Cross-cultural studies have generally indicated a strong connection between national culture and preferred leadership styles. This has made a contribution to the debate about the inter-relationships between societal culture, organisational culture and organisational leadership.

Therefore, in the following sections, we lay out the essence of the original ideas, making it clear what assumptions they were based on. In later sections we pick up the ways in which these ideas continue to be debated and have influence.

3.4 ELEMENTS OF CULTURE

Hall's (1959, 1976, 2000) ideas about culture drew attention to the importance of time (how members of a culture perceive and orientate themselves around time) and space (the way we define, organise and internalise the importance of space). But his ideas about context (how meaning is constructed differently across cultures using different ratios of context and information) have perhaps had the most powerful influence. His work provided the foundations of many subsequent ideas about inter-cultural communication and have been applied to the fields of international marketing, negotiation, conflict, communication (Kittler et al 2011).

Back in 1959 he made a distinction between what he described as 'high-context' and 'low-context' cultures. This is a multi-faceted concept, but at its heart is the understanding that all cultures can be situated in relation to one another through the styles in which they communicate. Individuals combine pre-programmed culture specific context and information, in order to create meaning. In high-context cultures information is pre-programmed within the individual receiver of the message and the setting. Only minimal information is transmitted in the message. In a low-context culture the reverse is true. Context therefore refers to the framework, background and surrounding circumstances in which any communication or event takes place. Individuals from high- or low-context cultures have different ways of experiencing the world. Contexting allows individuals to screen data and avoid information overload, increasing their capacity to deal with higher amounts of complex information. Individuals combine pre-programmed culture-specific context and information to create meaning, but the use of this context varies across cultures.

Examples of high-context societies include Japan, China, Korea, Taiwan, and Asian cultures in general, as well as native societies such as the Maori in New Zealand. African, Middle Eastern, Latin American, Latin, Central and Slavic European cultures also fall in this category. So countries such as Argentina, Brazil, Colombia, Ecuador, Mexico, the Philippines, Hong Kong, Thailand, India, and Turkey are in this category. In high-context cultures there is a tendency to cater towards in-groups – groups that have similar expectations and experiences – and these groups can rely on their common background and on the context of the situation to explain what is really meant, rather than words. Much information is already internalised within groups. Discussions within in-groups can be wide-ranging and mutual expectations are generally accurate. Group members have their own private networks for information, which they keep to themselves. Many things can be left unsaid – the culture explains the meaning. Messages include other clues that enable you to understand the communication, such as body language and the use of silence. Understanding the role played by family status, age differences and social setting also helps the receiver decode the real message. Messages can be implied and not uttered. The focus on in-groups means that relationships and group processes are important. High-context cultures are often more traditional and unchanging such that the context can remain stable over generations. Because of the importance of relationships, they tend to be deep and longer-lasting.

Examples of low-context societies include most of the English-speaking and Germanic-speaking countries, such as the USA, Canada, Australia, New Zealand, northern European countries such as Germany, Austria, Denmark, Sweden and Switzerland (interestingly, Britain is an exception to this rule). In low-context cultures the situation has to be explained more explicitly because there are fewer common backgrounds. The boundaries between in-groups are much more fluid. Low-context cultures tend to be more changeable so that the context from one generation to another is very different. Mutual expectations are less accurate and communication is therefore more verbal, explicit, direct, linear and task-focused. Channels of communication are generally clear. Information is easy to obtain and is shared more overtly. Communication has an informational function and is a neutral tool to convey thoughts. Accuracy, directness and clarity in speech are therefore valued. Communications are more transactional and can end once completed.

Familiarising yourself with the people before you communicate or conduct business is unnecessary. Hall also argued that time is not socially absolute and is similarly culturally programmed. He talked of low-context societies generally also being 'monochronic', by which he meant that time is sequential and highly scheduled – an endless ribbon of appointments and obligations – such that time can be 'wasted', 'killed', or 'saved'. Many high-context cultures are 'polychronic' (Japan is actually an exception). They have a more indulgent view of lateness. Time is like a balloon that swells and deflates dependent upon what is going on. The more people present, the larger the social network, the more useful the moment is. Meetings are just for giving general guidelines and may be cancelled or postponed if they are outside this moment.

Although few would criticise the process of contexting, there have been important critiques of Hall's work, in part on the basis of the age of the work, but more importantly the country classifications created using his concept. There is debate about the strength of such categorisations and in particular the reliability and rigour of the particular country classifications (Gerhart 2008; Kittler et al 2011), with different studies classifying different combinations of countries as high- or low-context. For example, Britain, France, Israel, Russia and Spain seem to create problems for researchers, having been classified as both high- and low-context.



REFLECTIVE ACTIVITY 3.3

Would you say that Britain is high or low context? Why?

What aspects of international management might be more susceptible to differences between high- and low-context?

On balance, studies suggest that the UK should be considered to be a relatively high-context culture. Consider the amusing examples shown in Table 3.1 that have been used to demonstrate to foreign managers the role that context can play in understanding what a British manager might really mean. The examples show that the individual must know what is meant at the covert or unexpressed level, and this knowledge enables them to react appropriately.

Table 3.1 Interpreting high-context communication

What the British say	What they really mean
Not bad	Good, or Very good
Quite good	A bit disappointing
Interesting	That is interesting, or It is interesting that you think it is interesting – it seems rather boring to me!
Oh, by the way...	I am about to get the primary purpose of our discussion
I was a bit disappointed that you...	I am most upset and cross
I hear what you say	I disagree and I do not wish to discuss it any further
With the greatest respect...	I think that you are wrong (or a fool)
Perhaps we could consider some other options	I don't like your ideas

The potential for miscommunication and misinterpretation of actions between high- and low-context cultures is clear from the examples in Table 3.1. In general, differences in communication context have been shown to be important in relation to issues such as cross-cultural negotiations, mergers and acquisitions and, one could infer, performance management discussions.

There is some correlation between high-context cultures and cultures that value the group over the individual (collectivist societies) – but the correlation is limited. Similarly, not all high-context cultures are necessarily polychronic. Within a low-context culture, individuals can find themselves in high-context situations, and vice versa. So, for example, within a low-context American culture, communications among family members are generally high-context because of the high level of shared experience.

3.4 ELEMENTS OF CULTURE

Hofstede's (1980, 2001) research in relation to national cultures has also been highly influential. Basing his ideas on research carried out between 1967 and 1973, Hofstede created a new paradigm for the study of culture, which was a four-dimensional model of national culture, later expanded and developed to incorporate another dimension. Although, as we show later, the work has also been subject to more criticism as time has gone by, it has proved to be a dominant influence, still to this day, and the framework has been widely used by researchers and practitioners in the field of intercultural management. The total citation count for various editions of *Culture's Consequences* surpassed 20,000 in 2010 and Hofstede's model of culture has been applied in research on issues such as leadership, teamwork, justice, communication, ethics, satisfaction, commitment, foreign market entry modes, international trade, and individual, company and national performance (Taras et al 2010).

Before Hofstede's work, cross-cultural researchers often treated culture as a single variable. Hofstede set about 'unpacking' culture into independent dimensions.

It is important to understand what Hofstede's work was intended to do. He argued that many differences in work-related values, beliefs, norms and self-descriptions, as well as many societal variables, would be better understood if we linked them statistically with a series of underlying dimensions of culture. His original work was designed to find those attitude items that best told countries apart. It was based on factor-analysing a series of survey items at country level, by aggregating the individual survey item scores from 116,000 questionnaires across 72 different country samples within IBM, and then taking the average national score for each question (Fischer and Poortinga 2012). Some countries were, however, represented by fewer than 100 respondents.

In essence, the approach was to throw hundreds of questions at samples of employees, and then identify those items that were the most useful in telling countries apart, and then looking at these items and labeling them on the basis of what they seemed to tap. He found that the differences in responses could be explained by four main factors:

- power distance (social inequality, including the relationship with authority)
- uncertainty avoidance (ways of dealing with uncertainty, relating to the control of aggression and expression of emotions, when threatened by ambiguous or unknown situations)
- individualism–collectivism (the relationship between the individual and the group)
- masculinity–femininity (the social or emotional implications of having been born as a boy or a girl).

The dimensions of culture were constructed at the national level. It was not a theoretical approach, but an empirical one, although he traced many of the ideas back to the theoretical work of Inkeles and Levinson (1954/1969).

3.7.1 POWER DISTANCE

Power distance relates to the extent to which societies accept that power in institutions and organisations is and should be distributed unequally. In organisational terms, this relates to the centralisation of authority and the degree of autocratic leadership. Societies with high power distance scores are reflected in hierarchical organisations where it is felt to be right that the superior is seen to be more powerful than subordinates. Examples of countries with high power distance scores are the Philippines, Singapore, France and Greece. In contrast, countries with lower power distance scores such as Britain, Sweden and New Zealand favour a more democratic style of management and flatter organisational structures (see Table 3.2).

Table 3.2. Hofstede rankings for power distance index (PDI), uncertainty avoidance index (UAI), individualism index (IDV), and masculinity index (MAS)

Country	Power distance	Uncertainty avoidance	Individualism	Masculinity
Malaysia	1	46	36	25.5
Philippines	4	44	31	11.5
Mexico	5.5	18	32	6
Arab Countries	7	27	26.5	23
Indonesia	8.5	41.5	47.5	30.5
India	10.5	45	21	20.5
Singapore	13	53	40	28
Brazil	14	21.5	26.5	27
France	15.5	12.5	10.5	35.5
Hong Kong	15.5	49.5	37	18.5
Turkey	18.5	16.5	28	32.5
Chile	24.5	12.5	38	46
Greece	27.5	1	30	18.5
South Korea	27.5	16.5	43	41
Taiwan	29.5	12.5	44	32.5
Spain	31	12.5	20	37.5
Pakistan	32	24.5	47.5	25.5
Japan	33	7	22.5	1
Italy	34	23	7	4.5
Argentina	35.5	12.5	22.5	20.5
South Africa	35.5	39.5	16	13.5
USA	38	43	1	15
Canada	39	41.5	4.5	24
Netherlands	40	35	4.5	51
Australia	41	37	2	16
Great Britain	43	47.5	3	9.5
West Germany	43	29	15	9.5

Country	Power distance	Uncertainty avoidance	Individualism	Masculinity
Finland	46	31.5	17	47
Sweden	47.5	49.5	10.5	53
Ireland	49	47.5	12	7.5
Denmark	51	51	9	50
Israel	52	19	19	29
Austria	53	24.5	18	2

Data shows ranked position amongst countries, with 1= highest, larger numbers moving down to lower ranks

Source: Data points taken from Hofstede (1991)

3.7.2 UNCERTAINTY AVOIDANCE

Uncertainty avoidance refers to the degree to which societies feel threatened by ambiguous situations and the extent to which they try to avoid uncertain situations. In countries with high uncertainty avoidance, such as France, organisations adopt strong bureaucracies and career stability and generally discourage risk-taking activities. Countries such as Sweden, Britain and Norway which exhibit low uncertainty avoidance will adopt more flexible structures and encourage more diverse views (see Table 3.2).

3.7.3 INDIVIDUALISM

Individualism reflects the extent to which individuals are integrated into groups. Where individualism is high – for example, in the USA – people are expected to take care of themselves and their immediate family only. In collectivist societies such as Japan, however, people are integrated into strong, cohesive groups which throughout people's lifetimes continue to protect them in exchange for unquestioning loyalty (see Table 3.2). Whereas in individualist societies the emphasis for individuals within organisations is to gain self-respect and personal achievement, in collectivist societies the focus is on fitting in harmoniously and face-saving.

Hofstede (1991) found a strong correlation between high power distance and collectivism and vice versa in the countries within the IBM sample. He explains this by stating that in cultures in which people are dependent on groups, the people are usually also dependent on power figures. The converse is true in individualist countries. Exceptions to this are countries such as France and Belgium, which combine high power distance with strong individualism. Crozier (1964) argues that a belief in an absolutist authority can be reconciled within a bureaucratic system where impersonal rules avoid the need for direct dependence relationships, a characteristic of collectivist societies.

3.7.4 MASCULINITY

Masculinity measures the extent to which the dominant values are (in Hofstede's terms) 'male' – values such as assertiveness, the acquisition of money and goods and not caring for others. Gender roles are more rigidly defined in masculine societies than in 'feminine' societies. The most masculine countries in Hofstede's framework are Japan and Austria, with the USA also falling into this category. In contrast, the Scandinavian countries fall into the feminine category, with more emphasis on work-life balance.

3.7.5 MANAGEMENT IMPLICATIONS OF POWER DISTANCE AND UNCERTAINTY AVOIDANCE

These dimensions can inform our understanding. For example, taking these two dimensions together reveals differences in the implicit model that people from different cultures may have about organisational structure and functioning. Employees in high power distance and low uncertainty avoidance societies such as Singapore, Hong Kong and Indonesia tend to think of their organisations as traditional families. The head of the family is expected to protect family members physically and economically in exchange for continued loyalty from family members. A key control and co-ordination mechanism for the family is a standardisation of work processes by specifying the contents of the work.

In societies where both power distance and uncertainty avoidance are high – such as France, Brazil and Mexico – organisations are viewed as pyramids. Reporting lines are clear. Management provides co-ordination and control by emphasising who has authority over whom, and in what way this authority can be exercised.

A combination of medium uncertainty avoidance and low power distance gives rise to organisations which are perceived as well-oiled machines. Roles and procedures are well defined and co-ordination and control are achieved through standardisation and certification of skills. Examples of countries in this quadrant are Israel, Austria, Germany and Switzerland.

Finally, in countries where there is low uncertainty avoidance and low power distance, a 'village market' model is apparent. This model includes countries such as the UK, the USA, Denmark and the Republic of Ireland. Here, control and co-ordination tends to take place through mutual adjustment of people through informal communication, and by specifying desired results.



REFLECTIVE ACTIVITY 3.4

Using the Hofstede dimensions, what would be the key people management considerations for a UK-based organisation that wished to expand into France, Germany and Japan?



REFLECTIVE ACTIVITY 3.5

To highlight the complexity of culture, take the key cultural models that are explained above and analyse the national culture of India. How would you handle the many regional (state) cultures in this analysis, or differences between the industrialising areas versus the others?

3.4 ELEMENTS OF CULTURE

The third example of the most influential pieces of research in relation to national cultures is the work of Schwartz and colleagues. In Schwartz's (1994, 1999) original analysis of value preferences of 60,000 individuals in 63 countries, 45 values were found to have similar meaning across countries. These were reduced by multidimensional scaling to seven values, organised along three major dimensions of conservatism (embeddedness)

versus autonomy (intellectual and affective), hierarchy versus egalitarianism, and mastery versus harmony.

However, later Schwartz and Bardi (2001) looked at values structures at the level of the individual. They asked an important and reverse question to that asked by Hofstede, observing that:

researchers, including ourselves, have focused almost exclusively on differences in value priorities. When we switch our focus to ask about similarities, we discover a striking degree of consensus across individuals and societies. (p268)

Schwartz and Bardi (2001) established a near-universal structure of relations across countries across ten types of value. They found agreement around the world on the relative importance of these different values and argued that analysing a group's value profile in isolation (aggregating data to the country level, as Hofstede did) creates a distorted view of culture. Each type of value has different goals and specific actions, leading to its attainment, but generic goals are power; achievement; hedonism; stimulation; self-direction; universalism; benevolence; tradition; conformity; and security.

Although individuals and groups may differ substantially in the importance they attribute to these values, the same structure of opposite motivations and compatibilities was considered to exist across international samples. They looked at the average value hierarchy across the 13 nations and then assessed how similar each nation's structure was to the overall pattern. Considerable overlap in value hierarchies was found. Across the 13 nations studied the mean correlation was $r=.92$.

When considering the question as to why this should be so, the researchers noted that their instrument taps three universal human requirements: biological needs, requisites of co-ordinated social interaction, and demands of group survival. Once researchers switch from analysing differences to analysing similarities (in the context of values embedded in cultures) then it becomes clear that there is a common pan-cultural baseline of value priorities, and we should only really try to understand the distinctiveness of any particular nation by analysing its value priorities as they differ against this pan-cultural baseline.

3.4 ELEMENTS OF CULTURE

The fourth example of the most influential pieces of research in relation to national cultures is the cross-cultural studies used to indicate a strong connection between culture and leadership styles.

This work has been carried on in more recent projects. A key example is the GLOBE Project (House et al 2002). The GLOBE project findings on leadership show a picture of subtle, but meaningful, variations in scores around leadership dimensions, but also demonstrate that charismatic, team-oriented and participative styles are the most effective leadership styles. House et al (2002) stress that although the dimension 'charismatic' (which consists of such attributes as visionary, inspirational, self-sacrificial, of notable integrity, decisive, and performance-oriented) appears to be universally rated as the most important leadership style, the interpretation of 'charisma' in different societal settings may differ. Likewise, the dimension 'team-oriented' has to be interpreted differently in individualistic cultures as opposed to family- or group-oriented cultures. The GLOBE project introduces a new cross-cultural framework and positioning of societies into clusters which provides a link between cultural background and preferred leadership styles. Overall, the research supports the argument that leadership is culturally contingent, although the key dimensions of effective leadership are consistent across societal clusters.



THE GLOBE PROJECT

CASE STUDY 3.1

The GLOBE (Global Leadership and Organizational Behavior Effectiveness) Project is a multi-phase, multi-method project in which investigators spanning the world are examining the inter-relationships between societal culture, organisational culture and organisational leadership. The Project involves 150 social scientists and management scholars from 61 cultures (the findings are detailed by Ashkanasy et al 2002; House et al 2002; and House et al, 2004). The meta-goal of GLOBE is to develop an empirically based theory to describe, understand, and predict the impact of specific cultural variables on leadership and organisational processes, and the effectiveness of these processes. The project addressed four fundamental questions:

- 1 Are there leader behaviours, attributes and organisational practices that are accepted and effective across cultures?
- 2 Are there leader behaviours, attributes and organisational practices that are accepted and effective only in some cultures?
- 3 How do attributes of societal and organisational cultures affect the kinds of leader behaviours and organisational practices that are accepted and effective?
- 4 Can the universal and culture-specific aspects of leader behaviours, attributes and organisational practices be explained in terms of an underlying theory that accounts for systematic differences across cultures?

Questionnaires were distributed to middle managers in 62 national cultures. These measured aspired values (asked in terms of 'what should be') but also asked what values were reflected in

behaviours and practices (asked in terms of 'what is'). Ten distinct national clusters emerged within the overall sample in terms of preferred leadership styles, based on nine dimensions of national culture. Many of the nine cultural dimensions were already in the literature and have been discussed earlier in the chapter, such as Hofstede's uncertainty avoidance and power distance. His masculinity dimension was also reflected in what the GLOBE Project called 'gender egalitarianism and assertiveness', and long-termism was reflected in a 'future orientation'. However, because data was analysed at the organisational level, two additional dimensions of 'performance orientation' (the extent to which an organisation or society encouraged and rewarded group members for performance improvement and excellence), and 'humane orientation' (the degree to which individuals in organisations or societies encouraged and rewarded individuals for being fair, altruistic, friendly, generous, caring and kind to others) were identified. The findings also differentiated between 'societal collectivism', which reflected the degree to which organisational and societal institutional practices encouraged and rewarded collective distribution of resources and collective action, and 'in-group collectivism', which reflected the degree to which individuals express pride, loyalty and cohesiveness in their organisations or families.

A total of 23 different leadership styles were deemed to be effective in one or more of the different societal cultures of the world (each leadership style was considered to represent a culturally endorsed implicit leadership theory or CELT). There were six underlying dimensions or styles of an effective global leadership style. There was high

within-culture agreement with respect to leader attributes and behaviours, and two out of six leader behaviour dimensions were viewed universally as contributors to effective leadership. One was viewed nearly universally as an impediment to leadership, and one as nearly universally a contributor. The endorsement of the remaining two varied by culture. In short, there were 21 specific

behaviours that were universal, eight impediment behaviours, and 35 behaviours that depended upon the cultural context. Overall, the research supported the argument that leadership is culturally contingent, although the key dimensions of effective leadership are consistent across societal clusters.



REFLECTIVE ACTIVITY 3.6

The GLOBE project, and subsequent analyses by Smith (2006) and Minkov and Hofstede (2014) made an important contribution to the debate about the measurement of culture. It showed that asking respondents what they consider important to themselves, and what they think others should or should not do, represent two very different approaches. Asking these two things can yield very different results. The first set of answers reflects personal values. The second set of answers does not necessarily reflect values, but rather ‘norms’ that refer to socially desirable behaviours. An individual can answer the two questions very differently. They might value power as a personal goal, but the norm that they might want others to follow is one of submission, not competition for their power (Smith 2006). This difference between personal values and norms for others was not obvious until the analyses and criticisms of GLOBE’s work (Minkov and Hofstede 2011).

What are the implications of this for understanding national culture?

3.10 THE CHINESE VALUES SURVEY AND LONG-TERM ORIENTATION

Concerned that cultural questionnaires were prepared by western academics and bound by a western cultural outlook, what later became Hofstede’s (2001) long-term orientation dimension was first discovered in the Chinese Culture Connection (1987) study. Twenty of the countries were also in Hofstede’s study. The results from the study revealed four dimensions of culture, three of which reflected Hofstede’s dimensions of power distance, individualism/collectivism and masculinity/femininity. The fourth represented Chinese values related to Confucianism. Bond and his colleagues called this dimension ‘Confucian work dynamism’. Hofstede relabelled it ‘long-term versus short-term orientation’. In countries exhibiting a high Confucian work dynamism, or which are long-term-oriented, there is a focus on the future, and thrift (that is, saving) and persistence are valued. Companies in Japan, which is an example of a long-term-oriented society, have traditionally taken a longer-term view of investments. In contrast to companies in western economies, it is not necessary to show profits year by year, but rather progress towards a longer-term goal. Japan’s continuing economic crisis may well force a fundamental change in perspective for its organisations. Countries low in Confucian work dynamism, or short-term-oriented, value the past and present. There is respect for tradition and fulfilling social obligations, but the present is the most important.

More recently Venaik et al (2013) have compared the long-term orientation (LTO) dimension of Hofstede and the future orientation (FO) dimension from the GLOBE

study using data from the World Values Survey (WVS). Both are related to the time orientation of societies, and infer a tendency to emphasise the future rather than the present or past in values and attitudes. However, long-term orientation emphasises perseverance and thrift versus the past or present, whereas future orientation is primarily about planning for the future versus focusing on the present.

3.11 LIMITATIONS OF WORK CONDUCTED AT THE NATIONAL LEVEL

Peterson (2003) argued that as with any new idea or paradigm shift, Hofstede's doctrine has been both undervalued and overused, and whilst the first edition of *Culture's Consequences*:

did not create the field of comparative cross-cultural studies but it certainly has shaped the field's basic themes, structure and controversies for over 20 years. (p128)

In a retrospective reviewing the contributions and debates around Hofstede's work, Minkov and Hofstede (2011) reflect that:

Hofstede's unpacking approach was adopted in some landmark studies, such as the Chinese Culture Connection (1987) and Schwartz (1994) expansion on the dimensional characteristics of values, Smith's analysis of the Trompenaars data file (Smith et al. , 1996), and project GLOBE (House et al. , 2004), all of which explicitly admit that they were inspired by [the doctrine]. (Minkov and Hofstede 2011, p12)

However, while cultural frameworks are useful in explaining some of the key ways in which societies (within a work context) might differ, it is important to note some of their limitations. The topic of national culture is not without debate. Some people go so far as to say that we might even be asking the wrong questions. As the field has matured there has been some disquiet about many inherited research assumptions.

- Why do researchers focus so much on values?
- What about individual differences? How do we avoid stereotype?
- Are there sub-cultures? Regional cultures?
- Do national patterns change? How stable are national differences?
- Don't we all hold multiple cultures?

In the international business literature there continue to be questions asked about the reliability, applicability and generalisability of various 'cultural distance' measures of national diversity (Tung and Verbeke 2010; Brewer and Venaik 2012; Avloniti and Filippaios 2014). Recent reviews include those by Reiche, Lee and Quintanilla (2012) and Weller and Gerhart (2012). In attempting to categorise cultural groups, a lot of models have produced dichotomies – such as individualistic versus collectivistic cultures – that rely on what might be erroneous assumptions. By categorising cultures we might be tempted to view culture as being immutable, monolithic and able to be captured with scores on a limited set of cultural dimensions.

Beugelsdijk et al (2015) have picked up on such findings to ask some critical questions about much of the research that has been carried out on 'the liability of foreignness'. As seen earlier for example in the study of South Korean MNCs, most studies try to capture nation-to-nation distance, generally measured as the distance between cultural values and beliefs. Although we noted this criticism in the previous chapter, few researchers have come up with a workable solution to how to deal with significant variation of scores on values within a country when trying to compare

between countries. They have developed a measure of cultural differences that takes the variation of values in host and home countries into account, and show that such an advanced measure is better than using the mean-based measures common in much of the international business literature.



REFLECTIVE ACTIVITY 3.7

Hofstede's work – and also the GLOBE study on leadership discussed in Chapter 16 – have been very influential, but of course as time has gone by the evidence has come under greater critical scrutiny. Gerhart and Fang (2005) re-analysed the original data, and Gerhart (2008) marshalled a number of criticisms of such work which tend to support the view that the evidence is strong enough to argue that effective organisations have to adapt foreign management to local cultures. Research on national culture assumes a number of things, such as that: between-country differences are substantially larger than within-country differences; country differences in culture are larger than differences due to other factors such as organisation; country effects can be equated with culture; a misfit between practice and culture produces inefficiency; management discretion is substantially lowered by culture; and companies have no ability to shape the way they attract, recruit and hire and so reflect national patterns. He argues that Hofstede's evidence is inconsistent. When the effect size is calculated, and a standard is used to estimate the importance of this effect size, their re-analysis suggested that when looking at the individual level, country on average explained only 2.2% of the variance in values. Looking at the GLOBE study, which analysed country differences in organisational culture, the researchers found that 23% of differences in organisational culture (practices) could be explained by country (which means that national culture accounts for roughly one quarter of the total country effect, signalling the importance of institutional influences covered in the previous chapter). When looking between countries, national culture only explained 6% of differences in organisational culture.

Against such criticism, Minkov and Hofstede (2011) make the following counter-argument. Concerning criticisms to the effect that his data are old, Hofstede argues that cultures do evolve but they tend to move together in more or less one and the same cultural direction. Therefore, the cultural differences between them are not necessarily lost, and these differences are what the dimensions describe. He argues that the correctness of this position was demonstrated as recently as 2006 by Inglehart (2008). He analysed empirical data from western European countries spanning the period from 1970 to 2006, and showed that while western cultures did evolve and even tended to show some incomplete convergence, on a number of subjectively selected variables, their paths practically never crossed during those 36 years.

- Does the management literature overstate the role of national culture versus organisational action?

The majority of the work undertaken in this area still has been carried out by western, and in particular, European, researchers. Bond's work on Chinese values is an example of a move to address this problem. Western perceptions of Asian cultural values might, however, be called into question.



CONFUCIANISM IN ASIA

CASE STUDY 3.2

In Korea the role of national culture, including Confucianism, is still considered to have a powerful, multi-faceted and ingrained influence on HRM (Rowley and Bae 2004). It is embedded, however, within the *chaebol* (meaning an octopus with many tentacles) – family-founded but large organisations owning and controlling large diversified business groups with a plethora of subsidiaries. These include such organisations as Samsung, LG, Hyundai Motors and Hanwa. Rowley and Bae (2003) have laid out the 12 most dominant characteristics and paradoxes of culture and management in Korea based on three shaping factors of Confucianism (family), Japan and the military. For each influence they explain the concept, meaning, management behaviours and characteristics, and the paradoxes this creates. Six of the 12 influences are Confucian:

- 1 *Inhwa* means harmony and solidarity (with company as a family-type community).
- 2 *Yongo* concerns connections by blood, geography or education, and influences solidarity within inner circles, recruitment via common ties and relationships with owners.
- 3 *Chung* concerns loyalty and subordination to superiors, shaping a paternalistic approach to employee welfare.
- 4 *Un* concerns indebtedness to the organisation and members, impacting on respect, tolerance and patience towards organisational agendas.
- 5 *Uiri* concerns integrity towards others in everyday life, impacting on long-term relationships.
- 6 *Gocham* concerns seniority in service and being an old-timer, impacting on seniority-based rewards and promotions.

In Hong Kong – also considered a Confucianism culture – it is small, local Chinese family businesses that employ a significant number of employees. Their key decision-makers and managements have reached the third generation following on from founders at the beginning of the 1900s. HRM policies are different from the strategic HRM model. Chinese heads encapsulate ethnocentric values of Confucian paternalism, patriarchy and personalism manifested in three key relationships: power connected to ownership, a benevolently autocratic leadership style and personal rather than neutral relationships. Decision-making is centralised and emphasises harmony and compliance, seniority, loyalty, mutual obligation and informal networking at the workplace. Consequently,

firms may recruit from a variety of sources but selection is pragmatically based on personal recommendations. . . Remuneration reflects seniority and degree of loyalty rather than performance. . . Firms can enjoy a strong internal labour market. . . However, the HRM functions are still found to be separated from the decision and power core of the business and from other business operations [which] may pose problems as these companies expand overseas (Chan and Lui 2004, pp82–3)

Question:

What is the more dominant influence on culture in Hong Kong and Korea here – Confucian values or the way these operate in their national context?

Lin and Ho (2009) explain how, after 50 years of political and economic separation, people in China, Taiwan, and Hong Kong vary in their adherence to Confucian values.

It is also dangerous to over-generalise or stereotype on the basis of these descriptions of generalised characteristics of cultural values. Hofstede himself makes the point that these generalisations are valid only as statistical statements about large numbers of people. Value contrasts are not either/or dichotomies but rather descriptions of two cultures' overall tendencies to be nearer to or farther from a particular value orientation. Value orientations are determined by an individual's psychology (socio-political and personal influences), their lifestage, and indeed generational subcultures (what occurs in history/society that has a formative influence).

For instance, when comparing two countries across the same value, it is important to note that the strength of the value in each country will have its own bell-shaped distribution curve. However, the norms between the two may be quite different. Understanding the relative distance between the norms allows people to generalise about the relative difficulty members of one culture may have in relating to members of the other culture along that dimension. In addition, an awareness of the exceptions to the norms at the end of the curves and the possible overlap between the curves helps to avoid stereotyping (see Wederspahn 2000).

Approaches that create categories of cultures have then been criticised for making a homogeneity assumption. This criticism argues that there are significant differences on most of these sorts of measures across groups within any single country (Koslowsky et al 2002). Not only huge countries – such as Russia, China, Indonesia and India – but also small countries – like Belgium and Switzerland – may contain distinctive multiple cultures within their national borders. For example, the individualistic cultures of the USA, Italy, Germany, France and Britain can still be differentiated and even within any one of them, multiple brands of individualism exist across ethnic groups. Regional differences have an impact. In the USA, for example, there are distinctive North-east, Midwest, West and Deep South brands of individualism that can be identified. Similarly, the collectivistic systems of Confucianism, Buddhism and Marxism differ significantly from each other in particular values, meanings and customs. The homogeneity assumption rests on the ability to infer that there are commonalities of core beliefs and assumptions that cut across ethnic, linguistic and religious differences within any single country, and that these shared commonalities can still explain important work behaviours, despite the variety of espoused values and observed behaviours that evidently differ within a country (Menon 2004).

WHICH CULTURE DO YOU BELONG TO?

Is it a fair or sensible question in today's world to ask people which country has their cultural allegiance? What sort of complex cultural identities do people have? How does this impact on organisational behaviour? Wibbeke (2009) talks about leaders having a 'tri-partite' culture: the culture you grew up in, the culture you live in, and the culture of your organisation. She notes that at a company like Google, about 70% of the people who work there were not born or raised in the USA. This is true of most high-tech companies in Silicon Valley. She says that if you look at somebody who was raised in China until the age of 15 then went to school in New York and now is working in California for Oracle and ask them: 'When you're making an important ethical decision, what do you go back to?' they always say, 'I go back to the ethics that my parents gave me. Those will help guide me.'



REFLECTIVE ACTIVITY 3.8

Develop a short questionnaire drawing upon on the Hofstede continua (see how hard it is to construct some questions that make sense at the individual level!). Use this instrument to determine where you and a group of other nationals fall against the constructs.

- Where do you feel you reflect a national culture – where do you believe that you are in some way different?
- Is there a considerable standard deviation around the averages that cultural researchers write about?
- How pervasive is culture at the individual level? Should you expect that individuals might or might not reflect the cultural constructs?
- Is culture about the values of individuals or the values of the institutions that they subscribe to?

Closely associated with this argument about within-societal variation, Gelfand et al (2006) have redrawn attention to the idea of ‘cultural tightness or looseness’, and developed a series of explanations for how this impacts on life in organisations. ‘Tightness’ reflects the strength of social norms (how clear or pervasive the norms are within any society) and the degree of sanctions (how much tolerance there is for deviation), both of which vary from one society to another. Loose and tight societies also differ in terms of the amount of accountability (Tetlock 2002) and the degree to which there is ‘felt accountability’ amongst individuals (Frink and Klimoski 1998). It is only where individuals have this ‘felt sense of accountability’ that external societal constraints get internalised into their own behaviour. It is a separate construct from individualism/collectivism. Anthropologists argue that countries such as Japan, Germany or Singapore, or certain ethnic groups such as Pueblo Indians, are tight societies, whereas for example in the USA, New Zealand, northern Finland or in Thailand, society is much looser (Pelto 1968). The degree of tightness depends on things like the degree of population density, the economic system and the role of kinship. Individuals in ‘tight’ societies have a lower sense of separation of their own self from others’ selves (called psychological differentiation). This idea has only sporadically been discussed by people studying national culture – in the work, for example, of Berry (1966), Triandis (1989) and Carpenter (2000). Gelfand et al (2007) point out that tightness/looseness varies within societies as well – between, for example, different domains of life, regions, and ethnic and religious groups.



REFLECTIVE ACTIVITY 3.9

- To what extent would someone from the southern states of the USA share their values and beliefs with those of all North Americans?
- Would a person from Delhi share the values and beliefs of someone from Madras?

Finally, some important points have been made about how individuals will vary in how they exhibit a culturally related behaviour depending on the situation. Members of a collectivistic culture may be highly communal with ingroup members, but that does not mean they are communal with outgroup members. Members of individualistic cultures may actually be more communal with outgroup members than collectivists! Consider the hospitality that individualist Americans can show to strangers. The reference group is therefore very important (Freeman and Bordia 2001). Single-dimension cultural factors rarely capture the complexity of such individual behaviour.

3.12 NATIONAL CULTURE IN PROSPECT AND RETROSPECT

It is important to be aware, then, that the more popular culture has become as a means of explaining the way people behave and the way they work across countries, the more careful the global HRM practitioner has to be about taking findings at face value. There are good and bad studies of national culture, and there are good and bad measures of cultural values. Even when culture has been assessed in some direct way, or where cross-country differences are used as a proxy for culture, it is important to be aware of some of the main criticisms that have been made about cultural research.

A common feature of many studies has been to test the way that national contextual variables – such as individualism and collectivism – moderate the behaviour of individual workers. This is sometimes done by taking a country-level measure (like the ones outlined in this chapter devised by people like Hofstede or Trompenaars) and then assigning each individual a score on the basis of the average score for the nation they come from. Or alternatively they might measure the individual using instruments that were really designed to assess national-level constructs.

The first approach falls foul of the ecological fallacy trap (the error of assuming that statistical relationships at a group level also hold for individuals in the group) observed by Hofstede (1980), whereby national-level data is used to predict individual-level behaviour, which leads to incorrect estimations of the real effects of the contextual variables. Both the Hofstede and GLOBE culture dimensions are derived from individual-level survey data, which is then aggregated to, and analysed at, the national level. However, whilst these culture scales are correlated at the national (ecological) level, they are not correlated in the same manner at the individual or organisational level.

The trap manifests itself in two ways.

- 1 Cultural values which are known to be held by a group are projected onto an individual who is a member of the group. This is known as stereotyping. Stereotyping of itself is not necessarily a negative process, but rather a way for us to try to make sense of the world by categorising things and individuals. However, it can become problematic when it is inaccurate – if, for example, we assume that all Japanese are group-oriented and do not show emotion, or that all Swedish managers favour consensus-based, participative work practices. Stereotyping becomes dangerous when group-level data is used to categorise individuals, particularly in a negative and prejudicial manner.
- 2 An ecological fallacy can occur by projecting from individuals to groups.

In a recent retrospective, Minkov and Hofstede (2011) remind everyone:

[The cultural dimensions] were underpinned by variables that correlated across nations, not across individuals or organisations. In fact, his dimensions are meaningless as descriptors of individuals or as predictors of individual differences

because the variables that define them do not correlate meaningfully across individuals. For organisational cultures, entirely different dimensions were found as well. Yet, despite Hofstede's repeated warnings that his dimensions do not make sense at the individual or organisational level, articles that attempt to use them for these purposes appear periodically in various journals. (p12)

And Brewer and Venaik (2014) have recently shown that many studies of national culture, even in leading journals, still fall into this trap.

To presume they are is a form of 'ecological fallacy' that, despite warnings, has often been overlooked by culture researchers... articles commit an ecological fallacy by projecting national-level culture characteristics onto individuals or organisations. The implications of this ecological fallacy include the development of invalid culture-related theory and the persistence of erroneous practitioner stereotyping. (p1063)

Finally, like all good things, their time might pass. Taras et al (2012) note that around the world, researchers have conducted thousands of smaller studies based on Hofstede's model and this has generated a lot of compatible data that can be meta-analytically integrated into a dataset that draws upon all the individual studies, which have sampled the same populations (nations) at different times, offering a longitudinal perspective and exploring how and why cultures change over time. They created sets of cultural indices for each decade since Hofstede's work, matching culture with other longitudinal datasets such as national economic development indicators, to explore a host of new research questions about the causes and effects of cultural change. The final pool contained data from 451 empirical studies representing over 2,000 samples comprising over half a million individuals from 49 countries and regions. They found the following:

An examination of the links between Hofstede's and our meta-analytic indices and a number of theoretically relevant criteria such as demographics, economic and societal indicators confirmed that the precision of Hofstede's scores has been decreasing over time. While Hofstede's scores correlated remarkably strongly with theoretically relevant indicators from the 1980s, the correlations typically weakened for each subsequent decade thereafter. At the present rate of validity degradation, Hofstede's scores will no longer recognisably represent world culture within a few decades. (p 339)



REFLECTIVE ACTIVITY 3.10

From our discussions of recent criticisms of research into cultural differences,

- can we safely assume the existence of single national cultures?
- is the influence of culture as an explanatory variable decreasing in the wake of continued globalisation?
- are there conditions that elicit universal responses from employees regardless of culture?



KEY LEARNING POINTS

- The study of national culture is still a topic of vigorous ongoing academic debate.
 - The practitioner press greatly encourages the creation of intercultural competent organisations as the way to success in global business. It also reports on many failures.
 - Evidence from both the research world and business events repeatedly emphasises the enormous impact of different cultural orientations (for good or bad) on our everyday lives.
 - A number of academic professions have contributed to our understanding of how and why behaviour appears in specific cultural contexts – anthropologists, sociologists, cross-cultural psychologists, cultural psychologists, psychological anthropologists and, most recently, international management researchers.
 - There have been three main streams of work: cross-national comparisons driven by a logic and assumption that ‘culture equals nation’; the study of intercultural interactions and how people interact across cultures and the characteristics and processes through which new cultures are formed; and more recent conceptions of organisations operating in a multicultural context.
-
- Organisations are considered to be home to and carriers of several cultures at levels that include function, organisation and business unit, profession and occupational group, ethnic group, project-based network, regional institution, geographical and economic region, ideology and religion.
 - Theories have examined national culture at different levels of analysis, ranging from behaviours and practices, through underlying values, down to underlying assumptions.
 - A good deal of work in IHRM has been driven by assumptions of ‘fit’ – the idea that certain HRM practices better fit into specific cultural contexts.
 - Our understanding of cultural differences relies mainly, however, on cross-cultural frameworks, working at a national level and derived from quantitative sampling techniques. National culture is also reflected at the individual level in terms of the value orientations that people hold.
 - These frameworks provide practising managers with an initial map of the types of issues they may need to take into account when working in an intercultural context.
 - But it is dangerous to over-generalise or stereotype on the basis of these descriptions of generalised characteristics of cultural values. Such generalisations are valid only as statistical statements about large numbers of people.
 - By keeping these as helpful indicators, and understanding the limitations of some of our evidence and the assumptions that we make when we try to study culture, managers can avoid the tendency to stereotype, but can also experiment with appropriate behaviours and processes that will hopefully lead to better intercultural ability.
 - Although the impact of cultural differences is important at an individual level, it is more important to understand what effect they can have at the team and organisational level.



LEARNING QUESTIONS

- 1 How well do the indices and measures here reflect your own country? Give reasons for your answer.
- 2 Are national cultural differences likely to be more, or less, strong than organisational or gender differences in culture? Explain your views.
- 3 How might cultural differences make it difficult for a UK visitor to Japan to do business?
- 4 Choose an aspect of HRM such as selection, appraisals, training or industrial relations, and explain how cultural differences might affect it.
- 5 Argue that an organisation should have clear rules about the management of people that cover operations in all its different countries. Argue that such rules should be varied for the different national cultures represented within the organisation. Can the two views be reconciled?
- 6 What does the study of how managers actually spend their time and their decision-making powers in like-for-like organisations really tell us? What are the messages for key areas of HRM policy?



EXPLORE FURTHER

KITTLER, M.G., RYGL, D. and MACKINNON, A. (2011) Beyond culture or beyond control? Reviewing the use of Hall's high-/low-context concept. *International Journal of Cross Cultural Management*. Vol 11, No 1. pp63–82.

REICHE, S.B., LEE, Y-T., and QUINTANILLA, J. (2012) Cultural perspective on comparative HRM. In Brewster, C.J. and Mayrhofer, W. (eds). *Handbook of research into comparative human resource management practice*. Cheltenham: Edward Elgar. pp51–68.

SACKMANN, S.A. and PHILLIPS, M.E. (2004) Contextual influences on culture research: shifting assumptions for new workplace realities. *International Journal of Cross Cultural Management*. Vol 4, No 3. pp370–390. This article explains the ways in which researchers conceptualise culture, the research questions they consider it legitimate to ask, and their attempts to identify its effects. It lays out the assumptions that underpin three different approaches within the field: cross-national studies, studies of intercultural interactions, and the multiple cultures perspective. In explaining the research discourse in recent years, the article also highlights the increasing criticism of the cross-national comparison research stream, and argues that we now must examine more than just bicultural contexts.

VAIMAN, V. and BREWSTER, C.J. (2015) How far do cultural differences explain the differences between nations? Implications for HRM. *International Journal of HRM*. Vol 26, No 2. pp151–164.

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Culture and Organisational Life

LEARNING OUTCOMES

When you have read this chapter, you will:

- understand the complexity of linking culture to organisational life, and be able to place any cultural analysis into a broader frame
- be aware of the impact of culture on organisational behaviour and HRM practices
- understand the mechanisms through which national culture shapes HRM
- understand how culture might impact the behavioural dynamics that take place within key HRM practices
- be able to suggest ways that practitioners and academics can use understandings about culture in their work
- be able to apply culture to other developments, such as corporate social responsibility or changes in attitudes across generations
- be aware of the role of individual factors such as multiculturalism and cultural intelligence in helping organisations to internationalise.

4.1 INTRODUCTION

In the previous chapter we examined the notion of national culture. We laid out the different approaches to cross-cultural study and explored the strengths and weaknesses, and contributions and limitations of any particular approach. We argued that even though we need to avoid falling into the trap of cultural stereotyping, culture can have some surprisingly deep and complex impacts on organisational behaviour. In this chapter we explore just what these may be. We do this by covering the topics to which IHRM researchers and practitioners seem to be applying the notion of culture. What issues form the heart of current debates around culture? In doing this it should become clear that most issues are very complex, and we should beware relying on a cultural explanation alone. For example, from the last chapter it might be inferred that Scandinavian countries are positioned on Hofstede's scales as being more feminine, so gender roles should be less tightly defined. Yet despite cultural data suggesting that Sweden is a more equal society, the gender pay gap is wide, especially amongst high earners. The online European Foundation for the Improvement of Living and Working Conditions (Eurofound) resources carried a report in 2015 that research by the Institute for Evaluation of Labour Market and Evaluation Policy showed that although the gender wage gap has decreased since 1998, the gap is still greater in Scandinavian countries, especially Sweden, than in other parts of the EU! The gender wage gap is particularly marked among white-collar workers but less pronounced among blue-collar workers. Once we apply culture into 'real' contexts, we start to link cultural explanations to other phenomena.

However, the world is changing rapidly and it is sensible to ask if all of the messages from international management research always translate to the new global contexts.

To demonstrate the complexity of linking culture to organisational life, and the need to place any cultural analysis into a broader frame, we provide two contrasting examples. The first example, looking at Korean MNCs, shows that a national culture forms part of a complete system, in which various HRM practices only make sense if you see how they fit together as part of a broader jigsaw.



LIFE IN A SOUTH KOREAN MNC: A CULTURAL INTERPRETATION

CASE STUDY 4.1

South Korea is seen as a successful example of late industrialisation. However, the leading Korean conglomerates (*chaebols*) have been studied in relation to two culturally embedded issues. First, after the Asian financial crisis in 1997, when many Korean organisations attempted to introduce Western-style performance management systems, they found that these approaches were ineffective in their context. Second, whilst many South Korean MNCs are major global players in their respective industries, have a high level of investment in overseas subsidiaries, and have significant global market shares, they frequently struggle to achieve the same level of success in their subsidiaries as they have in the domestic context.

In part both issues have been attributed to problems with the attention given to expatriate training, two-way knowledge transfer, and development of global leadership, but they have also been linked with questions about the level of autonomy, trust and motivation in both domestic and foreign subsidiaries. How does culture have such an impact on organisational life?

The cultural norms in Korea are collectivist, and have been heavily influenced by Confucianism, which stresses harmony, hard work, respect for elders, strong family ties and a passion for learning through the cultivation of an individual's mind. Managerial controls – the processes that managers use to communicate, monitor and reinforce performance standards in ways that

ensure conformity to organisational plans and principles – are usually exerted through a combination of the use of power and authority, as well as through bureaucratic, cultural and informal mechanisms. In Korean MNCs, what is called clan control is important. It is underpinned by the collectivist culture. It is a form of emotional control that focuses on developing collegial associations and common values, emphasising social exchanges, long-term relationships, and a strong sense of trust and reciprocity.

Organisational performance and internal coherence relies on the long-term employment of senior managers, in turn supported by seniority based compensation and promotion. A paternalistic management style replaces the need to focus on organisation design. Employees are controlled through culture and their role expectations, rather than through the detailed processes and job descriptions often associated with a performance management system as a form of bureaucratic control. The *chaebols* are known for their strict recruitment and selection, high investment in large management development and training programmes, a high work hours culture, and high levels of employee commitment. New recruits to the *chaebol* go through four to six weeks of training, are tested on the founding family's history and values, then during their early years with the organisation are rotated through different functions according to the company's needs, rather than the individual's career aspirations. But there is also a sense of mutual

dependence between unequal parties, such as supervisors and subordinates, and the important role of informal ties allows a subtle degree of empowerment, by transferring some managerial authority, prerogative or ability to employees. Managers must be seen to preserve the appearance of care and concern for their trusting subordinates, with frequent social gatherings used as an important part of decision-making and conflict resolution. Indirect and very non-confrontational resolution of disputes along with etiquette and courtesy (*nunchi*) are important to Koreans.

Derived from Yang (2015)

Questions:

- How might Korean MNCs try and build support for the norms of reciprocity outside their home context?
 - Would their 'recipe' be seen as legitimate and fair if practised abroad? Would they be able to replicate the whole system overseas?
 - Would senior Korean managers display the same level of trust in the workforce of an overseas subsidiary as they might have built at home?
 - Would operating in a different culture cause tensions and hostility, and a degree of cultural distance – what is called a 'liability of foreignness'?
- Why might it be difficult for Korean MNCs to 'export' their model to their western subsidiaries?

Zeng et al (2013) examined a data set covering the life history of 3305 foreign direct investments (FDIs) conducted by 264 South Korean MNCs in 85 countries between 1990 and 2006. The bulk of Korean FDI goes to the USA, China and Japan. They calculated the 'distance' between two countries using cultural values and clusters obtained from the Hofstede study, and checking this with the Global Leadership and Organizational Behavior Effectiveness (GLOBE) project, both discussed in the previous chapter. They found there was a positive relationship between the extent of subsidiary mortality and level of experience when an MNC had a low level of experience in a dissimilar culture. When South Korean MNCs were new to a dissimilar culture, their prior FDI experience in that host culture had a detrimental effect on the subsequent subsidiaries in that culture – cultural differences eroded the MNC's ability to untangle causalities effectively in their early FDI operations. This relationship was weaker when the MNC had prior foreign direct investments that had been dispersed across different cultures, but was stronger if it expanded internationally at a fast pace. International business researchers have long held that it is important to understand the link between strategy and culture:

cultural differences create a gap between the knowledge a firm possesses and the knowledge it requires in order to succeed in its foreign ventures... [and] this knowledge gap erodes an MNC's ability to learn from its experience, by reducing its ability to interpret and assimilate its local experience. (Zeng et al 2013, p46)

MNCs draw erroneous inferences and learn incorrectly from their early expansions when new to a dissimilar culture, because their learning abilities are eroded by cultural differences. (Zeng et al 2013, p42)

The second example, which looks at the challenges faced by overseas retail MNCs when they try and operate in China, makes it clear that for most organisations, the real challenge is trying to understand how various national cultures might impact their preferred business model or organisational strategy. Simple assumptions about the cultural behaviour of employees or consumers are rarely sufficient on their own.



CASE STUDY 4.2

WALMART AND CARREFOUR IN CHINA: WHAT IS MORE IMPORTANT – CULTURE OR STRATEGY?

China has gradually opened its consumer market of over 1.3 billion people to the global market and consumer product and retail firms such as Procter & Gamble, Unilever, Metro, Tesco, Walmart, and Carrefour have all entered the market. Retail MNCs have emerged as a global force and this has led to much study of incentives for internationalisation, modes of market-entry, the transferability of retail formats, the impact of the host economy on market entry, the impact of the institutional environments of the home and host markets, and the importance of organisational learning to possible strategic failures and divestments. Walmart and Carrefour are two of the largest global retailers. Walmart has over 7,000 stores on four continents. The Carrefour group has operated or franchised stores in 30 countries.

They face what is called the 'structural paradox'. How do they balance their desire to continue standardising (at the supra-national level) whilst also localising? In order to be cost-effective and achieve scale economies, the desire to standardise is strong. It is tempting to directly transfer the strategic assets that have made them successful in the first place – their formats, commodities, retail practices and know-how about things like shelving and display, sales events, distribution practices.

Both have been successful advocates of lean retailing, but so far they have failed to extend their dominance in their domestic markets to the Chinese market. While both firms have had some degree of success, neither has been able to match the combined growth of their larger Chinese competitors, despite taking different approaches to their Chinese operations. Whilst Walmart has stressed its preference for

standardisation of operations, Carrefour has tried to be more locally responsive to the Chinese economic culture. Walmart mainly operates hyperstores. It also relies on global procurement centres – its two Chinese centres account for about 70% of Walmart's world-wide purchases. Carrefour owns or franchises a large number of convenience and deep discount stores in addition to its hyperstores. In Carrefour procurement and distribution are decentralised – each manager handles procurement. Potentially they were better suited to localisation.

Lean retailing requires cost-effective relationships with suppliers, high use of logistics technology, the minimisation of distribution and selling labour costs, and quick and flexible responses to changes in market conditions in order to be able to dominate the local network. But they also have to comprehend the nuances of the local consumer culture to a much greater extent than production MNCs might have to, and localise in ways that neither subvert their corporate identity nor reduce their economies of scale.

Both had to enter the market through Chinese/foreign joint ventures, with the Chinese partner holding a majority share, and initially had to operate in 'first-tier' cities such as Beijing, Shanghai, Guangzhou and Shenzhen. Both found out that many assumptions made about the impact of a future urban middle class on the consumer market were premature. China's ratio of disposable income to spending is still about half that of the USA, is the lowest in the world, and differs markedly across cities. China has a total of 815 cities, 200 of which have a population over one million at different stages of development.

Derived from Chuang et al (2011)

Questions:

- Would understanding how national culture impacts the local retail culture be important?
- What else needs to be done in order to create an in-depth understanding of the skills needed for effective operations?
- Is localisation necessary to be successful for both organisations?
- How important would a greater understanding of *guanxi* and local government relations be?

Both of these opening examples illustrate how important it is to understand the way differences in national cultures can affect attitudes and behaviours in the work environment. These attitudes and behaviours in turn become embedded in organisational cultures and systems. The need to study the impact of national cultures on organisational life should therefore be a given in this global world. However, many management texts (primarily US and western) still adopt a universalist approach, focusing on 'best practice', often without any acknowledgement of how transferable these practices might be in different societal contexts. In this chapter we review the areas of people management practice, and corporate life, to which cultural values have been linked in recent years. We draw upon the evidence in both in the general international HRM journals, and cross-cultural outlets such as the *International Journal of Cross Cultural Management* and *Cross Cultural Management*.

4.2 THE IMPACT OF CULTURE ON ORGANISATIONAL BEHAVIOUR AND HRM

Cultural assumptions answer questions for group members. They suggest the types of interactions and behaviours which should lead to effectiveness. They determine the information that managers will notice, interpret and retain. They lead to different ways of seeing the same event and therefore different problem-resolution strategies. A vast body of literature exists which reports empirical evidence suggesting that employees and managers from different cultures are different from each other in the processes, behaviours and values that come into play in a decision-making situation. Cultural assumptions are therefore linked to a wide range of organisational behaviours (Tayeb 1996).



REFLECTIVE ACTIVITY 4.1

Draw upon some of the evidence from the previous chapter and this one to argue, in any one national setting, how culture could be considered to impact on each of the following:

- power and authority relationships
- coping with uncertainty and risk-taking
- interpersonal trust
- loyalty and commitment
- motivation
- control and discipline
- co-ordination and integration
- communication
- consultation
- participation.

To what extent are these organisational behaviours also determined by an individual's psychology (itself a product of various cultural, social, political and personal influences), his or her life-stage, and his or her generational subculture?

The last chapter showed that cross-cultural researchers argue that organisations are 'culture-bound'. Management practices are heavily influenced by collectively shared values and belief systems. Laurent (1986, p97) warned against assuming that management approaches developed in one particular culture can be deemed to be valid for any other culture:

If we accept the view that HRM approaches are cultural artefacts reflecting the basic assumptions and values of the national culture in which organisations are embedded, international HRM becomes one of the most challenging corporate tasks in multinational organisations.



KEY FRAMEWORK

The mechanisms through which culture shapes HRM

The literature indicates that cultural values shape the conduct of HRM through the following mechanisms (Sparrow and Hiltrop 1997):

- attitudes held about, and definitions of, what makes an effective manager, and their implications for the qualities recruited, trained and developed
- the giving of face-to-face feedback, levels of power distance and uncertainty avoidance, and their implications for recruitment interview, communication, negotiation and participation processes
- expectations of the manager–subordinate relationship, and their implications for performance management and motivational processes
- differential concepts of distributive justice, socially healthy pay and the individualisation of rewards, and their implications for the design of pay systems
- the mindsets used to think about organisational structuring or strategic dynamics.

4.3 DO CULTURAL STUDIES HAVE ANY UTILITY?

Studies continue to show that national culture has a deep impact on many aspects of HRM. Throughout Part Two of the book we shall draw out the ways in which cultural differences impact on the main HRM functions, such as recruitment and selection, training and development, pay and so forth. In this chapter we shall summarise some of the more recent evidence on the value of cultural analysis in general.



IS THE GLOBAL ECONOMY CONVERGING?

One of the vexing debates about globalisation is whether it produces convergence in the evolution of the global system of nation states, over time, and across countries or not. And if there is convergence across countries, does this occur through competition, coercion, emulation, mimicry and/or normative pressures? Berry et al (2014) analysed

indicator variables across the period 1960–2009 covering economic, demographic, knowledge, financial, and political domains – in fact everything but cultural variables (these were excluded because the World Values Survey only started in 1980). They used a sophisticated statistical approach to analyse changes over time in the amount

of space between nation states or countries. The findings, consistent with a long tradition of research in sociology about the resilience of the nation state in the face of globalising tendencies, show that over the last 50 years nation states in the global system have not evolved significantly closer (or more similar) to one another along a number of

dimensions (excepting some developments in groups of countries with a core-periphery status or membership in trade blocs). In fact they show long-term divergence.

Source: Berry et al (2014)

The very existence of the state encourages homogenisation of cultural elements [and] political, economic, social, and regulative institutions define the power of the nation-state as a cultural delimiter. . . national governments enact workplace laws and provide the base for MNE operation at home and abroad, inclusive of cultural content. (Ronen and Shenkar 2013, p869)

As we saw in the previous chapter, the idea of clustering countries in terms of culture has a long history, and can be traced to the sociological, political and legal concepts of there being ‘families of nations’. Ronen and Shenkar (1985) believed that variation in cultural values that is tied to workplace behaviours, attitudes, and outcomes is systematic. They clustered countries based on work-related values. Why? Because identifying reliable dimensions of cultural variation helps researchers select cultural groups for study on an a priori basis.

But their original map is now dated and missed some key regions of interest, such as China. They have developed a new map of cultural clusters (Ronen and Shenkar 2013), using an updated dataset based on similarity and dissimilarity in work-related attitudes, and have expanded its coverage to world areas that were non-accessible at the time of their original 1985 work. They use an ecocultural perspective. This sees culture as an evolving adaptation to ecological and sociopolitical influences. Individual psychological characteristics in a given population similarly adapt to their cultural context. Their examination uses three variables – the combined role of language, religion, and geography – in generating cluster formation.

Their 2013 analysis is described as utilitarian, that is, it is designed to reduce the complexity in cultural studies and to aid data manageability. They want to identify cluster labels that reflect ‘. . . those behavioural and attitudinal corollaries that transcend corporate and individual variations, and whose congruence carries performance ramifications’ (Ronen and Shenkar 2013, p890). To do this they use all the data published between 1992 and 2005 by ten input studies from Brodbeck, Foley, the GLOBE project, Hofstede, Inglehart and Baker, Merritt, Schwartz, Smith, Trompenaars and Zander. These studies each cover between 16 to 65 countries, and in total cover 114 countries, of which 70 could be analysed. The findings show:

- at the finest level of discrimination there are 38 local clusters of countries (see Table 4.1), with 43 of 70 countries having one or more members, the rest being a single country
- at the highest level of agglomeration there are 11 global clusters
- in between there are some sub-global clusters of countries.

The latter level of analysis, barring the odd ‘strange bedfellow’, seems to be the most useful.

Table 4.1 Global clusters of countries

Eleven global clusters	Consensus inclusive countries and singletons
Arab	Kuwait, Morocco, UAE
Near East	Turkey, Greece
Latin America	Cluster 1: Colombia, Ecuador, Mexico, Venezuela, Argentina, Bolivia, Chile, Peru, Uruguay, El Salvador Cluster 2: Costa Rica, Guatemala Singleton: Brazil
East Europe	Cluster 1: Poland, Slovakia, Slovenia, Hungary Cluster 2: Russia, Romania, Ukraine, Belarus, Georgia, Bulgaria, Cyprus Cluster 3: Czech Republic, Estonia
Latin Europe	Cluster 1: Spain, Portugal, France, French Switzerland, Italy, Belgium Singleton: Israel
Nordic	Cluster 1: Norway, Iceland, Sweden Cluster 2: Finland, Denmark, Netherlands
Germanic	Cluster 1: Germany, Switzerland Singleton: Austria
African	Cluster 1: Nigeria Cluster 2: South Africa
Anglo	USA, UK, Australia, New Zealand, Canada, Ireland
Confucian	Cluster 1: China, Taiwan, Singapore, Hong Kong Cluster 2: South Korea Singleton: Japan
Far East	Cluster 1: Pakistan, Iran, Thailand, Indonesia, Zimbabwe Cluster 2: Malaysia, Philippines, Jamaica Singleton: India

Source: Summary of findings in Ronen and Shenkar (2013)

If the evidence for continued cultural differences seems robust, what about evidence that links culture to HRM practices?



CASE STUDY 4.4

CULTURAL IMPACT OF HRM PRACTICES ON JOB SATISFACTION

Andreassi et al (2014) looked at the effect of seven HRM practices on job satisfaction across 48 countries. These countries were combined into four cultural regions: Asia, Europe, North America and Latin America. The dataset covered over 70,000 employees in three large MNCs from financial services, manufacturing, and oil and gas production. They measured:

- perception of equal opportunities in the workplace

- feelings of personal accomplishment
- recognition for good performance
- communication from management
- perception of teamwork as priority
- ability to balance work and life, and
- level of training received.

These were considered to form part of a high-performance work system (HPWS). All seven HRM practices could predict job satisfaction to a degree, in all four regions. They used Hofstede's cultural dimensions to explain any differences.

Universally important relationships between job characteristics and job satisfaction applied across all regions of the world. A sense of achievement was the most important driver universally. A sense of accomplishment from work, recognition received from doing a good job, teamwork, and ability to balance work and personal lives were significant across all four regions when regressed on overall job satisfaction. There were significant differences in the relative importance of job characteristics on job satisfaction. These were consistent with

Hofstede's cultural dimensions. In terms of predicting job satisfaction:

- equal opportunity was most important in Asia
- accomplishment was most important in Latin America and North America
- teamwork was most important in Asia and Latin America
- personal recognition was most important in Europe, and
- work–life balance was most important in North America.

Source: Andreassi et al (2014)



REFLECTIVE ACTIVITY 4.2

Pragmatically, what would be the value to organisations of analysing their employee data like this across countries? How could they use such an analysis?

All data can be improved. In the previous chapter we outlined some of the criticisms that can be made of studies that try and link national culture to HRM practice. What do you like or dislike about the methodology of this study?

However, as Ronen and Shenkar (2013, p890) cautioned in their study, the data that practitioners and academics have at the moment:

does not address the possibility that convergence and divergence measures vary depending on the issue at hand, as demonstrated, for instance, by the findings on leadership styles and preferences, or observations concerning ethical behaviour.

Consequently, the more we wish to link national culture to the 'nitty-gritty' of organisational life, and people management at the individual level, the more we need to refine our understanding.

4.4 CORPORATE SOCIAL RESPONSIBILITY AND NATIONAL CULTURE

In this book we shall examine many different HR functions and practices in Part Two, and many aspects of international strategy in Part Three. All of these can be linked to questions of national culture. But to serve as an example, we briefly look here at the question of corporate social responsibility (CSR). Does culture impact attitudes or approaches to this strategy? The position that individuals and organisations take is considered to be socially constructed and driven by managerial values (Agle et al 1999; Basu and Palazzo 2008).



KEY FRAMEWORK

Main sources of cross-national difference in approaches to CSR

- *The institutional environment*: this differs across countries and this influences the rules of the game.
- *Cultural values*: corporate social responsibility derives from accepted values and these values differ across countries. They influence managerial decision-making and indicate which choices and behaviours are acceptable or unacceptable.
- *Education*: managerial education plays a key role in shaping the worldviews of future managers. It diffuses a particular management ideology that will emphasise the compatibility (or incompatibility) of corporate economic and social responsibility.

Usunier et al (2011)

Two cultural values (power distance and individualism-collectivism) have been linked to attitudes about CSR. There is still some confusion about the impact of power distance. For example, Christie et al (2003) found that while 98% of (individualistic) American managers expressed disagreement with the statement that 'being ethical and being profitable do not go together', only 71% of Indian managers and 38% of Korean managers, who are more collectivistic, did so. American managers seemed to have a deep understanding of the role of ethics in business (consider some of their religious and philanthropic motives) and do not see being ethical and being profitable as being mutually exclusive. Whereas Vogel (1992) argued that German managers are far more skeptical about the compatibility between ethics and profitability.



DO ATTITUDES TO CSR TRAVEL?

CASE STUDY 4.5

There have been contrasting views in the academic literature about the link between CSR and culture. It is difficult to be prescriptive about such links because there are different types of CSR:

- economic
- legal
- ethical
- philanthropic.

There are also competing views about its desirability. One view argues that it is possible to pursue profit-orientated objectives whilst still emphasising CSR. Meeting social responsibilities is necessary in the long run for full economic and shareholder value to be achieved. A strong corporate image (or lack of it) drives business development. Another argues that in the short run this

is rarely the case, because the 'size of the pie' is fixed, and CSR competes with economic objectives.

Are managers' views about CSR and economic responsibility compatible or not? Usunier et al (2011) looked at the views of CSR held by a sample of 1805 young MBA managers from across 16 countries and linked these to possible cross-national differences in cultural values, management education and corporate governance systems. They used Hofstede et al's (2002) Business Goals Network Data to develop a measurement scale for CSR and tested for differences in the extent to which the MBA students considered 15 business goals to be important for a successful business person in their country. The

USA was used as the baseline to compare responses. The individual attitudes of the MBA students were then linked to national data on culture using Hofstede values, indices for corporate governance performance from the World Economic Forum, and the type of educational focus the country had.

Australian, Brazilian, Hong Kong and Hungarian MBA students placed social responsibility at a higher level of importance than American MBAs. German MBAs placed CSR as even less important than the American sample.

On average, across countries, trying to achieve CSR and economic goals was seen as relatively incompatible – especially by MBAs from individualistic

countries. Controlling for the other factors (country wealth and so forth), power distance was, however, significantly linked with the view that CSR and economic goals could be compatible. The researchers concluded that

managerial education is shown to matter. It is the single most significant covariate, giving credence to the argument of Ghoshal (2005) that future managers tend to align their behaviour with the doctrines they have been taught. (Usunier et al 2011, p294)

National culture therefore plays a role, and it seems that differences in individual perceptions, attitudes and perceptions within any one country about the trade-off between CSR and economic values are less than the differences found between countries (Lubatkin et al 2007; Williams and Aguilera 2008).



REFLECTIVE ACTIVITY 4.3

The comparative institutional literature tends to hold that the behaviour of the actors within each nation is constant (Aguilera and Jackson 2003). But does this run the risk of presenting an over-socialised view of managers, implying that all actors fully conform to the norms, values, and rules of their society?

4.5 PLACING BOUNDARIES AROUND THE IMPACT OF CULTURE

One area of focus of recent research has been to place some boundaries around the impact of culture, by looking at its impact in parallel to other aspects of organisational life. For example, sometimes individual differences – differences that still reflect some kind of imprint of national culture, but are not really seen as culture – might explain why people act the way they do in international organisations. A key problem that can occur when working in intercultural situations is the tendency to confuse personality and culture. Culture is, by definition, a group-based concept, whereas personality is an individual-based concept.

Psychologists tried to address this by finding ways of looking at how important cultural values might be reflected at the individual level using scales that can treat cultural dimensions as quasi-individual difference characteristics). Although people from a particular culture can on average share or endorse a given cultural value or belief, and it is only the level of the country that is the single most important determinant of these scores, when values are measured at the individual level there is still enough distribution of scores

across a cultural scale but between members from within any single country for their scores on the value orientation to be treated as an important individual difference. Where such measurement of culture is also based on values that are known to operate at the individual level (rather than, for example, just using scales that were designed to reflect nationally-derived cultural dimensions), this approach can be helpful to global HRM practitioners. This led to work that examined whether, at the level of the individual, preferences for specific HRM practices can be predicted by knowing that person's value orientations, and therefore which HRM preferences are cultural-values-free (Sparrow and Wu 1998; Nyambegera et al 2000; Earley and Mosakowski 2002). As Earley and Mosakowski (2002, p316) noted:

Now is an opportune time for researchers to move away from the tried and true friends of cultural values as the sole indicators of cultural differences.



REFLECTIVE ACTIVITY 4.4

How do employees perceive the organisational practices that typify their organisation's culture?

If there are differences in these perceptions across countries, is it because of culture?

To address some of these questions, Fischer et al (2013) studied 1,239 employees in organisations from six different cultural and economic contexts (including Latin American and Asian countries that they point out are under-studied). Employees were asked to rate statements about work practices in terms of 'how frequently each of the situations occurred' in their organisation. They checked to see if these perceptions co-varied with personal, organisational, economic, and cultural characteristics: were there 'multiple levels of perceptions' of their organisation's practices? The differences were predictable across managerial position, public versus private sector, as well as by macro-factors such as levels of national income and the pace of national economic growth.

In order to understand differences in managing money, Tung et al (2012) looked at the interplay between ethnicity, religious affiliation, and income levels. They looked at 'asset allocation decisions' among 730 Caucasian (Australian and Canadian) and ethnic Chinese. The findings showed that high-income groups could be treated as one consumer (or internally, employee) segment, but people in low-income brackets made investment strategies that varied on the basis of ethnicity and religion, according to their values.

Another way in which studies have tried to put national culture into context is to look at differences in values across countries, but within specific sectors.



REFLECTIVE ACTIVITY 4.5

Do certain sectors – such as the public sector – have their own values? Are their commonalities in vision and purpose strong enough to supersede differences in national culture?

Studies are beginning to ask these more nuanced sorts of questions. For example, in Europe, the EU is going through challenging times and economic crisis. As countries reform their economic systems and their public management, questions are being asked about cultural differences in the reactions of workforces. Capell et al (2013) surveyed public sector employees on 60 values from four different countries, two from the 'old' EU

(Germany and the Netherlands) and two from the 'new' EU (Estonia and Lithuania). Employees in the public sector from old EU member states were more ethically and less pragmatically oriented than those from the new EU member states. Values were also more congruent across demographic groups in the new EU states compared to the old EU member states.

4.6 IS COUNTRY MORE IMPORTANT THAN REGION IN EXPLAINING WORK VALUES?

Another nuanced question that has been addressed in recent years is whether it makes sense, or not, to try and capture culture at the level of nations or whether regions would be better. Some studies have looked at differences between national, regional and organisational values.

The World Values Survey (WVS) has been used to refine our understanding about values and to suggest improvements in the way that practitioners and academics use culture in their work. The WVS uses a large array of survey questions to probe respondents on their values and their socio-demographic background and other characteristics. It has evolved into a global project encompassing almost 100 countries. The total number of observations ranges from approximately 55,000 to almost 345,000, depending on missing data, with data on up to 1,572 regions nested in 94 countries.

Van Hoorn (2015) re-analysed data from the WVS and found considerable cross-national variation in mean scores for all five value measures, showing sizeable societal differences. But he also found that intra-country variation accounted for the bulk of total variation in work values:

Given that approximately 85% of total variation in values is within countries, there is much in terms of values vitally shaping the environment for organisations that gets overlooked if we only consider country means. (van Hoorn 2015, p1012)

He argues that practitioners and academics seeking to understand differences in work values should begin considering intra-country variation and consider subnational categorisations. Kaasa et al (2013), using data from the European Social Survey (ESS) database also found that countries may be much more heterogeneous in terms of cultural variation than several cultural studies presume.

Peterson and van Iterson (2015) use WVS data from the Netherlands and Germany to compare the importance of 'within-nation region differences' to the national differences in work goals. Some goals, such as those around pay, do not differ either between the two countries or regions within them. Others do show regional differences, but with a twist. Whilst job security goals and goals for working with pleasant people varied between regions, the largest differences between regions were between regions within national boundaries, rather than between regions across the two nations. Within-nation regional differences were noticeable, mainly along religious groups, but they were ultimately small.



REFLECTIVE ACTIVITY 4.6

Most firms assume that within any one country, regardless of its overall national culture, there will be a sufficient distribution of people within a country who have values that will fit theirs, allowing them to maintain a fairly homogenous organisation culture or employer brand.

Just how 'local' would you want to be in selecting people from a labor market to suit your employer branding strategy?

4.7 WHAT IS MORE IMPORTANT: GENERATION OR NATIONAL CULTURE?

Another way to place some boundaries around the impact of culture is to ask whether differences in cultural values will be overcome by shifts in generational values. Both membership of a particular generation and membership of a particular culture can affect individuals' work attitudes. There has been ongoing interest in this issue (Wong et al, 2008; Stelzl and Seligman 2009; Twenge et al 2010; Valkeneers and Vanhooymissen 2012; Lub et al 2012). The management of age diversity in cultural attitudes has become a highly relevant research issue. The definition of the 'quality of life' varies by generation and workplaces are becoming increasingly age diverse.



REFLECTIVE ACTIVITY 4.7

It is often stated that the 'generation' versus 'national culture' question lies at the intersection of the following topics:

- generations
- national culture
- employee life cycle stage
- work values

Why?

Organisations are not only trying to understand the differences in work attitudes across cultures and national labour markets, but also those that might come from generation change (notably between Traditionalists, Baby Boomers, Generation X, and Generation Y, but a plethora of interesting generational categorisations continue to emerge). It is important because large number of those born in Generation Y already form part of the workforce and coexist with Generation X members within an organisation.



MY GENERATION

CASE STUDY 4.6

Costanza et al (2012) found 20 reliable studies conducted between 1995 and 2009, of which 16 were conducted within the USA, and only four outside, including one in Canada, one in Europe, and two in New Zealand. Together they allowed for 18 generational pairwise comparisons, across the four generations, covering 19,961 respondents. They conducted a meta-analysis of generational differences on three work-related criteria: job satisfaction, organisational commitment, and intent to turnover. The relationships between generational membership and work-related outcomes are in reality moderate to small, and zero in many cases:

The results of the meta-analysis generally do not support the notion that there are systematic, substantive differences among generations in work-related outcomes. (Costanza et al 2012, p387)

Even where generational differences can be observed in attitudes and values (and they are generally easy to find), they can be explained by life stages and general maturation.

Source: Andreassi et al (2014)

Not all academics would agree with this, arguing that each national culture creates its own definitions of generation, and these may still be meaningful.

Cogin (2012) analysed data on the Protestant work ethic (PWE) from 407 personnel at the American, Australian, Chinese, Singaporean, and German offices of a large MNC. Her study found there were generational differences when the effects of culture (country) and life stage were controlled for, with respect to the ‘anti-leisure’, ‘asceticism’, and ‘hard work’ factors of the Protestant work ethic, but no intergenerational differences on the ‘independence’ dimension. Similarly, Susaeta et al (2013) studied five sources of work attitudes – life project, professional ethics, and attitudes towards authority, leadership and commitment to the company – in respondents from Spain and Latin America (Brazil, Chile, Colombia and Peru), controlling for generation and country of origin. The results showed significant differences between generations and cultures, particularly when focusing on the life project. They concluded that Latin America cannot be viewed as a homogeneous whole in terms of individual work attitude.

The debate as to whether generational differences are more myth than reality in the context of HRM should continue. Most researchers conclude that the differentiating features tend to come from qualitative experiences or limited quantitative comparisons, and these lack the analytic rigour to guide organisations in implementing effective strategies.



REFLECTIVE ACTIVITY 4.8

Do you believe that the assumed ‘national culture’ for your country applies across generations?

What sort of data would you need – and what sort of studies need to be conducted – to separate out the effects of national culture, country-specific events, generation and life stage?

4.8 ALIGNING HRM PRACTICES SPECIFICALLY TO COLLECTIVIST CULTURES

A number of studies have argued that we should look at specific, more regionally aligned, sets of HRM practices and only then ask how HRM might be important for aspects of organisational life.

We use some of the recent research on the existence of a Confucian form of HRM as an example – but of course the same questions are being asked about many other global regions. Researchers have attributed some of Japan’s economic success to the way it developed management practices that whilst unique, also selectively borrowed Chinese Confucian cultural values, such as benevolent love, righteousness, propriety, wisdom and faithfulness. Confucian cultural values are still visible in modern Japanese HRM practices, and there are some similarities (but also as we note below, important differences) between China and Japan in cultural terms (Magoshi and Chang 2009; Minkov and Hofstede 2011).

There are two important management ideologies that shape much Japanese HRM:

- group orientation (in which the interests of a group are placed over those of the individual, and each individual is considered the ‘body and soul’ of the group)
- community orientation (in which the company is concerned about the private lives of its employees and their work performances).

These ideologies are considered to have spawned seven core management practices (Cheung et al 2013):

- the promotion of collective decision-making that allows employee participation and aims at unanimous decisions
- an emphasis on group rather than individual duty and responsibility
- lifetime employment practices to guarantee jobs until retirement
- seniority-based pay and promotion
- comprehensive welfare programmes including recreational facilities, medical and housing benefits and company loans to employees
- less detailed and restrictive contracts
- training programmes to enhance employee work skills.

As we shall see later in the book, such practices are of course not ubiquitous and are under challenge, but does such a cultural inheritance and context also impact the behavioural dynamics that take place within key HRM practices? Consider the practice of performance appraisal.



CASE STUDY 4.7

PERFORMANCE APPRAISAL: WHAT LIES BENEATH?

In China, an important value that impacts the conduct of performance appraisal is *guanxi*, which in the context of appraisal is defined as a critical interpersonal relationship between a supervisor and his or her subordinates in which individuals pay a high amount of respect to superiors who are seen to be powerful and own valuable resources. *Guanxi* is considered to affect appraisal processes through the level of subordinates' trust in their supervisors, organisational citizenship behaviour, and organisational commitment (Wei et al 2010; Cheung and Wu 2011; Han et al 2012; Liu and Wang 2013; Chin 2015). Chinese *guanxi* supervisors are considered the gatekeepers of all key resources and information, can be autocratic in decision-making, have a low degree of delegation and exert tight personal control. In Japan, similar attention is given to *kankei*, defined as the quality of the informal and emotional ties between supervisors and subordinates that focuses on interpersonal harmony and social cohesion (Cheung et al 2013). Both *guanxi* and *kankei* networks stress social connections.

But *guanxi* and *kankei* are also subtly different. Japanese supervisors use

kankei to facilitate decision-making, rather than make the final decisions, but *kankei* is also used to deny access to outsiders for retrieving valuable information but to grant access to close *kankei* subordinates. However, *guanxi* supervisors are guided by a rule of equity and a norm of reciprocation, by favouring the weaker party (the subordinates) by giving access to the rewards and support from the stronger party (the supervisor). *Kankei* relationships tend to be more idiosyncratic and situation specific. They are emotional in nature, involving a concern for human feelings, dependence, morality and contractual obligations, making subordinates more committed to the supervisor so that they will stay loyal to that supervisor. *Guanxi* is more rational, because it emphasises an exchange of favours between a supervisor and subordinates. The amount of reciprocation and time involved is unspecified. When Chinese subordinates believe that their *guanxi* relationship with their supervisor is no longer beneficial, they are more prepared to move to a new company.

Derived from Cheung et al (2013)



REFLECTIVE ACTIVITY 4.9

Would a British employee, or a German, be satisfied with their job or their organisation if the performance appraisal was conducted on the basis of *kankei* or *guanxi*?

Would they show organisation citizenship behaviours (OCB)?

Would an overseas international manager be able to stand into the shoes of a local manager and appraise in this way?

In order to understand the way in which Japanese employees behave in the context of performance appraisal, you must understand subtle differences in the way that individual psychology is working.

For example, Cheung et al (2013) studied over 200 subordinates in three manufacturing firms in Tokyo. They looked at the relationship between the level of supervisor-subordinate *kankei*, job satisfaction and three important outcomes of organisational commitment, job promotions and turnover intentions. They found that:

- good *kankei* relationships between Japanese supervisors and their subordinates did indeed increase job satisfaction, and reduced intention to leave
- if employees were more job satisfied, they were both more committed and had more confidence in getting promoted in the future – that is, job satisfaction partially mediated the relationship between good *kankei* and positive work outcomes. The supervisor-subordinate relationship – the job satisfaction to work outcomes model, supported in the Chinese context, seems equally valid in the Japanese context.

Wang (2015) checked to see whether the generic findings from research on organisational citizenship behaviour (OCB) can also be transposed to the Japanese context. Historically, appraisals in Japan included assessments of morale and attitude (which assumes that Japanese companies try to encourage OCB by evaluating individuals with performance factors such as altruistic behaviour and personal diligence). However, given recent reforms in practice, researchers and practitioners have asked whether the new emphasis on individual performance might decrease voluntary involvement behaviour, and so have a negative impact on overall organisational performance. They studied 700 employees in a mid-sized family-owned manufacturing company located in Kyoto, Japan. Their findings suggested that OCBs operate in a general way, but there are some differences in how to interpret the behaviour:

- In the Japanese sense, OCB is a behaviour intended to benefit all others, and also the organisation.
- Individuals with a high level of continuance commitment work hard to protect their self-interest, by following the behavioural norms and showing compliance to authority and the organization.
- But their loyalty to authority may be based on their awareness of the cost of leaving their organisation, rather than on any positive sense of emotional attachment to it.

Such studies are leading to the development of new ways of thinking about the broad HRM–performance relationship. For example, Li et al (2012) tested the effects of collectivist HRM practices in 61 firms in China and found a correlation with their financial performance. The team also later looked at the influence of these collectivist HRM practices on the way that employees identify with other team members.



A TALE OF TWO CITIES: HONG KONG AND SHENZHEN

CASE STUDY 4.8

Li et al (2015) examined 190 team member–leader dyads in Shenzhen and Hong Kong. They looked at the impact of collectivist HRM practices on turnover intention and job satisfaction. Collectivist HRM practices had a positive effect on team-level relational identification, which in turn had a positive effect on team-members' job satisfaction and turnover intention. So far, as would be expected. But there were also some intriguing and different findings for the two cities. Institutional differences between the two Chinese cities were reflected in different degrees of adoption of collectivist HRM

practices – organisations in Hong Kong have a higher level of collectivist HRM practices than those in Shenzhen. Shenzhen is a new Chinese city with the majority of its residents coming from other parts of China with traditional Chinese collectivistic culture that the migrant workers bring from hometowns in inland Chinese provinces. Hong Kong, as a former British colony, is reportedly still heavily influenced by the individualistic cultural values of the West.

4.9 MULTICULTURALISM AND CULTURAL IDENTITIES

We finish the chapter by drawing some links once more between our discussion of culture throughout Part One of the book to the topics that are yet to come. In Chapter 3, we noted what was called the multiple cultures perspective. Understanding how to deal with cultural multiplicity is particularly important for MNCs. We end by laying out what this means for IHRM. We could have placed these final sections on multiculturalism and cultural intelligence in other parts of the book. It has particular relevance to:

- expatriation and alternative forms of international working, discussed in Chapters 13 and 14
- the development of global leadership in the context of talent management, discussed in Chapter 16
- the ability of MNCs to transfer practices across international operations and ensure global integration of activity, discussed in Chapter 17.

Think about all of these topics as you read this. These discussions serve as a bridge to link Part One on cross-cultural HRM to the later parts of the book.

But we discuss multiculturalism and cross-cultural intelligence here for two main reasons:

- 1 The majority of work on these individual-level capabilities and phenomena has been conducted by cross-cultural researchers (see Johnson et al 2006; Brannen and Thomas 2010; Jonsen et al 2011; Fitzsimmons et al 2011; Yagi and Kleinberg 2011; Fitzsimmons 2013; and Lücke et al 2014). It is therefore best understood in Part One of the book whilst we are still discussing cross-cultural aspects of IHRM.
- 2 The IHRM literature draws attention to a range of mechanisms that can help provide what is called 'cultural interpretative work' for organisations. But it places multicultural individuals at the heart of all of these processes (Hong 2010; Fitzsimmons et al 2011; Zander et al 2012; Chen and Lin 2013; Lücke et al 2014).

Why has this type of research come about? Why is it important?



KEY FRAMEWORK

The cultural interpretive work of global managers

Studying multiculturals helps us understand the management capabilities critical for a number of tasks in an MNC. They operate across cultural borders so their managers have to manage multiple meaning systems. They need to understand these in order to conduct many critical tasks, such as the need to globally integrate dispersed operations, ensure cross-border transfer of management practices, and learn across different environments. When any organisational concept, idea, or practice crosses cultural boundaries, it is subject to new sets of interpretations and changes in meaning. This causes disruptions and misinterpretations. Before managers can globally integrate anything they need skills of cultural interpretation, sense-making, translation, and recontextualisation.

Such tasks require significant cultural interpretive work and meaning construction, which can be handled only with an adequate understanding of multiple cultural systems. A number of approaches have been suggested to deal effectively with these challenges, including the use of cross-cultural teams and cross-border structural units [and]... multicultural individuals. (Lücke et al 2014, p169)

Organisations also face a new demographic, with segments of their workforce who identify with two or more cultures, and whose worldview (and mental structures) are more internationalised. Data from the UN showed that in the USA, by 2011 13% of the population comprised first-generation immigrants. That figure is over 20% in Canada and Australia, and 40% in Singapore.

A lot of cultural research in the general management and international business literature is moving once more to a more explicit focus on the individual:

From a cognitive perspective, culture is understood as internalised mental representations fundamental to everyday interpretation, understanding, communication, and overall functioning in society. Individuals differ in how they internally organise different cultural views, ideas, and perspective. (Lücke et al 2014, p170)

Two types of individual have been studied: biculturals and multiculturals.

Bicultural individuals can be found among immigrants, expatriates, international students, indigenous peoples, ethnic minorities, and mixed-ethnicity individuals, as well as in inter-ethnic relationships... [and potentially] among host-country nationals employed in subsidiaries of multinational corporations as the result of the emergent negotiated culture in such establishments'. (Lakshman 2013, p923)

Biculturals are individuals who have grown up under the influence of two cultures and who develop an understanding and competency in more than one culture through identification with and socialisation into these cultures (Tadmor and Tetlock 2006; Brannen and Thomas 2010; Nguyen and Benet-Martínez 2010; Fitzsimmons et al 2011). Multiculturals are individuals who have an understanding of more than one societal culture, which allows them to make informed cultural interpretations in multiple contexts. As individuals whose cultural understandings have developed in later life they need to know, understand and identify with other cultures, but do not have to have internalised or adopted their values (Lücke et al 2014).



REFLECTIVE ACTIVITY 4.10

How do multicultural employees contribute to organisational life? Do they make the best international managers?



CASE STUDY 4.9

IS MULTICULTURALISM POSITIVE OR NEGATIVE?

Early research on multiculturalism tended to focus on its negative side – being marginalised, conflicted, experiencing identity-stress and being torn between multiple and potentially incompatible selves. It has also been linked to many positive outcomes:

- *Individual adaptability outcomes:* such as cognitive complexity and individual or team cross-cultural competence (Benet-Martínez et al 2006; Tadmor et al 2009; Hong 2010; Lee 2010; Stahl et al 2010; Stahl et al 2010; Thomas et al 2010; Nguyen and Benet-Martínez 2012)
- *Work-related outcomes:* such as awareness of and ability to respond to cultural cues and creativity and the strength and breadth of an individual's social networks and resources, or cross-cultural leadership (Cheng et al 2008; Lakshman 2013).
- *Organisational outcomes:* such as intercultural negotiations, ethics and leadership, and cross-border alliances and acquisition (Fitzsimmons et al 2011; Fitzsimmons 2013).



THEORY AND PRACTICE

KEY FRAMEWORK

How skilled is a multiculturalist?

Not all multiculturalists use the same skills, or are as sophisticated as one might expect. How do they do it? Lücke et al (2014) identified five patterns of multiculturalism:

Compartmentalisation (switching worlds): knowledge and understanding of meaning within different cultures allows for efficient interpretation of each component culture, but the knowledge is held separately and is not linked into an overarching understanding or structure. They alternate back and forth between sometimes logically contradictory meaning systems.

Integration: Developing and internalising multiple meaning systems and learning to interlink these within one coherent set of cultural schemas. Shaping understanding, interpretation, ways of thinking, and actions simultaneously.

Inclusion: A dominant and pre-existing culture (for example an organisational culture) is expanded and modified to incorporate some select additional meanings. Similar interpretations are matched onto the existing categories.

Convergence: Individuals see some overlapping similarities and internalise these based on a simplified, reduced-content and select set of meanings. Cultural idiosyncrasies are reduced and details and variations discarded.

Generalisation: Individuals internalise cultural meaning, but the constructs that emerge are not the same as the original culture. They reflect an abstraction of principles that are felt to be universally applicable.



REFLECTIVE ACTIVITY 4.11

Does the study of how individuals develop multiculturalism have implications for the broader management of MNCs? If so, what are they?

4.10 CAN ORGANISATIONS DEVELOP CULTURAL INTELLIGENCE AMONGST THEIR MANAGERS?

By way of conclusion, and making a bridge to later sections of the book, this chapter has shown that managers with global responsibilities can be socially intelligent in their own settings, but ineffective in novel cultures. Yet international organisations need individuals – especially those who work in senior positions, global teams or cross-border units – to be capable of undertaking a lot of cultural interpretation work.

We shall discuss the topic of global leadership in Chapter 16 in the context of MNCs creating some integration across their HR operations. But we introduce these ideas here, because it has been the cross-cultural researchers who have laid the foundations for debate about global leadership.

Graen and Hui (1999), coming from an industrial and organisational psychology perspective, argue that in order for cross-national differences to be managed effectively, organisations need to develop global leadership by enhancing the level of ‘transcultural skills’ and using these to help resolve the complexity of cross-cultural management (see Table 4.2).

Table 4.2 Progressive stages of transcultural competence

Progressive stage	Characteristics distinguishing transculturals from non-transculturals
Adventurer	<i>Stereotypes held from an ethnocentric perspective:</i> Development of an adventurer’s mentality towards cultures other than one’s own
Sensitiser	<i>An outsider’s view of norms:</i> Attunement of behaviours and attitudes to a culture other than one’s own; has learned to read and conform to new cultural norms
Insider	<i>Knows what one doesn’t know:</i> Has developed a knowledge base rich enough to behave and display feelings inside another culture vastly different from one’s own; has sufficient insight to understand the value of what is not known
Judge	<i>Makes valid generalisations about attributes:</i> In the eyes of observers is considered to be able to conceptualise useful differences and similarities between cultures for purpose of comparison; has developed behaviours, feelings and knowledge to conduct cross-cultural negotiations

Progressive stage	Characteristics distinguishing transculturals from non-transculturals
Synthesiser	<i>Can discover functional equivalences:</i> Has been socialised into the culture of interest and can synthesise both the home and host culture; can identify constructs of functional equivalence between cultures or develop a third culture of relevance to both cultures

Source: Adapted from Graen and Hui (1999)



REFLECTIVE ACTIVITY 4.12

Debate the following:

Graen and his colleagues argue that even the most adept global leader has only learned how to operate through insight into approaches that can serve an equivalent function in a new culture, rather than truly being of that culture.

Do you agree with this, and if so, what are the implications for multinational organisations?

Research on intercultural competence has a long tradition and most cross-cultural studies allude to the idea that certain attributes possessed by some individuals can make them more effective. Of course a range of factors can predict effectiveness in this area, including previous experience, personality factors, cross-cultural attitudes and communication behaviours, and situational factors such as cultural training or the 'distance' between two cultures. But the international management literature time and time again talks about things such as 'intercultural competency', 'global mindset' and 'cultural intelligence' – some form of intelligence rather than just a general competency – a set of abilities that are necessary to adapt to, select, and shape the environmental context. It is seen in the following terms:

- a person's capability to adapt effectively to new cultural contexts
- an ability to interpret unfamiliar gestures in the same way a national resident would, and to mirror them
- an understanding of the fundamentals of intercultural interactions
- a mindful approach to such interactions
- an ability to build a repertoire of adaptive skills and behaviour
- a capability to gather, interpret, and act upon radically different cues (Thomas et al 2008).

So can organisations develop a form of cultural intelligence amongst their employees? In the early 2000s work was undertaken on another individual aspect of culture – the idea of cultural intelligence (CQ) (Earley and Ang 2003; Earley and Mosakowski 2004). Cultural intelligence is an individual difference, but unlike personality, which is relatively enduring, it is considered to be something that can be developed and enhanced through interventions that organisations can make. It is an attitude and skill that enables individuals to adapt effectively across cultures. In practical terms, it enables an individual to interpret unfamiliar and ambiguous gestures in ways as accurately as a national resident could. They argue that the construct of cultural intelligence has potential in explaining effectiveness in cross-cultural communications, interactions, or indeed success in overseas assignments.



KEY FRAMEWORK

The four components of cultural intelligence:

Mind (meta-cognitions): learning strategies, whereby people can acquire and develop coping strategies. We need to identify a 'point of entry' into a foreign culture – for example, a form of behaviour or a context that can be used to subsequently interpret different patterns of behaviour.

Knowledge about different cultures (cognition).

Heart (emotional/motivational): people must have the desire to persevere in the face of challenge when adapting to a new culture, and a belief in their own ability to master a situation (called self-efficacy).

Body (physical behaviour): people need to develop a repertoire of culturally-appropriate behaviours. This centres on the ability to mirror customs and gestures, and adopt habits and mannerisms, in order to enter the world of a foreign culture and enable the development of trust.

Rather than the notion that managers go through progressive stages of transcultural competence, getting better in general as they develop through each (Graen and Hui 1999), as discussed at the beginning of this section, Earley and Ang (2003) take a different view. They argued that regardless of the depth of international experience, an individual may be strong in some of the areas above, but weaker in others.

The following briefing-style case study helps to bring together the discussion of the different taxonomies of culture covered in Chapter 3, with the range of work on transcultural competence discussed in this chapter.



CASE STUDY 4.10

IS CULTURAL INTELLIGENCE JUST ANOTHER TRENDY CONCEPT OR HAS IT GOT SUBSTANCE? WHAT THE EXPERTS SAY

Earley and colleagues (Earley and Ang 2003; Ng and Earley 2006) argued that in order to understand the impact of culture on organisational life, we have to think about the evidence both of the effect of intelligence in the workplace, and of the effect of that workplace on intelligence.

There is pervasive evidence that people in different cultures think and act differently and that what is considered intelligent differs from one place to the next (Sternberg and Grigorenko 2006). People's implicit theories of social intelligence go beyond what is typically measured in psychometric instruments, which concentrate on cognitive intelligence. Successful intelligence (understanding how to adapt, shape or select out and achieve goals) requires a combination of analytical, creative and

practical abilities, and these tend to apply within a single culture. It is the tacit knowledge that these abilities assess that is the most predictive of managerial performance and certainly leadership effectiveness. This tacit knowledge does not correlate with more traditional cognitive measures of intelligence. Cultural intelligence, as articulated by Earley and Ang (2003), is a form of social intelligence that is relevant across cultures and helps us understand intelligence in a broader way.

Cross-cultural experts such as Brislin, Trompenaars, Hampden-Turner, Thomas and Triandis have all helped explain the sorts of learning strategies and 'meta-cognitions' that become important. The term 'meta-cognition' is used by psychologists to refer to knowledge of

and control over one's thinking and learning. Possessing such an ability enables the deliberate, planful, goal-directed and intentional application of a set of knowledge and mental skills to produce behaviour that others define as intelligent. The individual has to be able to monitor, control, regulate and orchestrate these behaviours for it to be intelligence. These are some of the most important ways in which these work.

- Cultural intelligence revolves around the ability to suspend judgement until further relevant information has been understood. The culturally intelligent person looks for current behaviour in different situations to identify the impact that personality might have on another's behaviour. A culturally intelligent individual has the ability to identify what is important information on which to base an assessment. To make a person culturally intelligent requires extensive training. Cognitive, emotional and behavioural training are all necessary to help people integrate a lot of information, learn how to use multiple cues, and suspend judgements. Only then can we limit our natural tendency to assume that 'normal' is what happens in our own culture. This is the view taken by Triandis (2006).
- A culturally intelligent person has to possess three capabilities in order to see beyond differences in values across cultures: the ability to see the synergies that exist between the contrasting values in any culture and understand how people reconcile them; the ability to treat these opposing values as complementary rather than contradictory and understand how people move between each value; and the ability to understand how dominant and more hidden values interact with each other and how people express the less dominant values in any culture. This is the view taken by Hampden-Turner and Trompenaars (2006).
- Culturally intelligent people are skillful at recognising behaviours that are influenced by culture and do this in four ways: observing behaviours in different cultures, developing reasons that explain these differences, considering the emotional implications and associations that arise from these behaviours, and then transferring this new knowledge into novel situations. In order to do this, people need to be able to anticipate and to accept confusion, but also to make a distinction between competitive encounters, where their cultural exploration might be exploited, and collaborative encounters, where it will be accepted. This is the view taken by Brislin et al (2006).
- Cultural intelligence has three components: knowledge of culture and fundamental principles of cross-cultural interactions; a heightened awareness of, and enhanced attention to, current experience, such as a new cultural environment (this is called 'mindfulness'); and behavioural ability to become competent across a wide range of cultural situations. Of these three, it is the mental skill of 'mindfulness' that is perhaps the most important. People make the link between having knowledge about other cultures and developing the ability to behave appropriately through this 'mindfulness'. It allows us to concentrate on new strategies rather than falling back upon tried and tested ways of behaving, which is what we all do unless we focus our mind. This is the view taken by Thomas (2006).

However, critical comment has continued, with Blasco et al (2012) arguing that whilst the dimension of cultural metacognition is claimed to be the main contribution of cultural intelligence compared to earlier concepts such as cross-cultural or intercultural competence, the importance of this can be overstated. Thomas et al (2008) also noted that

although cultural intelligence may have much utility for organisations as they internationalise, 'it awaits the development of a valid measure' (p138).

Recent work has begun to address this question, and cultural intelligence has been widely applied to a number of issues. Studies have looked at its predictive validity (Ward et al 2011) or that of related constructs such as social and emotional intelligence (Sharma 2012); its importance for leadership (Rockstuhl et al 2011; Groves and Feyerherm 2011); and the value of cultural intelligence as a training, development and performance improvement tool (Fischer 2011; Rehg et al 2012; Malek and Budhwar 2013; Chen and Lin 2013; Bückler et al 2014; Bückler and Korzilius 2015). For example, Malek and Budhwar (2013) use Anxiety/Uncertainty Management (AUM) theory, which argues that individuals must better manage feelings of anxiety and uncertainty if they are to successfully adjust to and communicate in a new environment, and tested whether cultural intelligence enabled a group of Malaysian expatriates to better transcend cultural boundaries. All subscales of cultural intelligence were related to various aspects of expatriate adjustment. Bückler et al (2014) found cultural intelligence has positive effects on levels of anxiety, job satisfaction and communications effectiveness in a sample of Chinese managers working in international organisations. Bückler and Korzilius (2015) tested the use of business games as part of training interventions to increase the level of self-efficacy and behavioural sophistication of students and found that whilst cognitive, motivational and behavioural aspects of cultural intelligence, along with confidence in cross-cultural encounters could be improved by simulations, communication effectiveness could not be improved.



REFLECTIVE ACTIVITY 4.13

Debate the following:

Hampden-Turner and Trompenaars (2006) argue that supporters of the concept of cultural intelligence have to contend with, and come up with convincing answers to, three critical views:

- Cultures are entirely relative in their values. There is no 'best way' of understanding culture as an issue in organisational life, or understanding other cultures (this is the cultural relativism argument). We cannot judge values or use values – we can merely ask questions that help us understand how values fit the environment that any particular society finds itself in.
- Cultural studies are a backward step, leading to grand theories. We need to have multiple theories and perspectives, all of which can be partially legitimate. Given that everything just represents a point of view, there cannot be an objective thing called cultural intelligence (this is the post-modernist argument).
- All attempts to categorise cultures are crude stereotypes inferred from superficial features of culture, and they miss deeper and subtler realities and meanings (this is the latent argument). All that cross-cultural research does is tell us what we already know – for example, that Japanese people are impassive and French people are excitable. It all depends really on circumstances.

Do you think that the evidence for cultural intelligence can answer these criticisms or not?



KEY LEARNING POINTS

- National culture has a powerful influence on key organisational processes and practices – including HRM practices, leadership, and international management teams. But once we apply culture into ‘real’ contexts, we also have to link cultural explanations to other phenomena.
- The real challenge is trying to understand how various national cultures might impact their preferred business model or organisational strategy.
- The influence of culture can be seen through power and authority relationships, coping with uncertainty and risk-taking, interpersonal trust, loyalty and commitment, motivation, control and discipline, co-ordination and integration, communication, consultation and participation.
- These organisational behaviours are a result of an individual's psychology (itself a product of various cultural, social, political and personal influences), their life stage and their generational subculture.
- In order to build, maintain and develop their corporate identity, MNCs need to strive for consistency in their management of people on a worldwide basis, but in order to be effective locally, they also need to adapt this management to the specific cultural requirements of different societies.
- International HR practitioners must develop the ability to blend the best of the many different approaches that societies adopt when they manage and motivate different workforces.
- The role of managers, and in particular their leadership style, becomes an important linking mechanism in achieving this balance. They have to undertake much cultural interpretation work.
- Researchers have identified cultural competencies by attempting to understand three important aspects of organisational life such as how managers demonstrate global leadership behaviours, what being a successful member of a multicultural team involves, how people become multicultural, and what it takes to demonstrate cultural intelligence.



LEARNING QUESTIONS

- 1 Pucik (1992) argued that HRM functions often unintentionally impede globalisation rather than help assist it. Can HR managers rise to Pucik's challenge of not standing in the way of globalisation while also remaining the guardians of national culture in an organisation?
- 2 How important is the ability of international managers to undertake cultural interpretation work to the subsequent success of international strategies?
- 3 Should we think about more regionally aligned sets of HRM practices, such as the existence of a Confucian form of HRM?
- 4 Is there such a thing as cultural intelligence, and if there is, can we now specify what it involves? What, then, does it involve?



EXPLORE FURTHER

Information on the long-standing World Values Survey (WVS) data set and the questionnaire items included in the survey can be found on the project's website:

<http://www.worldvaluessurvey.org>

For general questions about the quality of cross-cultural research see:

TUNG, R.L. and VERBEKE, A. (2010) Beyond Hofstede and GLOBE: Improving the quality of cross-cultural research. *Journal of International Business Studies*. Vol 41, No 8. pp1259–1274.

To link discussions about multiculturalism to the broader IHRM literature, read:

LÜCKE, G., KOSTOVA, T. and ROTH, K. (2014) Multiculturalism from a cognitive perspective: Patterns and implications. *Journal of International Business Studies*. Vol 45. pp169–190.

An understanding of the challenges of global leadership and of cultural intelligence can be gleaned from the following two books:

BLACK, J. S., MORRISON, A. and GREGERSEN, H. (1999) *Global explorers: The next generation of leaders*. New York: Routledge.

EARLEY, P.C. and ANG, S. (2003) *Cultural intelligence: Individual interactions across cultures*. Stanford, CA: Stanford University Press.

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PART TWO

COMPARATIVE HUMAN RESOURCE MANAGEMENT

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Employee Relations and Collective Communication

LEARNING OUTCOMES

When you have read this chapter, you will:

- understand the range of structures of employee relations common in Europe, the wider OECD and beyond
- be aware of the cross-national differences in the meaning and role of unions and other representative employee bodies such as works councils
- be able to assess how such bodies may influence management communication with workforces
- have some appreciation of the role of history, national cultures and state traditions in influencing these structures and bodies
- be aware of cross-national variation in the nature and relevance of employment law
- understand the immediate implications of the social regulation of work by unions, works councils and employment law for managers of people.

5.1 INTRODUCTION

'Employee relations' concerns matters of overarching employment or collective workforce policy, particularly where it concerns broad matters of bargaining (the traditional focus of industrial relations), the governance of the employment relationship by social actors (that is, actors outside the management hierarchy) and arrangements for the distillation and expression of the collective voice of employees. Typically the workplace, enterprise or company-level approach in this arena is profoundly affected by the prevailing national system of employee relations and, in particular, by the social regulation of work by unions and national or regional governments.

Employee relations is often considered a less interesting aspect of people management. The strategic integration of HRM practice or HRM functions, and more broadly management activity, entrepreneurialism and intra-preneurship, are generally considered rather more significant than the matters encompassed by employee relations. This is particularly true within Britain, the USA and the larger Anglo-Saxon world and in developing and newly industrialising countries. Yet governance by social actors, collective voice, and the joint regulation of the employment relationship by unions as well as employers can have stabilising effects and beneficial implications if handled appropriately. Such benefits accrue principally through consistency and order in, and legitimation of, the relationship between employer and employee. This is something that many managers at all levels, in northern Europe in particular, recognise.

The focus of the present chapter is very much upon the institutions and processes of governance, leaving many matters of effect to be taken up in other chapters. The discussion centres on the joint regulation of work and employment relationships by bodies such as unions and works councils, with some attention also to board-level employee representation. We also examine the direct statutory regulation of the employment relationship. Whilst such governance may vary across regions, with for example the social aspects of the EU activity of some consequence, and indeed within countries, to some extent by intra-national region or state, variation between countries remains central and is the focus here.

The social regulation of work and employment relationships, whether by unions or governments, is rarely initiated with the promotion of economic or business performance as the central objective. Nonetheless, the social regulation of work and employment relationships impacts not only on the management process but often also on performance in these respects. It is noteworthy that this impact can be positive. In light of the extent of general debate and the availability of general evidence, we pay attention later to the broad matter of the business performance implications of unions and collective bargaining or joint regulation specifically.



REFLECTIVE ACTIVITY 5.1

Consider the national framework of employee relations in a country with which you are familiar. What is the balance between the governance of the employment relationship by unions, works councils based on statute, and direct statutory regulation?

5.1 INTRODUCTION

Unions are central to employee relations, and to the governance of the employment relationship by actors external to the management hierarchy. Unions are enduring collective organisations of employees with the broad aim of ensuring that the interests of employees are respected and furthered. Typically, they are quite independent of management. There is, however, some variation in this regard even within the OECD, with Japanese unions often appearing rather less independent than are those in Europe or North America (Vernon 2006b). As we shall see in Case Study 5.1 the situation in China is changing rapidly, but there is much evidence even recently of a blurring of management and union roles there (Liu and Li 2014). In the Chinese case this is accompanied by a continued close relationship between the state and unions. This is unusual; whilst unions may have historic relationships with particular political parties they are typically quite independent of national governments. This is so even in modern Russia, although unions there are rather uncommon in most sectors, and have struggled to find an identity in post-socialist times (Clarke 2005).

THE (LIMITED) SIGNIFICANCE OF UNIONS IN RUSSIA

Russian unions have struggled to establish meaningful joint regulation and collective bargaining, and perhaps even a clear sense of their own identity and purpose, since the demise of the Soviet Union. Where there are collective agreements, they tend to be of limited content, and enforcement is often dubious (Clarke 2005). The changes made to labour law under the Labour Code of 2001 may render the context still more difficult for Russian unions; little detailed research evidence on this exists thus far. Certainly, though, Royle's (2006) documentation of the

experience at McDonald's food processing plant in Moscow suggests that it remains the case that where managements are determined to operate free of joint regulation it can be extremely difficult for Russian unions to establish it, even where they have the support of international union organisations keen to see joint regulation extended in Russia.

Whereas unions' independence is a pretty general characteristic, their traditions and ideologies differ significantly across countries. Hyman (2001) locates the identities of national union movements in a triangle which identifies the extent to which they embody in their discourse and activities an emphasis on the three attractors of 'class', 'society' and 'market'. Movements such as the French (or Italian), with its traditional emphasis on the rhetoric of class conflict and, indeed, revolution and its preference for public displays of resistance coupled to arm's-length sectoral bargaining (or stalemate) have been between 'class' and 'society', with the 'market' orientation much less significant. Movements such as the German (or Dutch), with its more conciliatory efforts to integrate unions into detailed policy discussion, its preparedness to engage in partnership with employers, and its combination of sectoral bargaining activity with informal bargaining activity at company and enterprise level (even if this is via works councils formally independent of unions), have traditionally been located between 'society' and 'market', with the discourse of 'class' being of more marginal relevance. Movements like the British (or, indeed, to a perhaps surprising extent, the US) have been much influenced by notions of class and class conflict in some of their rhetoric, but other facets of their discourse and their predominant practice is a rather practical economic, or 'bread-and-butter', bargaining approach centred at the workplace or enterprise level. This has traditionally located them between class and market, with less emphasis on the integration of unions into the daily life of civil society. Hyman (2001) detects some signs of convergence in the approaches of union movements from the 1990s, but stresses that national union identities display considerable continuity.

Other distinctions are useful within the established industrialised world. Mediterranean or southern European union movements (such as those in France, Italy, Spain and Greece) are not only more political in their orientation but also more politically divided, featuring various different unions associated with different (predominantly but not exclusively left-of-centre) political parties. This contrasts with union movements in the UK, USA and the rest of the Anglo-Saxon world, where any such political splintering is generally transient. Meanwhile, union movements in continental northern Europe (such as in Germany, Austria, the Netherlands, Norway, Sweden and Finland) feature neither overt political divisions nor the fragmentation of union organisation by an occupational (such as craft and general) basis and/or by an emphasis on enterprise or workplace activity generally found in the Anglo-Saxon world. In Northern Europe, unions are vertically organised, representing all employees regardless of skill status or grade, at least within the blue-collar grouping, and in the case of Austria regardless too of the blue-collar/white-collar divide (Vernon and Rogers 2013).

In terms of the unionism which managers face in the workplace, it is perhaps the principle of union organisation or the structure of unions in terms of occupational membership which is most important. Where unions are organised on the basis of occupations, such that even manual employees with different skills or qualifications join different unions (the 'craft and general' structure), there tends to be not only more of an emphasis on occupational division within workplace union activity, but more of a tradition of assertive and sometimes adversarial union workplace activity largely autonomous of the policies and priorities of the larger unions represented (Vernon and Rogers 2013). Despite union mergers in the UK, this tradition still influences union activity in the UK. It is also influential in the Republic of Ireland, Australia and New Zealand, but most visibly in Denmark – due to the strength of unions there (see Case Study 5.2).

Where the company or facility (enterprise) is the key locus of union activity, such that employees of different grades band together in what are effectively company or business unions with little or no life beyond organisational boundaries, conflict may more easily be kept off the shop floor. This is the case most clearly in Japan, but also in the USA and in Canada. Where unions are organised along industrial lines, one union in each sector taking in at least all interested blue-collar employees regardless of their skill or qualifications, much of the locus of union activity is outside the workplace – and indeed, company – in industrial negotiations. Whilst this very clearly displaces workplace conflict, this implies a need to observe systems of job classification and job evaluation, and an expectation of career ladders or internal labour markets (Lazear and Shaw 2008) (see also Chapter 10). This external structuring of posts tends to be more significant and detailed in principle and application where industrial unions are stronger in terms of membership, so that although some element of this structuring is present in France, it is much more elaborate in Belgium and Norway and most particularly in Sweden and Finland (Vernon and Rogers 2013).

In many developing and newly industrialising countries unions represent an elite of employees and have a very close if not clientelist relationship with ruling parties. Thus in many African countries, unions often serve to protect the privilege of elite groups of employees, and their leaderships have complex and often intimate relationships with national governments (see Wood and Brewster 2007). In India, unions hardly exist outside the rather small formal sector of the economy, and even within this are concentrated very much in the public sector or in large public enterprises, so that in some respects they too serve a relative elite (see the box on the broader social regulation of work in India – and its limits). Developments in China are now rapid and fascinating, with some early signs of the emergence of the sort of structures of joint regulation which prevail in Europe.



CASE STUDY 5.1

THE RECENT DEVELOPMENT OF UNIONS AND COLLECTIVE BARGAINING IN CHINA

In the period of Chinese central planning, when state-owned enterprises (SOEs) almost completely dominated industry, unions functioned as a transmission belt for the ruling Communist Party, charged with the pursuit of social and political peace and stability. However, developments even in the last ten years have been striking and rapid. The All China Federation of Trade Unions (ACFTU) does not constitute a voluntary association of workers of the sort familiar in the established industrialised world, remaining an element of the Chinese state apparatus. However, in recent years this has engendered distinct advantages for the ACFTU, as the Chinese state has both nurtured union organisation and activity and allowed greater union independence (Lee et al 2014).

As early as 2001 a major revision to the Trade Union Law reconstituted unions as primarily representatives of workers rather

than as of the Chinese people or state per se, and allowed the formation of regionally based and sectoral union associations beyond the enterprise but short of the ACFTU. Moreover, since the global financial crisis exposed the limits of an export oriented growth strategy from 2008, the Chinese state has looked to unions to promote not only more harmonious employment relationships but the growth in real incomes of employees now seen as not only of significance in itself but as crucial to sustainable domestic growth (Lee et al 2014).

The practical effects of these changes for union activity at the level of organisations are only now emerging. The available evidence demonstrates an enormous diversity of experience across enterprises, much of which centres upon differences between provinces and indeed between the cities and regions within them. However, whilst there is still

usually much room for enterprise-level management to exercise strategic choice in their recognition of unions (Liu and Li 2014), it is now clear that union activity and collective bargaining exists well beyond the state-owned enterprises (SOEs) which were once very much their stronghold. Ge (2013) shows that even by the mid-2000s around 17% of manufacturing enterprises had enterprise unions. Their presence was mostly in SOEs and in enterprises established with foreign investment, particularly if joint ventures with local partners, but also across all forms of enterprise, including Chinese-owned private enterprises.

Unionisation and collective bargaining or joint regulation have spread to the wholly foreign-owned Chinese operations of corporations which are household names in the established industrialised world. Thus, for example, unions have over the last few years established a significant presence in the Chinese operations of large foreign owned companies, such as Coca-Cola and Walmart. Collective bargaining is now developing further in domestically (Chinese-) owned private

companies, though it seems very unevenly (Lee et al 2014).

Where collective bargaining occurred at all, it used until a decade or so ago to occur at the level of the enterprise. Friedman (2014) reports that in Guangdong province, which is dominated by large employers and foreign direct investment, this remains the case. In the case of larger enterprises, where it exists this bargaining takes the form of single employer bargaining. Chinese unions often thus appear a variant of business or enterprise unions in some respects. However, elsewhere, where Chinese owned SMEs predominate, bargaining is often a two-tiered (sectoral and then enterprise-level) activity.

It is likely that, just as in the established OECD countries, Chinese collective bargaining sometimes still means little. For example, Danford and Zhao (2012) suggest that the existence of collective bargaining at one of the three automotive SOEs they studied in 2007 made little or no difference, noting that few employees had any knowledge of the collective contract.



REFLECTIVE ACTIVITY 5.2

Consider the character of unions in a country with which you are familiar. How is this of relevance to managers at organisation or workplace level?

5.3 COMPARATIVE STRUCTURES OF GOVERNANCE

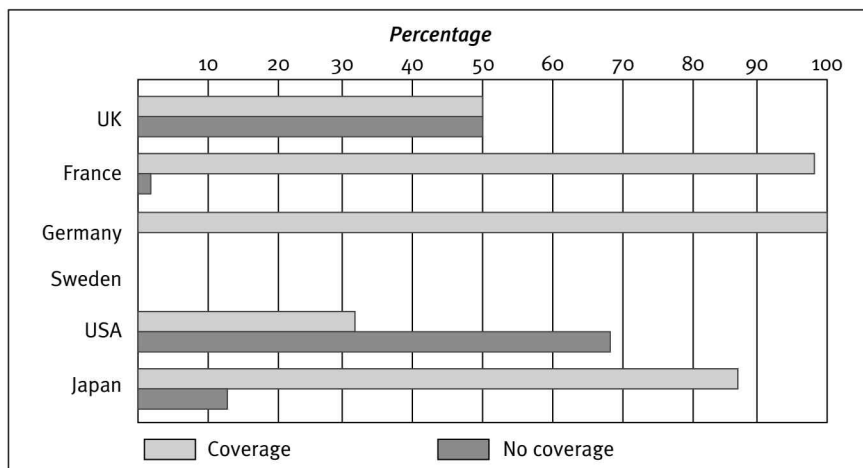
5.3.1 MULTI-EMPLOYER BARGAINING

Even within the established advanced industrialised world there is dramatic comparative variation in the coverage of collective bargaining. In the USA it now languishes at not much above 10% of the workforce, and a little more in Japan, but in Canada and most particularly the countries of the EU it is typically much higher. In many European countries trade union recognition for collective bargaining is required by law, and collective agreements that are reached through negotiations with unions are extended, either through enterprises' membership of employers' associations or by law, to other employees, ensuring a much wider coverage of collective bargaining than trade union membership figures alone might suggest.

Even within the expanded EU, though, there is considerable variation around the average. Generally, coverage rates have shown a gradual decline over the last few decades. However,

in many cases these declines have been slight, and some countries – for example Slovenia and Denmark – have seen increases in collective bargaining coverage in recent years. The proportion of employees covered by collective bargaining remains very high in the Nordic countries, ranging from 70% to 90% in Denmark, Sweden, Finland and Norway, while it is around 70% in the Netherlands and 60% in Germany, compared to only around 30% in the UK (Visser 2014). Figure 5.1 shows Cranet 2010 data on the coverage or recognition of collective bargaining by employers in a representative range of countries of the old industrialised world. Cranet excludes small and some medium-sized organisations, focusing on larger organisations which tend to be covered; this is particularly evident for the USA and Japan. No data features for Sweden because coverage there is so comprehensive that such larger organisations cannot sensibly be questioned about it.

Figure 5.1 Coverage of collective bargaining/union recognition by organisations



Source: Cranet (2010)

High levels of collective bargaining coverage are secured principally not by multitudinous enterprise-level agreements but by multi-employer bargaining and agreements (Vernon 2006a). Multi-employer bargaining may occur at various levels, according to the centralisation of bargaining (sectoral, multi-sectoral), and may be more or less closely co-ordinated across sectors and extended by law beyond the employers who pay their dues to employers' associations. Where such multi-employer bargaining and agreements do not generally prevail – as for example in the USA, Japan and, indeed, China – coverage is much more limited.

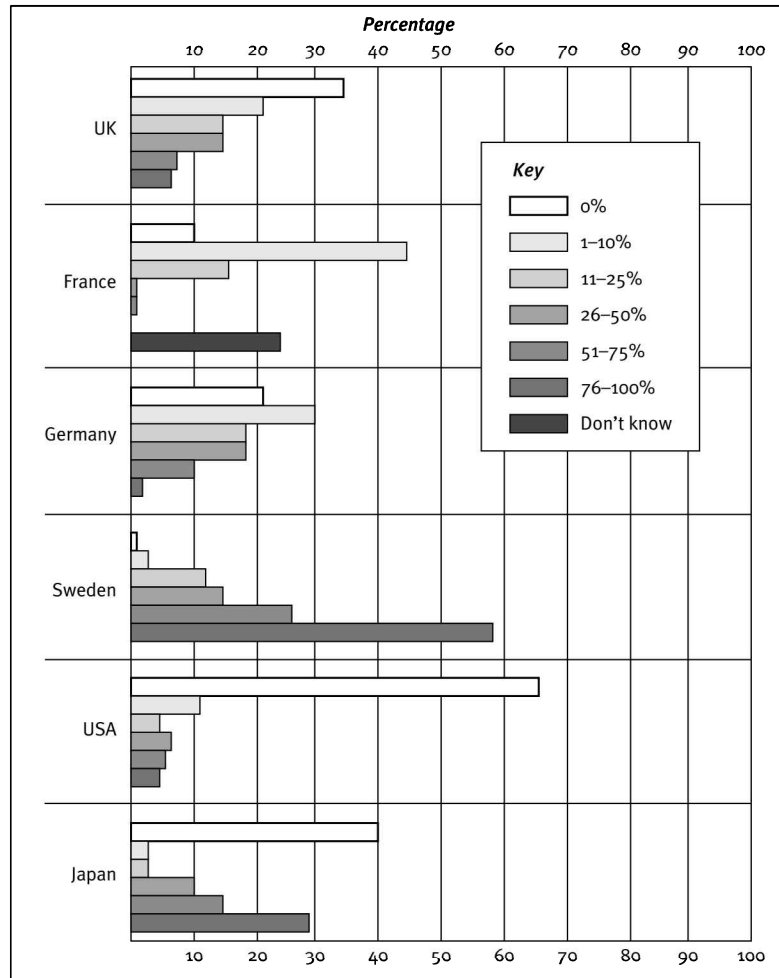
5.3.2 COMPANY AND ENTERPRISE JOINT REGULATION

Company and enterprise level employee relations or joint regulation concern local collective bargaining, governance procedures and company- or enterprise-level collective voice. Such company- or enterprise-level arrangements are often part of a multi-level structure of collective bargaining and joint regulation, particularly within Europe. This multi-level structure may be more or less vertically co-ordinated or articulated (Stokke 2008). In northern Europe there is often a formal hierarchy of collective bargaining or joint regulation, with collective agreements at multi-sector and/or sectoral level explicitly defining the role of collective bargaining or joint regulation at the lower, company or enterprise, level. In the Nordic countries, and particularly Sweden, Finland and Norway, such tiered bargaining is perhaps most intricately structured, and transparently involves

unions at all levels. In Germany and Austria there is formal derogation of responsibility, particularly regarding the arrangement of working hours, from sectoral bargaining involving unions to company- or enterprise-level works councils formally independent of them (although see the later section in this chapter regarding works councils in practice).

Union recognition in the sense of an acceptance of bargaining outcomes either within the workplace or at higher levels is near universal in some countries – as would be expected from collective bargaining coverage rates. Yet even in countries where coverage is high and recognition a matter of course, unionisation rates at enterprise level may vary starkly. Figure 5.2 deploys Cranet data to indicate not just the stark differences in average unionisation rates across countries but also the stark differences in the extent of enterprise-level variation in unionisation even amongst the larger enterprises on which Cranet focuses. In most countries, enterprise-level unionisation is either typically high or typically low. However, in some countries there is a striking bifurcation of unionisation rates, with density low in a high proportion of enterprises but also high in a significant proportion of enterprises; Japan provides an example.

Figure 5.2 Unionisation rates or density of union membership across organisations



Source: Cranet (2010)

The union movements of many countries have lost members over the last decades, and in some countries the union movement is struggling to come to terms with the modern economy (Rigby et al 2004). The decline of the traditional areas of union strength in primary industries and giant manufacturing plants, the unions' failure to deal effectively with internationalisation and with the developments in flexible working (Croucher and Brewster 1998), and government and employer strategies, have all led to reductions in union membership and influence. In the hostile environment of recent years, unions have suffered at least some membership loss and some level of loss of influence even in the northern European countries (Morley et al 2000). Although membership is declining slowly, this should not be overstated. Even in the UK, where there was an exceptional and sustained governmental attack throughout the 1980s and much of the 1990s on the unions, membership levels amongst continuing organisations with over 200 employees remained remarkably stable (Morley et al 1996) and have not declined precipitously since.

In some countries where sectoral bargaining predominates, it is nonetheless the case that many of the largest employers effectively opt out of sectoral agreements and negotiate separate company agreements with the relevant unions. Often, in the Netherlands for example, these are the companies with the greatest union density, and the sectoral agreements serve in practice as a minimum benchmark for negotiations in most – if not all – regards.

CAN COMPANIES ESCAPE GENERALISED STRUCTURES OF COLLECTIVE BARGAINING OR JOINT REGULATION?

Some employers may be tempted to try to avoid the restrictions implied by the joint regulation of the employment relationship by unions and indeed works councils, not seeing any countervailing benefits of such joint regulation. However, employers face real difficulties in escaping arrangements which are generalised within a country, or within the particular industry within which an organisation operates in that country. Employee expectations of employer behaviour are in such countries importantly formed by such structures. Ultimately, employers may exert considerable effort to escape and find that they have to introduce parallel company arrangements which may require very substantial and sustained investment if they are to have the legitimacy of independent arrangements. Moreover, of course, it is difficult to escape employees' expectations of the substantive concomitants of independent governance in terms, for example, of salaries or benefits. This has been the experience in the Netherlands (see Paauwe 2004; Visser and Hemerijck 1997).

Of course, organisations may simply avoid operating altogether in countries in which unions exercise much power in joint regulation – but this is a very extreme response.

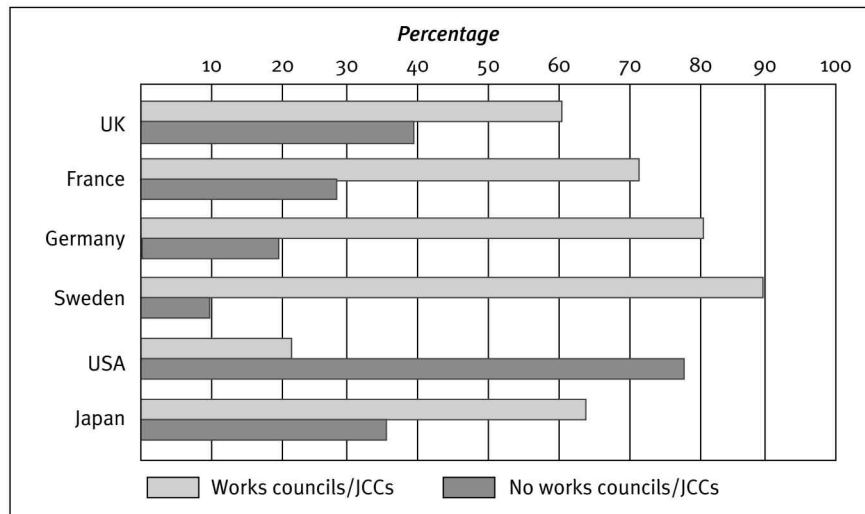
5.3.3 WORKS COUNCILS

Although the term is sometimes used rather loosely, particularly in the Anglo-Saxon world, in a strict sense works councils are representative bodies of employees which have a statutory basis as opposed to staff councils or joint consultative committees

established autonomously by employers. These independent employee bodies, which may exist at several levels of the organisation (such as plant or enterprise level, central level) have certain rights mandated by law, rather than roles prescribed by particular employers. As is the case in the Nordic countries, works councils or workplace clubs are often formally and explicitly for the local representatives of unions only (Berggren 1994). Sometimes, however, they exist alongside and are formally independent from union channels, as is the case in Germany, for example – but even here they have in practice a very close relationship with local union representatives and broader union structures (Streeck 1992).

Figure 5.3 shows the incidence of works councils, or in the case of the Anglo-Saxon and some other countries, the joint consultative committees which are the closest parallel to them, amongst the medium and large-sized companies covered by Cranet (2010). Where there is statutory provision for works councils (such as in France, Germany and Sweden), such institutions are found in the clear majority of these organisations. Where there is no statutory provision for works councils, as in the Anglo-Saxon countries, the employer-established joint consultative committee (JCC) is found in fewer organisations – this is particularly extreme in the case of the USA. JCCs have less certain roles than do statutory works councils, but may have a very significant role in some organisations.

Figure 5.3 The incidence of works councils/joint consultative committees across organisations



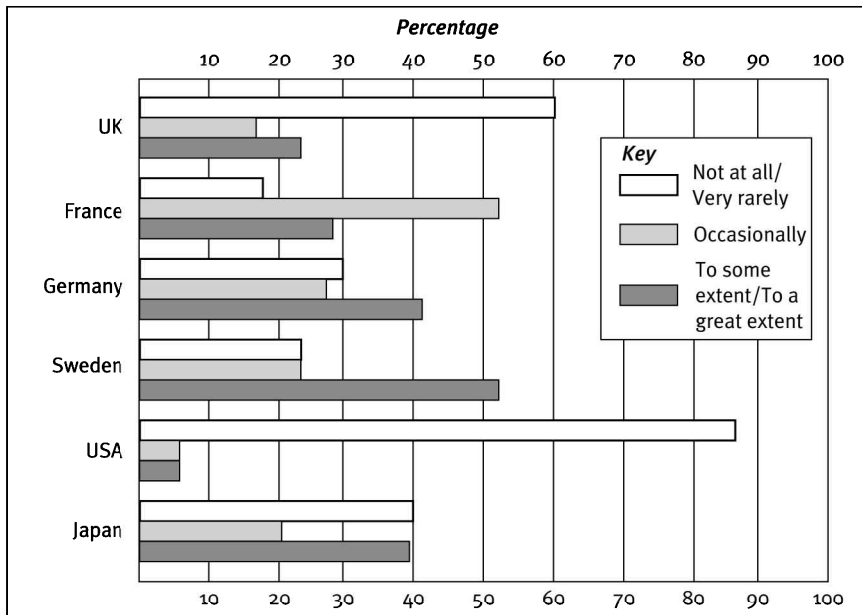
Source: Cranet (2010)

Though typically much more significant than JCCs, the roles and functions which statute provides for works councils nonetheless vary from country to country. In France, although near universal, the works council (*conseil du travail*) has rights to consultation on a range of matters, but little right to negotiation or joint decision-making. In the case of Germany, however, works councils not only have specific negotiation rights, requiring employers to follow certain procedures in a number of areas, but also have a right to joint decision-making or co-determination in some areas.

Thus, employers in Germany must secure the agreements of the works council in order to change pay systems – the works council holds a right to veto in this area (Streeck 1992). Similarly, in Sweden the works council, or ‘workplace club’, may veto the outsourcing of some of the companies’ activities (Kjellberg 1998). Works councils may use their legal rights as a basis for more or less formal bargaining activity. In Germany, for example, although formally works councils may not bargain over pay rates (despite their co-determination rights regarding systems), it is clear that in practice there has been informal negotiation in these matters (Marsden 1995).

What use have employers made of such institutions for communicating with employees? In Europe, works councils based in statute are the predominant form of representative staff body used for collective communications. Organisations’ use, and changing use, of such channels of collective communication is of considerable interest (Mayrhofer et al 2000). Figure 5.4 shows that at least in the medium- and larger-sized organisations covered by Cranet (2010), works councils remain for many an important channel of communication in Europe, and that the closest equivalent employee representative bodies in Japan also have great significance.

Figure 5.4 The extent to which managers communicate with employees via the works council/joint consultative committee



Source: Cranet (2010)

5.3.4 BOARD-LEVEL EMPLOYEE REPRESENTATION

Some public sector organisations in most countries feature employee directors on their main boards. A degree of employee board representation also occurs, however, in the

private sector in northern Europe, and most strikingly in the Nordic countries (Jackson 2005). Where present, statutory provision for employee representation on boards usually provides that between one-third and a half of the board are to be employee representatives, depending on country, sector, and size of company. Employee board representation is less frequent in smaller organisations, and indeed the smallest – of fewer than, say, 25 to 50 employees – are often excluded under the terms of the legislation. However, although small organisations and their medium-sized counterparts together constitute the vast bulk of companies (indeed, if SMEs are defined as companies of fewer than 250 employees, they typically constitute 97–99% of all a nation's companies), they almost always employ a minority of employees. Board-level employee representation is near ubiquitous in the larger organisations of Sweden, Norway and Finland, and in the organisations employing the vast bulk of employees in these countries (Hagen 2010). Such worker-directors have the same rights to information and to scrutiny of the executive as other board members.

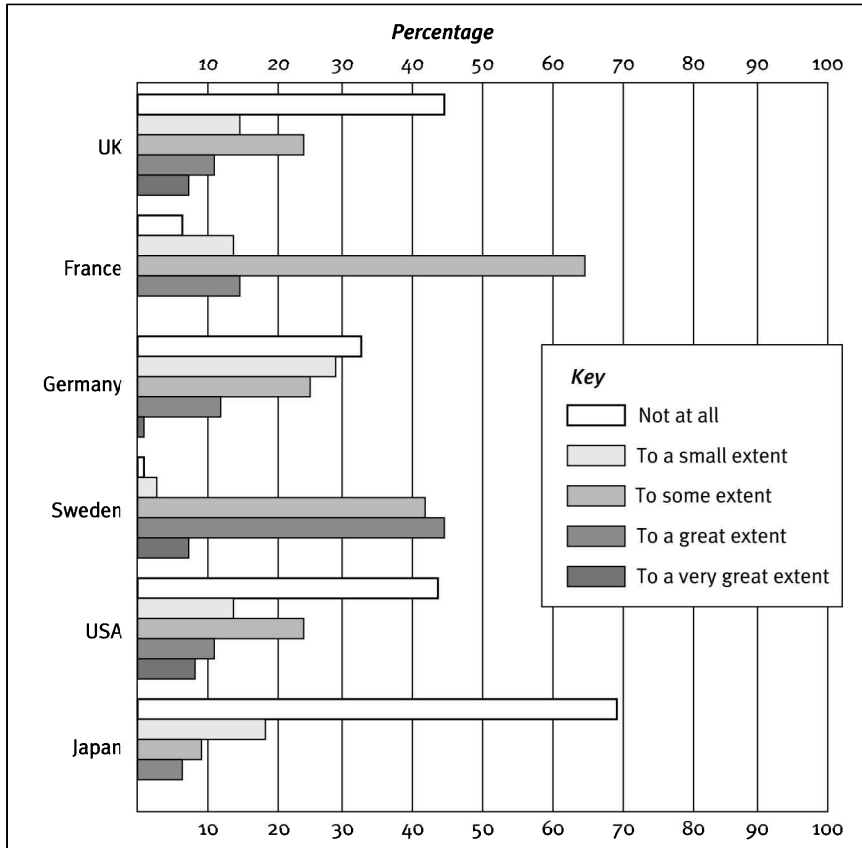
Germany's two-tiered board structure has the main board overseen by a supervisory board which features representatives of creditors but also, under the terms of co-determination legislation, often representatives of employees. These employee supervisory board representatives are present in almost all the largest companies, and still cover around half of all employees in Germany as a whole. Such worker-directors are elected in a system that is formally independent of union representation but, as with works councils, that is in practice closely related (Streeck 1992). The situation is almost identical in Austria, and rather similar in the Netherlands.

Employee representation on boards can give considerable (legally backed) power to the employee representatives and tend to supplement rather than supplant union activity. In relatively highly unionised countries it is unsurprising that most of the representatives of the workforce are, in practice, union officials or representatives, but this is the case more generally. Whatever the precise arrangements, board-level employee representatives constitute part of the matrix of union governance of organisations, and part also of unions' and employees' means of accessing corporate information and coming to bargaining judgements.

5.3.5 EMPTY NATIONAL STRUCTURES OF JOINT REGULATION?

Structures of joint regulation are rather empty in many respects in some countries. France provides a prominent example, where there is very high collective bargaining coverage but where the multi-employer agreements which secure it feature rather little content. In other countries, however, the arrangements are very clearly significant in practice. Typically, as Vernon (2006a) shows, the higher are national unionisation rates, the more significant and substantial is collective bargaining – that is, the weightier is joint regulation. Of course, national or aggregate unionisation rates can only provide an indication of the general situation in a country – there is typically significant variation in the significance of joint regulation across sectors. However, in some European countries – such as Sweden, Finland, Norway, Denmark, Belgium and Slovenia – it is difficult to find a sector where joint regulation is not a significant consideration for managers of people. Such cross-national variation is indicated in Figure 5.5 by people management specialists' views about the influence of unions in their organisations. Later comparative chapters elaborate in detail some of the implications of national arrangements of joint regulation for other arenas of people management.

Figure 5.5 Personnel/HRM directors' views of the extent to which unions influence their organisations



Source: Cranet (2010)



DANISH FLEXI-CURITY

CASE STUDY 5.2

Within the EU, the Danish approach to governance of the labour market and of employment relationships is the subject of much discussion. The European Commission has suggested that the Danish system of 'flexi-curity' provides a model of balancing the flexibility which employers favour and the security desired by employees which is potentially applicable to the rest of Europe. Security is imparted in large part by the national government's commitment to an active

labour market policy, by retraining the unemployed, and also by comparatively generous short-term welfare provision aiding/supporting the incomes of those without work in transition to new jobs. Although much of the flexibility of the system is imparted by the very limited direct statutory regulation of the employment relationship – most particularly in terms of job protection legislation – the character of union activity in Denmark is important to this

model (Andersen and Mailand 2005). Denmark's unions – now more than those of even the UK, for example – are marked by the tradition of craft and general unionism, and by the focus on enterprise and most especially workplace activity associated with this. Sectoral bargaining in Denmark results in sectoral agreements which set substantial minimum rates of pay for the very lowest grades of employees, but have little further content. At workplace level, it is now estimated conservatively that 80% of all employees in Denmark are covered by a shop steward (Ilsøe et al 2007). There is single-channel employee/interest representation in Denmark in contrast, for example, to Germany and Austria, with their works council arrangements. Yet although Danish workplace representatives are thus always formally representative of a union, under the predominance of craft and general unionism the shop stewards'

orientations are not only typically coloured by occupational divisions, but by a tradition of workplace- or company-level independence which renders them in practice largely independent of the broader union structures. Indeed, to the extent that external structures are of relevance to their activity, the most important influence is typically a more or less loose network of shop stewards. Ilsøe et al (2007) stress the 'widespread presence of shop stewards who (unlike the German works councils) have substantial bargaining rights' (p218), and that these stewards exercise 'comprehensive bargaining rights at company level' (p207). This implies flexibility in the sense that managers deal with union representatives at workplace level to find compromises which work in the particular enterprise context, rather than being restricted by the terms of sectoral agreements.



REFLECTIVE ACTIVITY 5.3

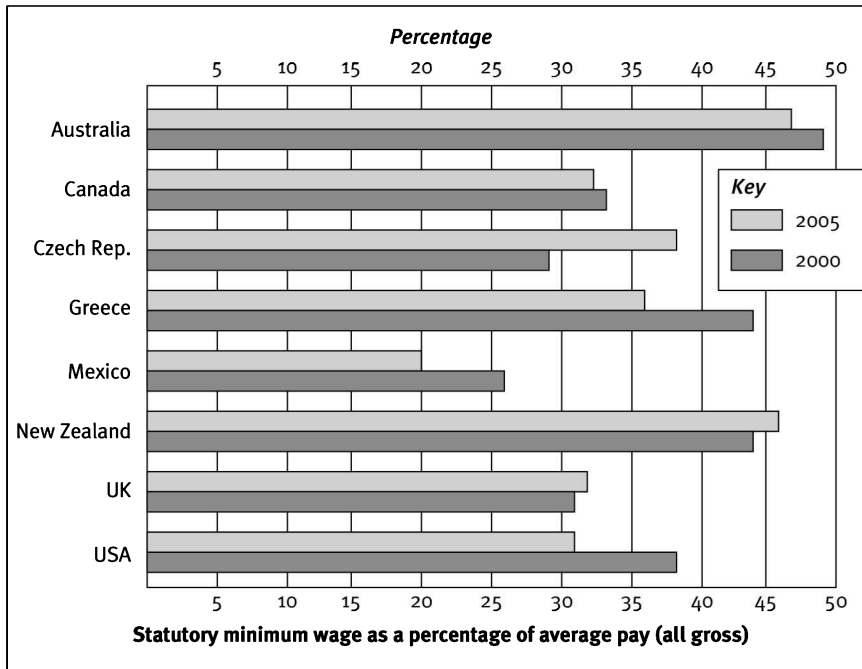
What might be the advantages to management of more centralised bargaining arrangements (that is, multi-employer bargaining at sectoral or even multi-sectoral level)?

What might be the advantages to management of decentralised arrangements (that is, single employer or workplace bargaining)?

5.4 DIRECT STATUTORY REGULATION OF THE EMPLOYMENT RELATIONSHIP

Employee relations also concerns a response to or, at minimum, compliance with direct statutory regulation of the employment relationship by national or sometimes regional governments. Some national governments are reluctant to use the law to intervene directly in employment relationships beyond some rather minimal contract law and certain provisions over health and safety. However, there is an increasing tendency for countries in the OECD and beyond to introduce some forms of direct statutory regulation of minimum pay levels, sometimes differentiated by region. Within Europe, the spread of such regulation is, interestingly, particularly evident in the 'transition' countries. The practical significance of such comprehensive statutory floors to employees' pay varies markedly in practice. Given cross-national differences not only in the cost of living but in typical pay levels, the 'bite' of such statutory minima is best expressed by the ratio of the minimum to average (median) pay – see Figure 5.6.

Figure 5.6 The 'bite' of legal pay minima



Source: Immervoll (2007, Tables 2 and A1)

Another crucial aspect of the employee relations framework of a nation is the extent of the legal protection afforded regular ('permanent') employees threatened with dismissal or redundancy – so-called 'employment protection legislation'. Typically in Europe, there tends to be some meaningful legal restriction on dismissal or redundancy, but even here some countries approach the 'employment at will', or 'hire and fire', famously characteristic of the USA (see below).



KEY FRAMEWORK

Aspects of employment protection legislation and their comparative pertinence

- 1 Procedural barriers to an employer's terminating the employee's employment (requirements of oral or written notification to employees, notification to a representative body or relevant authority, or beyond this, authorisation of body required and the delay typically involved)
- 2 The difficulty of an employer's justification of the dismissal in law (justification merely in terms of redundancy of post or worker capability, or with consideration of age or tenure, or subject to failed attempt at transfer or retraining)
- 3 Notice period and severance pay requirements for no-fault dismissal (extent of notice period, extent of severance pay)

- 4 Other statutory constraints regarding maximum length of trial period, strictness of definition of unfair dismissal and compensation involved.

Sources: Bassanini et al (2008, Table 1); Andersen and Mailand (2005)

Indices of individual protection across these four different aspects follow:

Source: OECD (2004a), as cited in Andersen and Mailand (2005, Table 3)

EMPLOYEE RELATIONS IN INDIA: A FRACTURED SOCIAL REGULATION OF WORK

Famously, the organised, formal or regulated sector of India's economy constitutes only 7%–15% of total employment, principally the public sector and large-scale manufacturing and mining. Thus, the vast majority of the Indian workforce enjoy no protection either from employment law or from unions and joint regulation. Moreover, even in states such as Maharashtra, where national labour and employment law is complemented by state labour and employment law regarded as relatively protective of employees by Indian standards, there is much variability both in the significance of joint regulation involving unions and in the application and enforcement of direct statutory regulation itself. The presence of workplace union representatives does not necessarily imply collective bargaining, particularly outside the public sector. Most strikingly though, it appears that the presence of workplace union representatives does not imply even the observance of employment law; such representatives report that it is very common that employers contravene the provisions of employment protection legislation, for example. It thus seems that it is a tiny minority of Indian employees who can depend on any meaningful social regulation of work by actors beyond management.

Source: Badigannavar and Kelly (2012)



REFLECTIVE ACTIVITY 5.4

Consider whether managers might find it easier to deal with social regulation of the employment relationship by law rather than by unions. To what extent does this depend on the character of the law and of the unions?

5.5 UNIONS, MANAGEMENT AND BUSINESS PERFORMANCE

Strong unions, and strong works councils supported by intensive local union membership and the larger union structure, pose challenges for managers. Quite generally, managers operating under significant joint regulation face substantial restrictions on their decision-making and may have a sense not only of decisions being slowed or delayed but of an affront to presumed managerial prerogatives. This is the real meaning of external governance for managers.

Where strong unions are organised on a craft and general basis, conditions may seem particularly challenging, with managers confronted by work groups bargaining opportunistically to extract whatever they can where new technology is introduced or where work is reorganised (Metcalf 2004). At least, though, managers may take comfort in the fact that they are not under much scrutiny from larger union structures. Where strong unions are organised on an industrial basis, managers often confront quite elaborate systems of job classification and evaluation, and employee and local union/works council expectations that they are applied in detail (Vernon and Rogers 2013). This provides a more stable and perhaps reassuring structure within which managers can work, although they may feel constrained by external agents with limited understanding of their organisations' particularities, and may feel rather threatened by the possibility of scrutiny from this larger external union organisation.

Generally, it is notable that within the OECD stronger governance is associated with better economic and business performance on a range of indicators. For example, the performance of the Nordic countries is generally impressive, and Sweden and Finland in particular are home to a number of very successful companies. This suggests that powerful unions do not typically undermine productivity performance, although they may render management a more challenging and exacting activity, and circumscribe quicker and easier (or dirtier) routes to profitability.

The detailed analysis of Vernon and Rogers (2013) uses comparative historical data for 14 OECD countries across more than 30 years to show that labour productivity growth in manufacturing tends to be faster in countries with stronger unions, as long as those unions are organised along industrial (as opposed to company/enterprise or craft and general) lines. Industrial unions are characteristic of most of continental Europe, with Denmark an interesting exception. However, where unions are organised along craft and general lines, as in the UK and in Denmark, stronger unions tend to slow productivity growth. Unions in Japan but also the USA, which tend to be centred very much on particular companies, have little or no negative effect. These are of course the typical or average effects, and there is doubtless variation in the implications of joint regulation not only within these country groupings but across sectors, and indeed according to the orientation and behaviour of employers and managers – this latter is a matter to which we return at the close of the chapter.

5.6 WHAT INFLUENCES COMPARATIVE PATTERNS OF EMPLOYEE RELATIONS STRUCTURES?

It is sometimes suggested that long-standing, deeply embedded differences in national cultures underpin differences in structures of employee relations. There is certainly some general tendency for countries with stronger unions to be countries of low power distance and low masculinity on Hofstede's dimensions. However, there are some countries low on power distance which have rather weak unions – the UK now being the most striking example. Moreover, there is much variation in the strength of joint regulation amongst countries low on both power distance and masculinity: whilst Dutch unions remain fairly significant they have nowhere near the influence of their Swedish or Finnish counterparts. It is also noteworthy that countries high on collectivism are rarely countries with high unionisation!

The comparison of Sweden and the UK is particularly intriguing in that during the 1930s these countries appeared rather similar in many respects, but they now appear very different in matters of employee relations. Sweden has extensive and multi-levelled joint regulation, whereas the UK features generally low and fragmented coverage. One obvious recourse in explanation is to party politics, the Swedish Social Democrats offering more

consistent support than the much less electorally successful British Labour Party has been able to offer. More deep-seated explanations are possible. Fulcher (1991) suggests that it is the differing nature and ambitions of the union movements in the two countries which explain this difference, the British movement always more fragmented, conservative, and concerned merely to keep the state out of its affairs, and the Swedish movement much more influenced in its crucial early stages by an integrative socialist ideology and pursuit of a more ambitious transformative project – aided in this by the Social Democratic Party constituting the political wing of the Swedish labour movement.

Some recent literature has suggested the possibility that patterns of labour law may have an impact on patterns of joint regulation. The notion of functional equivalence suggests that countries will be very similar in their sum totals of social regulation, but with differing balances of statutory regulation on the one hand and regulation by unions on the other. Indeed, the Danish case of ‘flexi-curity’, with its relatively limited employment law and intensive collective bargaining and joint regulation at the level of enterprises and companies might be taken to support this notion.

However, even within the advanced or old industrialised world, there are clear differences in the sum total of the social regulation of work. Thus Sweden, Finland and Norway have not only powerful unions and joint regulation but also very significant direct statutory regulation of work, whereas the USA lies at the other pole, with generally very weak joint regulation beyond certain sectors or occupations (such as education, firefighting) and very weak direct statutory regulation of the employment relationship. Indeed, although labour law is seen as limited in Denmark (see Case Study 5.2), it is so only relative to joint regulation there – in comparison with labour law in the USA it looks comparatively quite extensive.

These examples are expressive of a more general truth that law and unions are not alternatives – indeed, to the extent that there is any such relation, they appear complementary. That is to say, there is a rather loose tendency for countries with more significant joint regulation by unions also to be more strongly shaped by labour law. This is apparent, for example, in the findings of Jackson (2005) on the influences which have given rise to statutory employee board representation in many European countries. He finds that, broadly speaking, countries with such statutory arrangements are co-ordinated market economies rather than liberal market economies, and in particular that alongside consensual politics and concentrated ownership patterns, strong co-ordinated collective bargaining is a key influence on this statutory right. It is also apparent in Brewster et al (2007) whose large-scale international study shows that works councils (and JCCs) are more often found in organisations with union presence. Indeed, union members, activists and officials are often prominent in works councils.

5.6.1 BEST PRACTICE IN EMPLOYEE RELATIONS

In many respects it is difficult to imagine that there is some generalised best practice with regard to employee relations, given the very different national legal frameworks which prevail, the still more dramatic variation in the established practices of collective bargaining or joint regulation, and the very variable business performance implications of joint regulation. To some extent at least, companies must respond to the employee relations context they find. Very often, this implies an acceptance of and engagement with the structures and procedures predominating locally. In some senses, though, such an acceptance and engagement might be seen as best practice.

The recent purchase of the Volvo Car Corporation by China’s Geely provides a fascinating example of the need to respond to local (that is, national) context. Although

Geely executives may find the difference between Swedish and Chinese unions and union activity bewildering, car production in Sweden requires that they need to come to terms with – or at least accept – Swedish tiered bargaining arrangements and the broader stringency of joint regulation. Intriguingly, in this case, given the strength of the industrial unions in Sweden, and especially in car assembly, Vernon and Rogers' (2013) findings suggest that they will experience significant performance benefits from Swedish-style joint regulation.

Of course, we would expect that a more positive engagement with such enduring structures of joint regulation is likely to bring greater benefit than a denial of them, some grudging acceptance of them, or any attempt to circumvent their implications. Indeed, unless it is clear that an employer can entirely eradicate the prevailing arrangements for joint regulation, such an accepting and engaged approach may well bring benefits even in countries where the research evidence suggests that joint regulation is typically inimical to performance. In these latter circumstances, whilst employers may instinctively feel hostile to unions and joint regulation, a strategy of damage limitation via constructive engagement may yet be wise. Respect for, and engagement with, the predominant structures of collective bargaining and joint regulation might take the form of a written social partnership agreement between management and independent unions, but relationships and practical engagement appear of more consequence than such formalities.

In some countries, such as the UK, the variability of joint regulation across and even within sectors often allows employers space to profoundly shape enterprise-level arrangements regarding collective voice and governance. This involves some delicate issues; independent unionism may appear threatening to some, but always offers benefits in at least some respects, even to managers specifically.

EXERCISING CHOICE: 'MAKE-OR-BUY' COLLECTIVE VOICE AND GOVERNANCE

In some countries, organisations often face a fairly stark 'make-or-buy' decision (Willman and Bryson 2003) with regard to many of the matters of collective voice and governance in employee relations. In the UK private sector, for example, this is particularly pertinent; here, it is neither generally the case that unions are absent, nor that they are present, with considerable variation in the role and significance of unions. Employers may facilitate or encourage union membership and seek to promote such independent employee representation. Alternatively, employers may seek to discourage independent unionism, and establish in its place some form of enterprise-specific works or staff committee through which employee ideas and discontentments may be aired, and which might also in principle be linked to governance via the involvement of representatives in grievance and disciplinary proceedings, or even in the formation of rules structuring those proceedings. If the decision is to 'make' an enterprise-specific forum rather than to 'buy' independent unionism, there is likely to be real difficulty in establishing the legitimacy of the management established body. There is of course a danger that senior management considers such arrangements for governance and collective employee voice – and even more the involvement of employee representatives in governance – unnecessary and/or inconvenient, and so a decision is made to neither buy nor make. This may then pose very real difficulties, for the organisation generally and the line manager specifically, in treating staff consistently and fairly, and in seeking to be seen as acting legitimately.



KEY LEARNING POINTS

- There is enormous cross-national comparative variation in national systems of employee relations, even within the established OECD (or old industrialised world).
- Unions and collective bargaining remain widespread and important amongst larger employers, and across the public sector, in European countries in particular.
- Unions and collective bargaining or joint regulation are declining, although often very gradually, in many countries in the established OECD.
- Although unions are generally weaker in the developing and newly industrialised world, they are showing signs of growth and development there.
- Often allied to unions are other forms of independent employee representation such as works councils or employee representatives on boards, carrying statutory rights.
- Works councils are often used by employers for collective communication with employees.
- Direct statutory regulation of the employment relationship, most particularly in the form of legislation on job protection and on pay minima, is significant in many countries within and beyond the established OECD.
- Although to many managers unions and works councils – and, indeed, board-level employee representation – may appear challenging or even threatening, they often improve business performance.
- The governance that unions and works councils provide can be a valuable resource to organisations.



LEARNING QUESTIONS

- 1 What might explain the fact that union membership is higher in some countries than in others?
- 2 Are unions a positive or negative factor in organisational communications? Is the answer dependent upon or independent of country? Give reasons for your answers.
- 3 Consider the supports and challenges to managements pursuing business performance which joint regulation offers. Do you feel that strong unions make people management more challenging for managers? Do you feel that strong unions promote organisational and business performance? Do these questions amount to the same thing?
- 4 Consultation with representative bodies is now required for all organisations over a certain size by the EU. What reasoning might have led the EU to take such a step?



EXPLORE FURTHER

ANDERSEN, S.K. and MAILAND, M. (2005) *The Danish flexicurity model: the role of the collective bargaining system*. FAOS Working Paper. Copenhagen: FAOS. Here the authors overview the Danish 'flexi-curity' model which remains influential in EU-level discussions of employee relations.

VERNON, G. (2006) Does density matter? The significance of comparative historical variation in unionisation. *European Journal of Industrial Relations*. Vol 12, No 2. pp189–209. This article provides a detailed assessment of the significance of unions and collective bargaining (or joint regulation) across the established OECD.

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The Organisation of Work

LEARNING OUTCOMES

When you have read this this chapter, you will:

- appreciate the continued relevance of Taylorism as a benchmark in discussions of work organisation
- appreciate the international variation in direct communication practices, but also the ultimately limited significance of communication *per se*
- understand that there are broader-based alternatives to Taylorism
- appreciate that these alternatives are applied variably in different countries
- be able to evaluate the bases of cross-national comparative variation in work organisation
- appreciate the indications that there is an international best practice in work organisation.

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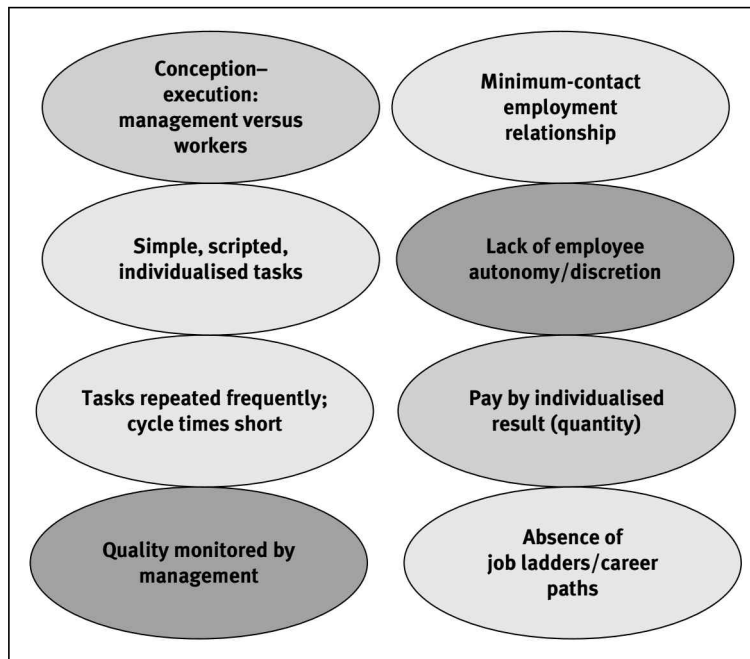
There is much managerial discussion of matters of skills, human capital and, indeed, talent, in which the individual capabilities or capacities of employees are stressed. This presents a danger of neglect of the matter of how the skills and capabilities of front-line employees are elicited, drawn out or combined in daily work; matters which are central in the practice of management. To an extent these are matters of the broad character of the employment relationship discussed in Chapter 5, of the institutionalisation of employee relations and collective communication in collective bargaining or joint regulation involving unions or works councils for example; matters of the representative or indirect participation of employees. However, in large part they are matters of the organisation of work in a rather different sense, of direct communication between managers and managed, of functional flexibility, (direct) employee participation or involvement, empowerment, autonomy in work implied by job design, and of teamwork (and groupwork). Given their centrality to management activity and to front-line employees' daily experience of work, it would be surprising if they were not central to encouraging employees to display organisational commitment, job or work engagement, discretionary effort or organisational citizenship behaviour (OCB) and thus the development and the realised performance of the individual and the wider organisation.

The organisation of work is a matter of particular significance in international comparative context because, as we shall see, there are enormous variations in the organisation of work across national boundaries. This is true even within the nations of the established OECD, or indeed within old Europe specifically. Moreover, as we shall see, these dramatic variations cannot be explained by differences in sectoral or occupational composition across nations; the organisation of work varies greatly across nations not only on aggregate but within specific industries.

6.2 TAYLORISM AND FORDISM AS A SOLUTION... AND A PROBLEM

Frederick Taylor's early twentieth-century prescriptions for the effective organisation of work in industrial production remain an invaluable benchmark in considering the character of current organisational approaches – not, it should be clear, as a 'best practice' ideal at which organisations should aim, but in the location of the approaches actually deployed by organisations, for better or for worse. Taylorism, or 'scientific management', is a useful benchmark because it constitutes such an extreme form, but simultaneously, as we shall see, remains a powerful influence on the actual organisation of work in many countries (see Figure 6.1).

Figure 6.1 An overview of Taylorism



Source: Developed from Callaghan and Thompson (2001); Taylor et al (2002); Berggren (1994); Vernon (2006)

The separation of the management group and its activity from the employee group and its activity lies at the foundation of Taylorism, with many if not all of its other features flowing from this separation. A Taylorist organisation of work charges management with all the conceptual or 'think' work, with front-line employees then charged with the execution of management's orders. Front-line employees thus operate within very narrow confines, performing individualised and simplified tasks with little or no opportunity for individual judgement or discretion. The echoes of Taylorism in the Fordist manufacturing operation parodied by Charlie Chaplin's *Modern Times* are obvious; indeed, in essence Fordism is simply Taylorism plus a moving assembly line.



REFLECTIVE ACTIVITY 6.1

Many authors on HRM suggest that organisations should seek to avoid or move away from a Taylorist organisation of work. Why should Taylorism be seen as undesirable?

Whether it is seen as outmoded, inappropriate, unethical or ineffective or not, it is clear that Taylorism still exerts a powerful influence on the organisation of work experienced by front-line employees in many organisations in many countries. Braverman (1974) famously argued that such approaches, centralising knowledge of the production process in the hands of management and so consolidating management control, were relentless in their spread. More recent research suggests a much more nuanced picture. Although systematic cross-national comparative study is limited, it does seem that manufacturing in the developing and newly industrialising world is more often of a Taylorist character, and perhaps most particularly in recent years in China (see Case Study 6.1). Yet Taylorism also remains influential in the early twenty-first century in the established countries of the OECD, and not just in manufacturing but also in fast food and in clerical or white-collar work in call centres (Allan et al 2006; EFILWC 2009; Callaghan and Thompson 2001; Taylor et al 2002; Doellgast 2010; Mayhew and Quinlan 2002). This underscores its continued usefulness as a benchmark in considering matters of the organisation of work.

6.3 DIRECT COMMUNICATION: INITIATIVES AND RATIONALES

In the 1970s, and with increasing force in the 1980s, there was a mounting sense in many organisations that the character of communication within organisations – and in particular that between managerial and non-managerial employees – was inadequate. This impression was nurtured in large part by the emergence of Japan as an industrial power. Japanese continuous improvement activity, or *kaizen*, involved a very deliberate effort at communication between first- or front-line management and employees. Such matters of communication were seen as a crucial – perhaps *the* crucial – defining factor of Japanese people management, which was itself viewed as central to what was seen as superior Japanese business performance.

Thus it became increasingly common amongst managers in Europe, the USA and elsewhere in the countries of the advanced industrialised world, or established OECD, to refer to the knowledge held by those actually doing the job (front-line employees) and to the need for management to garner or capture this knowledge to improve business performance. Relatedly, many organisations tried to extend but also move beyond traditional efforts at management –employee engagement such as suggestion schemes, taking initiatives also in terms of quality circles or quality control circles (QCs/QCCs) centred on improved communication between front-line employees and first-line management. These initiatives were efforts to overcome the barriers created by the division of labour within organisations, and specifically the divide between management and employees implied by the predominant Taylorist or Fordist approaches.

It has long been argued that effective communication can increase job satisfaction (Miles et al 1996), foster greater commitment (Dutton et al 1994; Kane 1996; Lippit 1997), act as a conduit for the promotion and development of collaboration between organisational stakeholders (Folger and Poole 1984; Monge and Eisenberg 1987; Mintzberg et al 1996), facilitate the diffusion of teamwork (Mulder 1960; Barnes and Todd 1977; Pettit 1997) and improve internal control and, simultaneously, facilitate strategy development (Baird et al 1983; Fiol 1995; Smyth 1995; Steinberg 1998). The importance of effective communication is now emphasised in the notion that it is only through

exploiting employees' ideas, energy and creativity that organisations will be able to compete and survive.

Communication between managerial and non-managerial employees is considered particularly significant. A useful distinction has been made between two types of (consultation and) communication, distinguishing 'collective', 'indirect' or 'representative' communication from 'individual' or 'direct' communication (Gold and Hall 1990). The focus in the current chapter is on the latter, individual or direct form (indirect or collective communication involving employee representatives is considered in Chapter 5. Knudsen (1995) provides a useful categorisation of subjects for communication, distinguishing strategic, tactical, operational, and welfare decisions. In general, representative communication has tended to address the wider strategic and tactical issues (such as investments, mergers, labour issues and pay systems), whereas the individual or direct forms have tended to concentrate on operational workplace, working practice and individual-related welfare matters.

It is noteworthy that an exclusive focus on direct communication with the individual employee implies a unitarist philosophy founded upon a notion of a simple common interest between managers and the managed, an interest supposedly centred solely on the organisation's success in the marketplace. Some consultation mechanisms are designed principally to integrate employees into the organisation, but also apparently to ensure that there is no challenge to the basic authority structure of the enterprise (Blyton and Turnbull 1992).

As organisations become increasingly knowledge-intensive, and indeed knowledge-dependent (Conner and Prahalad 1996; Doz et al 2001; Grant 1996), so it becomes ever clearer that the crucial knowledge in the organisation rests not with the senior management but with those who make up the organisation and contribute to its work. A key management task becomes understanding the people within the organisation, appreciating their talents and abilities, and being able to motivate and commit them to the organisation so that it can draw on this reservoir of skills and understanding in the most effective way. However, as Morley (2000) point out, this is a difficult area for organisations, and the literature has long abounded with reports of obfuscation in corporate communications (Filipczak 1995), information distortion (Janis 1982; Larson and King 1996), miscommunication and problematic talk (Coupland et al 1991).



REFLECTIVE ACTIVITY 6.2

In your organisation, or one that you know of, what forms of up and down direct communication are used? Elaborate!

Below, we analyse successively developments in direct communication downward through the organisational hierarchy and upward from the front line, and then outline developments in lateral communication.

6.4 DIRECT DOWNWARD COMMUNICATION

Downward communication is the flow of information from management to the employees. The use of direct means of communication appears to have been on the increase in recent decades. Across Europe in particular, the personnel specialists who respond to the Cranet survey regularly suggest that direct verbal communication is increasing in a majority of organisations. Of course, with computerisation, human

resources information systems and mail-merge techniques it becomes much easier for managers to write ‘individually’ to all staff involved in a particular change – and the opportunity is being taken here too. Typically, between a third and a half of European organisations report increased use of direct written communication and team briefings, as well as electronic communication with employees. Typically, almost no personnel specialists report decreased use of these communication channels. Correspondingly, Mayrhofer et al (2011) find in their European study a strong increase over time in the proportions of organisations providing staff with information on strategy and financial performance, although as we shall see below this still leaves some room for variation across countries.

The writers on HRM who are advising employers that individual communication with their employees is vital to the future success of the organisation can take comfort from these figures. Of course, when questions are asked of senior personnel practitioners (as in Cranet), it is possible that they are exaggerating the extent of the improvement in communication: there may be an element of wishful thinking here. However, the shifts apparent are so consistent that it seems likely that they reflect some kind of reality; we are encouraged in this view by the fact that in other areas of people management Cranet often indicates that organisations are not following the received wisdom. Furthermore, these figures reflect similar findings in the earlier European Foundation’s EPOC survey (Sisson 1997). It would seem that organisations have over a prolonged period sought to communicate more with their employees.

With regard to what is communicated through these channels, this varies from case to case. However, two areas of central interest for management and employees are information on:

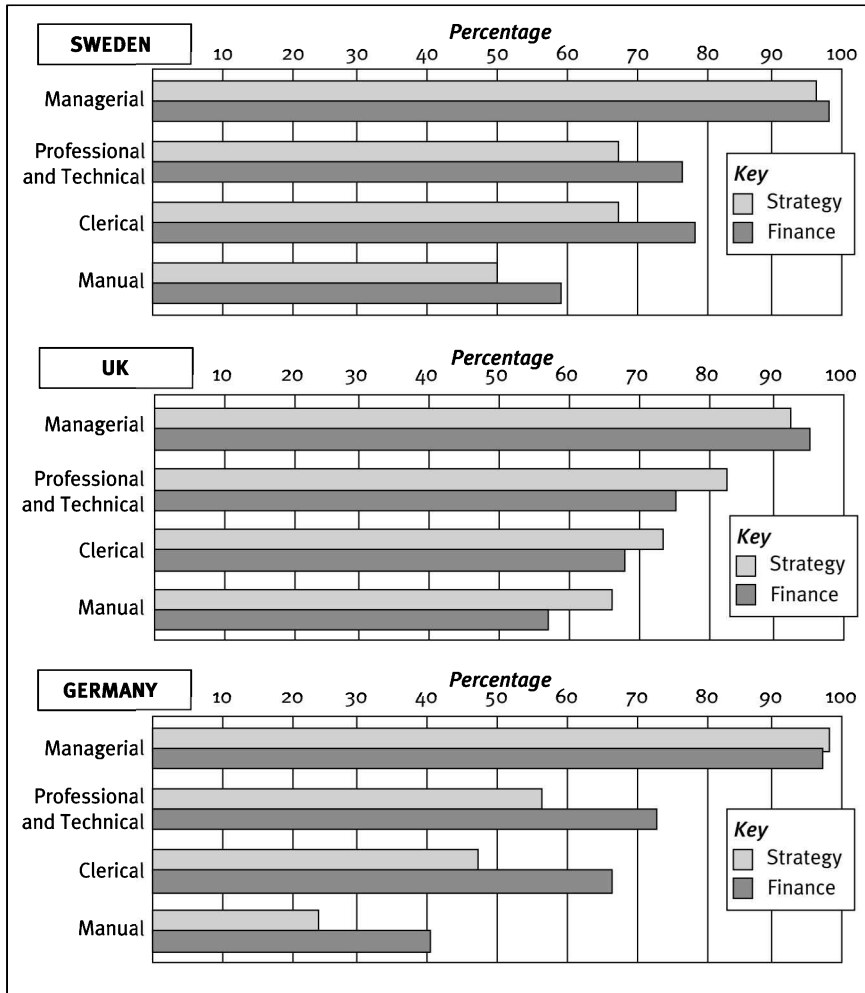
- organisational strategy
- organisational finances.

In Europe, Cranet survey data for 2010 shows that at least nine out of every ten organisations formally brief their managers about the organisation’s strategy and financial results. However, there is a marked ‘slope’ in the provision of information below the managerial level. The further down the organisation one goes, the less likely employees are to be given this information. There is great variation in the proportions of organisations providing information about strategy to manual employees. Generally, the figures are not high, even allowing for an expected differential between the information that would be given to managers and to manual workers. Organisations become increasingly dependent on employees’ knowing the corporate strategy, understanding how their own performance contributes to the implementation of the strategy, wanting to contribute in this way, and being able to communicate this strategy to co-workers and external parties (customers, suppliers, public agencies, etc). The more the organisation is providing services, know-how or other types of immaterial ‘products’, the more an understanding of – and acceptance of – the overall corporate strategy is a prerequisite for competent performance. This is not the case to the same extent when the job involves the manipulation of physical production processes.

A similar reasoning applies to the communication of financial information about the organisation, although here the slope indicating the difference in providing information for different groups of employees is not so steep. The financial performance of the organisation is made known to employees to a greater extent than is the case in the area of strategy. In nearly two-thirds of the countries, 50% or more of the organisations also brief manual workers, the least informed group within the organisation, about financial performance. Figure 6.2 shows the briefing patterns for various employee groups in three European countries in the area of strategy and financial performance. What is noticeable is that the slope of information reduces from management to manual worker grades, and

that the slope varies in each country – so that manual workers in Sweden are considerably more likely to get such information and manual workers in Germany much less.

Figure 6.2 Strategic and financial briefing of different groups of employees in Sweden, the UK and Germany



Source: Cranet (2010)

Northern European countries generally present their non-managerial employees with more data on these matters than countries elsewhere in Europe (Morley et al 2000). In many Pacific countries information on these issues is generally only given to senior managers (Zanko 2002). Although the evidence is rather anecdotal, it appears that this is often the case in newly industrialised countries in Asia. It seems that in newly industrialised countries in particular there is a widespread assumption that those lower down the organisation simply do not need to know what the organisation is trying to do, or the value to the organisation of succeeding in reaching those objectives.

6.5 UPWARD DIRECT COMMUNICATION

Upward communication is the other key issue in terms of management/non-management communication – the feeding of information, concerns or ideas from the employees to the management.

Communication to an employee's immediate superior is, perhaps inevitably, the most important form of direct upward communication. However, we can also include here direct access to senior management, quality circles and suggestion schemes as ways in which some organisations have tried to provide channels to encourage employees to make their individual grievances known or to draw on the innovative and entrepreneurial skills of their workforce.

Cranet data show that both communication up to the immediate superior and direct communication with senior management has increased. In Europe, a quarter to a third of organisations have increased such communication, depending on the European country involved. In the case of direct communication between employees and senior management, the figures are generally a little lower. The increase in the use of quality circles is still less, and the net increase in the use of suggestion schemes is marginal. These changes left the situation with regard to upward direct communication by 2010 in European and other countries as shown in Figure 6.3 (see also Chapter 5 on collective or indirect communication).

What of the *relative growth* in *upward* as opposed to *downward* communication? As we have seen earlier, Cranet evidence on HRM specialists' perceptions of recent change suggests a strong and quite universal reported increase in direct downward communication, and this is so whether in terms of verbal, written, or specifically email communication. As we have seen in this section, Cranet suggests strong and pretty universal increases in proportions of organisations reporting increases in upward communication via the line manager, and rather less strong but still general increases in upward communication through quality circles or direct to senior management. There thus seems a general trend in direct communication in both directions between managers and front-line employees – but a rather clearer trend in downward than in upward communication.



REFLECTIVE ACTIVITY 6.3

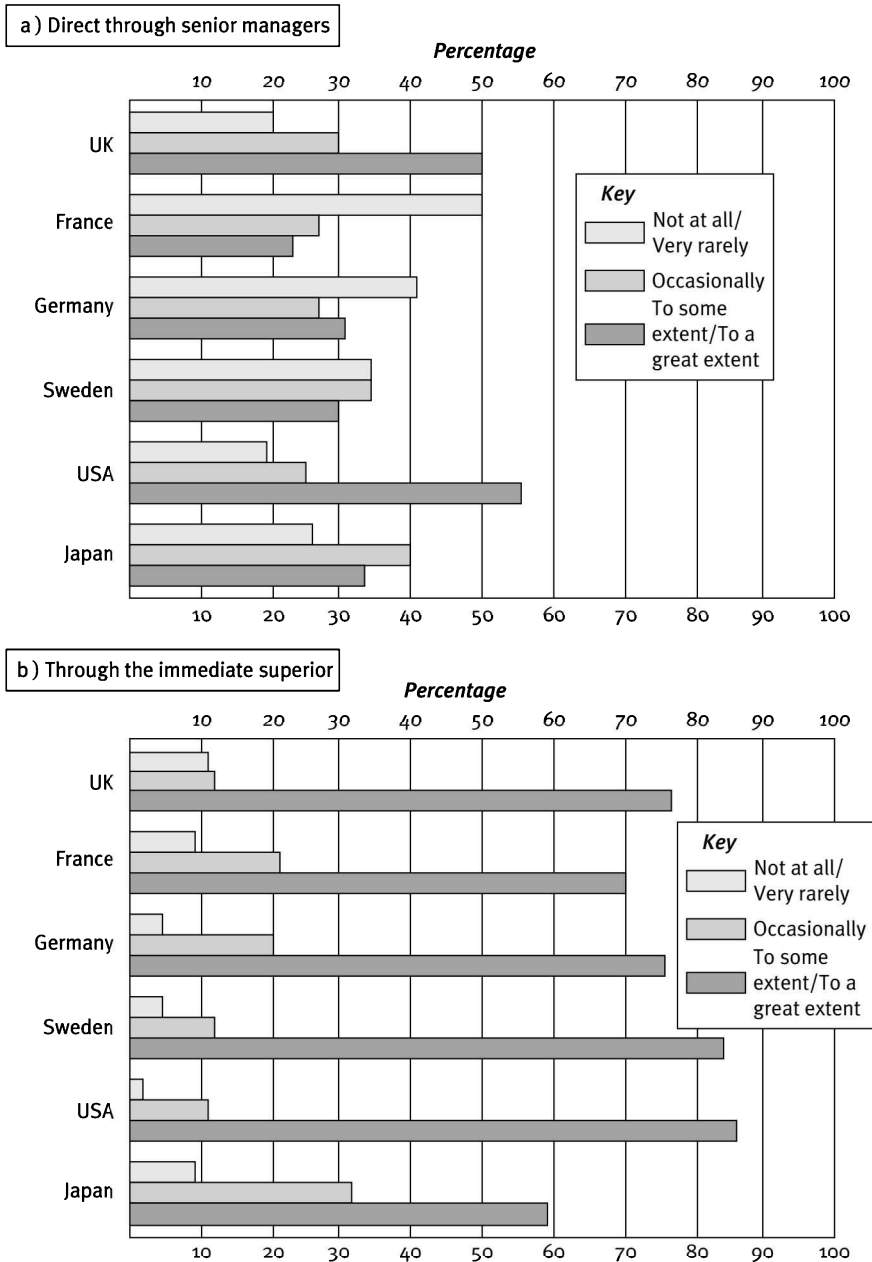
Why should the tendency towards greater downward direct communication be stronger and more consistent across countries than the tendency towards greater upward direct communication?

6.6 LATERAL COMMUNICATION

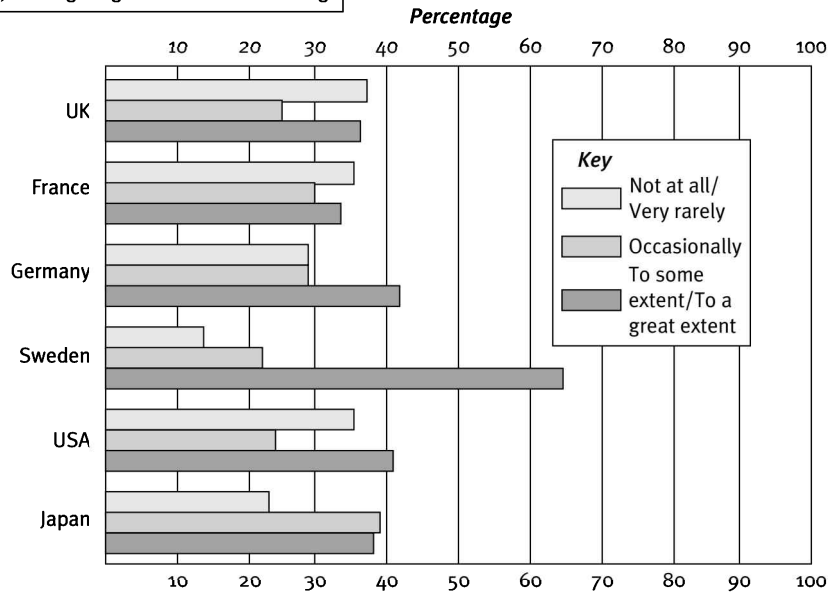
In recent years, considerable attention has been devoted by companies and researchers to the notions of knowledge management and knowledge flows within employing organisations. It has, indeed, been argued (Kostova and Roth 2003; Tsai and Ghoshal 1998) that this may be the factor that distinguishes the successful from the unsuccessful organisation. A company's strategic advantage is usually found in its specific knowledge (Penrose 1959; Caves 1982), and this specific knowledge (for example, advanced technological expertise or specific marketing knowledge) can only be acquired within the company. It is obviously in the organisation's interests that such knowledge is shared internally. Yet this is not as easy as it sounds. The kind of knowledge that can be shared

through computerised systems tends to be explicit knowledge – and that is often much less potent than the tacit knowledge that people hold in their heads, sometimes without realising that they do. Thus, for example, knowing how to deal with key clients in different countries may be something that an individual has only developed through extensive experience, and it is not always straightforward to pass what has become an intuitive skill on to others.

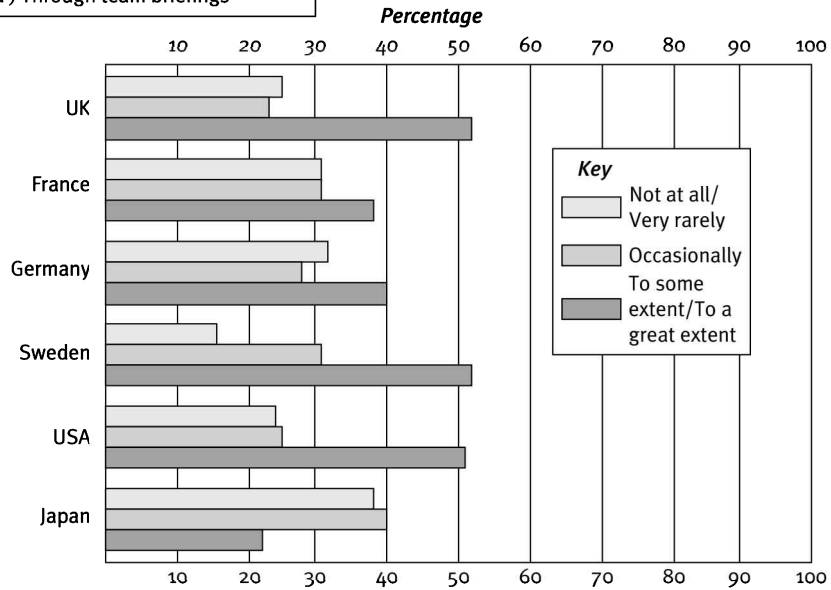
Figure 6.3 Channels of upward communication



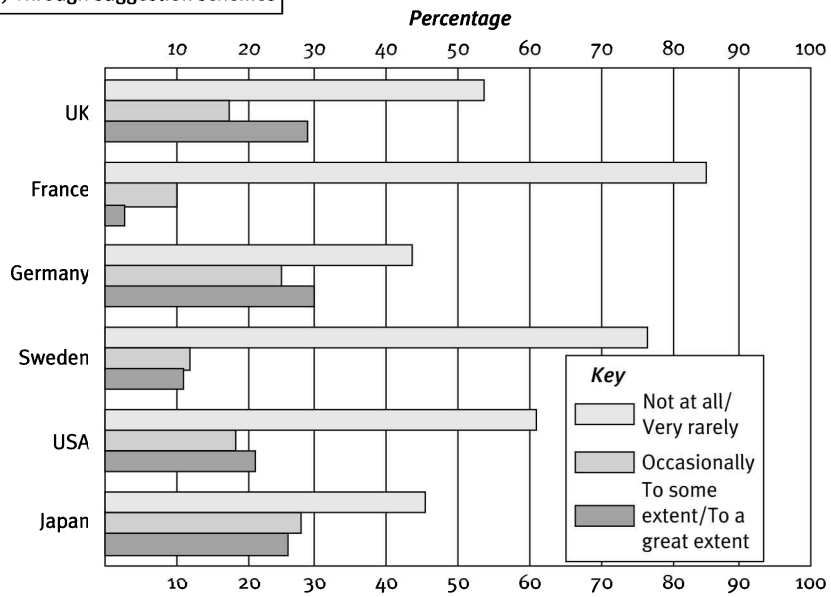
c) Through regular workforce meetings



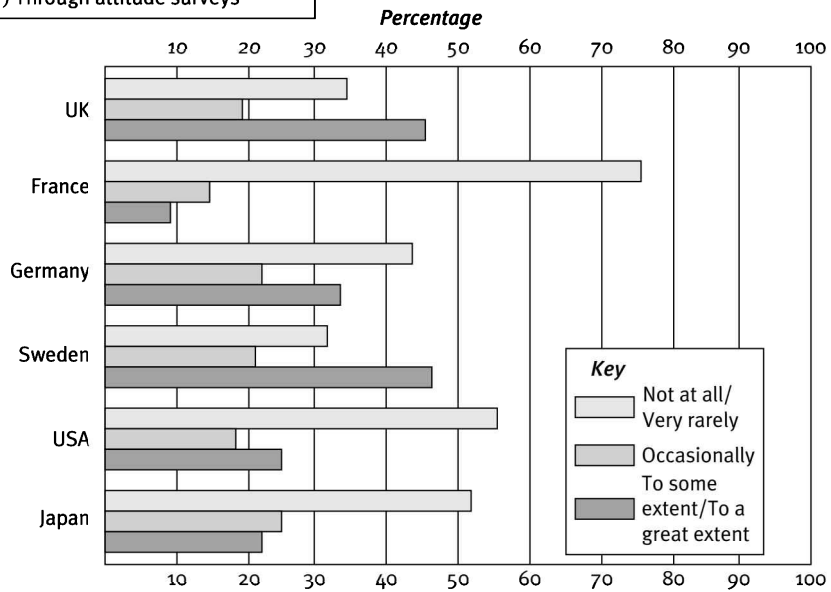
d) Through team briefings

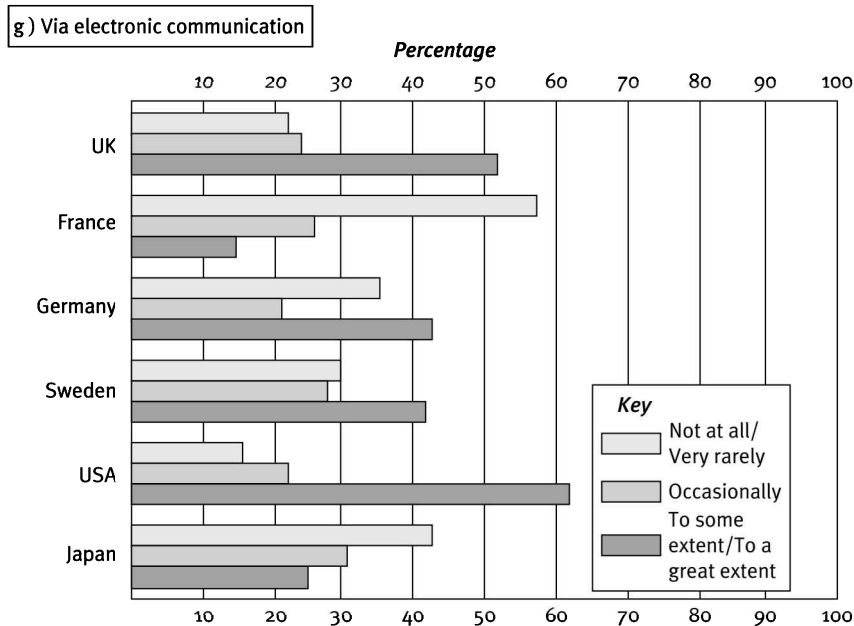


e) Through suggestion schemes



f) Through attitude surveys





Source: Cranet (2010)



REFLECTIVE ACTIVITY 6.4

What might create difficulties in the transfer of information and knowledge between individuals within an organisation?

Amongst the factors that might create 'stickiness' in the passing of information are lack of understanding, or even antipathy, between different functions within the organisation; a feeling that information is power, so that those with it want to hang on to it; strong notions of hierarchy; a desire not to pass on anything that is not polished and complete; and personal predilections to share. Many of these may be influenced by the culture of the country in which the individuals operate – high power distance and strong uncertainty avoidance may make knowledge sharing less likely. Perhaps to some extent relatedly, governance structures may matter too.

Given the differences we have identified in communication practices between countries, it is no surprise to find that cross-national communication is particularly problematic. The cultural dimensions discussed in Chapters 3 and 4 will have an impact here: clearly where, for example, hierarchies are seen as very important (power distance is high), the flow of information between different levels of the hierarchy may be more difficult – and probably so too will be the flow of information between departments. The assumption will be that this should be passed up the management chain until more senior figures can relate to each other: passing information to another department rather than to the boss may not be seen as appropriate. The consensus now seems to be (Foss and Pedersen 2002; Riusala and Smale 2007; Szulanski 1996; Zander and Kogut 1995) that there are various factors that make knowledge 'sticky' – that is, immobile – around organisations, and especially across national boundaries. Establishing systems that allow the information to be transferred more readily becomes a key task – often one of the reasons for using

expatriates. For example, in an analysis of knowledge management and expatriation within professional legal service firms (Beaverstock 2004), it was shown that expatriation was not homogeneous for every region of the world. In some areas, expatriation followed a one-way knowledge diffusion from headquarters. In these cases, expatriates represented the traditional managerial role. In contrast, expatriates from HQs in other regions worked with locally qualified employees and expatriates of other nationalities in an environment where these different groups of people joined partnerships and led teams. The type of learning and its impact on careers will likely be distinct in these two cases.

6.7 REFORM BEYOND COMMUNICATION: EMPLOYEE DISCRETION AND AUTONOMY

Despite the particular and increasing focus on communication in many organisations, many authors suggest that initiatives in this arena are too narrowly focused. In both Europe and North America there are traditions of theorising and of practice which challenge Taylorist and Fordist approaches on a much broader front and/or more fundamentally. Hackman et al's (1982) job characteristics model emphasises the nature or character of the daily work activities performed, or faced by, employees. In particular, this analytical approach suggests, the job satisfaction and commitment of employees hinges upon the scope they have to exercise discretion and autonomy. The tempering of Taylorist or Fordist approaches by direct communication initiatives is in this light seen as an inadequate and ineffective 'sticking plaster' response. In a similar vein, Emery and Thorsrud (1969) and Karasek and Theorell (1990) shaped a 'socio-technical' approach to work organisation departing fundamentally from Taylorism and its variants, emphasising job enrichment and the delegation to non-managerial employees of managerial tasks or prerogatives. To such authors, Taylorism is antithetical to the 'good work' to which organisations should aspire (see Berggren 1994). These ideas have been particularly influential in shaping discussions of the organisation of work in the countries of Northern Europe, but have had a wider resonance too.

6.8 ALL TEAMS AGAINST TAYLORISM?

It is sometimes suggested that teamwork is central to the organisation of work – indeed, that the crucial issue in work organisation is whether front-line employees engage in teamwork or not. Evidently, though, the formal designation of teams by managers is insufficient of itself to imply that front-line employees engage in teamwork on any meaningful definition of the term, any more than the absence of formally designated teams for front-line employees necessarily implies that there is no meaningful teamwork. Moreover, in practice, although if it is to have any meaning at all then teamwork must necessarily involve a collective output, teamwork may still be of very different complexions (see Table 6.1).

Table 6.1 All teams against Taylorism?

	Lean/Japanese-style 'teams'	Groupwork/Nordic socio-technical 'teams'
<i>Individual work pace</i>	Dictated by management	Employees may vary work pace through the shift
<i>Enlargement/enrichment of work</i>	Employees rotate tasks, each of little complexity	Increased work content with responsibility for managerial tasks
<i>Authority/co-ordination</i>	Dense authority structure; foreman or supervisor is key	Delegation of co-ordination to the group

	Lean/Japanese-style 'teams'	Groupwork/Nordic socio-technical 'teams'
<i>Administrative control</i>	Team leader selected by management	Group leader elected by the group
<i>Performance demands</i>	Imposed by management: no absolute upper bounds	Agreed between group and management
<i>Production arrangement in the manufacturing context</i>	Traditional production lines, with just-in-time	Line buffers or assembly in stationary 'docks'

Source: Adapted from Berggren (1993), Rehder (1994) and Vernon (2003, 2006b)

The contrast between lean teams and socio-technical or Nordic teams was elaborated in studies comparing the organisation of work in car and more general automotive vehicle production, reaching its pinnacle in comparisons of approaches to assembly at Japan's Toyota and Sweden's Volvo in the 1980s and 1990s (especially by Berggren (1994)), but is of more enduring and general relevance in locating and analysing the organisation of work. The central contrast between these forms of teamwork is in the extent to which front-line employees, both collectively in their teams and individually in their own contributions, enjoy discretion and autonomy and engage in conceptual and co-ordinating work. In other words, these models of teamwork differ in the extent to which they imply a departure from the division, simplification and fragmentation of Taylorist work organisation.

6.9 CROSS-NATIONAL COMPARATIVE WORK ORGANISATION

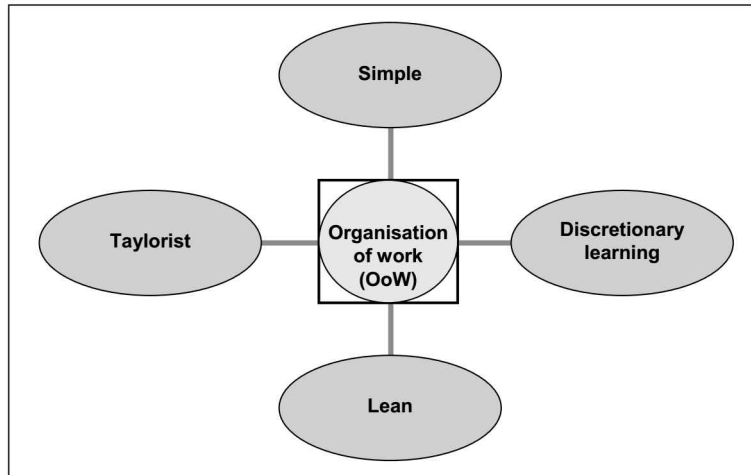
The evidence on cross-national comparative variation in work organisation is less thorough and systematic than that available for some other aspects of people management. Even within the nations of the established OECD or old industrialised world an overview must draw on a variety of differing sources.

One approach to getting a grip on comparative variation deploys data on occupational compositions from national censuses and labour force surveys (for example, Gordon 1996). These can be used to construct aggregate measures of the span of control of those in managerial positions. One might expect that where the span of control is smaller, or as Gordon (1996) puts it 'supervisory intensity' is greater, non-managerial or front-line employees have less autonomy or discretion in their work (see also Maurice et al 1986). Conversely, a greater span of control might be expected to indicate greater non-managerial autonomy. Yet profound difficulties are implied by international variation in the use of the label 'manager'; employees in some countries are much more likely to be so labelled than in others, despite doing identical work. Ultimately, the only cross-national comparative differences in authority structures clear from such evidence are those between North America and the Nordic countries (Vernon 2003). Although in the USA and Canada organisations (and official statisticians) are much freer with the term 'manager' than those in Sweden and Norway, it is also the case that very many more employees have meaningful authority over others in North America than in the Nordic countries. The aggregate span of control is much greater in the Nordic countries, the intensity of supervision much lower, than in North America, providing an indication at least of much greater employee autonomy in the Nordic countries (Vernon 2003).

What of more direct forms of evidence? Case studies of particular companies (for example Berggren 1994) offer depth and richness but can provide no indication of what is typical in a country, nor locate the typical approach in one country compared to another. Yet systematic survey evidence is now at least available across the EU. EPOC and ESWC studies have culminated in the EWCS report (EFILWC 2009) which offers an overview of

the use of forms of work organisation in Europe in 2005. This work deploys a fourfold categorisation of models of the organisation of work (OoW), as shown in Figure 6.4.

Figure 6.4 A categorisation of models of the organisation of work



Source: Developed from European Foundation for the Improvement of Living and Working Conditions (EFILWC) (2009)

The EFILWC (2009) 'simple' approach is essentially a residual category featuring the informal work organisation typical in many or perhaps all countries in, for example, cafés or small retailing businesses. The Taylorist approach is as described above. The lean model is characterised by teamwork, task rotation in the form of multi-skilling, self-assessment of work quality informed by relatively strong quality norms, some limited autonomy but with various constraints on the pace of work. The discretionary learning form has many of the features of Scandinavian socio-technical work, characterised by employee autonomy in work, task complexity, learning and problem-solving, self-assessment of work quality and autonomous teamwork (if any). Examples of each of the various forms distinguished under various categorisations may probably be found in all the countries of the world, and certainly within the EU. What, though, of the relative preponderance of different forms of the organisation of work and the balance of use of the different models in each country?

The EFILWC (2009) report has assembled an index by country of 'innovative work organisation' which summarises the extent of departure from 'simple' and 'Taylorist' models. Comparatively across the EU27 on the innovative work organisation index (2009; see Figure 2) the Nordic members (Sweden, Denmark, Finland) are at the top, with the UK and Germany in the middle, and the new central and eastern European members clustering at the bottom. National rankings on the extent of the use of the discretionary learning form specifically are similar (2009, see Table 6.1), with this use in Sweden (at 67.5% of employees) more than twice that in the UK (at 31.7% of employees) and more than three times that in Bulgaria (at 20.6% of employees).

Interestingly, Slovenia is very close to the UK and Germany, and leads Italy and Spain on the innovative work organisation index; it actually features substantially more extensive use of the discretionary learning form than the UK while also matching the UK in the use of the lean form. What is at issue here is not the manner in which everyone in a country works, but the relative balance of differing forms of the organisation of work, or, more loosely, the typical means of work organisation. The evidence shows very clearly that there

is no necessity that the organisation of work in central and eastern Europe need be cruder than that in western Europe.

RECENT SHIFTS IN WORK AUTONOMY IN EUROPE

Lopes et al's (2014) study begins by stressing that a vast swathe of studies show the importance of work autonomy not only to personal well-being, resilience of self-esteem and high quality personal relationships but also to intrinsic motivation and indeed performance at work. Despite this, however, the successive rounds of the European Working Conditions Survey, spanning 12,000–19,000 employees across 15 European countries, show that outside of the Nordic countries and the Netherlands work autonomy declined through the period 1995–2010, most particularly for the less skilled or, better, lower status, employees, who of course typically form the largest occupational groups within organisations (Lopes et al 2014). These are particularly striking findings in the context of commentaries in the popular management literature which suggest that there is a tendency, in an increasingly competitive and knowledge-based global economy, towards more autonomous working and work organisation.

The decline in work autonomy which Lopes et al (2014) show across Europe, excepting the Nordic countries and the Netherlands, through 1995–2010 has occurred in the context of a fading in the social regulation of work, particularly by unions and joint regulation, in most European countries. Within the Nordic countries the social regulation of work, particularly via collective bargaining and joint regulation, has remained particularly strong, and, as Lopes et al (2014) show, work autonomy has not declined – indeed in some instances it has increased. Developments in the social regulation in the Netherlands have been more equivocal with, for example, collective bargaining coverage remaining very high at over 80% but union membership density showing some decline from a level which even previously was only moderate at best (Visser 2011). Still, the pattern of findings in Lopes et al (2014) overall indicates a role for joint regulation and collective bargaining in shaping work autonomy and developments therein.

Source: Lopes et al (2014)



REFLECTIVE ACTIVITY 6.5

There is no comparable study to that on the organisation of work in the EU for North America. How would you imagine that the use of the four different models of work organisation in the USA and Canada would compare with European countries if there were such comparable evidence?

There is rather little systematic comparative analysis of the character of the organisation of work in newly industrialising and developing countries compared to that in the old industrialised world. What analysis there is supports anecdotal evidence that Taylorism has greater purchase in the developing and newly industrialising countries (see Case Study 6.1). Although this may change as development proceeds, the generality and speed of such change remains uncertain and should not be presumed.



CASE STUDY 6.1

TRANSFER OF MASS PRODUCTION ACTIVITIES TO CHINA

From the mid-1990s, and with gathering momentum, manufacturing companies in Japan and also South Korea have transferred substantial elements of their activities to China, sometimes to wholly owned facilities, but more often via joint ventures with local companies or via some form of close subcontracting arrangement. These developments are particularly apparent in clothing manufacture and in electronics, for example. Typically, the activity transferred has centred upon the more

standardised element of the production operations, with more complex and higher value added activities, as well as most – if not all – research and development activity maintained in the home country. The organisation of work in the Chinese production operations was typically very much more Taylorist than that in the production operations in the home country, the tasks more finely broken down and the employees more closely monitored in China.

Source: Gamble et al (2004)

There are some indications that national culture plays some limited role in shaping the extent to which organisations seek to develop communication between managerial and non-managerial employees beyond the crude, primitive form it takes in the Taylorist or Fordist models (Papalexandris and Panayotopoulou 2004, Table V). In particular, the cross-national comparative pattern of organisational practices revealed by Cranet is linked in some respects to the cultural profile of nations in terms of Hofstede. Cultures exhibiting greater power distance generally feature more limited/less communication via some though not all channels, both downward and upward, and also more limited use of some of the briefings discussed above. More consistently, though, the findings show that greater uncertainty avoidance is associated with a greater effort at communication between managerial and non-managerial employees. To some extent, then, management activity is shaped by managers' and/or by employees' notions of reasonable or legitimate communication across the divide.

What, though, of the drivers of broader-based departures from Taylorism? Stage of industrial development is an obvious influence on the organisation of work. Generally, there appears an inverse relationship between the use of Taylorist or Fordist systems and GDP per capita or labour costs per hour worked. It is noteworthy that this is not merely – nor perhaps even mainly – a matter of the extent of manufacturing or broader industrial sectors. Even within manufacturing, for example, there seems a tendency for Taylorist or Fordist approaches to predominate in developing or newly industrialising countries much more clearly than in the established OECD. However, this relationship is ultimately rather loose. As we have seen, amongst the countries of the established OECD for which there is better evidence it is clear that there are very substantial differences in the organisation of work.

INFLUENCES ON JOB AUTONOMY IN THE EU

Esser and Olsen (2012) deploy data for more than 13,000 employees from 19 European countries (EU plus Norway) to show that, alongside personal characteristics, broad occupational group and contractual status, collective bargaining or joint regulation is a powerful predictor of job autonomy. Job autonomy tends to be highest amongst those who are better educated, older, are in occupational groups of higher status in organisational hierarchies, have more permanent contractual status and indeed amongst men rather than women. Beyond this, though, in

countries where the coverage of collective bargaining is greater, and most particularly where the strength of unions or joint regulation indicated by the density of union membership is greater, there is likely to be greater job autonomy. The findings for the relevance of national arrangements for vocational education and training are, interestingly, very much more equivocal.

Ollo-Lopez et al's (2011) study of almost 10,000 employees in 16 European countries confirms the significance of unions and joint regulation to job autonomy, showing that an index of indirect or representative participation of employees, which amounts to a gauge of the strength of joint regulation, is strongly related to both individuals' job autonomy and organisations' use of autonomous teams. They also confirm Esser and Olsen's (2012) finding that this relationship is not the result of the composition of the workforce, further demonstrating that it is not the case that the relationship is some expression of GDP or the stage of economic development. There is little room for doubt that the stronger social regulation of work, particularly in the form of stronger unions and collective bargaining or joint regulation, promotes job autonomy. In a related spirit, but with a cultural rather than institutional lens, Ollo-Lopez et al (2011) also show that countries with lower power distance in Hofstede's terms exhibit greater autonomy of individuals and of teams, suggesting the relevance to work autonomy either of employees' expectations or managers' notion of what is acceptable or justified. Interestingly, the findings for other aspects of Hofstede's culture are less consistent and much harder to interpret. These findings suggest that if culture has much of an effect on job autonomy, this is related to the societal role and strength of unions and joint regulation.

Sources: Esser and Olsen (2012); Ollo-Lopez et al (2011)

The contrast in the forms of team and group work which have taken hold in Sweden and Japan are intriguing. Given the successes of the Japanese educational system, it would be difficult to argue that the greater autonomy of the Swedish employee is a result of their greater human capital in terms of their greater skill or education. Of course, the apparent tendency for employee autonomy to be less developed even in newly industrialised countries with very good educational achievement, such as South Korea, also suggests the limited purchase of human capital.

However, as we have seen, the best available evidence on comparative organisation of work is from Europe (see the earlier section on the 2009 EFILWC report and the case study on job autonomy in the EU). This data also allows assessment of the importance of industrial composition. It is very clear that the economic structure of countries in terms of their composition by broad industrial sectors, company sizes, occupational structure and demographic characteristics generally plays a small part in cross-national comparative variations. The Netherlands is exceptional precisely because the preponderance of the discretionary learning form is significantly linked to such structural features (EFILWC 2009, p23). Rather than being mere incidental composition effects, the comparative variations generally express enduring characteristics of the context of employment and work.

The typically more innovative approaches to work organisation in the Nordic countries compared to others in Europe suggest that the exceptional union strength in these countries has wrought a distinct approach. Given the remarkably innovative approach to work organisation in Slovenia, distinguishing it from its central and eastern European neighbours, the unusual strength of unions there underscores the suggestion that union strength is the overwhelming influence on the autonomy of employees and complexity of work. Over time, it seems, countries find their place in the international division of labour in a manner which is influenced powerfully by the strength of their unions. Within western Europe, the relatively favourable positions of France and the Netherlands in rating close to the Nordic countries on the innovative work organisation index, and in terms of the use of discretionary learning approaches in particular, suggest that the broader density of institutionalisation of the labour market not only by collective

bargaining but by employment law and indeed welfare states is also of relevance. The limited comparable data available on occupational classifications discussed earlier shows a very marked contrast between North America and the Nordic countries, which, given the weakness of unions, collective bargaining, employment law and the welfare state in the USA, underlines the significance of the social regulation of work for departures from Taylorism.

Cross-national comparative differences in the organisation of work might be read as expressive of differences in culture, with these then thought to give rise to the institutional differences that are associated with, or in turn shape, the organisation of work. However, it is often difficult to see links between cultural features and the cross-national pattern of departure from Taylorism, and in any event, as is noted in Chapter 5 the available evidence seems to suggest that at the level of countries, institutions (shaped by politics and thus perhaps by particular subcultures within policy elites) drive generally prevailing culture rather more than being driven by it (see also Vaiman and Brewster 2015).

It is clear that within the countries of the established industrialised world there is considerable internal variation in the organisation of work, so this is not of course to say that examples of autonomous employees, socio-technical work or discretionary learning may not be found in the USA or Japan, for example. There are also instances of this approach – though likely still less numerous – in the developing or newly industrialising world.

6.10 ONE BEST WAY INTERNATIONALLY IN THE ORGANISATION OF WORK?

Reviews by Boselie et al (2005), Wall and Wood (2003), Paauwe (2004) and Heffernan et al (2011) indicate the accumulating evidence of a tendency for high-involvement work systems (HIWS) or high-commitment management (HCM) to be associated with better organisational and specifically business performance regardless of national boundaries.

THE BEST PRACTICE OF HCM/HIWS

- Selection: screening and expectation-setting
- Training: off-job time and money
- *Teamwork*: problem-solving/cross-function
- *Job design*: complexity and autonomy
- *Communication*: information and consultation
- *Appraisal*: regular, multi-sourced, behaviour-centred
- Pay: pay for performance principally on a team, group or departmental basis.

This best practice bundle centres upon matters of the organisation of work (*in italics* in the list), and is to a great extent defined in contradistinction to Taylorism, but also carries distinct echoes of socio-technical semi-autonomous group work in the Nordic tradition.

Source: Developed from Wall and Wood (2003)

This evidence is consistent with findings that the delegation of management tasks to semi-autonomous groups of employees has a greater effect on business performance where organisations simultaneously deploy group incentives (Antoni et al 2005). Meaningful team or group work, coupled to team or group reward, seems to deliver results. Indeed, there are indications that this combination has the capacity to make up for weak product development/ innovation by management (see Antoni et al 2005).

Of course, ideas such as these provide only a broad-brush guide to evidence-based best practice in the organisation of work, and there is considerable space for these principles to be

adjusted to specific national environments. The implicit warning – that Taylorism is generally not the most effective form of work organisation, even if managers can get away with it – is, however, highly significant. Managers operating in developing and newly industrialised countries, in the transition countries of central and eastern Europe (particularly beyond Slovenia!), but also in some OECD nations, such as the UK, should beware.



KEY LEARNING POINTS

- Although it is sometimes rather neglected in discussions of HRM, there are many indications that work organisation is one of the vital arenas of HRM activity.
- Taylorism remains influential in contemplations of work organisation and in practice.
- Many organisations now seek to overcome the limitations of Taylorism with communication initiatives but also with a more radical and broader-based reform of work organisation.
- The balance of approaches to work organisation varies dramatically across countries, even within Europe.
- Sheer economic development, or GDP per capita, does not explain the cross-national comparative variations in work organisation.
- Cross-national comparative variation appears importantly driven by culture and most particularly by institutions.
- There are some indications of an international best practice in work organisation.



LEARNING QUESTIONS

- 1 We have limited evidence on how work is typically organised in the developing and newly industrialising worlds, but what would you expect to be typical?
- 2 Consider the basis of your view of the work organisation typical outside the established OECD or old industrialised world. Check that it is consistent with what we do know about the comparative organisation of work.
- 3 Why is Taylorism still influential in work organisation a century after its development?
- 4 Might the importance of overcoming the gulf between managerial and non-managerial employees be more important to organisational effectiveness in some countries than others?
- 5 Which are the best methods to facilitate upward and downward communication? Are they likely to vary with different cultures?
- 6 How should an MNC in, say, retail approach work organisation in the various countries in which it operates?
- 7 To what extent do you think companies are constrained in their approaches to work organisation by what their managers, and perhaps in particular their line managers, are comfortable or confident with?
- 8 May 'best practice' in work organisation be inoperable some contexts? Is this always because it wouldn't improve productivity performance?



EXPLORE FURTHER

DOELLGAST, V. (2010) Collective voice under decentralized bargaining: a comparative study of work reorganization in US and German call centres. *British Journal of Industrial Relations*. Vol 48, No 2. pp375–99. This article identifies Taylorism amongst white-collar employees within the established OECD.

ESSER, I. and OLSEN, K.M. (2012) Perceived job quality: autonomy and job security within a multi-level framework. *European Sociological Review*. Vol 28, No 4. pp443–454. This article provides clear evidence on the influences on employee autonomy for 13,000 employees across 19 European countries.

GAMBLE, J., MORRIS, J. and WILKINSON, B. (2004) Mass production is alive and well: the future of work and organization in East Asia. *International Journal of Human Resource Management*. Vol 15, No 2. pp397–409. These authors consider the relevance of Taylorism in the developing and newly industrialising world.

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Flexibility and Work–life Balance

LEARNING OUTCOMES

When you have read this chapter, you will:

- be familiar with the concepts of flexibility and work–life balance, and the relationship between them
- be aware of international developments in contractual and working-time flexibility and work–life balance
- be able to identify similarities and differences at country level in terms of such forms of flexibility and work–life balance
- understand the principal factors underlying cross-national comparative differences in practice in these arenas
- be able to draw conclusions about managing flexibility and work–life balance across country borders.

7.1 INTRODUCTION

The terms ‘labour flexibility’ and ‘flexibility’ can have very different meanings in discussions of HRM. At their broadest, they can concern employers’ overall approaches to the employment relationship, encompassing the use of contracting, matters of the organisation of work, elements of training and development, pay structures and systems. Thus for example the distinction sometimes made between numerical, or external, flexibility and functional, or internal, flexibility is between an organisational emphasis on using contracting to allow shifts in the extent and skill composition of the workforce and an organisational emphasis on developing and eliciting the capabilities of a stable workforce. Some of the matters involved in this distinction very clearly concern training and development and the organisation of work, which are dealt with in separate chapters of this book. The notion of flexibility in the current chapter is more specific, concerning contractual forms and working time arrangements.

The best established, and perhaps still predominant, discussion of flexibility in this sense begins with the employer’s notion of what is required for effective operations, to meet fluctuations in throughput or demand, and sometimes to take advantage of the structure of taxation on employment and employers’ social insurance contributions. Contractual and working time flexibility in this sense relates to what commentators sometimes refer to as ‘atypical’ working or employment. A broad definition of ‘atypical’ employment is that adopted by Delsen (1991, p123), who describes it as deviating ‘from full-time open-ended work employment: part-time work... seasonal work...’. It also relates to ‘contingent employment’, ‘any arrangement that differs from full-time, permanent, wage and salary employment’ (Polivka and Nardone 1989, p10). Morishima and Feuille

(2000) note that contingent employment can include a wide variety of employees. They conclude that:

The common themes that unite the individuals in these diverse categories are that they receive few or no fringe benefits, they have little or no expectation of long-term employment with the firm on whose premises they work at any given time, and they occupy a secondary position to the regular, full-time (or core) employees in the firm's status hierarchy.

To some extent this now traditional flexibility agenda relates to the employment of a more 'peripheral' (vs 'core'), or indeed – in terms of their status in employment – a more 'vulnerable', workforce. It should be noted that such distinctions very much express the evolution of employment practice in the OECD, and the established old industrialised world in particular; such distinctions between 'standard' and 'non-standard', 'typical' and 'atypical' or 'core' and 'periphery' are only relevant given a degree of formalisation of employment relationships.



REFLECTIVE ACTIVITY 7.1

What associations and connotations might these differing concepts have?

The concept that some kinds of work are 'peripheral' or 'atypical' carries with it the idea that they are in some way less significant or worthy than other, more standard, kinds of work. Terming this kind of work as 'contingent' or even perhaps 'disposable' is clearly looking at such work from an employer's perspective, and focusing on the positive side from that position. By contrast, reference to 'vulnerable' employees implies thinking from the employees' point of view, and, moreover, is focused on the downside. It should be acknowledged that there will be a minority of highly successful people on contingent or flexible work contracts whose situation is quite distinct.

The push for flexibility at the end of the last century and the beginning of this one has been driven largely by employers' desires. Necessarily, though, managers must take account of the possibilities of pursuing a certain policy focused upon effective resource planning to meet operational need that the labour market presents. There are those who see the development of the flexible workforce as a long-overdue move away from rigid forms of employment towards forms that can be more responsive to the needs of employees, or can be 'family-friendly'. There are many who would argue that part-time, shift-working or homeworking allows them to spend more time with their children or elderly or disabled family members (Bevan 1996). Moreover, in many EU countries local employment protection helps guard against discrimination, whilst the EU has passed legislation guaranteeing the rights of part-time and temporary workers. Of course, these aims might also be deliberately achieved by organisational strategies to be more family-friendly or, more generally, employee-friendly; this latter constitutes the newer flexibility agenda around work–life balance.

In a general sense, traditional employer-driven flexibility and employee-friendly work–life balance have related antecedents. The traditional flexibility agenda begins with employers' needs but has implications for, and so to some extent must take account of, employees' lives and expectations. In contrast, discussions of work–life balance begin with the employee, as employers and managers seek to interpret and accommodate employees' needs and situations. Of course, here too there must ultimately be reference to organisational objectives. Yet a focus on the newer agenda of work–life balance implies a

rather softer approach to HRM than does a focus on the more traditional flexibility agenda, as we shall see later in the chapter.

7.2 THE IMPLICATIONS OF TRADITIONAL FLEXIBILITY



REFLECTIVE ACTIVITY 7.2

What might be some of the implications of the development of flexible working patterns for employers, individuals, and the state?

For employers, traditional, employer-driven, flexibility offers significant advantages. Contractual and working time flexibility allow them to employ people in a manner that matches better the work they pay for and the work they require. But increased flexibility is not without its problems for organisations. The emphasis on matching workers to work may mean that organisations may well end up with stunted capabilities; certainly non-standard employees are typically offered fewer training opportunities (Brewster et al 1996). Other specific problems centre on the difficulty of establishing policies, administering the system, communication and commitment.

For individuals, flexible working patterns can provide additional opportunities to work, can enable family incomes to be supplemented, and can allow work to be fitted in with family responsibilities. However, flexible work is often low-paid. It is the individual and the family who bear the cost of not working standard hours and contractual arrangements. In addition, workers may well be expected to arrange for and to pay for their own training and skill updating. The transfer of risks implied often means that many individuals and the families that they support cannot be sure of employment much beyond the immediate future. This becomes more than just an immediate financial problem for the families involved; it has a major effect on the rest of their lives, because so much of our society is built on the assumption that most people have standard employment. Thus the ability to purchase goods on credit, to have bank loans, to arrange housing and to provide pension arrangements are still sensitive to individuals' having a full-time, long-term job.

FLEXIBLE WORK: IMPLICATIONS OF ON DEMAND BUSINESS SYSTEMS

THE FUTURE OF WORK: IS THERE AN APP FOR THAT?

A recent phenomenon has been the spread of on-demand business models that bring together computing power to connect people with freelance workers to solve problems. The models offer freelancers from low to high skills, and from low to high entrepreneurialism and creativity, and the services offered may be personal or corporate. In 2009 there were 17 such companies, by 2013 venture capitalists had invested \$1.6 billion in 117 companies, 80% in the USA, and most in global cities. Examples include Uber supplying chauffeurs and ride-sharing, Handy supplying cleaners, SpoonRocket restaurant meals, Medicast doctors, and Axiom supplying lawyers. Brokers such as Freelancer.com and Elance-oDesk link 9.3 million workers to 3.7 million companies. Cheap computing power and advanced applications have enabled complex tasks to be broken down into their components and subcontracted to specialists around the world.

Delivered by the web, both services and freelancers can more easily operate internationally. Uber, launched in San Francisco in 2009 (there are 53 million freelance workers in the USA), operated in 53 countries by 2014 reaching \$1 billion in revenues. The response to this type of business model has been seen on a global scale. Cities, states and countries around the world

have taken different stances on banning and regulating the ride-sharing company, and freelancers went on strike over pay and benefits. Uber has been banned in the Netherlands, is treated as illegal in South Korea, and in Germany forms a target of the Platform-Kapitalismus movement. The social consequences of such models are immense. In effect they allow two types of people to trade (those who have money but no time, trading with those who have time but no money). They will be interpreted in different ways across countries.

Techno-optimists and entrepreneurs eulogise the models, whilst those providing the services or whose own employment is impacted by them, observe more profound implications. On-demand business owners survive by their ability to arrange connections and oversee the quality of work, but do not need to employ people full-time nor guarantee pay and benefits, and regulatory concerns such as health and safety become a matter for debate.

Significant transfers of risk are involved. Financing of social benefits such as pensions and healthcare is pushed back from employers to the individual. Potential beneficiaries beyond the techno-entrepreneurs are consumers, taxpayers to the extent that the efficiency of public resources used can be improved, and those employee segments who value flexibility over security. Potential losers are those employee segments that value security over flexibility, and taxpayers who might have to support contract workers who do not or cannot source their own pensions. The transfer of risks is almost totally from organisation (broker) to the individual, and also from organisation to the state. Individuals, in addition to assuming all welfare responsibilities, become responsible for becoming multi-skilled technically, keeping such skills up-to-date, and developing selling, networking, social media and personal branding skills. On-demand business services also imply the need to shift a range of government measurement systems for employment and wages. Most welfare systems are delivered through employers but would need to be tied to the individual instead and made more portable. Skill development systems also shift from employers to individuals (or to states wishing to enable individuals). Taxation models to recoup the costs for this re-distribution presumably would also need to change.

On-demand business models are another example of innovations that de-stabilise the twentieth century model of capitalism and re-draw the balance of the risks, accountability and cost borne by nations, organisations, institutions and individuals. Ultimately, the implications for flexibility, regulation and protection will depend on the level of wealth that is subsequently distributed, and the power and willingness of each stakeholder going into the arrangement.

See: *The Economist* (2015)

Governments also confront these changes in labour markets. Less training of contingent or flexible workers means lower skill levels in a society. Another important implication concerns the effect on government finances. Even if it reduces unemployment, flexible working tends to increase the number of those in employment who, because they do not work enough hours a week, or enough weeks in the year, end up paying no taxes. Even if part-time working means that two people are getting work rather than one, the overall benefit might be extremely limited if one or both remain on income support, do not pay tax (or even in many cases National Insurance) and have little extra money to spend in the economy.

Arguably, the major benefit of the use of flexibility for employers lies in the transfer of cost and risk from the organisation to individuals and to the state, or to society as a whole (Brewster 1998; Sparrow and Cooper 2003). This may make the employing organisations more efficient, or at least lower cost, but does not necessarily promote employee welfare nor make the country more competitive. For society in general the costs of flexibility can be transferred directly, because the state supplements low earnings and provides support for the unemployed. The transfer of risk means that during periods of unemployment between short-term contracts, for example, the state is again expected to provide support. Costs can also be transferred indirectly in that the requirements for training, for health

and safety and for the provision of other relevant benefits have to be borne by the state. And there are arguably many indirect aspects of this transfer in terms of the effects of insecurity and stress on health levels, in terms of pension arrangements and in terms of housing support. Standing (2014) highlights the significance for individuals and society of the emergence of what he terms ‘the precariat’, suggesting that it threatens the stability of national societies and thus the functioning of economies.

7.3 CONTRACTUAL FLEXIBILITY: NON-PERMANENT EMPLOYMENT

Many of the developments in flexibility relate to contractual flexibility. We discuss two here: short-term employment and sub-contracting.

7.3.1 SHORT-TERM EMPLOYMENT

This is a phrase used to cover any form of employment other than permanent open-ended contracts. To some extent ‘temporary’, ‘fixed-term’ and ‘casual’ contracts are substitutes, and which is used most heavily in a country depends largely on legal and quasi-legal regulations and national expectations. Temporary contracts are those that can be terminated with just the appropriate notice and are recognised by both parties as not intending to lead to permanent employment commitments. They can range from a few weeks’ work (for example, on building sites) to as many as three years’, although typically they are at the lower end of such a distribution. Fixed-term contracts, in contrast, are those which the parties agree will end on a certain date, often after 12 or 24 months. By law, the terminations of these contracts are not treated as terminations of employment per se since the contracts have simply been completed, not broken.

Temporary contracts tend to be set with lower-skilled workers, whereas fixed-term contracts tend to be set with higher-skilled employees. Employers avoid expectations that either type of contract will lead to permanent employment and, consequently, avoid some of the legal obligations, as well as trade union reactions, that the termination of employment might otherwise prompt. Casual contracts occur when both employer and employee accept that the employment will be on an ‘as necessary’ basis. Thus students working in certain occupations over the Christmas and New Year sales period, or catering staff called in to a restaurant just to cover children’s parties, would be examples of casual work. In the UK for example, a rather different form of temporary work arrangement has arisen in the form of zero-hours contracts, under which employers may draw on individual employees’ to the extent that suits them, often at extremely short notice, and paying them only for the hours that they are asked to work (see for example Standing 2014).



REFLECTIVE ACTIVITY 7.3

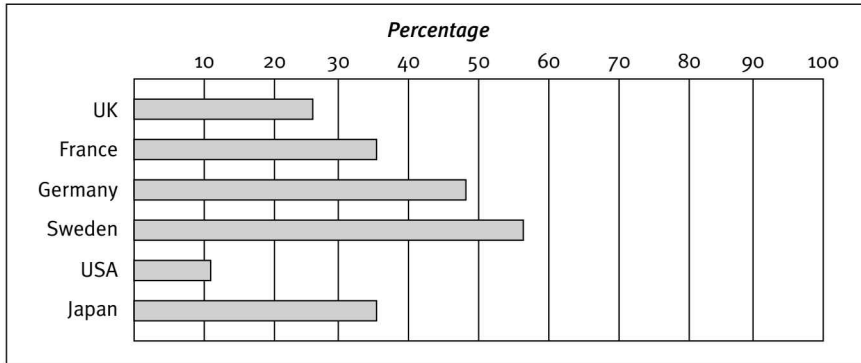
When and why might an employer prefer to offer a short-term contract rather than a permanent one?

In general, it seems that employers are likely to offer short-term contracts in three broad sets of circumstances: when, for one reason or another they are not sure whether or how long a job will last (for example, in the construction industry or when government funding for a charity project might be of limited duration); when they seek to avoid the commitments to employees that come with permanent work (employment rights, pensions, etc); and when they are uncertain that they have chosen the right person.

Cranet (2004) data showed that the use of fixed-term contracts remained generally limited, but there was considerable variability across countries. Despite their reputations

as nations displaying great flexibility in the character of their employment relationships, the Anglo-Saxon nations clustered towards the bottom end in terms of organisational use of these sorts of contracts. The Netherlands has since the efforts to tackle unemployment in the 1990s been a striking exception to this general tendency of limited use of fixed-term contracts. Figure 7.1 shows the Cranet data for 2010 in six countries. It is Swedish, German and French organisations that are more likely to use fixed-term contracts (also Japan), with only 26% of British organisations and 11% of US organisations using them for more than 5% of employees.

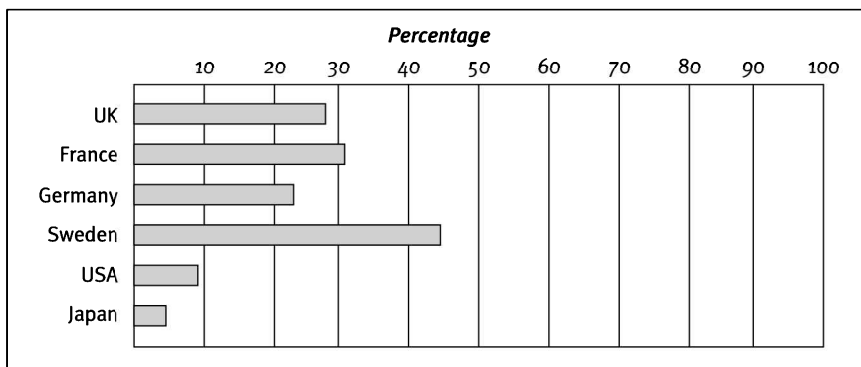
Figure 7.1 Organisations with more than 5% of employees on fixed-term contracts



Source: Cranet (2010)

Generally, the extent of organisations' use of temporary and casual employees also remains limited, but as with their use of fixed-term contracts, there are some marked variations across countries. Cranet 2004 data showed that Anglo-Saxon countries were heavy users. Figure 7.2 shows the situation for six nations using 2010 Cranet data. Sweden, France and the UK have between 25% and 45% of organisations that use these contracts for more than 5% of their employees. German organisations are less inclined to use them, and in the USA and Japan they are now relatively infrequent. The shift in use in the USA is a rather unexpected finding, but appears indicative of a general collapse of external recruitment after the financial crisis of 2007/08.

Figure 7.2 Organisations in which more than 5% of employees are temporary or casual



Source: Cranet (2010)

7.3.2 SUBCONTRACTING

Subcontracting is ‘the displacement of an employment contract by a commercial one as a means of getting a job done’ (Atkinson and Meager 1986). For some employees this will make little difference in terms of flexibility: they might well be permanent full-time employees in a fairly large contractor firm. In many other cases, however, this system – which has always been common in industries like construction, and in countries in Asia and Africa – means the displacement of more traditional contracts of employment with individuals by contracts for services with other organisations. The employment relationship will have been superseded by a contracting relationship with a provider who is at least formally self-employed. This is a system beginning to spread in some countries of the established OECD, with the explosion of self-employment in the UK since the financial crisis of 2007/08, from levels already high, particularly notable.

7.1 INTRODUCTION

7.4.1 PART-TIME WORK



REFLECTIVE ACTIVITY 7.4

What advantages might accrue to employers and to employees from employing people on a part-time basis?

Part-time work helps managers to match the labour available to peaks and troughs in demand during the working day and week. Recruiting a few part-time workers to cover particularly busy periods, for example, may mean that other employees can work more standardised hours and the total full-time equivalent headcount can be kept down. It is also argued that judicious use of part-time employment allows employers to pay only for the most productive hours of an employee’s time (the longer one works the less productive per hour one becomes). On the other hand, such arrangements can be beneficial for those with, for example, family care responsibilities who find that longer working hours exclude them from participating in the labour market. Approximately 85% of part-time workers in Europe, it might be noted, are female.

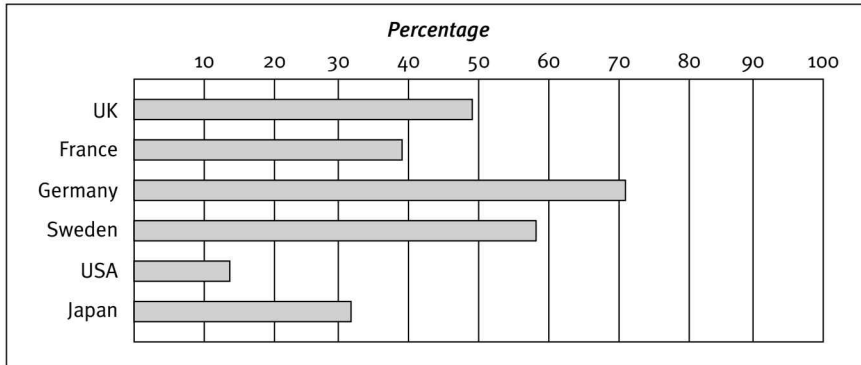
Part-time work is an example of flexible working which provides something for the employee, involving lower pay for fewer hours, but allowing the employee time outside work for caring for children, relatives and friends, charitable work or self-actualising or emancipatory activities of their choosing. Most employees with part-time contracts express satisfaction with working less than full-time, given their other commitments, responsibilities and interests.

Since a substantial majority of part-time workers are female, it is no surprise to find that there is also a correlation with female participation in the labour force (Rubery and Fagan 1993; Rubery et al 1996) and, indeed, with childcare arrangements (Rees and Brewster 1995). It is much used in northern Europe (long constituting over one-third of the workforce in the Netherlands, a quarter of all employment in the UK and Sweden) but generally less common elsewhere.

Definitions across national boundaries can be complex. Part-time work, for example, will apply to any work hours short of the normal working week for each country, which vary across the globe. Thus, in France and Belgium, part-time work is defined as

four-fifths or less of the collectively agreed working time; in the Netherlands and the USA as less than 35 hours per week; in the UK as less than 30 hours, with lower thresholds in relation to social security contributions. Elsewhere, the norm is concentrated around 25–30 hours per week (see Bolle 1997, or Brewster et al 1996, for more complete listings).

Figure 7.3 Organisations in which more than 10% of employees work part-time



Source: Cranet (2010)

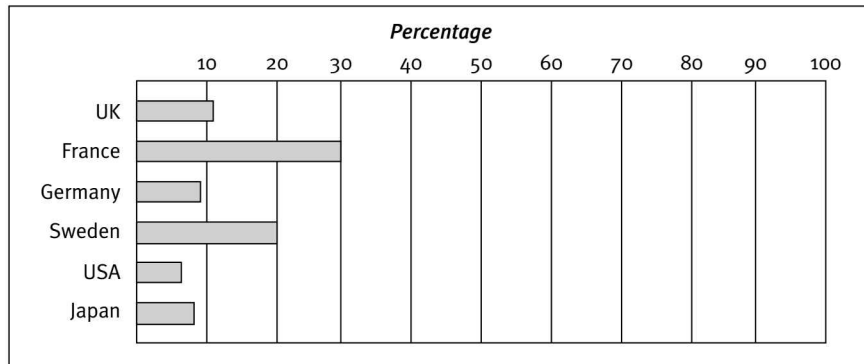
Cranet 2004 data showed marked comparative variation in the use of what employers themselves regard as part-time employees. Figure 7.3 shows the proportion of employers having more than 10% of employees working part-time based on the Cranet 2010 data. The UK remains a high user of part-time contracts, although this form of working is still more prevalent in northern continental Europe.

In some respects, job-sharing represents a development of the established idea of part-time work. Generally, it remains rather uncommon. The Cranet 2004 data showed only 5–10% of organisations in the vast bulk of nations reporting that more than 5% of their employees job-share. However, as usual there were some exceptions to the general tendency. More than two-fifths of Slovakian organisations reported that over 5% of their employees job-share. In Turkey, the proportion was just over a quarter. These comparatively very high incidences are perhaps the flipside of the very limited use of part-time employment in these two countries.

7.4.2 OTHER FORMS OF WORKING TIME FLEXIBILITY

Annual hours contracts typically offer full-time employment without necessarily offering consistency in hours week-to-week. From the employer's point of view, they offer a means of adapting to variations in the amount of work to be done. From the employees' point of view, though, although they might in some instances afford extended, pre-planned family holidays, they can be very disruptive. Although annualised hours contracts have been becoming increasingly common, their incidence across nations varies markedly. It is in France that they figure most prominently – both in 2004 and again in 2010 (see Figure 7.4) – with some 30% of organisations reporting that more than half of their employees are on annual hours contracts.

Figure 7.4 Organisations with more than half of their employees on annual hours contracts



Source: Cranet (2010)

There is a wide variety of other flexible working time patterns available – some of them very new and growing – but in general they are less widespread. They include such approaches as shift-working, weekend working and term-time working, networking, working as consultants or government-sponsored trainees, and teleworking.

7.1 INTRODUCTION

Debate around work-life balance occurs in the context of the changing future of work, flexible working patterns, a feminisation of the labour force in many countries, and, increasingly and perhaps relatedly, a reassessment by many employees of the priorities in their lives. Organisational initiatives may range from symbolic devices to counteract poor publicity, through efforts to deal with an immediate problem of recruitment or retention, to efforts to foster a new atmosphere and perhaps greater personal integrity and a more sincere workplace. Currently, rhetoric about a new balancing often exceeds the reality in many workplaces.

To some extent the language of 'work-life balance', like the language of flexibility, is problematic. In practice, life and work overlap and interact, with work giving substantial meaning to peoples' lives (Taylor 2002):

In the experience of most people no clear-cut distinction can be established between the world of work and the world of family, friends and social networks and community. In practice, over the length of our lives it is impossible to establish neatly-constructed demarcation lines. Moreover, the word – balance – implies the existence of a settled equilibrium that can be achievable between paid employment and a life outside the job. This is highly questionable.

In this context, terms such as 'reconciliation' or 'synergy' may be more appropriate to the discussion, crystallising better the issues at stake (Taylor 2002). The terms 'work-family conflict' and 'family-work conflict' capture the agenda in a more striking way. Whatever the terminology, the work-life balance agenda implies a questioning of the effectiveness of the rigidity of many of the established dimensions of paid work, around the regularity of hours, work location, and indeed the effectiveness of long hours where employees feel torn, feel resentful, or experience self-loathing as a result of their time commitment to work. Initiatives in work-life balance offer the employee more autonomy in seeking to reconcile his or her differing roles, allowing him or her to reorder the boundaries between work and non-work.

Very often, discussion of work-life balance revolves around a need for 'family-friendly' policies, in recognition of the very severe difficulties which work can pose for family roles, and of the significance of those roles to so many employees, most obviously in terms of

parenting but also in terms of caring for older relatives or friends. Of course, the work–life balance agenda can also encompass consideration of the implications of employees’ commitments to voluntary work, or any activity that in some respects competes for attention with paid work roles.



REFLECTIVE ACTIVITY 7.5

What advantages might accrue to an organisation from the introduction of family- friendly policies?

Employers rarely introduce policies that make for a better work/non-work balance because they feel altruistic. Those in the private sector need to make money and those in the public sector need to provide cost-effective services. But there are arguments that employers can gain considerable benefits from such policies: more motivated and committed staff, less absenteeism, less turnover, etc.



WORK–LIFE BALANCE IN CHINA

CASE STUDY 7.1

In practice, professional and managerial employees are left to cope with work–life conflict (WLC) as best they can as individuals. Despite the apparent implications of law, involuntary overtime, often at short notice, and the absence of rest days are common in practice; law enforcement is uneven at best. Working weeks of 60 hours are common for managerial and professional employees in the private service sector.

Managers are unsympathetic towards, and unresponsive to, the pressures brought on employees by family commitments including childcare. Work–life balance efforts consist largely of encouraging family members to

participate in company sponsored events, constituting corporate bonding or work–life integration initiatives. Chinese employees appear to value such efforts at least in an immediate sense. The diligence and self-sacrifice expected and glorified in socialist ideology are now exploited for private as well as public profit.

Thus, professionals and managers themselves are in general no better placed than are the much larger group of hourly paid employees, for example in manufacturing, who seek to increase their modest incomes by working longer hours.

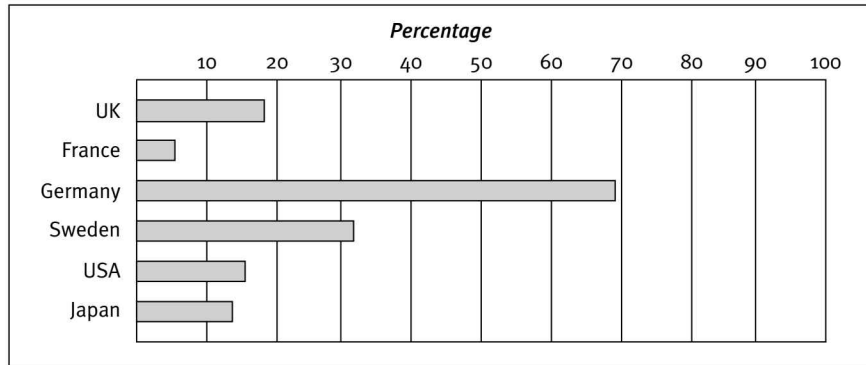
See: Xiao and Cooke 2012

7.5.1 FLEXITIME

In some respects flexi-time offers something similar to annual hours contracts, although it is rather more employee-friendly in general. Flexitime is now quite common in many countries but the comparative variation in incidence is still enormous. Flexitime is very common in the Nordic nations, with approximately 35% of all organisations in 2004 reporting its use for more than half of their employees (Brewster et al 2007). High incidence was also apparent in other continental northern European countries: Austria, Switzerland and Belgium. There was comparatively little flexitime in the Anglo-Saxon world. Figure 7.5 shows the situation by 2010. There is massive use of flexitime in

Germany, compared to very little use in France. In the UK, the USA and Japan around 15% of organisations have gone down this route.

Figure 7.5 Organisations with more than half of their employees on flexitime



Source: Cranet (2010)

7.5.2 COMPRESSED WORKING WEEKS

Compressed working weeks offer an alternative means of balancing commitments to and outside work, and are often used by parents of pre-school children. The very limited use of compressed working weeks in any country deserves stressing. However, cross-national comparative variation in organisational use was already quite marked by 2004. North America and the UK featured comparatively extensive use of this relatively new practice, with around 10–20% of organisations having 5% or more employees on compressed working weeks. The extent of use in the UK and the USA has remained fairly stable, but once more there has been a widespread adoption of the practice in Germany, with Sweden also going down this route.

7.5.3 TOTAL WORKING HOURS

Much of the debate around work-life balance centres on the manner in which working time is structured, in particular with regard to the rigidity of the commitment which employees must make. Yet total working time is of obvious relevance to work-life balance. The comparative differences are immense. Within the EU, the number of public holidays per year ranges from eight to 14, with the UK at the bottom and Portugal at the top. This is just the beginning of differences even in holidays, however. The average number of vacation days (including public holidays) taken by employees around the world varies enormously, from 13 days in the USA, to 28 days in the UK and 42 days in Italy (ONS 1999).

Weekly working hours in the UK are famously long compared to other European countries, such that the EU's Employment in Europe survey reported that almost half of the seven million male workers working over 48 hours a week in the EU were employed in Britain. Unsurprisingly in this context, 'working sick' is a common experience for British employees, and appears shared with employees in the USA and Japan. Indeed, increasingly in the UK, as in Japan, an apparently growing minority of employees seem expected to take days off as part of their holiday entitlement rather than to take them as 'off sick' not only when their children are sick but when they themselves are so sick that they cannot work. This sort of situation is much rarer in the bulk of the advanced industrialised world.

Differences in vacation time, in the normal working week, in overtime, and in sickness absence, but also in study leave, result in striking differences in average annual hours actually worked across countries. Vernon (2000, Table 20) provides comparative data for the mid-1990s centring on the manufacturing sector, in which full-time work predominates. What is striking is that other more partial evidence suggests that, aside from some lengthening of typical German working hours, there has been limited change in the positions of countries regarding annual working time since this time. The very long hours worked in the UK are exceeded by those in the USA and Canada, and, despite the falling hours consequent on slump, also in Japan. Hours in emerging and developing nations are, as far as we can tell, generally much longer than the longest reported here for the established advanced industrialised world (see Table 7.1.)

Table 7.1 Average annual working time (hours), in manufacturing, mid-1990s

Country	Annual hours
USA	1,980
Japan	1,978
Canada	1,902
UK	1,839
Italy	1,741
Austria	1,668
Norway	1,659
Sweden	1,646
Finland	1,633
France	1,610
Germany	1,521

Source: Vernon (2000)

It is clear that there are associations between total working hours and health. Sparks et al (1997) established correlations between work hours and poorer physiological health, gauged by indicators including headaches, work accidents, coronary heart disease and general health symptoms. Long hours also showed a stronger correlation with psychological health, gauged by for example irritability/tension, problems with relationships, lack of concentration, tiredness, role strain, anxiety, frustration, insomnia, depression, and general mental stress.



REFLECTIVE ACTIVITY 7.6

In considering work–life balance:

Might it be that an employee's total annual working time is of more significance than specific initiatives like flexitime and compressed working weeks which re-order a given amount of working time?

If so, why is there so little discussion of total hours worked in many countries?

7.6 FACTORS UNDERLYING COMPARATIVE VARIATION IN FLEXIBILITY AND WORK-LIFE BALANCE

Generally, there is little evidence that national culture – conceived in the manner of Hofstede, for example – influences patterns of flexibility and work-life balance. However, Brewster and Tregaskis's (2002) analysis confirmed that the country of operation has a large effect on organisations' use of flexibility in their terms, accounting for 25% of the variance across organisations. Here, as elsewhere, institutional explanations of cross-national comparative difference have more promise (Vaiman and Brewster 2015).

Tregaskis and Brewster's (2006) study of five European countries shows the importance to the extent of fixed-term work of the advantages offered to employers by fixed-term contracts over permanent or open-ended contracts. Where employment law, or employment protection legislation, places relatively more restrictions on dismissal or redundancy for employees on permanent contracts, fixed-term use tends to be higher. Thus in the Netherlands, employment protection legislation places exacting requirements on employers wanting to terminate the contract of a permanent employee, whereas there is little restriction on the use of fixed-term contracts, encouraging fixed-term contracting. In contrast, in the UK the balance of employment law is such that the employment of permanent employees imposes relatively little restriction on employers beyond that involved in the use of fixed-term contracts. Use is thus much lower in the UK (Tregaskis and Brewster 2006). Similarly, the 'fire at will' reality of even permanent employment relationships in the USA means that fixed-term contracts are little used there. Strikingly, the exceptionally low use of fixed-term contracts in Denmark within the Nordic group underscores the power of this explanation, because employment protection legislation for permanent employees is much more limited in Denmark than in the other Nordic countries (see Andersen and Mailand 2005).

As Tregaskis and Brewster (2006) note, there is also some suggestion that patterns of skill formation interplay with labour law in shaping the use of fixed-term contracts, such contracting being rarer where there is more emphasis on the firm-specific, rather than transferable (or generic), skills which develop over time through a long employment relationship.

Brewster and Tregaskis's (2002) analysis showed that sector of operation accounts for 17% of variance in the levels of uptake of flexibility. MNC status accounts for very little variance – a mere 1%. At least within the established OECD, the industrial composition of countries seems of very limited relevance to their organisations' use of contractual flexibility, but it seems that in particular countries it is of particular importance. Tregaskis and Brewster (2006) suggest that the importance of agriculture and tourism in Spain help to account for the comparatively heavy use of temporary labour there. A similar argument, perhaps focused in particular on agriculture, might be made for France or even Australia. Certainly, though, there is more to the use of temporary staff than industrial structure.

Although to some extent there is a tendency that fixed-term contracts are used for employees who are more skilled and/or better qualified whereas temporary or casual work is used for employees who are less skilled and/or less qualified, to some extent, temporary work and fixed-term work seem to substitute for each other. Organisations in the Anglo-Saxon nations tend to secure numerical flexibility via the use of temporary and casual employees, rather than through fixed-term contracts. As we have suggested, fixed-term contracts often offer little advantage to Anglo-Saxon employers over permanent contracts, but temporary or casual work, often via agencies, offers much more. It seems that the willingness of Anglo-Saxon employers to deploy temporary or casual staff is also expressive of a comparatively weak emphasis on firm-specific skill in people management, with skills regarded as transferable, or perhaps even relatively unimportant (see Tregaskis and Brewster 2006). Thus the low value placed on educational qualifications in the UK

context, in combination with the lower level of vocational training, encourages poaching and reliance on external labour markets. This places more of a premium on contractual flexibility.

Fixed-term contracts in occupations that are in high demand and low in supply, such as software designers, can prove quite advantageous for individuals in terms of reward packages and opportunities for skill enhancement. Yet generally, the evidence is that most employees with a temporary or fixed-term contract would prefer a permanent one. Often, though, part-time employment allows those with other responsibilities (young children, elderly relatives, etc) to be away from work when they need to be. Across Europe, EU surveys show that most people on part-time employment tend to prefer those kinds of contracts. They tend to be less common in the southern European countries where pay levels are lower (part-time work = part-time pay, and if the pay is low anyway, that may not be attractive) and where family support for working mothers is higher. The use of part-time (as well as fixed-term and temporary work) in the Netherlands is particularly great even for comparatively high-wage northern Europe, reflecting to a great extent the efforts made by the Dutch government to reduce unemployment in the 1990s (Visser and Hemerijck 1997).

EMPLOYEE VULNERABILITY, EMPLOYER OPPORTUNISM AND EMPLOYER-CENTRED EXTERNAL FLEXIBILITY ARRANGEMENTS

Raess and Burgoon (2013) examine the influences on employers' use of external flexibility arrangements, using data for almost 10,000 enterprises across 16 European countries. They focus on employers' use of fixed-term and temporary agency contracts, and indeed of part-time contracts not to accommodate employees' preference but rather for employer convenience. They find larger organisations much more likely to deploy an employer-centred external flexibility approach, presumably as both the need for and capability to operationalise such an approach are found more often in larger organisations. Moreover, an employer-centred flexibility approach is more likely where a greater proportion of an enterprise's employees are women, presumably as women's tendency to be more embroiled in caring roles leaves them more vulnerable to employers' preferences and convenience. However, it is the finding regarding the proportion of immigrant employees that the authors stress; enterprises with a larger share of their workforce foreign-born are more likely to feature employer-centred flexibility. The authors interpret this as indicating that employer-centred external flexibility is promoted by immigration, essentially as immigrants typically have a less well developed sense of appropriate conditions, are less well-informed and resourced, and are thus more vulnerable to employer pressure and opportunism.

Clearly, the findings regarding the share of the foreign-born and of women in the workforce are of similar spirit, but it may be a little simplistic to conclude that the availability of immigrants or female employees promotes employer-centred external flexibility. To some extent at least, it is likely that women and immigrants are sorted into the less attractive roles offered by employers who have a longstanding attachment to employer-centred external flexibility. At minimum though, it is clear that, given the relative vulnerability of foreign employees in the context of the limits of the protection afforded them in practice by the social regulation of work in Europe, immigration facilitates such employer-centred external flexibility. Similarly, at minimum, the vulnerability of women to employer preferences implied by the expectations of women characteristic of even modern European societies aids organisations in sustaining employer-centred external flexibility.

Source: Raess and Burgoon (2013)

What of other forms of working time flexibility? The exceptional use of annual hours contracts in France is in large part a response to the French ‘35-hour week’ legislation of the 1990s, which actually implied not that employees must work 35 or fewer hours in any particular week but rather that annual working time should be such that the average working week is 35 hours. Employers and employees have often come to the view that the mutually beneficial way of handling this working time reduction was that employees would work more variable hours across the weeks of the year. Many, although not all, of the countries where annual hours contracts are more common are countries where unions are particularly strong and/or labour costs particularly high, suggesting that employers seek them as a means of maintaining competitiveness, and employees and their representatives accept them as a means of maintaining comparatively high levels of pay.

There is currently little cross-national comparative research on the drivers of work–life balance. In the Nordic countries, particularly Sweden, incidence of flexitime is heavy, and we might reckon its incidence to be expressive of the extent of the feminisation of the labour force, particularly as this extends to fulltime work, given the high figures for female participation in the Nordic countries. But flexitime is common in northern continental Europe more generally, with its strong unions generally rendering collective bargaining weightier, and social policy often more supportive of employees. In these circumstances it seems that employees often expect, and employers often grant, the daily personal flexibility which flexitime gives. As we have seen, there is much less use of compressed working weeks generally, and to an extent where this is used it seems to be an alternative to flexitime, perhaps where the social regulation of work is lighter, and total working time longer.

CONFLICT BETWEEN WORK AND HOME LIFE IN THE OECD AND BEYOND: CROSS-NATIONAL COMPARATIVE DIFFERENCES

Stier et al’s (2012) research on the conflict between work and home life, which centres most particularly on the work–family imbalance which is in practice central to this tension, establishes enormous differences in both men’s and women’s sense of such conflicts across 27 nations spanned by the International Social Survey Programme (ISSP), covering the bulk of the countries of the OECD and, in addition, Russia, Cyprus, Latvia and the Phillipines.

Employed people’s sense of work–family imbalance is least marked in the countries of northern continental Europe, including the Nordic countries but also the Netherlands, Germany and Switzerland, and Japan. Employees’ sense of imbalance is most acute in some central European countries, particularly the Slovak Republic and Poland, but still more so in Latin America, specifically Chile and Mexico. The UK and USA are approximately average.

To some extent the differences across countries are related to their economic development, with greater GDP tending strongly to reduce the sense of imbalance, presumably as it implies greater resources with which they may be managed but perhaps also a greater societal sensitivity to such matters. Moreover, intriguingly and perhaps to some extent relatedly, there is a similarly strong tendency for greater female workforce participation to be associated with less (sic) of a sense of imbalance.

However, the findings regarding the effects of social policy, which take account of (that is, control for) the effects of the characteristics of individuals (for example, age, marital status, children at home) and their job roles (such as working hours, status at work), are most striking. Extensive paid maternity leave and, more strongly, a higher proportion of young children in day care mitigate work–family imbalance.

Broadly, countries whose workforces exhibit the least work–family imbalance are those where social policy is most supportive of families (for example the Nordic countries). However, the limited imbalance expressed by the Japanese workforce in particular is intriguing. To some extent at least this seems the result of higher GDP and workforce composition effects. However, the findings suggest that the Japanese are either particularly resilient to work–home tensions or do not explicitly identify them as such as much as do other peoples. Chandola et al (2004) clarify the situation, showing that Japanese employees have comparatively poor mental health, and that this is comparatively particularly strongly linked to family–work conflicts. Rather than being particularly resilient, the Japanese are merely particularly reticent in identifying tensions between work and home.

Source: Stier et al (2012)

What, then, of total working time, regardless of how it is arranged? Vernon (2000) shows for the established industrialised world that the strength of unions in collective bargaining, and indeed the extent of the role of national governments in shaping and regulating the employment relationship, are central influences on the average annual hours of work of employees. The very long working hours typical in developing and newly-industrialised countries, which typically feature less social regulation of work by unions and governments, and in which employees also typically have fewer financial resources on which to fall back, underscore the importance of the collective and individual resources held by employees for the containment of their total working time.



REFLECTIVE ACTIVITY 7.7

Currently we have little but anecdotal evidence on work–life balance in developing and newly industrialising countries. What do you think the general situation in, say, India or Vietnam might be? Why?

NATIONAL WORKING TIME REGIMES

Berg et al's (2014) international review of working time arrangements offers a useful general framework for beginning to understand differences across countries, and to an extent even within them. They distinguish between unilateral, negotiated and mandated configurations or regimes. Under a unilateral regime, working time arrangements are essentially at the discretion of the employer, with little or no restrictions implied by statutory or joint regulation. Under a negotiated regime, working time arrangements are subject to collective bargaining or joint regulation involving unions, sometimes complemented by works councils with statutory rights. Under a mandated regime, the social regulation of working time is principally by statute.

The clearest national case of a unilateral regime is the USA. In practice the unilateral regime implies a great variety of arrangements, across and indeed within enterprises, around a general tendency to long annual working hours for full-time employees, exaggerated pecuniary disadvantage for part-timers, and little employee-friendly working time flexibility. The USA is archetypal, with short vacations and long standard working hours common for full-time

employees. In many enterprises employees are asked to stay overtime with little or no notice, although in the USA at least the law mandates that overtime must typically be paid at a premium of at least 50%. Part-time work is associated with very much lower hourly pay and few employee benefits, with the absence of health insurance for the bulk of part-timers particularly striking. Moreover, employers in some sectors exploit the possibility of on-call and zero-hours contracts to afford the ultimate employer-centred working time flexibility; the most ruthless ‘boots on the ground’ approach. In the USA, the most common employee-friendly working time arrangement is some degree of flexi-time and/or compressed working weeks, with little else offered.

The archetypal negotiated regime is Sweden. Joint regulation, involving industrial agreements sometimes supplemented by company or enterprise-level agreements, closely regulate working time arrangements. These agreements typically offer provisions at least as favourable to the employee as statutory regulation, as for example regarding the extent of paid vacations, parental leave and the pay of part-time relative to full-time employees. In some areas, such as weekly working time, industrial agreements specify annualised hours arrangements which imply a contravention of the standard statutory working week, but do so in return for lower average weekly hours or more employee-friendly working time flexibility such as leave accounts or time-banking arrangements. Alongside such leave accounts and time-banking arrangements, flexitime is also common. Parental leave is generous and flexible, amounting to more than a year at a minimum of 80% of normal pay, and shared between mothers and fathers, although the former typically take a 3/4 share. There is also generous provision for parents to take paid carers’ leave to look after sick children or vulnerable relatives. Part-time work is limited, with 2/3 of women working full-time, but involves no (hourly) pay penalty. In virtually every detailed respect, and in terms of total annual working time, the arrangements resulting from comprehensive joint regulation are strikingly employee-friendly. Indeed, the vast bulk of Swedish employees express satisfaction with working time arrangements.

The archetypal mandated regime is France, with the much-discussed statutory 35-hour working week the centrepiece, but complemented by a statutory right to five weeks’ paid vacation. In practice, organisations seek to compensate for the statutory restrictions on total working time via annualised hour arrangements, typically agreed with company or enterprise level unions which are very weak but wary of employers’ demands. In other respects, employee-friendly working time flexibility is limited, with little flexitime for example. Part-time work is fairly limited, with women able and typically wanting to return to full-time work after motherhood given the availability of affordable public childcare, but remunerated (hourly) similarly to full-time work. Overall the French arrangement is quite rigid from the viewpoints of both employers and employees, but generally affords much more employee-friendly working time arrangements than are experienced in the unilateral regime of the USA, for example.

Source: Berg et al (2014)

7.7 INTERNATIONAL BEST PRACTICE IN FLEXIBILITY AND WORK-LIFE BALANCE

We might expect that in this area organisations necessarily must respond to their contexts, adapting their approach in a considered way to the requirements of their industry and niche, and indeed to the national context of their operations. It seems particularly implausible that there might be a best practice in terms of the older agenda of contractual or working time flexibility, given that of its essence this agenda concerns an organisational effort to match employees to work or product demand.

ENTERPRISE-LEVEL WORKING TIME FLEXIBILITY REGIMES: INTERNATIONAL COMMONALITIES AND CROSS-NATIONAL COMPARATIVE DIFFERENCES

Chung and Tjeldens (2013) study offers a valuable detailed analysis of practices in more than 21,000 enterprises spanning 13 industries in 21 European nations.

Strikingly, establishments or enterprises exhibiting clearly employee-centred working time flexibility do not tend to exhibit employer-centred working time flexibility, and vice versa. Specifically, companies tend to feature more generous arrangements regarding leave generally (spanning care leave, education leave and other leave) or a demanding profile of overtime, unusual hours and shift work, not both sets of practices together.

There is, however, a third clustering of working time flexibility which is again quite distinct, which features what can reasonably be regarded as initiatives which offer working time flexibility for both employers and employees, comprising part-time work, flexible working hours, reduced working hours and indeed phased retirement. Enterprises exhibiting this profile tend not to exhibit the purer dichotomous configurations outlined above.

At the level of countries, broadly speaking countries which tend to have many enterprises with an employee-centred flexibility regime also tend to have many (mostly other!) enterprises with an employer-centred regime, suggesting that to some extent countries either exhibit working time flexibility of some sort or exhibit neither. There is quite a strong tendency for newly acceding EU members or transition countries and Mediterranean or southern European countries to have rather less working time flexibility and for more northern European countries to have rather more. This suggests that employment relationships remain rather more traditional in terms of time (in)flexibility in southern Europe and newly acceding/transition countries than in the north of Europe. However, more detailed analysis shows that the Nordic countries, the Netherlands and Poland have very much more employee-centred working time flexibility than either southern Europe or the remainder of northern Europe.

Source: Chung and Tjeldens (2013)

Yet might there be an approach to flexibility and/or work–life balance which at least generally tends to deliver better organisational and business performance across countries? There is one crucial study. Bloom et al (2009) examine the business performance impact of work–life balance initiatives in hundreds of medium-sized manufacturing companies in the USA, the UK, France and Germany. They find that there is an association between work–life balance, gauged in terms of practices and employee perceptions, on the one hand and (better) productivity performance on the other. Yet they show that this is entirely due to a coincidence between organisations' deployment of work–life balance initiatives and the use of management practices concerning work organisation and performance management which constitute the 'good management' approach they identify as actually in improving productivity performance. Thus, it seems, in the realm of work–life balance, although organisations should not generally hope to find a means to boost productivity, they can find a means of rendering work and working lives more pleasant and manageable for employees without impeding productivity. One implication of this, as Bloom et al (2009) themselves suggest, is that the tendency to emphasise work–life balance in Europe, as compared not only to North America but other regions of the world, does not generally imply a productivity cost.

The 'encompassing' service-intensive welfare states of the Nordic countries feature more or less universal childcare provision, the bulk of which is orchestrated by national or regional government (Esping-Andersen 1999). Although less comprehensive, France has

extensive provision by the state, particularly for children aged three and over. To a significant extent, the work–life balance agenda in the Nordic countries in particular has, through childcare initiatives and other support for parents, been taken out of the hands of employers. The quality of working life agenda pursued systematically by the Nordic trade unions has also sought to allow employees more easily to balance home and work responsibilities. Employers have often responded creatively to the pressure applied by unions in negotiations at multiple levels, bringing, as we have seen, more flexible working in the Nordic nations, and productivity and competitiveness has been combined to a remarkable extent with improvements in the quality of working life (see Gallie 2003).



REFLECTIVE ACTIVITY 7.8

Why might we expect practices with regard to flexibility and work–life balance to affect employees' health?



KEY LEARNING POINTS

- The traditional flexibility and newer work–life balance agendas have very different emphases.
- There are some general trends in flexibility which seem to be happening in many countries: there is a widespread move to increase the extent of flexibility within the workforce.
- There are, however, sustained national idiosyncrasies in the nature and extent of the flexibility practised.
- Despite the general currency of the new work–life balance discourse, the nature, extent and implications of work–life balance initiatives also vary markedly between countries.
- Companies are constrained or influenced in their flexibility and work–life balance practices by culture, financial and corporate governance arrangements, legislation, training provision, multi-employer agreements and trade union involvement and consultative arrangements.



LEARNING QUESTIONS

- 1 Do the differences in flexible and work–life balance practices discussed in this chapter constitute a barrier to MNCs' transferring personnel policies and practices across borders?
- 2 Why do countries respond differently in terms of flexibility and work–life balance to what seem similar economic pressures?
- 3 What country factors does an HR manager need insight into in order to understand the flexibility and work–life balance trade-offs that are preferred in any particular country?
- 4 Given the imperatives of modern capitalism, should we expect convergence across countries, or at least convergence across the national operations of MNCs?



EXPLORE FURTHER

- BLOOM, N., KRETSCHMER, T. and VAN REENAN, J. (2009) Work–life balance, management practices and productivity. In: FREEMAN, R.B. and SHAW, K.L. (eds). *International differences in the business practices and productivity of firms*. Chicago: University of Chicago Press. The authors provide a detailed international analysis of the link between work–life balance practices and business performance.
- CHANDOLA, T., MARTIKAINEN, P., BARTLEY, M., LAHELMA, E., MARMOT, M., NASERMOADDELI, A. and KAGAMIMORI, S. (2004) Does conflict between home and work explain the effect of multiple roles on mental health? A comparative study of Finland, Japan and the UK. *International Journal of Epidemiology*. Vol 33, No 4. pp884–893. This article examines some of the health implications of the differing national practices in these arenas.
- TREGASKIS, O. and BREWSTER, C.J. (2006) Converging or diverging? A comparative analysis of trends in contingent employment practice in Europe over a decade. *Journal of International Business Studies*. Vol 37, No 1. pp111–26. The authors provide a detailed comparative analysis of the influences on flexibility practice.

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Recruitment and Selection

LEARNING OUTCOMES

When you have read this chapter, you will:

- understand the different purposes of recruitment and selection systems
- understand the most common recruitment and selection tools and practices
- understand the roles of regional issues in the area of recruitment and selection
- be able to identify the ways in which recruitment practice can be affected by institutional factors such as differences in national legislation and the nature of labour markets
- appreciate some of the most marked differences between countries in recruitment and selection practice in cultural terms.

8.1 INTRODUCTION

Good recruitment is essential to effective HRM. The effectiveness of many other human resource activities, such as selection and training, depends largely on the quality of new employees attracted through the recruitment process.

There is usually a flow of linked activities inside organisations from job analysis, recruitment, initial screening, selection, placement through to training. By 'linked' we mean that any practices in one part of the chain can only be understood when they are placed in the context of the practices earlier or later in the chain. Organisations might choose to invest more in one part of the chain. For example, if little can be done to deal with recruitment challenges, then more money might be spent on selection to make up for shortcomings. Or an organisation might prefer to invest more in training to make up for a lack of influence over the quality of the labour market. These differences might form a pattern at national level.

Recruitment and selection are often lumped together under the broader label of resourcing, but as has been seen, they are very separate processes. In this chapter we begin by concentrating on two key parts of this resourcing chain – first recruitment, and then selection. Whilst we focus here on employee resourcing, later in the book we introduce some of the more strategic dimensions of resourcing of interest in particular to MNCs, when we discuss the topics of recruiting expatriates in Chapter 14, global talent management in Chapter 16, and employer branding in Chapter 17.



KEY FRAMEWORK

The purposes of recruitment

- to determine present and future staffing needs in conjunction with job analysis and human resource planning
- to increase the pool of applicants at minimum cost
- to increase the success rate of the (subsequent) selection process: fewer will turn out to be over- or under-qualified
- to increase the probability of subsequent retention
- to encourage self-selection by means of a realistic job preview
- to meet responsibilities, and legal and social obligations
- to increase organisational and individual effectiveness
- to evaluate the effectiveness of different labour pools.

Selection – a linked but separate practice after recruitment – then involves the identification of the most suitable person from a pool of applicants.



KEY FRAMEWORK

The purposes of selection

- to obtain appropriate information about jobs, individuals and organisations in order to enable high-quality decisions
- to transform information into a prediction about future behaviour
- to contribute to the bottom line through the most efficient and effective way to produce service/production
- to ensure cost–benefit for the financial investment made in an employee
- to evaluate, hire and place job applicants in the best interests of organisation and individual.

As will become evident later in the chapter, even this specification of purposes is itself extremely culturally embedded. Not surprisingly, both recruitment and selection practices differ depending on the type and level of employee required – but they also differ between countries. The breadth of potential legislation that affects recruitment is considerable. Also, nearly all of the recruitment and selection processes outlined in this chapter are dependent upon the skill and competence of the line managers (or HR practitioners) who carry them out. And practitioners do not necessarily conform to a

simple national stereotype. For example, König et al (2011) studied over 40 selectors in Swiss companies to identify the gap between what scientists think practitioners should do, and which procedures practitioners actually use. They used the repertory grid technique to elicit the cognitions of the selectors. The use of selection techniques was fairly similar to other HR representatives elsewhere in Switzerland (analysis of documents, interviews, references were prevalent, use of personality and work sample tests and try-outs was very infrequent), but the ways in which practitioners thought about personnel selection procedures were very individual. None of the constructs elicited was mentioned by two-thirds or more of the interviewees, and only five were mentioned by half or more.

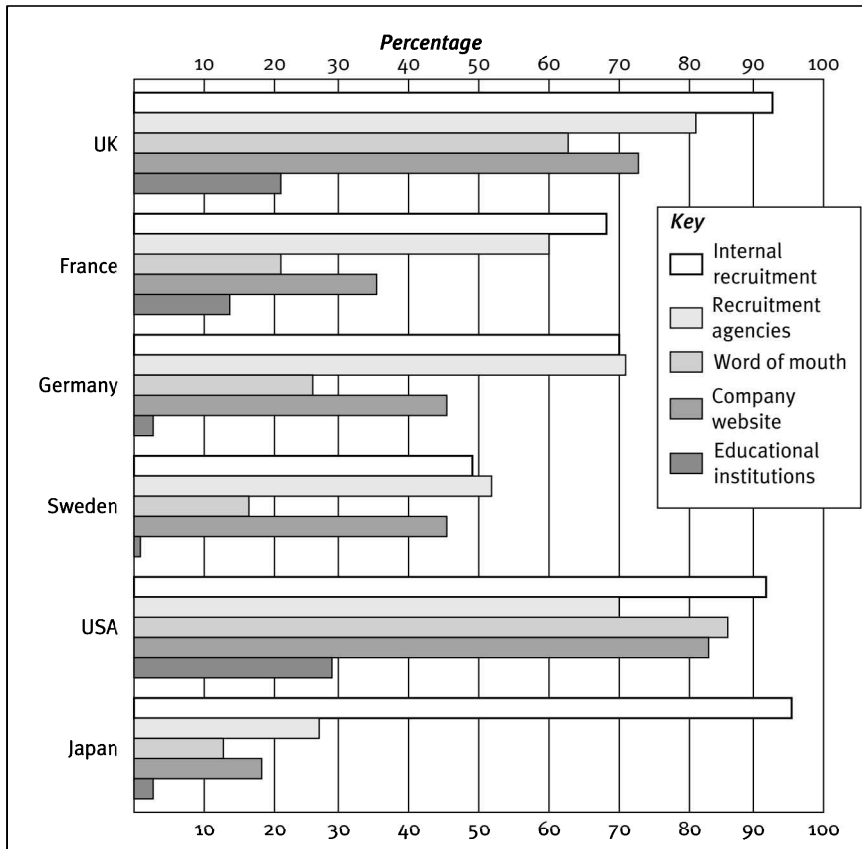
There is then a tension between tools and techniques that have been developed to make the process of selection objective and the actual behaviour of recruiters and selectors. Many selections, despite the best efforts of HRM practitioners, are made on the subjective 'gut' feelings or biases of the managers (Horverak et al 2013; Wood and Szamosi 2016).

But as we focus throughout this chapter on the comparative examination of recruitment and selection practices, noting some of the most notable regional challenges that are discussed, it is important to remember that the recruitment and selection function inside many organisations has experienced particularly rapid global exposure. The need to recruit internationally develops very rapidly, but once established, the operations associated with new international recruitment channels can be very volatile and may be scaled down again, restructured or even disposed of within a fairly short period of time (Sparrow 2007).

8.2 RECRUITMENT METHODS

We begin with a brief summary of the principal recruitment and selection tools and techniques. Figure 8.1 shows some Cranet data for 2010, and national differences in word of mouth, company websites and reliance on educational institutions. It is clear that an internal labour market is still very dominant in Japan and, perhaps surprisingly, is also important in the USA and the UK, despite the comments above about their strong external labour markets. The 2010 findings are probably indicative of the recession and the near-collapse in external recruitment in these two labour markets. In Sweden in particular, an external labour market is still much in evidence. As these data show, countries might revert to more traditional patterns once immediate economic factors dissipate, and similarly, new methods may move into common practice. As a reflection of this, note that the use of recruitment agencies remains traditionally high in the UK and the USA, but has now entered the German labour market. They are still uncommon in Japan. The use of company websites is also much higher in the traditionally external labour market countries of the USA and the UK, but are nowhere near as important in Japan. Direct targeting of chosen educational institutions has grown in importance in some countries. In 2004 fewer than 1% of UK organisations reported using this method, but by 2010 the proportion had grown to 20%.

Figure 8.1 Recruitment practices for managers in six countries



Source: Cranet data

Recruitment occurs through both informal and formal methods. Informal methods rely on the contacts of existing employees or on people just applying. Because they risk being discriminatory, word-of-mouth recruitment is rarely acceptable in the public sector. In contrast, in the business services sector, word-of-mouth recruitment is common, particularly in those societies rated more collectivist by Hofstede and House et al (see Chapters 3 and 4). International differences in the use of informal recruitment are substantial but it is widespread throughout the world, especially in poorer countries. Many specialists would defend it. Recruitment of 'family and friends' is very cheap, it aids a sense of community in the workplace, and it provides at least the option of informal control ('If you behave like that, you will embarrass your uncles who got you the job...').

Formal methods are invariably more expensive than informal ones. We make specific mention here of four methods of recruitment that take on more significance for international HR managers:

- headhunting
- cross-national advertising
- the Internet
- international graduate programmes.

8.2.1 HEADHUNTING

The developed countries are where agency recruitment and the use of headhunters for managerial positions are most common. Executive search is defined as the recruitment of senior executives and specialists with an average annual compensation level of over \$100,000. The total worldwide recruitment market (employment services industry) is valued at over US \$420 billion and has grown at an average 12% per annum during the last decade. The US recruitment industry derives around 81% of its revenues from placing temporary/contract employees, whereas only around 19% is derived from search and placement recruitment companies. The Association of Executive Search Consultants' (AESC) 2009 Member Outlook Survey showed that despite the economic recession, executive jobs in several sectors continued to grow, namely in healthcare, government, natural resources and pharmaceuticals/biotech. China had the greatest need for talent in 2009, based on the global average vote (66%), and India was expected to see the second greatest demand for top executives (43%), with eastern Europe set to be the third most talent-hungry market in 2009. Anecdotal evidence indicates that up to 50% of executive searches are now cross-border. The cross-border capability and geographical spread of individual search firms has long been critical (Sparrow 2006).

8.2.2 CROSS-NATIONAL ADVERTISING

Organisations are looking to Europe and beyond to attract professionals to work in the UK, or to work in locations around the globe. If the costs of getting a recruitment campaign wrong are high in the domestic market, then the potential costs of errors in global campaigns are very high. Trends in advertising vary across sectors. There is a shift away from press advertising into creative alternatives, such as targeted outdoor poster sites – airport lounges, airline magazines, and journey-to-work routes. Many recruitment advertising service providers now operate as part of global networks in order to deliver targeted pan-European or global campaigns (Sparrow 2006). Advertising agencies gather a broad spectrum of international intelligence which focuses on the location of the target audience, the kind of market they operate in, sample salaries, recruitment competitors, and whether the job-seeking audience is passive or active. Knowledge of the best recruitment media and national custom and practice are important in order to ensure the cultural appropriateness of a campaign.

CROSS-CULTURAL DIFFERENCES IN JOB ADVERTISING

From an advertising perspective, the most important cross-cultural differences concern:

- the role qualities associated with jobs
- the desired company qualities
- softer cultural issues, such as what ideal brochures should look like and the wording of adverts, whether salaries are mentioned, etc.

National differences in the use of advertising are large. More use is made of newspapers, specialist journals and Internet recruiting in the developed countries; less in the Third World.

8.2.3 INTERNET RECRUITMENT

The Internet offers considerable potential as a source of recruitment for internationally mobile managers, small firms seeking specialist skills, or larger firms wishing to

demonstrate their presence. For Ruël and van der Kaap (2012) Internet recruitment practices form just one part of the broader move to e-HRM, which links many areas of HRM practice well beyond recruitment, into a more analytic context.

The online recruitment market is proving most useful for international graduate recruitment, attracting MBAs and PhD-level candidates, and for specific roles such as marketing and IT staff. A series of electronic recruiting products and services is reshaping the job-finding process. E-recruitment (electronic recruitment) has the potential to reduce the barriers to employment on a global scale. The technology – which might include organisation websites, job boards and online newspaper job pages or the use of social networking sites – can be used to:

- deal with the applications – email enquiries, emailed application forms/CVs, online completion of application forms
- select candidates – online testing, information-gathering
- enhance an employer brand
- create a personal relationship with the talent pool.

THE ADVANTAGES OF USING THE INTERNET

It allows firms to:

- speed up the recruitment cycle and streamline administration
- make use of IT systems to manage vacancies more effectively and co-ordinate recruitment processes
- help handle high-volume job applications in a consistent way
- widen recruitment sourcing and reduce recruitment costs
- reach a wide pool of applicants by advertising vacancies – on your organisation's website, on job sites, or on social networking sites
- reach a niche pool of applicants and attract applicants on a more specialised skills match (by encouraging applicants to use personal search agent facilities)
- improve on traditional advertising approaches by targeting particular lifestyle or culture-fit groups (such as expatriates or people who consume services similar to those provided by the host firm)
- make internal vacancies widely known across multiple sites and separate divisions
- provide a brand image of the organisation, reinforcing employer branding and giving an indication of organisation culture
- offer access to vacancies 24 hours a day, seven days a week, thereby reaching a global audience
- provide a cost-effective way to build a talent bank for future vacancies
- provide more tailored information to the post and organisation – for example case histories of the 'day in the life' or a self-assessment questionnaire or quiz to assess fit with the role.

Using the Internet for international recruitment has received a mixed reaction but is slowly emerging as a useful process. Firms have faced a number of problems with web recruitment: many existing service providers do not yet have truly global coverage, and the web is currently not appropriate for all countries. The main impact can be to increase the volume of applicants, and in a time of tight resources within HRM this is not always good news. There are then also problems with using e-recruitment methods:

- Targeting particular populations becomes difficult. For example, in running webpages in Singapore, applications are likely to be received from places such as Malaysia.
- Generating a larger number of applicants from more diverse social groups may lead to a need for extensive screening activities.
- Company image or brand may not be well known in untried markets (see Chapter 17).
- Quality becomes more variable and needs managing.
- It can move firms away from relying on targeted universities.
- Equal opportunities issues might exist, in that most applicants still tend to be male and from a small range of countries.

Nonetheless, the Internet has become the primary port of call for a good proportion of international talent, and so developing this as a viable recruitment channel is important. It is one of the fastest-growing methods of recruitment – especially for senior professionals, technical specialists and managers. Obviously, its use is restricted to those countries and organisations where the Internet is widely used. Indeed, there are some important differences in privacy attitudes related to the use of the web in recruitment across cultures (Harris et al 2003).

8.2.4 INTERNATIONAL GRADUATE PROGRAMMES

Another form of international sourcing is the external recruitment of graduates into international roles. Organisations that have initiated international graduate recruitment programmes tend not to replicate the competencies that they use for experienced managers in these programmes. Instead, they have attempted to understand and manage graduates through the process of developing an international management career. A number of significant problems with international graduate programmes must be planned for:

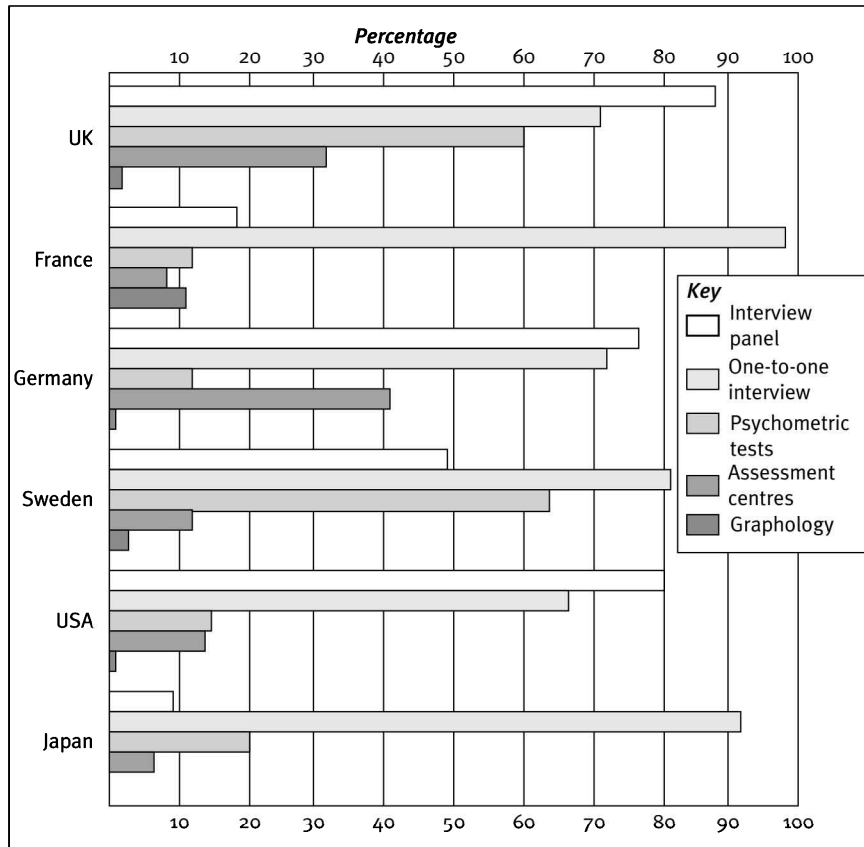
- It only has a slow impact on the level of internationalisation, acting as a slow-burning fuse.
- Retention rates may be low.
- It can be difficult to encourage receiving units to prepare themselves to be able to manage the new international recruits accordingly.
- Visa issues mean that the cadres have to be managed for a significant period of time.
- Many organisations note that graduates (as is also the case for established managers) are becoming more reluctant to move.
- This reluctance to be mobile is also changing attitudes to compensation, forcing organisations to be more responsive to individual circumstances.

In an Asia-Pacific context, institutional arrangements reflecting the relationship between the state and organisations becomes more important. For the *chaebols* in South Korea, seen as prestige employers, the culture is one of mass recruitment of graduates. Recruitment takes place biannually with a preference given to management trainee candidates from the elite universities (Rowley and Bae 2004). Assessment is thus really made at point of entry into the education system rather than at point of entry into the organisation (which is not unlike the situation in France). However, after the Asian crisis of the late 1990s and the rationalisation and recruitment freezes, slowly there has been a move to more recruitment-on-demand practices and more flexible adjustments to labour demands.

8.3 SELECTION TOOLS AND TECHNIQUES

Organisations can choose from a wide range of selection methods, including references, interviews and tests. Many organisations use not just one but a combination of selection practices.

Figure 8.2 Selection practices for managers in six countries



Source: Cranet data

If there is one area in HRM where national differences are very apparent, it is in the area of selection. For example, back in 2004 Cranet data showed that the proportion of organisations using assessment centres was 6.4% in the UK, 5.5% in Germany, 3% in the Netherlands, and 2.1% in France. Perhaps reflecting the type of organisations more likely to take part in the international survey, the figures for Italy and Greece were 12.8% and 11.7% respectively. Psychometric tests for clerical positions were very popular in Spain, Italy, Denmark and Finland, but distinctly unpopular in Germany, the Netherlands and Norway (Brewster et al 2007).

Data gathered for the Cranet project from 2010 for six key countries continued to demonstrate several differences. They are shown in Figure 8.2. Some key differences in practice can be observed. Interview panels are particularly popular in the UK, the USA and Germany, but are only infrequently used in France and Japan. One-to-one interviews are by far the most frequent practice in those two countries. Psychometric testing is relatively widespread amongst UK and Swedish organisations, but in the USA, France and Japan only between 10% and 20% of organisations use this method. Some selection methods are then common in some countries but may not be used at all in others. Reflecting a long-standing finding, graphology – reading character through handwriting – features as a method only really in France (even here it is only used in around 12% of organisations). By far the most common selection method is through interviews. But other

methods have recently begun to attract more attention, such as assessment centres and psychological testing.

8.3.1 INTERVIEWS

In theory interviews should follow a structured format so that each applicant is asked the same questions. Often this is not the case, even though unstructured interviews have low predictive validity (Cook 1999). There are also national differences in the number of people involved in the interviews and who they are. Thus an HRM specialist would often be one of the interviewers in northern Europe; less commonly so elsewhere. There can be important cross-cultural differences (Sparrow 2006). For example, one US MNC, when recruiting managers in Korea, found that interviewers had to be trained in cross-cultural awareness. It is the cultural norm in Korea, when asked a 'good' question, to keep silent as a sign of respect. The better the question, the longer the period of silence the candidate maintains. In US culture, if you ask a good question and are met with silence, you do not attribute the behaviour to respect but to ignorance. Face-to-face interviews can create quite distorted judgements.

8.3.2 ASSESSMENT CENTRES

Because assessment centres are regarded as one of the most robust and valid selection techniques in general, it should be expected that they would be used to assess competence for international managers. We focus on international diffusion of the assessment as a rigorous recruitment, selection and personnel evaluation process, for as Delmestri and Walgenbach (2009) note, it can be considered as belonging to the package of 'high-performance' HRM practices. However, they are not common.

Thornton and Krause (2009) noted that the early adopters of assessment centres were predominantly in North America and the UK, but soon thereafter applications appeared in German-speaking countries, Japan and South Africa. Practices were extremely mixed, and although national patterns were not analysed, the study showed the increased localisation of assessment centre design. Data on the percentage of national firms adopting the practice may therefore hide many differences. The assessment centre method is seen as highly 'plastic' – that is, it can be moulded and shaped in different ways, with such variations in the method as the dimensions specified (job requirements), types of exercises, numbers and types of assessors, methods of observing and recording observations, methods of integration of evaluations across assessors, dimensions, and exercises, and methods of feedback. Assessment centres may also be used for selection or promotion (evaluation, judgement or prediction), or mainly for developmental purposes (diagnosis, development or training).

Delmestri and Walgenbach's (2009) study demonstrates this opportunity for high or low local embeddedness of this selection technique. They examined the adoption of assessment centres in 161 MNCs from five countries – France, Germany, Italy, the UK and the USA – both in their HQ and in their Italian subsidiaries. Their study showed that diffusion of assessment centres followed a similar pattern at HQ level in all national contexts. This demonstrated the importance of transnational institutions of Anglo-American origin for MNCs of any nationality. However, there was considerable local variation in the degree of institutionalisation of assessment centres. This ranged from fully fledged support in culture and the professions being assessed in Germany, the UK and the USA, to weak or negative backing in France and Italy. The adoption of the technique in their subsidiaries in Italy was explained by different characteristics of the corporate field of firms with headquarters in different countries, as well as organisational size and labour market conditions.

Even where assessment centres are used to select managers in international settings, the key to cross-cultural assessment centres clearly seems to be to design the assessment process so that it is very adaptable to the local environment in which it will be operated (Sparrow 2006). For example, differences in the labour market often mean that the assumptions made about candidate behaviour in the UK do not translate well abroad. The need for adaptability argues against having overly structured exercises, and most structured tools (such as situational interviews and work simulations) have to be modified. Interviews are easy to adapt, but assessors also have to build as many anchors into the local marketplace as possible in order to give the assessment process meaning. This involves a series of steps, from the simple renaming of case studies and scenarios through to the adoption of local norms for psychometric instruments, and beyond.

8.3.3 PSYCHOLOGICAL TESTING

The validity of some psychometric testing methods is also disputed. Psychologists claim that the variability of validity across settings for the same type of job and across different kinds of jobs is small (Schmidt and Hunter 1998). Nevertheless, some variation is observed, and in particular there are concerns for organisations operating internationally about the cross-cultural transferability of many psychometric tests. Of course, only a small minority of organisations in any country use psychometric testing, and the proportion of organisations that use assessment centres is even smaller. International HR managers are increasingly becoming aware of cross-cultural assessment issues (Van de Vijver 2002, p545):

Psychological assessment increasingly involves the application of tests in different cultural contexts, either in a single country (involving migrants) or in different countries... In the near future the demand for cross-cultural assessment will increase, due to the growing internationalisation of business and the increasing need of migrant groups for culture-informed psychological services.

Kundu et al (2012) surveyed practitioners in 126 Indian manufacturing and service organisations. Methods of recruitment and selection used in Indian organisations varied according to industrial sector, with more sophisticated practice in service firms, but in general the process has become more rigorous. They found that recruitment methods including placement consultants, employee referrals, direct applicants and job portals were heavily used in all organisations. The use of written tests, tests on specific skills, psychological tests, technical interview and general interviews as selection techniques was examined, again with most techniques in wide usage, excepting psychological testing. This was not as widely used, potentially being seen as a western-oriented selection instrument and not used widely to evaluate the attitude of candidates groomed in Indian culture.

Developing culture-free, culture-fair and more recently culture-reduced instruments has long been a goal for psychologists. Where it is accepted that existing instruments are invalid, unreliable or do not cover the construct they are intended for when used in a different cultural setting, developing culture-specific variations becomes an alternative. This can be costly – so is it necessary, and is it cost-effective? Does adaptation add sufficient incremental value to the bad but common practice of straightforward applications of existing tests and their norms? The answer to the first part of this question involves more than immediate concerns about fairness and discrimination.



REFLECTIVE ACTIVITY 8.1

Sparrow (2006) raises the following questions. In the light of increases in the use of assessment:

- Can organisations use psychological tests fairly in multicultural settings?
- Do the psychometric properties of tests translate to different cultural groups?
- Can ‘culture-free’, ‘culture-fair’ or ‘culture-reduced’ tests be developed?
- Or if tests do not translate from one culture to another, can new instruments be developed?

The use of psychological tests has become an increasing problem in the international selection field. In the pursuit of the global manager, organisations have to look outside their normal recruitment territory in order to benchmark interview candidates. Because they are aware that interviews or behaviourally based work simulations are subject to culturally different behaviours, from both the candidates and the assessor, international HR managers might be tempted to use more testing. On the surface, psychological tests may be seen as a way of avoiding the subjective bias of other options. Indeed, greater international mobility of candidates has increased the demand for tests to be used on job applicants from a number of different countries, and most test producers now sell their products internationally.

The costs of cultural bias in psychological tests do not lie in reduced performance of the candidates. They lie in the perceived stupidity of the assessment process and the impact on motivation (Sparrow 2006). There is also the problem of fairness. Candidates to whom inappropriate testing has been applied can find that they do not progress as well through internal selection systems. Such discrimination is equally inappropriate. Countries also differ greatly in terms of the practices related to user qualification, legal and statutory constraints on test use and the consequences for those tested, and controls exercised over the use of tests.



REFLECTIVE ACTIVITY 8.2

There are no simple answers to the issues posed by the use of testing cross-national samples. International HR managers face several practical dilemmas. How should the following questions be considered in an organisation?

- If a French manager is coming to work in the UK, is it appropriate to test the manager against the French or the UK test norm group?
- If you test the manager in the English language, is he or she disadvantaged?
- If international HR managers insist on using standardised tools such as psychological tests, does the degree of confidence in their accuracy have to be tempered?
- Can HR managers make up for this by putting more emphasis on the feedback process?

8.4 RECRUITMENT IN ITS INSTITUTIONAL CONTEXT

Having outlined the main tools and techniques available, we now place recruitment activity into an institutional context. It is difficult to separate recruitment and selection activity from the potential ‘knock-on’ effects that they have on other areas of HRM including overall skill levels, training and development needs, employee retention, trade union membership and employee relations, diversity management, and pay and benefits (Wood

and Szamosi 2016). In an international perspective, the academic literature has turned away from comparative studies on specific recruitment and selection practices, towards an attempt to better place such practices in their broader institutional context (Nikandrou and Panayotopoulou 2012; Wood et al 2014). These analyses draw attention to the potential for uneven regulatory enforcement. They link the existence of models of high volume and low rigour recruitment, or more authoritarian and patriarchal systems in which weak employee voice and rights are considered to be offset by informal ties and implicit understandings, to the institutional context. They argue that in institutional contexts where there is more intense labour market regulation that discourages organisations from shedding staff, the recruitment and selection process is vested with a great deal of importance. However, in other settings, such as the flexicurity economies of the Scandinavian social democracies of Norway and Denmark, whilst security of tenure may be weaker, it is compensated for in other ways. Because there is superior access to additional further skills and training, this ensures that employees are more suitably qualified at all stages of their careers. They have a degree of security in employment, if not in a single employer, and employers can give less attention to the detail of their selection systems, as competence is delivered in other ways.

The employment relationship is typically governed by the combination of three sets of factors (Snape 1999):

- a complex mix of individual and collective agreements
- the rights and obligations enshrined in legal statutes
- the implicit and explicit understandings of such rights and obligations.

These rights and obligations – codified or implied – are in turn embedded in highly nationalistic legal systems and frameworks. The International Classification of Status in Employment (ICSE), used by the ILO, considers that employment contracts are best categorised in terms both of the type of economic risk carried by an employee, and of the authority that is involved in the job – defined as the set of tasks and duties that are to be performed by one person.

There are five specific areas of country difference that international HR managers must be aware of:

- the nature of employment contracts
- the type of labour legislation – which varies from one country to another in terms of scope, whether it conveys an employer or employee bias, and the recency of codification, and attention therefore to particular areas of deficiency in the behaviour of individuals, organisations and institutions
- the type of labour market – which may be internal or external, formal or informal, linked to levels of education or not
- the recruitment sources usually tapped to attract people
- the recruitment methods in practice, such as whether pay is mentioned (for example, in France and Japan the public sector is number one choice).

Sparrow (2012) analysed the employment contract from a comparative context. The employment contract is a contract of service (or apprenticeship) between an employer and an employee, rather than a contract for services. Under the law the contract may be expressed or implied, and if it is expressed, it may still have standing whether it is oral or in writing. As an agreement between an employer and an employee, it sets out an individual's employment rights, responsibilities and duties. However:

- without understanding the workings of the surrounding legal system, any examination of even codified rights becomes almost meaningless
- without insight into the cultural embeddedness of these terms, interpretation of the codified artefacts of the employment contract, and the legislation that might go along with recruitment to this contract, can be very misleading.



REFLECTIVE ACTIVITY 8.3

Consider the issue of equality legislation.

- Identify two countries where recruitment legislation exists, and two where it does not.
- How is the issue of equality dealt with – informally and informally – in each instance?
- What does this tell you about the implementation and effectiveness – or ineffectiveness – of the legislation in existence? Even when legislation exists, that does not imply that it works!

In light of the fact that even what is implied by an employment contract is culturally embedded, you can imagine the depth of knowledge that is needed to establish an appropriate recruitment policy towards that job, or to apply a recruitment practice. Local HRM practitioners, whether operating in a domestic or an international organisation, have to understand the law as it affects:

- the use of employment exchanges and job centres
- outplacement
- temporary work
- fixed-term contracts
- hours of work
- time off work
- termination of employment
- unfair dismissal
- redundancy
- maternity leave
- discrimination and equal opportunities
- health and safety
- recruitment codes of practice
- the use of psychological testing, and
- the disclosure of information.

A core part of the role is of course that specialists also have to understand the nature or source of the law in any particular country, which ranges from codified legislation, constitutional rights, national or sectoral collective agreements, to codes of best practice that have set precedents in labour courts.



REFLECTIVE ACTIVITY 8.4

Even the wording above implies that there is legal coverage of all these issues around the world, which is not the case everywhere.

- Are these terms especially meaningful to all international managers?
- If they are meaningful in your context but not in someone else's, how would you try to broach the issues with that someone else?

8.4.1 THE SCOPE OF LABOUR LEGISLATION

Governments are involved in the recruitment process, both through the provision of recruitment services and through legislation – mainly concerned with discrimination. In Europe, at least, discrimination against job-seekers for reasons of race, gender, age or legal history, or because they belong to disadvantaged groups in society, is seen as undesirable from a moral, legal and, sometimes, organisational point of view. Other countries may be different. India, for example, has laws to privilege its upper castes; some Arab and Asian states have rules to privilege locals over migrants. In Europe, though, monitoring staffing practices and outcomes to avoid discrimination is crucial for many HR managers.

The scope of labour legislation and associated collective agreements or custom and practice varies markedly. For example, some constitutions convey rights in relation to appointment. In Norway the Employment Act of 1947 specifies that every citizen has the right to make a living. Article 1 of the Italian Constitution defines the country as a democratic republic based on labour in which the employer is the provider of work and the employee the lender of labour.



CASE STUDY 8.1

PRINCIPLES OF FRENCH RECRUITMENT LAW

The French codified collection of employment Law provisions are laid down by statute called the *Code du Travail*. Contracts of employment are nearly always for an indefinite term (*contrats à durée indéterminée*). Specific agreements for short limited term employment (*contrats à durée déterminée*) are tightly regulated. If limited term agreements are renewed more than once they will be held to become indefinite term agreements. Once an employee is taken they may only be dismissed for a specific reason. The reason or grounds must be recognised by French Statute or Case Law. A major legal distinction exists between *cadres* (executive grade employees) and *employés* (other lower grades of employees).

In addition to the *Code du Travail* there are provisions set out in collective bargaining agreements, known as *Conventions Collectives de Travail*. These may be applicable nationally, throughout the whole of French territory, or sometimes only at a very localised level. They relate to a particular sector of industry or commerce. They set out the scope of

the relationship between employer and employee in much greater detail. National and sectoral agreements are legally binding for all employers who are members of the signatory employer organisation and if the firm comes within the geographical and professional scope of the agreement. However, if the agreement is extended to the whole sector, then it applies whether or not a company belongs to the signatory employer organisation.

Historically, co-ordination between the different levels was organised on the 'principle of favourability' towards employees (*principe de faveur*); that is, if there is conflict between agreements, the one most favourable to employees applies. There is much decentralised autonomy to negotiate wages, working time and flexibility on general issues concerning the relationship between employer and worker. The 'Fillon law' of 4 May 2004 on social dialogue and Act of 20 August 2008 amended the conditions governing the validity of a collective agreement. They now must be signed by one or more representative trade unions which received at least 30% of the votes cast in workplace

elections and should not be opposed by a majority of unions. The government sometimes extends collective agreements to ensure parity to various groups of workers (for example,

guaranteeing the same minimum wages for all companies in a sector) and to avoid social competition.

In France, as noted above, a range of collective agreements at national or industry level shape recruitment practice. For example, in the chemicals sector re-hire arrangements gave priority to candidates who were ex-employees in the previous six months. The motive was to stop companies rationalising and then re-hiring under new terms and conditions.



CASE STUDY 8.2

RECENT CHANGES IN EUROPEAN RECRUITMENT-RELATED LEGISLATION

The European Foundation for the Improvement of Living and Working Conditions (Eurofound) is a tripartite European Union Agency, whose role is to provide knowledge in the area of social and work-related policies. A review of its reports on developments in recruitment-related legislation in the first half of 2015 indicates the potential scope and role of legislation:

Sweden: The Government is taking action against what it considers to be the overuse of temporary employment. New regulations are to ensure that a temporary post would become a permanent one when the accumulated time of employment reaches two years. The Employment Protection Act should come into force on 1 May 2016.

Germany: A bill setting legal quotas for women on company boards was passed in March 2015 by the German Bundestag. From 2016 there will be a statutory 30% female quota for new members of supervisory boards. This will affect 108 market-listed firms that are also subject to co-determination. A more flexible approach has been taken with 3,500 medium-sized firms who will be obliged to develop their own targets for the share of women on executive boards, supervisory boards and the two highest management levels by September 2015.

Slovakia: New rules aimed at ensuring wage equality for temporary workers

came into effect in March 2015 when changes were made to Slovakia's Labour Code. The new rules guarantee equal wages for core and temporary agency workers who perform the same or similar jobs and prohibit temporary agency workers from carrying out risky jobs. Employers are also obliged to maintain a register of the agency workers they use, and are not allowed to employ them for more than two years (a maximum of four contract renewals or extensions).

Italy: A bill aimed at organising existing employment contracts is being moved into law. The Jobs Act and the new bill are designed to tackle precarious employment by reducing the number of different types of employment contracts and cutting down the level of litigation affecting many employment relationships. It aims to: eliminate atypical contracts, such as joint venture (*associazione in partecipazione*) and job-sharing; and restrict the use of dependent self-employment contracts (*contratto a progetto*). The bill introduces a statutory limit to the number of temporary agency workers a company can use (a maximum of 10% of the workforce can have open-ended contracts), unless agreed otherwise by national collective bargaining agreements.

Spain: New 'open-ended contracts for entrepreneurs' (*Contrato indefinido para emprendedores*) available until the

Spanish unemployment rate falls below 15% were introduced in 2012, aimed at promoting stable employment. This type of contract offers financial incentives to hire workers younger than 30, or who are receiving unemployment benefits, and also gives social security discounts for hiring workers younger than 30 or older

than 45. However, workers who are 'let go' during their first year of service are not entitled to any type of severance pay. Other contracts in Spain generally set this probationary period at around two to six months.

In Germany works councils have to agree to the use of personnel questionnaires, can see personal information on all shortlisted candidates, and can veto an appointment within one week of offer. The motive is to ensure fairness and an absence of nepotism. In Spain high salary indemnity rates have been associated with a shift by organisations towards temporary employment.

There has been a pan-European trend towards the 'democratisation' of recruitment and selection common to countries such as the UK, Netherlands, Sweden and Germany, with greater emphasis on the perceptions, attitudes, reactions and rights of the applicant, and common emphasis on the introduction of more interactive procedures, constructive feedback, self-selection and realistic job previews. In some cases this now extends to the involvement of potential workmates in the selection decision. For example, in the UK, legislation on freedom of information means that candidates can apply to see the written notes made about individuals by the interview panel, or the references provided in a promotion process. The attention to due diligence in recruitment processes and shifts in recruitment culture from this are clear to see. There has also been convergence in social legislation around forms of discrimination and employment rights which has created new influences on the nature of recruitment and selection.

In some Asian contexts, such as Malaysia, ethnicity is important. For example, there have been positive discrimination efforts to create a Malay business class and promote employment of bumiputras (ethnic Malays and other native races) in return for the maintenance of a market-based business system favoured by overseas Chinese employers (Mellahi and Wood 2006).

THREE TYPES OF LABOUR MARKET

- In the Middle East, the World Bank classified labour markets into three categories (Ali 2011) based on the degree of availability of natural resources (mainly oil) and labour abundance:
- Resource-poor, labour-abundant: Djibouti, Egypt, Jordan, Lebanon, Morocco, Tunisia, West Bank and Gaza. Egypt, Lebanon and West Bank have traditionally provided the Arab Gulf with its labour.
- Resource-rich, labour-abundant: Algeria, Iraq, Iran, Syria and Yemen. These act as a source of skilled labour.
- Resource-rich, labour-importing: Bahrain, Kuwait, Libya, Oman, Qatar, Saudi Arabia and the UAE. These act as importers of labour ranging from house servants to engineers, with the percentage of expatriates ranging from 79% to 90% in the UAE.



CASE STUDY 8.3

LOCAL EMPLOYMENT SUPPORT MEASURES, NATIONALISATION, POSITIVE DISCRIMINATION OR QUOTAS?

Many Middle Eastern states have been heavily reliant on expatriate workers both for advanced technical and professional expertise and for manual labour. One of the main socio-economic issues in the region is the need to increase national employment in the private sector (Harry 2007) and to attend to the development and fulfilment of local talent. Effective localisation has only occurred when a local national can fill a required job sufficiently competently to fulfil organisational needs.

In 2000, Dubai, and the United Arab Emirates (UAE), attempted to increase the participation of locals in the workforce under a policy known as 'Emiratisation'. It was aimed at creating job opportunities for the UAE national workforce, reducing the unemployment ratio, and enhancing the skills and productivity of the national workforce (Al-Ali 2008). Similar policies elsewhere in the Middle East have included Omanisation and Saudisation (Al-Hamadi et al 2007; Aycan et al 2007).

The UAE Government has constantly updated its Emiratisation policies (Rees et al 2007). Pressure grew for co-ordination with local governments to step up measures to deny firms not complying with the prescribed Emiratisation quotas the right to obtain work permits and entry visas for foreign labour. In September 2007, the Government 'stepped up the enforcement of existing rules, cutting fees for companies that complied and freezing all relations with the Labour Ministry with those that did not' – a painful deterrent, since it is illegal to bring new expatriate workers into the country without government approval. One of the key policies in Emiratisation is the quota system. Under

a change in the labour law in 2007, the Labour Department had the right and duty to check quotas when conducting inspections of workplaces. Companies with more than 100 employees were told that they should employ only Emiratis in their human resource department, and move towards implementing the same rule for secretarial roles. At the same time a YouGov Siraj study of UAE residents monitoring the schemes found that 46% reported that there were not enough trained or skilled Emiratis to hire. Over 50% did not believe that Emiratis' education levels prepared them well for employment, while 33% said they viewed Emirati job applicants as either 'slightly below average' or 'well below average' compared to other nationalities. In addition it was believed that amongst Emirati employees there is an unwillingness to work long hours and a reluctance to engage with the team.

By 2009 the abundance of cheap expatriates from other emerging economies was making nationalisation schemes uneconomical. The national employment scheme was perceived as a burden that MNCs had to put up with – a hidden tax – rather than as a way of building up their host countries. Many companies often ended up hiring 'ghost employees' whose actual job was completed by a foreign worker. Yet by 2011, after the experience of the global economic downturn triggered by the credit crunch, a shift was again taking place, towards offering subsidies to companies to encourage them to hire Emiratis and to help private companies hire, train and retain Emirati staff.



REFLECTIVE ACTIVITY 8.5

Do such initiatives represent sensible strategic recruitment and local employment support measures, nationalisation, attempts at positive discrimination? Or misguided management by quotas?

8.4.2 INTERNAL AND EXTERNAL LABOUR MARKETS

In addition to differences in the scope and reach of labour legislation that might impact recruitment practice, there are also marked differences across countries in terms of how their labour markets operate.

Organisations have to understand the labour markets, local, national or international, within which they recruit. Planning in tight labour markets, where there may be a shortage of key skills, is a different proposition from planning in markets where appropriately skilled labour is abundant. Shedding staff in countries such as many of those in Europe, where labour laws make that more expensive, is different from reducing numbers in some of the poorer countries of the world or in the USA, where there are few associated costs.

Labour costs in some countries are significantly higher than those in others, opening up the option of MNCs moving their production or, increasingly, their provision of services to the cheaper country. This is what has been called the international division of labour. This works where the cost of transporting goods back to the markets does not overwhelm the savings made by relocation, or where the service (telephone-answering or IT-working, to take common examples) can be provided from anywhere. It remains highly contentious.

DeVaro and Morita (2013) have recently revisited this question of the relative pros and cons of the two types of labour market.

Germany, Japan, France and Switzerland are noted for a more widespread use of internal labour markets where recruitment tends to be focused on specialised entry points at low levels of the hierarchy, and where promotion is through internal assessment. Internal labour markets are considered to have such benefits as improved morale, commitment and security among employees, more opportunity to assess (and more accurate assessment of) competencies and accrued knowledge, more control over salary levels given lower exposure to market forces, and more specialised HRM skills around dedicated entry points (such as graduate recruitment). The downside, however, can be high levels of political behaviour associated with advancement, informal glass ceilings that go unchallenged, complacency, and structural shocks when major market and technological changes force change in the whole vocational educational and training system and require a significant overhaul of the whole HRM system. The advantages of external labour markets can be the opportunity to bring in new blood as part of culture-change processes, insights into competitor capabilities, and the ability to respond to equal opportunities issues more visibly.

For example, Germany was considered to have overcome the 2008/09 economic crisis relatively successfully. It did so with a combination of working-time accounts, pacts for employment competitiveness and short-time work (*Kurzarbeit*): Crimmann et al (2012) used data from the Institute for Employment Research (IAB) Establishment Panel, which is representative for labour demand in Germany, to analyse working time strategies, and found that: 'Establishments utilised their flexibility reserves and complementary short-time work to protect their core staff during the crisis' (p878). By seeking flexibility in their internal labour market, they pursued a strategy of labour

hoarding, which saved the time and cost of new recruitment and training on the job post-recession.

Job mobility is then a complex phenomenon, involving movements between employers (job-to-job mobility), between occupations and steps on the career ladder (occupational mobility), between different types of contracts, and in and out of employment (employment mobility).

Average job tenure – the amount of time a worker has spent working for the current employer, even if the job within the firm has changed – is another indicator of the stability of employment relationships. There is an inverse relation between average tenure and current mobility. In 2014 the national average tenure in Australia for a job is 3.3 years, based on a voluntary turnover rate of around 15% per annum. In the USA the figure for 2014 is 4.6 years. In the UK, data from the Labour Force Survey show that since the 1970s, average job tenure in the UK has been relatively stable. From 2001 to 2011 average tenure has been between 8.8 and 9.1 years (CIPD 2013). This masks gender differences. Average tenure has been falling for men (in part due to earlier exit from the labour market), but has increased quite significantly for women (due to improved maternity rights and fewer women either leaving the labour market altogether or changing employers to find a job that suited their new circumstances).

Countries with historically higher levels of job mobility (such as the USA, Australia, Denmark, the UK, and Ireland) tend to be characterised by low average tenure (under nine years) whereas those with traditionally low levels of current mobility such as Greece, Portugal, Spain, Germany, Sweden and Japan also have high average job tenure (typically between ten to 12 years).

The extent and character of job mobility using all three measures of job-to-job, occupational and employment mobility in Europe highlights that levels of job mobility vary significantly between the EU member states (Centre for Policy and Business Analysis 2008). Indeed, national data on average tenure levels hide significant variations.



CASE STUDY 8.4

USA: LIFE IN AN EXTERNAL LABOUR MARKET

Data from the US Bureau of Labor Statistics shows that US workers had an average job tenure of 4.6 years in 2012, up from 3.7 years in 2002 and 3.5 years in 1983. This trend towards increasing tenure (even within an external labour market) holds up within almost every age and gender category, with national statisticians believing it cannot be explained away by women's increased presence in the workplace, or people working past traditional retirement age. However, at the same time, more workers in the USA want to leave their jobs: in 2014, 21% of full-time employees wanted to change jobs in 2014, up from 17% in 2013.

Although on average the USA would be classed as a short-tenure external

labour market, the reality, as with any labour market, is that there is considerable variation across organisations. Data are of course hard to find, but as an indicator we use figures from a large recruitment firm, called PayScale, which analysed its data for 250,000 job seekers in 2013 who had worked for a Fortune 500 company (PayScale 2013). They compared average age of employee and tenure for job seekers from these firms to produce an indicator of employee loyalty. Starting with the longest tenure through to the shortest, the following picture emerges: Kodak median employee age: 50, median tenure: 20.0. United Airlines median employee age: 44, median tenure: 12.6.

Near the average, Microsoft and Coca Cola had four years' median tenure, and Citigroup 3.8 years. Firms with the lowest tenure included Amazon with 1.0 years, Google 1.1 years, eBay 1.9 years and Apple 2.0 years. Clearly there are sectoral patterns. However, there are also variations within sector. For

example, at General Motors the typical employee spends just over a decade on the factory floor. This is almost double the tenure of the typical Ford employee where average tenure was 5.8 years.

Looking at average years tenure, or employee turnover rates, is an important reminder that for many organisations any efforts put towards recruitment come hand in hand with equal efforts to avoid having to go to the external labour market in the first place. They manage retention in parallel with recruitment. In the UK, for example, the most effective practices to improve retention are considered to be increased pay, increased learning and development opportunities, improved selection techniques, changes in work-life balance, improving the skills of line managers to manage people, and improved benefits (CIPD 2015). Many of these have remained the same over many years – but since 2008 more attention has been given to things like redesigning jobs to make them engaging and satisfying, better promotion to employees of the employer brand, and creating clearer career paths.



REFLECTIVE ACTIVITY 8.6

The previous section has noted some of the national practice and current developments in recruitment and hiring. However, does this matter for MNCs operating in those labour markets? Construct two arguments. First, list the arguments and suggest the ways in which local labour market practice will influence a local recruitment process conducted by an MNC. Second, outline the ways in which an MNC might be able to bypass some of these influences while still seeking local talent. Then, imagine you are an in-country HRM Business Partner and write a memo to your HRM director explaining your chosen strategy, mixing and matching your reasoning on both sides of the argument if necessary!

8.5 TRENDS IN GLOBAL LABOUR MARKETS AND SKILLS SHORTAGES

There are also marked differences across countries in terms of the level of skills shortages in their labour markets. There are numerous reports on the extent of skills shortages globally from recruitment and consulting firms.

Such shortages can also hinder the pace of internationalisation. For example, in India the IT services outsourcing sector makes around three-quarters of its sales to the USA and Europe. It employs 3.5 million people worldwide, the bulk of whom are in India. Service providers such as Tata Consultancy Services Ltd and Infosys Ltd grew by offering infrastructure management and application development services to US and European organisations. By 2015 Indian revenues in the sector were around \$150 billion, with export revenues growing between 12 to 14% per year. This accounts for around 9.5% of India's GDP. In 2012 Infosys decided to expand its European workforce by 10%, adding 5,500 employees. In addition to a changing global footprint of employment, as competition grows, firms like Tata and Infosys are seeking opportunities in the emerging

high-end services segment for new services such as digital technology, mobile applications and cloud computing. The National Association of Software and Service Companies (Nasscom) argued that to do this requires the industry to build a large pool of skilled employees.

The ILO (Martin and Abella 2014) identifies three major trends in the global labour market:

- 1 shrinking and ageing workforces in the 30 richer countries that account for a sixth of the world's workers and two-thirds of global economic output
- 2 rapid labour force growth in many of the 170 developing countries, where youth bulges and workers leaving agriculture strain the capacity of urban labour markets to create sufficient high quality jobs.
- 3 more complex international labour migration patterns as more workers move from one developing or industrial country to another and from developing to industrial countries.

The number of international migrants (people outside their country of birth at least a year) more than doubled between 1980 and 2010, from 103 million to 214 million and is projected to continue rising faster than population, doubling to over 400 million in 2050. Each migration corridor has unique features:

- South–South: The largest flow of migrants (34% in 2010) move from one developing country to another, for example from Indonesia to Saudi Arabia or Nicaragua to Costa Rica.
- South–North: The second-largest flow (34%) move from a developing to an industrial or more-developed country, for example from Morocco to Spain, Mexico to the USA, or the Philippines to Japan.
- North–North: 26% of international migrants move from one industrial country to another, for example Canada or the UK to the USA.
- North–South: 6% of migrants move from industrial to developing countries, for example Japanese who work or retire in Thailand.

There are of course long-standing concerns, generally expressed by unions, that jobs are being exported to cheap-labour countries. An associated concern is that employers might inject short-term skills into a domestic labour market by hiring cheaper immigrants. Employers argue that ensuring sufficient skills levels and capability in a domestic market facilitates growth in that market, producing local benefits. This also serves their internal motivations, usually driven by a combination of the need for revenue growth and the need to reduce internal costs. Employers argue that barriers to the movement of expertise need to be removed so that they can access and deploy skills more flexibly across internal, but also international, labour markets. They have many strategies at their disposal that can address skills shortages in any one national labour market, including the use of technology to assist remote working, alterations to business process and work standardisation, the development of centres of excellence that can then be used to disseminate organisational learning throughout operations, and offshore outsourcing. There are also institutional pressures supporting flexible skills migration with, for example, the General Agreement on Trade in Services Mode 4 encouraging governments to liberalise the supply of services via temporary movement of people across borders.



CASE STUDY 8.5

THE JAPANESE RESPONSE TO DEPENDENCE ON CHINESE LABOUR AND MIGRATION

Demographic trends are producing a shrinking workforce in Japan, and coupled with declining domestic spending this has increased demand in Japan for low-skilled workers in factories. China is also now Japan's largest trading partner, accounting for a quarter of Japanese exports. This creates an incentive for Japanese firms to make more effort to adapt to local customs and demands. The Japan International Training Co-operation Organisation was set up by five government ministries to oversee a skills transfer programme. Guest workers reportedly undertake high levels of overtime – mortality rates from heart disease and stress-related ailments amongst 20- to 30-year-old Chinese trainees is twice that of Japanese youth of the same age (*Economist* 2010a). Data from the Immigration Bureau of the Justice Ministry suggests that the number of Chinese trainees working in Japan has increased from 30,000 in 2002 to 80,000 in 2008, falling back to 60,000 in 2009 during the economic downturn. At the other end of the labour supply chain, subsidiaries of Toyota, Honda, Mitsumi Electric and Nippon Sheet Glass experienced industrial unrest amongst their suppliers in China in 2010. As China begins to shift from being the world's workshop to building a domestic

consumer base, wage demands have increased. Wages in foreign-owned factories have been rising by 10–15% a year in 2010 (*Economist* 2010b). The Japanese business lobby Keidanren argues that Japanese firms have been hit by these changes more because they have historically used Chinese operations mainly for inexpensive parts and labour-intensive assembly, but recently have been moving to higher-value work with more skilled staff. Their just-in-time production system leaves them vulnerable to disruption. In comparison with many other foreign-owned operations, decisions on pay are also not made at plant level but centrally, and dependent on a consensus-style system. The response has been threefold: higher pay (Honda increased wages by up to 24% in China); higher promotion levels for local managers (Komatsu set a goal of having Chinese managers to lead all 16 of local subsidiaries by 2012); and moving more labour-intensive work to Vietnam, Thailand and Cambodia (the garment manufacturer Uniqlo reduced its proportion of Chinese-made garments from 90% to 65% between 2013 and 2015).

The OECD expresses the view that skills shortages affect economic growth because they have adverse effects on labour productivity. At the firm level, shortages can also increase the hiring cost per skilled worker and hinder the adoption of new technologies. Genuine skills shortages exist when vacancies remain unfilled despite attractive working conditions. These may be cyclical and structural. Shortages are common during periods of rapid economic growth, when unemployment is low and the pool of available workers is reduced to a minimum. Other times, structural changes (such as the adoption of new technologies) might increase the demand for certain skills not immediately available in the labour market, creating skills shortages even when unemployment is high. In order to ensure that skills needs are addressed, the solution might involve changes to the organisation of work (see Chapter 6) or to education and training systems (see Chapter 11).



CASE STUDY 8.6

POLAND: LOCAL LABOUR MARKET IMPACTS OF MIGRATION

1.2 million of Poland's citizens migrated in the first ten years after Poland joined the EU – predominantly the young and economically active. Many of these migrants have eased demographic pressures in ageing countries like Britain and Germany. However, Poland faces a different set of social, demographic and economic consequences that are changing its labour market, and therefore has to make a different set of local HRM policy adjustments. Remittances were worth 2% of Poland's GDP in 2009, enabling it to avoid recession, but this national income falls as workers choose to settle permanently abroad. From 2004 to 2014, 70,000 Poles took up British and German passports and surveys suggest only a half of overseas workers plan to return to Poland. The Sobieski Institute in Warsaw estimates that in 2015 nearly a third of the national budget would be spent subsidising pensions – a ratio likely to increase as the population ages and grandchildren are born abroad.

Government demographic projections show Poland will lose a further three million people by 2040, partly through migration and partly because those women who leave Poland are more likely to have children than those who stay. More immediately the migration is creating labour shortages in Poland – immigrants into Poland make up less than 1% of the population. For example, the Opole region has lost an estimated 10–15% of its population due to migration – the highest rate in the country. This has led to skills shortages for construction workers, carers, security guards, salespeople and cleaners. Similar patterns and problems are occurring all across several countries of eastern Europe which are now EU members. For example, Bulgaria's population is projected to shrink by 25% by 2060.

Source: Various Reuters reports on the Polish labour market (2014)

There is a countervailing side to skills shortages that can impact behavior in the labour market and recruitment process. The 2013 European Labour Force Survey found that 29% of part-time workers had non-standard types of work because they could not find a full-time job. Since the start of the economic crisis in 2008, involuntary part-time working has increased mainly in southern EU countries. For example, in Spain, by 2013 the share of workers who worked part-time involuntarily was 27%, on an increasing trend. The proportion of workers with temporary contracts who could not find permanent work was 62%. In the UK, 48% of employers across the UK admitted to recruiting people with higher levels of skills and knowledge than were required for the job. The amount spent on training had decreased from £1,680 per employee in 2011 to £1,590 in 2013. In Germany on average by 2015 a vacancy remained open for 68 days, compared with 58 days in 2010. In job areas affected by skills shortages, the period can last three to five months.

8.6 PUTTING RECRUITMENT AND SELECTION INTO CULTURAL CONTEXT

Finally, having placed much recruitment and selection activity into an institutional context, in particular by laying out important influences of factors such as the role of legislation and collective agreements, or the shape and behaviour of labour markets, we now explain the ways in which national culture weaves its influence on recruitment and selection practices. We devote considerable attention to culture here, therefore, but point out that many of the principles discussed can be applied to the other functional areas covered in the book such as rewards, training, flexibility and communication.

Interest in the role that culture plays in recruitment – and in people’s attraction to and retention in organisations – has been spurred by two developments:

- the existence of a growing number of multinational corporations headquartered in a wider range of geographies, and
- the internationalisation, or ethnic diversification, of many domestic workforces.

Generic recruitment models (Rynes 1991) assume that a number of factors affect an applicant’s motivation to apply for jobs and their subsequent job choice – including recruiters, recruitment sources, and administrative or HRM practices. Based on assumptions from expectancy theory, these factors influence:

- the belief that action will lead to a successful outcome (expectancy)
- the belief that success will bring rewards (instrumentality), and
- the desirability of these rewards (valence).

It immediately becomes clear how cultural factors shape both individual behaviour and the (potential) effectiveness or otherwise of specific HRM practices in the area of recruitment. Earlier in the chapter we presented a range of survey data on recruitment and selection practices, but of course such data need careful interpretation.



CASE STUDY 8.7

HIDDEN DISCRIMINATION? WHAT SURVEY EVIDENCE CAN HIDE

In spite of the fact that there is relatively strict anti-discrimination legislation in the Czech Republic, in order to avoid the legislation many organisations – and reportedly many international organisations – adopt novel practices to work around the issue (Koubek 2009). It is forbidden to mention any age limits in advertisements, but adverts might be written saying, ‘The organisation offers interesting work in a young dynamic collective.’ A well-known international organisation was found to be selecting 80% of male candidates despite a

majority female candidate pool. Another asked candidates about potential membership in a trade union, and another asked women about their family plans stating that the question was linked to their interest in planning for a maternity career programme. Koubek (2009, p149) warns: ‘It is necessary to consider all the facts when looking at the survey data. The data alone cannot display fully the reality of recruitment and selection in Czech organisations.’

A number of early studies looked at international differences in selection practices and the role of national culture in explaining such differences in desirability and usage (Ryan et al 2003). Huo et al (2002) examined data from 13 countries to establish if significant differences existed between nations in terms of commonly-used hiring practices. Ryan et al (1999) surveyed 959 organisations from 20 countries to assess whether differences in staffing practices are due to international differences in some of the institutional factors (for example, legislation, labour market factors) or to national cultural values. They found that 11% of variation in the number of verification methods could be linked to scores on uncertainty avoidance and 5% to scores on power distance. They concluded (Ryan et al 1999; p385) that:

National differences accounted for considerable variance in selection practices. This suggests that those attempting to implement standardised worldwide selection practices may face difficulties beyond the known problems of establishing translation equivalence of test and interview materials ... The identification of

staffing practices that 'travel well' is needed. . . Practices with universal appeal may be easier starting points for those pursuing global selection strategies, but these may not be the 'best practices'. We need to enhance our understanding of the many practical issues associated with global selection systems.

Differences across cultures in terms of factors such as the perceptions of fairness (procedural justice) have been linked to the attractiveness or not of specific features of selection systems (Steiner and Gilliland 2001). Perceived fairness in selection is considered to have an impact on a series of important pre-hire outcomes, such as the applicants' perceived organisational attraction, application withdrawal, job acceptance, reapplication behaviour and recommending the employer to other potential applicants (Anderson and Witvliet 2008; Hülsheger and Anderson 2009). It also impacts several post-hire outcomes such as organisational commitment, job performance, job satisfaction, turnover and organisational citizenship behaviour. In addition to the original studies in the USA, the importance of fairness has been shown across several countries including Romania, Turkey, the UK and Germany (Marcus 2003; Bilgic and Acarlar 2010; Ispas et al 2010; Zibarras and Woods 2010).

Wang et al (2012) recently tested over 200 applicants to organisations in Beijing and Tianjin and developed a conceptual model to link Chinese traditionality (the core of Chinese cultural values of 'Confucianism') to perceptions of procedural in selection, and its relationship with the applicant's recommending behaviour, and supervisor assessments of their job performance and turnover intention. The results shows that the traditional value of respect for authority (RA) influences applicants' work attitudes and behaviours in two ways. Respect for authority did affect applicant's procedural fairness perceptions, which in turn affected their recommending behaviour, although other cultural values were not important.

Nonetheless, the 'cultural fingerprint' was evident in the direct impact of certain cultural values on the preference for specific tools and techniques. Uncertainty avoidance has been linked to the use of the number of interviews involved in a process and values can have a deep impact on recruitment and selection. For example, in Latin America, US principles of recruitment based on objective merit, qualification and equality cannot be applied to the way that employees might evaluate a recruitment and selection process. In countries such as Mexico or Peru, the notion of all men being equal does not hold and reality is not just based on perceptions of objectivity but also 'interpersonality', for want of a better word. What is important is who the person is, and that perception of who they are is not just job-related but also reflective of social class and family ties. These values influence the way that managers think about justice and the impact they perceive justice has on employee commitment (Gomez and Sanchez 2005, p67):

In the United States, ensuring that fair procedures are in place is essential to gain employee commitment; in Mexico, it is more important to ensure that the treatment of the employee is of a 'high-contact', personalised nature.

Having the right personal connections at the top is an important factor in hiring (Huo et al 2002), but while an MNC's strategic mandate might include objective mechanisms for assessing candidate qualifications (Gomez and Sanchez 2005, pp68–69):

Current employees may, through their relationships, provide a more culturally adept assessment of the true qualifications of an applicant. . . US MNCs should consider potential candidates who enjoy 'in-group' ties, albeit indirect ones, with current employees. Such ties would help build social capital, but additionally, considering these candidates shows that the MNC looks after the employee's in-group, which hopefully will be expanded to include the organisation in its entirety.

Recruitment and hiring practices are also subject to religious and government guidelines. The moral drive in Islam is not to recruit on the basis of favouritism or nepotism (Ali 1999) but rather on the basis of experience and decency. However, the way in which these latter two qualities may be judged is still, to western-eyes, very socially dependent. In Kuwait, for example (Ali and Al-Kazemi, 2006; pp89–90):

Most of the hiring and promotion... especially in the government sector, is influenced highly by social connectivity, tribal identity, and political and sectarian allegiance... Social dignitaries, influential individuals and politicians normally interfere in the recruitment, retention and promotion process... Like in most societies in the Middle East, it is often difficult to get things done without *wasta* – personal intervention of influential people on behalf of a particular person.

These factors combine to limit the role, function and independence of the HRM function. There are social currents arguing for a greater influence of performance and positive participation surrounding recruitment processes (Al-Enzi 2002). In Algeria, the process of recruitment and selection is a bureaucratic and administrative formality, and friendship and kinship can take precedence over qualifications. The use of *piston* to get jobs (enhanced social prestige and influence resulting from support of administrative personnel recruited from relatives and friends) is still evidenced (Branine 2006).

A number of other indigenous concepts such as *guanxi* in China, *blat* in Russia, *dharma* in India and *ubuntu* in South Africa have been discussed in the HRM literature. Minbaeva and Muratbekova-Touron (2013) have added the role of clanism – an indigenous management concept in Central Asia – to this debate. A clan is an informal organisation comprised of a network of individuals linked by immediate and distant kinship and fictive kinship ties – which include individuals that are part of a network as a result of marriage, family alliances, school ties, long-lasting friendships or neighbourhood affiliations. They examined how it impacted HRM practice in Kazakhstan as it develops an emerging model of HRM and employee-relations practices that are a hybrid of Soviet, western European and US approaches. Clanism was found to be a particularly strong influence in state-owned companies, and to have moderate impacts in the private sector. Promotion from within and recruitment through ‘word of mouth’ are still dominant. Whilst talent shortages, which are prevalent, favour western-style headhunting and the use of rigorous selection of employees for certain positions, clanism is still widely used. In a privately owned bank about 15% of candidates were spontaneous applicants who applied through job websites, and 85% of candidates were proposed by managers or colleagues.

There is a ‘battle’ against clanism taking place not only in MNCs originating from developed countries, but also in subsidiaries of MNCs from other emerging markets. (Minbaeva and Muratbekova-Touron 2013, p129)

8.7 CONCLUSIONS

In the final analysis, the many institutional and cultural factors we have outlined should remind us there can be fundamental differences in the assumptions that might underpin a selection system. Whilst in general, most selection systems give attention to the technical requirements of the job, the person’s potential to do a good job and interpersonal qualities, the belief that there is a clear link between recruitment practices and organisational effectiveness clearly differs across countries when recruitment cultures are analysed.

It is important to remember that within Europe, the Anglo-Saxon tradition is based on concepts of predictive validity, underpinned by the belief that variance in employee performance is sufficiently explainable by individual factors (knowledge, skills, abilities and other factors) to enable a cost–benefit and utility analysis of investments in

sophisticated HRM process on the one hand, and returns through employee performance (on the basis of person-job or person-organisation fit) on the other. For Australian organisations too, attention is given to the fit between the person and the organisation's values and ways of doing things. This is an assumption common to most Anglo-Saxon countries, and if assessments of competency are made, it is considered legitimate to ask about a person's values (Patrickson and Sutiyono 2006). Anglo-Saxon countries – and their MNCs – might consider that an individual's alignment to the organisation's values (rather than their qualifications or technical capability) is an important part of the selection mix. The management competency approach has been popular in Anglo-Saxon countries, and the behavioural event investigation techniques that it relies upon identifies skills, traits, attitudes and values, knowledge and social roles, motivations and management style as potential competency criteria. Many organisations use the expression 'Live the values'.



FRENCH VERSUS BRITISH ASSUMPTIONS ABOUT SELECTION

CASE STUDY 8.8

Such differences reflect different assumptions about the nature of selection. In the UK, for example, an empirical predictive model is the norm. Here the assumption is that selection is about the conversion of good-quality information into accurate, reliable and valid prediction of important outcomes. If a selection method has low validity or reliability, it is considered inappropriate. In France, by contrast, selection systems work on a principle of clinical assessment. It is considered that accurate prediction of career success and performance at the point of entry is either

unnecessary (educational achievement at *grandes écoles* might suffice) or improbable. Rather, selection systems should be designed to take out unnecessary risk. An overall clinical assessment of match is possible, but no finite prediction. And so although graphology has almost zero predictive validity, it is considered a cheap source of additional information that just might detect extreme risks. Judging selection systems based on the models implicit within one's own system can be misleading.

Yet in contrast, we might also point to French traditions, in which an examination of an individual's personal values are not considered appropriate to a selection context. You want to know what my [private and in personal space] values are? What are my values to do with you [my employer, for whom I provide labour and appropriate service]? In any event, apart from showing me that if I share your values so that it will make life easier for you as my manager, what is your evidence that shared values produce superior performance (considered long-term, across complex changes in business models and environments)? Difficult questions for an HRM business partner to answer! French attitudes towards selection, then, are driven by the view that the prediction of performance is not really sufficiently achievable; other factors intervene over a career and therefore decisions must be influenced by robust processes that enable an assessment of risk rather than processes built on assumptions of predicted outcomes.

The conclusion of Sparrow and Hiltrop (1994, p353) still holds true to this day:

[As] the international mobility of managers... increase[s], then the 'cultural fingerprint' of national selection systems will be more widely felt.



REFLECTIVE ACTIVITY 8.7

In what ways might the following developments change the task faced by an international recruitment function?

- Global business process redesign and the global re-distribution and re-location of work
- The merging of existing operations on a global scale and attempts to develop and harmonise core HRM processes within these merged businesses
- The rapid start-up of international operations and the need to manage the development of these operations as they mature through different stages of the business life cycle.



KEY LEARNING POINTS

- Many differences in recruitment and selection systems occur within countries and a key to these differences is national cultures and institutions.
- When organisations plan their staffing needs, they do so within the context of a particular labour market.
- What they spend on recruitment and selection is affected by national laws and tax regimes.
- Organisations employ people within particular cultures and under particular laws and institutional arrangements.
- In addition to cultural and institutional factors, each major region of the world may be considered to have specific challenges and issues with regard to recruitment and selection.
- Organisations have to remain aware of these differences when they determine their HRM policies and practices.
- Notions of good practice in HRM differ from country to country.
- As organisations internationalise, it is often their recruitment and selection systems that are the first to have to cope with this new context.
- In some sectors, the labour markets themselves are becoming more global, and this is creating both new resourcing strategies and also a need for many domestic organisations to become skilled in overseas recruitment.
- International graduate programmes are no 'quick fix' for organisations that need to increase their supply of international recruits.
- In order to be successful, cross-national advertising requires an awareness of the cultural appropriateness of the techniques and media used.
- The e-enablement of recruitment is altering the economics of the international selection process.
- Assessment centres can prove an effective tool for international resourcing, but they require careful modification for an international setting.
- There has been an increase in cross-cultural assessment based on psychological testing.


 LEARNING QUESTIONS

- 1 What are the main cross-national differences in the nature of recruitment and selection systems?
- 2 How would you characterise the underlying philosophy that British HR professionals have towards selection compared with French HR professionals? Is this evidenced in a different take-up of particular selection tools and techniques?
- 3 What are the main technical challenges faced by firms that wish to internationalise their selection and assessment approaches?
- 4 What are the main issues facing organisations as labour markets become more global?
- 5 What are the different resourcing strategies open to organisations as they operate in these global labour markets?



EXPLORE FURTHER

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Performance Management



LEARNING OUTCOMES

When you have read this chapter, you will:

- understand the background to performance management and its western origins
- appreciate the component parts; of performance management systems typically found within organisations
- be aware of the impact of culture and context on performance management
- explain the linkages between performance management and other elements of the HRM architecture within an organisation
- be able to advise on the possible pitfalls of seeking to apply a 'one size fits all' approach to performance management without due regard for context and culture



8.7 CONCLUSIONS

Although commentators such as Smith and Goddard (2002) and Thorpe and Holloway (2008) have emphasised the multi-disciplinary nature of the emerging field of managing performance, in this chapter we are concerned with the processes that would be recognised by most larger western HRM departments as the (usually yearly) cycle that has its origins in performance appraisal mechanisms, but is now often depicted as having 'grown up' beyond that to become performance management (Smith and Goddard 2002, p253):

The literature on performance management is eclectic, diffuse and confused. The definitive 'general theory' of performance management remains elusive, and is unlikely ever to emerge. Important contributions can be found in fields as diverse as strategy, organisational behaviour, operations management, industrial economics and accountancy.

Sparrow and Hiltrop (1994) suggest that performance management is one of the key areas of HRM policy and practice necessary to implement successful global HRM, as it is the HRM sub-system that links corporate goals with rewards, improvement of performance and employee development.

Within a book on IHRM, performance management is particularly worthy of consideration given the dominance of US-based writings on the subject. It is also often seen as contentious in nature. As Heskett (2006) notes:

It's the season for many employee performance reviews. Why do they seem to rank alongside root canal dental work on our list of things we look forward to as managers and employees? And what are we doing about it?

Pulakos and O’Leary (2011, p147) point out that:

performance management has rightly earned its distinction as the ‘Achilles’ Heel’ of human capital management, rarely working well irrespective of the time, effort, and resources that are devoted to it.

This challenge is likely to be far more complex when we consider the challenges and differences of an international context. Witcher and Chau (2012) point to the fact that there exists a growing body of evidence to suggest that international firms compete differently, since they are likely to practice management in ways that are isomorphic to their countries of origin and this in turn will influence what they define as ‘the management of a firm’s overall purpose’ (p 58). We discuss in Chapters 2, 3 and 4 how such contextual influences impact HRM practices via differences in labour law and market regulation or culture (see Chapters 2 and 3). As Chapter 2 on context suggests, there is evidence of isomorphism, especially mimetic isomorphism (DiMaggio and Powell 1983), with respect to the adoption of performance management systems, whereby organisations have copied the practices of other organisations in pursuit of what they hope will be ‘best practice’. Large MNEs in Europe particularly seem to be taking the example of the Anglo-Saxon world (Barzantny and Festing 2008). However, as Fletcher (2001) has stated, the context is important in order to understand performance management in different environments. This chapter will seek both to describe the common core that sits at the heart of typical performance management practice, and also will provide illustrations as to where the implementation of ‘typical’ approaches is likely to be problematic. Wherever possible the chapter will seek to link more theoretical content to practical examples and/or learning tasks and critical questions.

This chapter begins with definitions of appraisal and performance management and a brief account of its history and origins. It then describes how performance management is typically ‘manifested’ and the composite elements of planning performance, managing performance and reviewing performance that make up the performance cycle within organisations. Although it is difficult to avoid making reference to rewarding performance, the main reward discussion can be found in the following chapter. Having discussed definitions and background, the chapter then considers performance management in the light of the comparative literature in order to highlight the challenges of managing performance in different contexts and in particular the impact played by national culture in shaping practice. Cranet data is used to illustrate how practice and level of adoption varies across countries.



REFLECTIVE ACTIVITY 9.1

Spend a few moments reflecting on what performance management means to you – jot down your thoughts.

- What are the organisational practices you associate with it?
- If you have work experience, how have you seen it be carried out?
- What is your emotional reaction to the term ‘performance management’?

Consider your thoughts as you read through the following section of this chapter.

9.2 DEFINITIONS AND BACKGROUND TO PERFORMANCE MANAGEMENT

Pulakos and O'Leary (2011) refer to over 30 years of extensive research and practice on understanding and improving performance management systems in organisations. Various perspectives have been adopted and these include the individual differences perspective (cognitive ability, motivation and personality, etc) and the situational perspective which focuses on facilitators and impediments for performance and might include extrinsic rewards. The third perspective has been identified as being the performance regulation one, which deals with the performance process (Sonnentag and Frese 2002).

Despite the increase in interest, research into performance management has revealed inconsistent results concerning its effectiveness (Biron et al 2011). However, as Bach (2000) points out, performance management and performance appraisal have long been confused, with the terms often being used interchangeably and this may in part account for some of the inconsistency over findings. In this chapter in general we will use the terminology of performance management as being wider than, but including, the process of performance appraisal.

Performance appraisal, according to Erdogan (2002) and Fletcher (2001) is the basic process involving a line manager completing an annual report on a subordinate's performance and discussing it with the employee in an appraisal interview. It has its origins in the first formal monitoring systems drawing on the work of Frederick Taylor and others who emphasised the importance of defining standards for performance. Such approaches were pioneered in the USA, and thus the origins of performance management should be recognised as culturally embedded in the strongly individualist nature of the US culture (Pulakos et al 2008).

The early approaches were known as 'merit rating' systems and were pioneered by Scott and others during the First World War, focused on officer ability. According to Muchinsky (1997) these early efforts led to the acceptance of performance management systems in government and industry and marked the first large-scale use of judgemental assessment. However, merit-rating systems were criticised for being subjective systems of assessment, as often they were based on personality. The approach developed into standardised measures of performance, with Patterson's Graphic Rating Scale providing a metric on which to rate a trait or factor, rather than making purely qualitative judgements. Commonly used factors for rating would refer to the extent to which individuals were conscientious, imaginative, self-sufficient, co-operative or possessed qualities of judgement, initiative or original thinking (Armstrong and Baron 1998).

In the 1990s and into the 2000s, multisource feedback and the incorporation of behavioural competencies have become more common. As a result, a large range of methods and techniques now exist for performance appraisal. The main appraisal methods are work standards, comment boxes, checklists, ranking, forced distribution, rating scales, critical incidents, management by objectives (MBO), behaviourally anchored rating scales (BARS), behavioural observation scales (BOS), 360 degree appraisal, and self-appraisal, among others. For a summary of the many different forms of performance appraisal (rating, ranking, objective-oriented, critical incident, self-assessment, etc), with their relevant strengths and weaknesses see Gunnigle et al (2006).

So what about performance management? Writing in 1992, Bretz et al reported a major focus in the rhetoric of the practitioner literature of the day on transforming performance appraisal from an event to a process. Advice for how to do this, they say, is 'typically discussed under the rubric of performance management' (p329). Performance management has been defined as a variety of HRM activities through which organisations seek to assess and develop their total competence, enhance organisational performance and distribute rewards (Armstrong and Baron 1998; DeNisi

2000; Fletcher 2001). It is, presented, in theory at least, as a strategic and integrated process, incorporating goal-setting, performance appraisal and development into a unified and coherent framework with the specific aim of aligning individual and group performance goals with the organisation's wider objectives (Armstrong and Baron 1998; DeNisi 2000; Den Hartog et al 2004; Williams 2002). Boselie et al (2011) suggest that an ideal performance management approach is akin to a form of 'mini' high performance work system, focused on goal-setting, monitoring and appraising, developing and rewarding employees in order to increase employee performance and to achieve organisational goals. Relevant to such an outcome-based approach is the extent to which employees give extra in the form of discretionary effort, which would not otherwise have been forthcoming. In such a form performance management has been sold to employees in terms of its ability to serve their individual needs for development and self-actualisation (Festing et al 2010), as well as delivering the organisational requirements which Claus and Briscoe (2009, p176) describe as being organisational competitiveness and control.

In summary, compared with performance appraisal, performance management is usually seen as the larger, more holistic and integrated approach. As Boselie et al (2011) point out:

(It) is linked to or embedded in relevant areas of practice including (1) culture management, (2) talent management, (3) leadership development (succession planning), (4) competency management and (5) new technology.

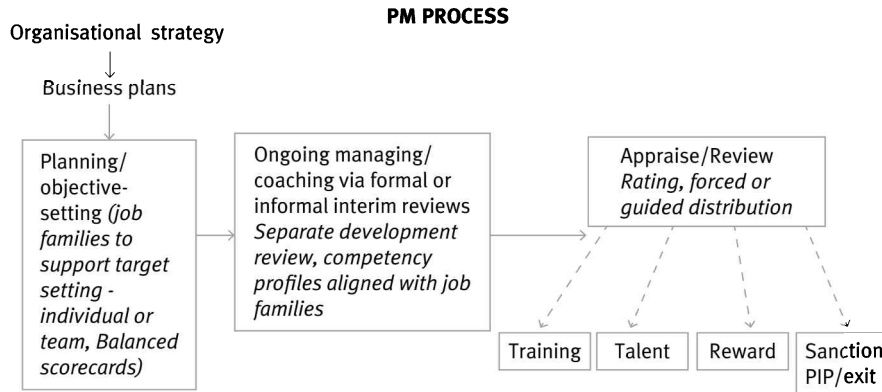
As discussed earlier in Chapter 2 (on the importance of context in HRM) the universalist paradigm with its dominance in the USA and widespread adoption throughout the world is particularly relevant to an understanding of performance management policy and practice. However, performance management actually has origins in the Wei dynasty when the emperor employed an 'imperial rater' to measure performance in the third century AD, whilst Ignatius Loyola, in the sixteenth century, 'established a system for formal rating of the members of the Jesuit Society' (Armstrong 2015). Performance management as an area of HRM policy and practice is shaped by what Rose (1991) describes as 'false universalism' with international organisations striving to mimic western best practice. Certainly from its US origins, performance management appears to have been embraced by large MNCs to become a common element of HRM practice. Even in countries as different as the USA and Japan, performance appraisals involve similar ideas of developing social and performance norms, monitoring the actions of employees in relation to the norms, assigning responsibility for the actions, and then ultimately providing rewards or punishment based on performance towards those norms (Sullivan et al 1986).

As Brewster (1995) observed, it seems that a kind of assumed 'best practice' system has emerged in relation to performance management. Before considering the comparative performance management literature and some examples of practice, we shall first outline what typical practice might comprise.

9.3 TYPICAL PERFORMANCE MANAGEMENT PROCESS

What follows is an account of the typical approach to performance management as commonly espoused by western organisations and MNCs. The description makes reference to the main elements of performance management, usually described as planning, managing and reviewing, and summarised in Figure 9.1 below.

Figure 9.1 Typical performance management process



The first of the elements of performance management is planning/objective-setting, typically linked to some sort of cascaded strategy or business plan, and concerned with setting individual or sometimes team objectives for the year ahead in line with corporate goals. This planning phase of performance management has its theoretical underpinning in goal setting theory (Locke and Latham 1990), with the belief that individuals are more likely to achieve something if they have an explicitly declared goal around it. It also links with expectancy theory (Vroom 1964; Porter and Lawler 1965) in terms of what the employee is expecting in return for their achievement of the targets set.

Objectives are intended to take into account current corporate objectives and be relevant to the job-holder's role. In some cases to clarify or support the communication of the business-planning process organisations have sought to use devices such as the European Foundation for Quality Management (EFQM) or a balanced scorecard. Conceived of by Eccles (1991) and popularised by Kaplan and Norton (1996) as a means of overcoming the short-termist and narrow focus of management accountancy the balanced scorecard provides a framework that promises to allow organisations to measure both the hard tangible and soft intangible drivers of performance. Although organisations (often steered by consultancy firms) have sometimes tailored the perspectives that they track within their balanced scorecard, the rationale remains one of striving to identify a set of rounded performance measures that go beyond only the financial.

The second element of the performance management process in Figure 9.1 is that of the management/coaching of performance. This is the phase of performance management which is about making sure the individual is on track during the course of the year and that there are no surprises in the final end-of-year review. In some organisations there is simply encouragement to line managers to provide regular informal coaching, in others there are suggested or mandated interim reviews during the course of the year. The aim of this phase is to check progress against objectives and also to consider the individual's long-term development needs. If the planning phase of performance management relates to theories of goal-setting, then the managing phase is concerned with the role of the line manager in the ongoing motivation of the employee. There is of course a role to play here for line managers in continuing to motivate employees towards the goals that have been agreed and coaching and development may play a part here. One popular mechanism for this is via the use of a competency review, focusing around key behaviours for a role. Once an organisation has decided the contents of its competency framework, roles may be profiled against them. Individuals may then during the course of a development review, or even a performance review,

receive feedback as to how well they are meeting the behavioural or competency requirements of their role.

Phase three of the performance management process is concerned with reviewing performance and the aspects of HRM within an organisation which are linked to the outcome of this review. The review element involves the annual appraisal meeting with the individual and their line manager considering the extent to which the objectives have been met. Not all performance management processes give rise to a rating. Where there is a rating schema this typically contains three, four or most commonly five levels of rating from 'not effective' to 'outstanding'. Recent years have seen an increase in the use of 'guided or forced distribution' approaches to reviewing performance, whereby managers have to allocate prescribed numbers of their direct reports into certain performance categories. This forces managers to decide who their star performers are and who is underperforming. One way to try and improve perceptions of fairness around rating, particularly where forced distribution is being used, is a technique referred to as 'calibration'. In such cases line managers will produce an initial or tentative rating of performance, but this will not be shared with the direct report until after the calibration meeting. The calibration meeting, often facilitated by HRM specialists or a senior line manager and involves groups of line managers meeting together to review the performance and provisional performance ratings of members of their teams and comparing contribution and outcome rating in an attempt to ensure equivalency.

Once a performance rating has been produced, it may be used in support of a number of other elements of the HRM architecture, particularly reward and talent identification. In relation to talent identification this may rely on the performance rating alone, or it may seek to combine this with a 'potential' rating, or possibly an amalgamation of the two. There is an example of this in the case study around Intertel and their use of a nine-box grid in the online supporting materials for this chapter.

In many organisations, reward is seen as inextricably linked to the performance review discussion. In such cases, once the performance conversations for the year have finished, there is a link between the outcome from performance management (typically the rating) to salary or bonus (or in some cases both). Significant problems arise when the outcome of the two systems is inconsistent: thus, a management consultancy may rate someone as under-performing because they have not developed their subordinates or contributed outside their immediate work role, but reward them at the top level because they have brought in significant new business.

As suggested in the earlier section on planning performance expectancy theory is useful here (Vroom 1964; Porter and Lawler 1965) in terms of the effort an employee expends in relation to a goal, based on their assumptions about the probability of a reward being forthcoming. Equity theory (Adams 1965) plays a key role here too. Based on exchange theory it focuses on how fairly employees believe they have been treated in comparison with the treatment received by others. This is based on their expectations of an outcome (or reward) in exchange for certain contributions. Thus the review element sees the employee with expectations of future reward (be it recognition or explicit reward or promotion). For more information around the challenges facing international organisations in terms of rewarding performance, see the next chapter.

The example which follows illustrates how even efforts to balance the inputs to a performance management system can result in unexpected consequences.



CASE STUDY 9.1

HOW PERFORMANCE METRICS CAN HAVE UNEXPECTED CONSEQUENCES

A computer manufacturer and retailer discovered it had a problem with its metrics around performance expectations. Its sales force it had sought to deploy what it believed to be a 'best practice' approach, which did not rely only on sales targets. The balanced scorecard approach also included measures around customer satisfaction, completion of internal processes and some ongoing personal development.

The customer satisfaction measure typically rewarded those staff who managed to achieve the highest levels of 9 or 10/10 in customer satisfaction surveys. Individuals who succeeded in achieving their sales targets and also achieved this high level of customer satisfaction would usually be in line for a performance rating of 'Exceeds

expectations' – triggering a high level of bonus. However, a review of sales profitability revealed a very different story. It transpired that the sales staff with the highest customer satisfaction scores were not working on the most profitable accounts and indeed the high customer satisfaction scores were misleading. The most profitable accounts were in fact those where customer satisfaction was rated at 6 or 7. An investigation revealed that in cases where the customer satisfaction score was higher the sales staff were giving away considerable price discounts or incentives to such an extent that the sales were scarcely profitable.



REFLECTIVE ACTIVITY 9.2

Reflect upon an appraisal you have experienced – this could be in relation to the assessment of a piece of work you have completed for your studies.

- What were the elements you were assessed or judged upon (written work, presentation, group work, class participation etc)?
- How did you tackle the task – did you plan for success and what activities did you perform to help you meet your goal?
- What was the outcome for you following the assessment (perhaps you received feedback or were allocated a grade or mark)?
- As far as you are concerned was the outcome in line with your inputs and contribution?
- Yes or no, and why?

9.4 COMPARATIVE LITERATURE ON PERFORMANCE MANAGEMENT

Although referring to appraisal, not performance management, Bai and Bennington (2005, p276) suggest that it remains one of the key tenets of performance management and organisational improvement in western countries. However, they note that its emphasis may vary, although the purposes generally include individual development, legal risk management, compensation, promotion and two-way communication (see also Nakane 1972; Ouchi 1982; Staw 1980). Milliman and Von Glinow (1998, p160) assert that although:

the concept of performance evaluation is basically similar in almost all countries . . . the process of the appraisal is conducted in many different manners and in varying degrees of formality.

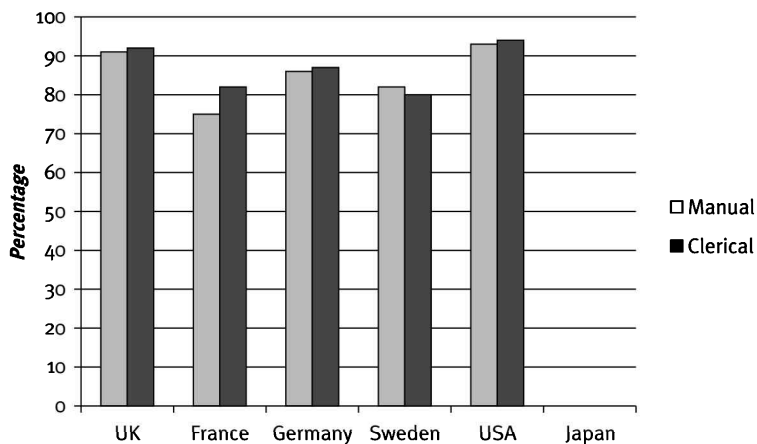
We discuss the notion of global performance management systems in Chapter 16. However, from a comparative perspective, moving beyond western countries Milliman et al (2002) acknowledge the influence of culture but suggest there appears to be a convergence in this area and report that countries as diverse as the USA, Korea and Japan use performance appraisal. Festing et al (2010) suggest that in the case of global performance management many MNCs seek, to varying degrees, to standardise their systems. Authors such as Mäkelä et al (2009), Cascio (2006) and Barzantny and Festing (2008) have suggested how local customs and specifications concerning performance appraisal and performance management cannot be neglected. Chiang and Birtch (2010) argue that because of contextual factors an appraisal architecture developed and regarded as effective in one country may not be suitable in another cultural setting.

Data from the Cranet survey tell us (Goergen et al 2009):

- Appraisal is widespread though, even in this sample of larger firms (above 200 employees) the figure does not reach 100% even for managerial appraisal in any country.
- The majority of firms in most countries (apart from Norway, Sweden, Finland and the Turkish Cypriot community) report that they appraise their employees. Apart from the category of manual employees, there is a (weak) inverse U-shaped relationship between the percentage of firms which monitor a given category of employees and trust.
- There is a weak positive linear relationship between the percentage of employees assessed and trust. Apart from the Turkish Cypriot community, the higher the levels of trust in a society the lower the levels of appraisal.
- There is a negative linear relationship between trust and the proportion of firms that use the employee appraisal system to inform employees about the organisation of work. This may reflect the fact that in low trust countries there is little communication between employees and their superiors, unless this communication is done via formal channels.

Figure 9.2 shows the comparative use of appraisal for manual and clerical employees in six countries.

Figure 9.2 Comparative use of appraisal for manual and clerical employees in six countries



Source: Cranet (2010) *figures for Japan unavailable due to data entry error

Table 9.1 Percentage of firms with an appraisal system in operation for the following staff grades

	1995				1999			
	Mgt	Prof	Clerical	Manual	Mgt	Prof	Clerical	Manual
Denmark	42	41	39	23	56	48	47	32
France	85	77	61	53	86	84	5	67
Japan	-	-	-	-	83	82	79	77
Spain	63	77	64	56	59	66	46	40
Sweden	87	83	83	63	89	84	95	80
Switzerland	89	94	89	87	93	95	92	91
Netherlands	79	82	79	78	84	82	82	82
UK	90	87	76	51	92	90	85	68

We use some previous Cranet data to provide a more detailed understanding of comparative patterns (see Tables 9.1, 9.2 and 9.3).

Boselie et al (2011) present empirical data on performance management from the same Cranet survey and from their Global HR Research Alliance study of 16 firms. They find similar overall increases in the use of appraisal systems, in particular for clerical workers and manual workers. They also find few differences between regions in the case studies (probably because of their MNC nature), although there are differences between countries in their use of appraisal systems. There are, they say, some contextual differences that may affect performance management in different countries, mainly associated with variances in leadership, communication and self-evaluation. In other words, the leadership styles, the nature of communication and information sharing, and the role of the individual in the appraisal procedure differ between countries. They conclude that context matters in the optimal design of performance management systems, a point further illustrated by Festing (2012) in a direct comparison between Germany and the UK. She highlights the fact that in Germany performance management processes vary according to the industry, firm and qualifications of the employees, with the situation being that the more highly qualified the employee the more performance appraisals are conducted, although still not at as high a level as in the UK. The suggestion is that the purpose and focus of this HR practice differs by context and that in Germany the main focus is upon identifying training needs (88%), followed by career development (79%); impact on compensation (68%) is less important (Kabst et al 2009).

9.5 CONTEXT AND PERFORMANCE MANAGEMENT

Figure 9.1 has shown the typical components of a performance management process. A comparative consideration requires us to locate this within the context of the country of operation. So what are the factors that shape how international organisations either standardise or adapt their performance management processes?

DeNisi and Pritchard (2006) have commented on the fact that recent literature on appraisals has focused more on the importance and relevance of contextual factors. However, Claus and Briscoe (2009) highlight the fact that no one model provides an overall view as to how the design, development and implementation of performance management across borders works in practice, whether from the perspective of an MNC or the application of the western notion of performance management in a non-western

Table 9.2 Percentage of firms where the following people contribute formally to the appraisal process

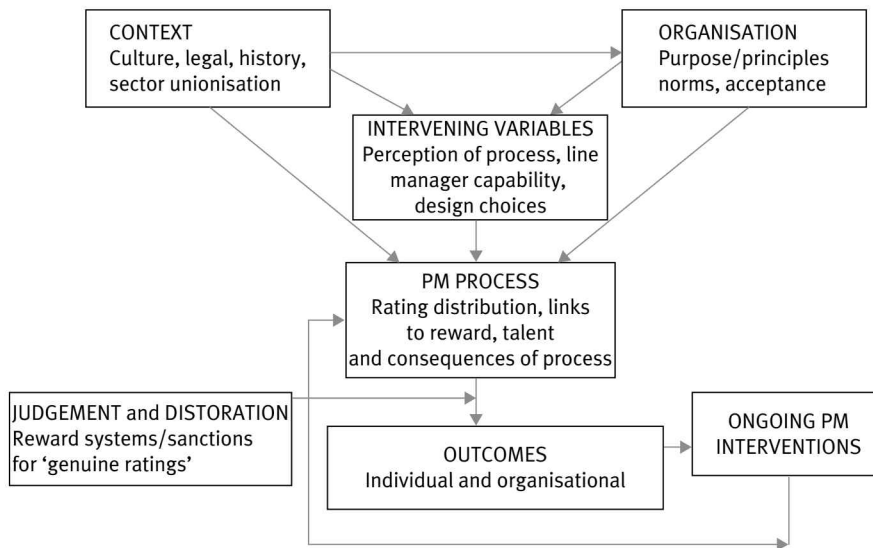
	1995			1999			2004		
	Next level manager	Self	Subordinate	Next level manager	Self	Subordinate	Next level manager	Self	Subordinate
Denmark	21	34	5	31	73	18	59	98	22
France	47	67	5	39	73	5	-	-	-
Japan	-	-	-	82	10	2	-	-	-
Spain	44	22	8	47	61	7	-	-	-
Sweden	-	-	-	23	90	16	68	88	35
Switzerland	44	76	23	46	85	19	68	88	26
Netherlands	63	75	6	67	88	11	63	83	16
UK	65	86	7	61	94	12	80	99	23

Table 9.3 Percentage of firms where the appraisal system is used to determine the following outcomes

	1995				1999				2004			
	Training	Promotion	Career	PRP	Training	Promotion	Career	PRP	Training	Promotion	Career	PRP
Denmark	41	25	25	16	82	49	52	36	87	-	71	66
France	74	54	59	53	95	74	74	61	-	-	-	-
Japan	-	-	-	-	29	85	37	91	-	-	-	-
Spain	63	55	41	52	77	63	50	63	-	-	-	-
Sweden	93	49	52	35	98	48	54	41	79	-	66	86
Switzerland	91	70	59	53	98	74	55	60	96	-	91	76
Netherlands	71	59	66	52	83	69	80	63	88	-	92	75
UK	89	61	72	40	98	62	77	34	98	-	87	54

culture. Chiang and Birtch (2010) consider how the purposes and practices of performance management differ across multi-country contexts. Similarly Varma et al (2008) highlight the lack of reliable literature detailing the kind of HRM and performance management systems relevant to firms operating in different national contexts. However, their book makes a particularly useful contribution, including a model by Murphy and DeNisi (2008) which aims to capture the contextual factors that influence appraisal decisions at various levels of analysis as well as cognitive and motivational factors at individual level, which we will explain in more detail. They consider performance management in context by means of two models, one of which deals with the appraisal component and one with the performance component, which they see to 'fall out' of the outcome of the appraisal discussion. Below we present an integrated model which seeks to simplify the main elements of their two frameworks and is useful to underpin our consideration of comparative performance management practice.

Figure 9.3 Performance management process in context



Source: Adapted from Murphy and DeNisi (2008), pp82, 91

Figure 9.3 highlights a number of macro contextual factors. These operate at the level of the nation or region, but still influence the appraisal process. These factors are best thought of as things that are fixed and serve as parameters for the actions an organisation might take. National culture is a key factor here both in terms of how objectives are set and, as De Luque and Sommer (2000) describe, on the way performance feedback is given. Other examples include the legal framework of the country of operation, with for example a higher degree of employment protection in western European countries than in the USA. This is highly relevant within organisations who may wish to impose sanctions on poorly performing employees. Also important in terms of macro context is the fact that some nations have laws which allow discrimination against some groups, but not others (on the grounds of race or gender). Finally, technology can influence the type of performance management information that is collected and how it is used. For example the performance management system itself may be system-generated and link an individual's role profile to their behavioural competency feedback.

CASE STUDY 9.2



INSTITUTIONAL IMPACT ON PERFORMANCE MANAGEMENT PROCESSES

Company W Performance vignette

This large German organisation employs 260,000 individuals across 50 countries and is striving to produce a global approach to performance management. However, its vice president for performance reports that there is much more freedom to do so beyond their home country. Within Germany there has been agreement between unions and the Workers' Council to introduce the approach beyond the managerial and supervisory level to those workers on collective pay agreements (*tarifs*). However, in order to secure this concession it has been determined that the performance discussion between manager and employee must remain confidential and only data around high potential may be shared by the line manager and linked to other elements of the HR architecture.

Organisational factors include the purpose of performance management: is it primarily around decision-making (for example to make reward decisions) or is it about development practices? Although some organisations claim to do both, according to Rotchford (2002) this is difficult to achieve in practice. Other organisational factors include norms of behaviour, for example whether it is acceptable to rate anyone as 'not satisfactory' and the degree of acceptance of the appraisal process, by both employees and line managers. According to Folger et al (1992), if employees do not accept the appraisal system as legitimate then they are less likely to see the ratings it generates as fair and rather than try to improve their performance will instead resent low ratings and reduce their efforts at work.

Both macro and organisational factors are seen to impact the performance management process via intervening variables which include line management capability and the perceptions of the performance management process (Murphy and DeNisi 2008).

The model then includes the *performance management process*, the detailed elements of which are presented in Figure 9.1 and include the mechanics of objective setting, feedback, development planning, reviewing and links to reward.

Emerging from the performance management process are its *outcomes* at both individual and organisational levels of analysis. For the individual these might include the rating, reward, talent identification or sanctions for underperformance. They could also include both tangible business outcomes (although these are always difficult to attribute to the performance management process) as well as motivation and commitment.

Figure 9.3 includes some additional factors as described by Murphy and DeNisi (2008) and concerned with what Murphy and Cleveland (1995) describe as judgement and distortion factors. This refers to the impact upon a line manager's decision-making of the presence and extent of rewards within the organisation which are based upon the outcome of the performance management process. Are managers encouraged to give a genuine rating of performance (in line with their true judgment) or not?

Finally the model indicates that as a result of the outcomes of the process (at both an individual and organisational level) it is likely there may be ongoing initiatives and revisions, for example an initiative might be introduced to improve the performance of employees in the lower rating categories.



REFLECTIVE ACTIVITY 9.3

Based on your reading so far, summarise the key factors to take into account when analysing the introduction of performance management processes into different operating countries.

9.6 PERFORMANCE MANAGEMENT AND CULTURE

Culture exists as a macro factor in Figure 9.3. Indeed, culture appears to be the most dominant factor in terms of shaping performance management practice both in terms of its adoption, but also the way it is experienced on the ground in different locations. A considerable body of literature supports this (Atwater et al 2005; Aycan 2005; Cascio 2006; Dunnett 1992; Ji and Karakowsky 2001; Kostova 1999; Kostova and Roth 2002; London and Smither 1995; Mendonca and Kanungo 1996; Shipper et al 2004; Tornow 1993). However, that is not to say that other factors are not also at play. Festing et al (2015) for example suggest that female preferences in terms of global performance management practices actually transcend national and cultural boundaries.



REFLECTIVE ACTIVITY 9.4

Review what you know about culture from Chapters 2, 3 and 4.

Which factors (using Hofstede's terminology) do you believe are likely to most impact the success of performance management processes?

MANAGING PERFORMANCE – A TALE OF TWO CULTURES

Taskki was created in 2008 as a result of a 50/50 joint venture between a Danish renewable energy company (DENm) and a Chinese state-owned enterprise (SOE). Taskki now has 145 Chinese nationals: 50% employees were recruited directly to Taskki and 50% are on different terms with the SOE. Chinese employees (host country nationals) have never been promoted to positions at the headquarters in Denmark and the parent country nationals have never been transferred to Taskki. There is, though, a requirement for collaboration with colleagues in Denmark in pursuit of six key strategic priorities:

- 1 Build up a main customer key account organisation
- 2 Optimise domestic solutions in China
- 3 Develop common key customer capabilities on technical and technology level
- 4 Support approval and prepare for export
- 5 Support to build global supply chain
- 6 Utilise and develop Taskki to support strategy where appropriate

The success of Taskki has been identified as being of key strategic importance to senior management team of DENm and a recent internal project team was commissioned to investigate why performance challenges might exist in terms of its Chinese joint venture. In terms of HRM practices associated with the management of performance the following challenges were reported.

Issues in the management of performance within the joint venture

Challenge	DENm	Taskki
Clarity over business goals	Clarity over strategic priorities and individual alignment with goals	More rigid with three sets of KPIs (not known to Danish business)
Communication	Speak no Chinese	Few managers speak English and translation difficult given highly technical vocabulary
Communication and culture	Used to direct 1:1 communication method with subordinates, peers and colleagues. Realisation that communication in China not as simple or mechanistic as 'sending an email'	Communication described as 'multi-layered' and social; passing information from one person to another or from one department to another in Chongqing described as 'a riddle' to employees from DENm
Culture	Empowered to take decisions as appropriate with role	Decisions not made in meetings, but either checked with or agreed beforehand with superiors.
Performance management process	Involves superior and self-assessment. Likely to incorporate subordinate and peer feedback	Being more widely but not universally deployed. Involves private meeting between employee and superior and very limited feedback
Approach to problem solving	Investigate root cause seek to find solution	Mitigate symptoms and reduce further damage

The results from the internal investigation mirror the cultural findings reported by Björkman and Lu in 1999, in their study of the management of human resources in Chinese–Western ventures (see later discussion).

Communicating without words

One very practical way of working emerged based on one described in the internal review. The practice involved shop floor communication and simply required the use of a drawing board and hand-drawn diagram, accompanied by lots of pointing in an attempt to overcome the fact that at the shop floor level communication had to date been virtually non-existent.

Contributed by Henrik Toft, Henley MBA Programme EM12

The picture that emerges from the literature is one in which collectivist cultures tend to reward such factors as group loyalty and conformity and the maintenance of harmonious relationships (Sinha 1990; Tung 1984); individualist cultures prefer objective and quantifiable criteria (Varma et al 2008). Japanese and US performance appraisals tend to vary in terms of measures, time horizon, communication style and form and extent of

praise (Cascio and Serapio 1991). US managers are much more likely to reward 'lone wolf' (non-interactional) individuals (Sullivan et al 1985).

In China issues such as *mianzi* (face) and *guanxi* (connections) remain important in performance appraisal (Bai and Bennington 2005; Björkman and Lu 1999) and affect the way in which performance appraisal is conducted. Managers from China, and probably many other unresearched nationalities, tend to base their appraisals upon personal attributions (Claus and Briscoe 2009). UK managers include in their appraisal criteria minimum supervision required – Chinese managers include obedience (Hempel 2001). On upward evaluation, US and European ratings tend to be more positive than Brazilian and Asian ratings (Adsit et al 1997).

Culture also seems to account for some of differences in how performance is attributed. It is argued that individualistic cultures tend to attribute performance to personal-internal factors (Staw 1980; Landrine and Klonoff 1992) and collectivistic cultures tend to attribute performance to situational-external factors (Markus and Kitayama 1998; Matsumoto 1994; Morris and Peng 1994). Although it is a mistake to assume all Asian countries are similar in their approach to performance appraisal (Paik et al 2000), Asian countries do seem to adopt a different approach from western countries, being particularly wary of individualised assessments, with managers from Thailand and the Philippines being least likely to use them (Easterby-Smith et al 1995; Vallance 1995). From a western perspective there is a strong association between managers' perceptions of motivation and their appraisals, for example Barrick et al (2015) describe how the western construct of performance management rests on the notion of engagement in order to deliver greater organisational (and presumably individual) benefits.

More broadly there is evidence to suggest that attitudes to motivation vary by cultures with a tendency to be more extrinsic in the USA, and more intrinsic in Latin America, with Asia appearing to be a mix of both (Devoe and Iyengar 2004). In relation to China a study by Zheng, Zhang and Li (2012) into the association between the performance appraisal process and organisational citizenship behaviour found similar results in the Chinese context to those from similar studies conducted in the US context. Similarly, Norris-Watts and Levy (2004) suggest that an association between performance appraisal and organisational citizenship behaviour may occur across different contexts.

Differences have been found in the preferences of Chinese workers for a performance related pay system (Bozionelos and Wang 2007): the implementation of systems involving employee appraisal of their managers in Argentina, Australia, China, Slovakia, Spain and the UK (Brutus et al 2006); perceptions of the causes of successful employee performance in Canada, China, Finland and the UK (Chiang and Birtch 2007); and in appraisal systems generally in Hong Kong and the UK (Snape et al 1998). In terms of criteria and goal-setting there is evidence that individualistic societies tend to emphasise personal achievement in the appraisal whereas collectivist cultures highlight group-based achievement (Miller et al 2001). Fatalistic cultures, in which individuals perceive work outcomes to be beyond their influence, tend to accept performance below expectations as long as the individual displays effort and willingness (Kovach 1995). Low power-distance and universalistic cultures are also more likely to stress task-related competencies and outcomes (Aycan 2005). Japanese performance appraisal criteria typically include process as well as results, whilst the only criterion for US appraisals is, at least according to proponents there, results (Eshigi 1985). In countries with low power distance, such as Germany, the objective-setting process might be achieved by way of a negotiation between superior and employee. In France, on the other hand, its high power distance means that objectives are set by superiors (Barzantny and Festing 2008).

The managing or developing phase of performance management relies on line managers having capability of giving feedback and handling conversations around behaviours. There is evidence that feedback is particularly impacted by cultural effects: it

impacts subordinates' work much more in the USA than it does in the UK – with praise and criticism improving US workers' performance, whilst in the UK only praise increases subordinates' performance (Earley and Stubbledine 1989; Fletcher and Perry 2001; London and Smither 1995). It has been argued that giving objective 'western-style' feedback may not be appropriate in all contexts. Brutus et al (2006) found that 360-degree feedback increased performance in Ireland but decreased it in Malaysia. For countries with high power distance the notion of giving upward feedback to a manager/supervisor would be very counter-cultural, whereas in countries with lower power distance employees expect to provide comment on 'how well their boss' has done in terms of managing their performance. For example, Barzantny and Festing (2008) describe France as a being a context in which open criticism of others, notably up the hierarchical line, is avoided. As a result, feedback is often only given when improvements and corrections are requested by a superior. In Germany, on the other hand, feedback seems to be part of an ongoing process of dialogue about many informal elements and feedback might actually include open confrontations, something which would never be acceptable in an Asian country.

In terms of reviewing or appraising performance, usually construed as potentially the most difficult element of the process, there is evidence that this too is sensitive to the impact of culture. For example, feedback quality and relationships between supervisor and subordinate tend to be higher for matched collectivist-collective and individualist-individual dyadic relationships than for mismatched dyads (Van de Vliert et al 2004). Evaluation based on direct feedback is more prevalent in individualist cultures, and in low-context cultures, whereas collectivist societies focus on indirect, subtle, relationship-oriented and personal forms of feedback (Hofstede, 1998; Milliman and Von Glinow 1998). Low power-distance cultures are more likely to have participative and egalitarian discussions around performance; high power-distance cultures are more likely to use autocratic assessment styles, where there is little expectation that subordinates will express their views openly (Snape et al 1998). There are also some indications that the subjects discussed during the performance appraisal interview may vary across cultures. Reporting on appraisal in Hong Kong, Snape et al (1998) found that the content of performance appraisal was more strongly geared towards reward and punishment, and less towards training and development compared to British firms. Milliman and Von Glinow (1998) found that in individualistic cultures such as the UK there is an expectation that the discussion will place a stronger focus on discussing employees' results and potential for future promotion (Milliman and Von Glinow 1998). De Luque and Sommer (2000) refer to Hall's (1976) work on high- and low-context culture and suggest in high-context cultures additional feedback cues from nonverbal behaviours, feedback setting, and actor status. Not only is feedback likely to be perceived differently in countries with higher power distance, but the cultural dimension may also be a factor at the rating stage of performance management. For countries with higher power distance it may be considered inappropriate for an employee to receive a higher performance rating than their manager, thus mitigating against effective 'real' differentiation in terms of performance – hence an enactment of what Murphy and DeNisi (2008) describe as rating for cultural/political reasons rather than for reasons based on judgement.

FOCUS ON A REGION

PERFORMANCE MANAGEMENT PRACTICES IN THE MIDDLE EAST

According to Afiouni et al (2013) HRM practices in the Arab Middle East region operate within a context of Islam and political instability, government regulations, patriarchy and high rate of

labour force growth. Here work structures tend to be bureaucratic and the daily reality of HR is of a centralised function with low strategic focus and concern for employee advocacy.

What results is a lack of sophisticated performance management tools and a difficulty in understanding the underlying logics of performance management in the region. This is despite the fact that on the surface, contemporary performance management systems, such as balanced scorecards, may well be adopted as official process and formats (Afiouni et al 2013).

Despite western expatriates often representing the senior leadership of international companies operating out here, the day-to-day middle managers' performance management practices, however, are rooted in the local cultures (with high power distance) of their Arabian or Iranian descent or imported from the Indian subcontinent.

In practice, individual goals are typically set unilaterally without input or discussions among managers and subordinates. Similarly, individual performance is not actively managed but, rather, expected. For expatriates the direct link between employer-sponsored work and residence permits (necessary to stay in the country and have a local bank account to rent accommodation, own a car, etc) adds weight to the importance of the performance discussion. Hence people endeavour to be seen as outperforming any expectations, those set and many additional unplanned or last-minute demands.

Another aspect of performance management practice in the Middle East is the difficulty in reviewing performance, either throughout the performance cycle or at the annual appraisal. Admittedly in any setting, giving feedback constructively needs skill and talent to do it effectively. Appraising performance, however, is seen as critiquing, and that means on the Asian continent it is related to loss of face. This perception offers no acceptable way to frame the review as objective and non-personal.

Similarly, people locally measure their value and contribution to the business in terms of their personal network and its potential to offer ever negotiable, long-lasting relationship benefits. These contributions can rarely be accounted for or only insufficiently in the short-term quarterly business review or even annual appraisal.

In summary, what gets measured (financial and other quantitative performance metrics) gets managed by autocratic leadership behaviours. But what employees actually daily manage (relationships) does not get measured.

Contributed by Sabine Bruggeman, HRM practitioner and consultant based in Dubai

Figure 9.4 provides us with a summary framework for considering the literature on comparative performance management. Sparrow (2008) reviewed practice in the UK (see Table 9.2). Barzantny and Festing (2008) do the same for France and Germany. Their chapter is particularly interesting as it considers two of the key economies within Europe, whilst reinforcing the point that Europe does not present one cultural norm. The French legal system has been described as moderately regulated (Nikandrou et al 2005) and as a result it is suggested that the legal environment has a minimal impact on performance management (Barzantny and Festing 2008, p151). France is presented as having a culture which involves high individualism, high power distance and high uncertainty avoidance whilst also emerging with a feminine attitude. What emerges therefore is a society which values hierarchy, an elite which still prevails in education, administration, the management of organisations and overall society (Barzantny and Festing 2008, p152). This elite system impacts the intervening factors in Murphy and DeNisi's (2008) model: for example, if an individual being appraised is from a more prestigious background, their appraisal will be more positive – making the process less objective than might be expected. According to Barzantny and Festing (2008), performance management in modern-day France appears to be linked to employee involvement and is described as being an



important motivational instrument. However, according to Bourguignon (1998) appraisals are often used with the aim of confirming and justifying the impact on someone's remuneration. The presence of high power distance leads to low levels of openness and lack of transparency, with employee-manager relations being typically characterised by a lack of trust. As a result, performance ratings emerge with rather average ratings for all employees in a department, firm or corporation and therefore little discrimination between employees. In terms of distortion factors, in France appraisal appears to have a low impact on promotion and pay rises. The feminine nature of the culture means that well-being within the working environment is of importance along with personal relationships. This is a point of difference between France and Germany, where a more factual and task-focused orientation prevails. A final key point to make on context is that, as in most continental European countries, French employees value stability and longer lasting, stable employment relationships. Here the French context is similar to that of Germany, although there are number of other key differences.

Germany is seen as a highly regulated legal environment with extensive labour market institutions of collective bargaining, co-determination and vocational training. In Germany, the most important industrial relations happen at the plant level. The social market economy is a key factor of the economy, where the aim is high levels of job security for staff members with an emphasis upon long-term career and succession planning (Barzantny and Festing 2008). In terms of culture Germany has been described as low power distance, high on masculinity, high on individualism and high on uncertainty avoidance. High levels of uncertainty avoidance are characterised in Germany by expectations that systems should be precise and formalised, particularly in relation to defining goals and measurement methods and the consequences of this (for example training or pay decisions). In terms of reviewing performance the tendency, as in France, is for the average to be used for everyone with a preference for egalitarian approaches. The link to performance-based pay has increased in recent years in Germany but, according to Barzantny and Festing (2008) does not have the same meaning as in other countries – perhaps because of the need for approval by works councils – and as a result the practice has been implemented only to a modest extent. In summary, there is a high acceptance of performance management in Germany in terms of the link to career development and given the masculine nature of the culture, status within society is important and vertical careers are important. The link between performance and reward is one which Chiang and Birtch (2012, p538) identify as being particularly sensitive to context calling for 'the US centric economic and behavioural theories (e.g. exchange) that underpin reward-performance to be revisited and extended if they are to be applicable in the international context'. They conclude that the perceived performance implications of financial rewards tend to be more related to economic, competitive, and people performance dimensions in masculine, high power distance, and low uncertainty avoidance cultures (they identify Hong Kong as an example) whilst non-financial reward-performance linkages appear to be stronger in feminine, low power distance, and high uncertainty avoidance cultures (they identify Finland as an example).

This chapter has shown that best practice performance management does not exist independently of cultural context (von Glinow et al 2002). Overall, Claus and Briscoe (2009) sum up the debate about comparative performance appraisal as follows: there is a relative immaturity of research in the topic (a lot of issues and countries are not researched or researched in only a limited way) but, on the basis of the evidence we have, although there are signs that practices 'may be converging, there is still a great deal of divergence' (Claus and Briscoe 2009, p191).

Similarly Boselie et al (2011) argue that in order to understand performance management it is:

Table 9.4 Comparative cross-country performance management characteristics: UK, USA, India and China

Factor	UK	USA	India	China
Macro norms: cultural and organisational	Lower power distance, low uncertainty avoidance	Lower power distance, low uncertainty avoidance, highly individualistic	Low individualism, high power distance, 'family culture'. Organisational norms of job for life and unionisation	Collectivist culture and importance of harmony and face, behavioural norms of modesty and self-discipline. Evidence of cultural shift towards individual performance-related reward schemes
Macro strategy	Increasingly seen as component of strategic HRM	Strategic alignment sought in pursuit of business objectives, history of MBO approaches	Not really evident due to tendency for HR systems to focus more on maintenance rather than performance	Majority of organisations do not have strategic goals or a cascade
Macro technology	Increased use of technology	Increasingly technology enhanced, using eg PeopleSoft, Oracle and SAP		Lack of sufficient IT to support PM
Organisational purpose of performance management	Mixed: development and culture change programmes as well as PRP	To meet legal requirements and as an administrative process for decision-making – around reward and promotion	Decision-making around promotions	Decision-making, narrow focus around reward
Organisational Acceptance of approach	Accepted, but largely ill-regarded	Accepted as necessary evil	Low level of acceptance – seen as time-wasting	Low level of acceptance, not taken seriously

Factor	UK	USA	India	China
Intervening factors manager/appraisee relationships	In context of increased devolvement of HR to line – still seen as a time burden. Line managers required to play judge and/or coach role	Manager as judge predominantly. Both sides report dissatisfaction with processes	Subjectivity of managers in ratings, particularly inflation of ratings for those they care about	Highly subjective manager evaluations. Avoidance of criticising bad behaviour causes poor performance to be tolerated
Performance management process and practices	Use of competencies, 360-degree feedback, links to reward and high talent	Multi-source feedback, calibration of ratings, results focused on a combination of 'what and how'	Some team-based appraisal and use of 360-degree feedback. Paternalistic approach, top-down and systems typically operated 'closed'	Effort traditionally more important than outcomes. Self and peer/subordinate evaluations used
Outcomes	Reward (increased emphasis upon total reward). Use of 'corrective' performance approaches	Reward justifications	Promotion and possibly reward, less clear link to performance and productivity improvement	Reward
Adapted from Murphy and DeNisi (2008)	Drawn from Sparrow (2008)	Drawn from Pulakos et al (2008)	Drawn from Sharma, Budhwar and Varma (2008)	Drawn from Cooke (2008)

important to take into account international cultural differences (Brewster et al 2004) that might affect the leadership style, the type of communication, the nature of rewards and the use of self-evaluation.

As DeNisi and colleagues (2008, p260) note, 'visitors to India will find that McDonalds doesn't sell hamburgers but sells vegetable burgers'. This 'Indianisation' of the hamburger seems to be exactly the approach we need in the area of performance management. As countries develop more sophisticated systems they should learn from other countries, but also make sure that, where needed they modify programmes to fit with local 'tastes'.



KEY LEARNING POINTS

- Brewster (1995) has observed that performance management is an area where an assumed best practice has emerged around the typical process which includes planning, managing and reviewing.
- Performance management has western (US) origins and there are challenges to the implementation of the typical process in non-western contexts.
- Performance appraisal is a key component of performance management, but performance management is a more recent and more holistic construct, which aims to incorporate both target-setting and reviewing performance along with development and motivation of employees.
- Competencies or behaviours are a common element of both performance plan and performance review discussions – as with assessment centres, the use of these may be problematic if not adapted to suit different contexts.
- Cranet data informs us that appraisal is widespread with similar overall increases in the use of appraisal systems for clerical workers and manual workers.
- Differences still exist between countries in their use of appraisal systems with the role of culture and institutions remaining a particular challenge for MNCs who are seeking to standardise global processes.



LEARNING QUESTIONS

- 1 What are the differences between performance appraisal and performance management?
- 2 What does a performance management process typically comprise in terms of its component elements?
- 3 Where do the origins of performance management and performance appraisal lie?
- 4 What are the major challenges to the implementation of global performance management practices?
- 5 Provide some examples of how culture impacts performance management.



EXPLORE FURTHER

VARMA, A., BUDHWAR, P.S. and DENISI, A. (2008) *Performance management systems: a global perspective*. Abingdon: Routledge.

This book provides detailed coverage of performance management in a global context, with more comparative examples than could be contained in this one chapter.

BIRON, M.E., FARNDAL, E. and PAAUWE, J. (2011) Performance management effectiveness: lessons from world-leading firms. *International Journal of Human Resource Management*. Vol 22, No 6. pp1294–1311.

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Rewards

LEARNING OUTCOMES

When you have read this chapter, you will:

- identify the distinct aspects or bases of extrinsic reward
- appreciate that despite commonalities in management rhetoric on pay across countries there remain differences in pay practice
- be able to elaborate in detail cross-national variations in pay practice
- be able to evaluate the extent to which reward practice is shaped by cross-national variation in the cultural and institutional context
- have a foundation for reflection on international reward strategy in multinationals.

REFERENCES

Pfeffer (1998) asserts that although people work for money, they also work to find meaning and a sense of identity, and Kohn (1998) goes further, to suggest that extrinsic reward erodes intrinsic interest. Yet pay is often prominent in management discussions of people management. People are the largest single operating cost item of most businesses and there is also a need to motivate employees and/or engender their active commitment or engagement. Moreover, pay might appear a natural focus of activity for HRM departments, in light of the possibility of relatively direct leverage over pay practices. Yet the differing approaches to reward apparent in different countries – and the different contexts of reward in them – suggest that this is a particularly challenging area in the international and comparative context.

The influential expectancy theory suggests that motivation and performance are shaped by the links between effort and reward and by the significance or ‘valence’ of the reward to the person in question. This underpins Lawler’s (1990) notion that ‘line of sight’ is the crucial issue in the design of reward packages. Accordingly, a good deal of thinking and discussion about reward now centres on motivation and, more specifically, on incentivisation. For senior managers and executives it has long been assumed that keen incentivisation through pay is necessary, and there has over the last few decades been growing interest in extending this beyond these groups, and beyond managerial hierarchies, to front-line employees. We return to the effects of the period of crisis in the OECD since the financial woes of 2008 on employers’ deployment of immediate and short-term incentives, and indeed more general attitudes to reward, later.

This chapter briefly surveys the bases on which pay packages may be constructed. It goes on to consider in detail comparative variation in practice, with a focus on the situation regarding attachments of pay to post or role and then the various forms of pay for performance (generally termed PfP here). The chapter then turns to outline

approaches to understanding cross-national comparative variation in reward practice, focusing on the roles of culture and institutions. The emerging international evidence on best practice in reward is then considered. The chapter concludes by further considering the 'strategic space' (Vernon 2005) employers and managers have regarding reward nationally and internationally. Throughout the chapter we consider comparative reward quite generally. Chapter 14 considers issues of expatriate compensation specifically.



REFLECTIVE ACTIVITY 10.1

How have management attitudes to the appropriate design of pay systems developed in the last few years? Does this change reflect properly the lessons of recent high-profile experiences?

10.2 REWARD AND BASES OF PAY

Discussions of 'total reward' seek to encompass the entirety of the offer to employees (Antoni et al 2005), relating to some key aspects of the employers' side of the psychological contract. Notions of total reward thus extend beyond matters of pay, and indeed perquisites (perks) and benefits, to autonomy at work, learning and development opportunities, the quality of working life, and the rather more ephemeral issues of the nature of the company culture (see Armstrong 2006). For the most part, however, discussion of reward in organisations tends to be more limited, focusing on matters of pay in cash and in kind.

Within this more limited sphere, a good deal of managerial discussion has traditionally focused on perks and benefits, which typically comprise around 20% of the total labour cost. In some respects, though, this agenda seems on the wane. The validity of payment via company cars is increasingly questioned, as environmental issues and indeed concerns over the divisions wrought by such obvious status differentials come to the fore. Despite the erosion of the support and services provided by welfare states in many nations of the OECD, and the concern of non-managerial employees about their plight in the event of severe sickness and upon retirement in particular, the weight given to benefits in managerial discussions has also declined. The strategic use of pay is the new focus for debate. Pay is often seen as a sharper tool for directing and motivating employees than the range of options offered by benefits and perks.



ATTACHMENT TO EMPLOYER-BASED BENEFITS?

CASE STUDY 10.1

In China, a range of benefits (housing, food, childcare, etc) are often regarded as particularly important elements of reward (Verma and Zhiming 1995). In China, but also Japan and Korea, employees may value benefits increases and bonuses above basic pay increases, partly because tax is levied on basic pay but also due to limitations in state welfare provision. Similarly, many

benefits are not taxed in the USA, and in the light of the paucity of national social provision, benefits increases are also popular there. We would expect in countries such as those in the Nordic zone, where childcare provision by the state is generous, not to see childcare as a significant part of an employee package. The Nordic countries and France, as examples, prefer to get most

of their pay and reward packages in cash and to be free to spend it as they wish. In Europe generally, benefit provision by employers is rather less important than elsewhere, reflecting the fact that many	of the benefits offered elsewhere (such as healthcare packages) are, in Europe, provided by the state.
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Some elements of pay packages are near-ubiquitous, regardless of occupation, industry or country. Almost always, there is a fixed or base element of pay. This base element generally reflects the grade and wider band (and often job family) of the job in question, sometimes determined on the basis of some formal job analysis, but also often reflects experience or seniority within the organisation or sometimes indeed simply age. It may also reflect the qualifications of the employee, even if these exceed the minimum job requirements, or perhaps the progression of the employee through some organisation-specific competence ladder. Although qualifications remain the subject of considerable discussion – for example, in considerations of human capital – and competence ladders remain the focus of some attention, the spotlight has fallen increasingly on pay beyond the base. Rightly or wrongly, the strategic use of pay has often become synonymous with an emphasis on incentivisation via pay for performance or variable pay.

Traditionally, individual performance was rewarded by promotion to a new job role or grade. In a sense, one might also suggest that some form of group performance has been implicit in organisation-specific upgradings of pay, but the solidity of this link between organisational performance and reward is rather uncertain. In any event, current discussions of pay for performance centre on reward which is separate from base pay, forming a distinct component of a pay package much more immediately related to the assessed performance of an individual or group. This appears attractive in the context of discussions of reward management linking immediately to the questions ‘What do we value?’ and ‘What do we pay for?’

Many of the contours of discussions of reward are shared across the nations of the advanced industrialised world and beyond. As we might expect, there are in practice some general international trends, but there remain very significant differences in the way that each country tends to compensate its workers for the time and commitment that they bring to work. As we shall see, in relation to non-managerial workforces and the external labour pool to which pay policies are applied, the evidence of convergence in rewards behaviour is less marked than in relation to top management or indeed to internationally mobile elites or expats.

10.3 LINKING PAY TO POST VIA JOB CLASSIFICATION AND EVALUATION: COMPARATIVE VARIATION

In traditional career structures, employees’ job roles or categories imply a particular job class or job level, perhaps within a job grouping or job family. This is summarised by a system of job classification. The job classes or levels are then linked to pay grades – often via an elaborate system of job evaluation which scores employees’ job roles on the responsibilities of the job, the skill or expertise required to do it, and perhaps also the physical challenge or social inconvenience involved. Particularly if they are accompanied by clear disciplinary and grievance procedures and elaborations of the training and or experience required for progression (eg Osterman 1987), such job and pay ladders, or hierarchies, become meaningful internal career structures or, as they are often termed in academic discussion, ‘internal labour markets’. Although often regarded by managers (and some employees) as inflexible and outdated – particularly within the Anglo-Saxon world – such job and pay ladders still retain considerable

significance in many countries, for example, within Europe, and it seems also in many developing countries.



CASE STUDY 10.2

PAY STRUCTURES IN A MANUFACTURING MULTINATIONAL: GERMAN V US OPERATIONS

Grund (2005) compares the pay structures across the USA and German manufacturing facilities of a single multinational at the turn of the millennium. The plants feature near-identical technology and similar production processes. Both US and German plants exhibit convex pay profiles, with the absolute pay gap between levels or grades generally increasing through the jobs hierarchy. In both principle and practice pay for the higher blue-collar grades exceeds that for the lower clerical grades in Germany, whereas in the USA there is a continuous pay hierarchy from the lowest blue-collar to the highest white-collar grades. Overall pay inequality is much greater in the US than in the German plant, with pay inequality across the grades similar in the two cases, but pay inequality at any particular grade much lower in Germany. In effect, the German firm features a traditional bureaucratic narrow-grading whereas the US firm features broad-banding. This US broad-banding is of an extraordinary degree

with regard even to some non-managerial grades, the maximum of the (within non-managerial grade) pay range at well over 200% of the minimum. In consequence, some 84% of the overall pay inequality in the German operations is attributable to grade compared to only 60% in the US operations. The difference in the significance of grade for pay is not attributable to differences in workforce composition in terms of age, tenure, or even education in the USA versus the German operations. Rather, differential pay increases based on (apparently ad hoc and subjective) merit assessments have marked the US operations. The author notes that promotions are much more common in the USA than in the German operations, particularly between the higher grades. However, the extent of within-grade pay inequality in the US operations implies of course that promotion is of much less relative consequence for pay.

Source: Grund (2005)

In continental European countries, the quite generalised use of a national system of job classification is typical; organisational classifications are elaborated from, or sometimes rather awkwardly superimposed on top of, such common structures (see for example Marsden 1999; Antoni et al 2007). In many – although not all – of these national cases there is evidence of the generalised use of a fairly standard system of job evaluation, linking job families and levels to pay within organisations (see for example Lazear and Shaw 2008). Within organisational boundaries, at least, this implies a rather systematic tying of pay to post or role in countries such as Germany, Italy, Belgium, Sweden and Finland. Still, across organisations very substantial differences often remain in pay for similar or even identical work, with organisations varying in their average pay and in the extent to which typical pay differs according to job family and level – that is, in the profiles of the job-pay ladders which their internal career structures provide. Thus, for example, it is a commonplace that larger organisations tend to pay significantly more on average, particularly, but not exclusively, within manufacturing (see for example Streeck 1997).

However, in some northern European countries a generalised system of linking job families and levels to pay levels is applied almost everywhere, implying not just

organisation-level job and pay ladders (firm-based internal labour markets) but that job-pay ladders are very similar across organisations within the same sector. So, for example, Lazear and Oyer's (2004) analysis of white-collar employees in the 100 largest Swedish firms in the 1980s shows that the vast bulk of the overall pay variation between employees is attributable to job family–job level combinations – that wage levels 'are in large part dictated by occupation' (pp547–8). There is thus not only an intra-organisational but also an inter-organisational attachment of pay to jobs within job ladders, via a close confinement of pay for jobs, skill and responsibility in the labour market as a whole. The individual characteristics, social or negotiating skills of employees and the features and, indeed, munificence (ability to pay) of the organisations they work for are of comparatively little import to pay. The well-known insensitivity of pay to the size of enterprises in Sweden implies that occupation or role dominates in pay not just amongst large firms but across Swedish organisations more generally. Lazear and Shaw (2008) suggest continuity in inter-enterprise pay compression in Sweden (and other Nordic countries) into the 2000s.

With the global financial crisis of 2008, and the succeeding crises around sovereign debt and in the Euro, employers in some European countries have become still more skeptical of the legitimacy or sustainability of pay for post structures, regarding them as inhibiting necessary enterprise-level adjustments in wage costs. Yet although, as we shall see later, there is reason to think that in one or two European countries where pay for post structures were in any event patchy the very foundation of even those arrangements has now been undermined, developments more generally are much more uncertain. Where such arrangements were previously more secure – at worst having their predominance eroding gradually – there appears some intensification of a dualism in pay arrangements by which long tenure employees inhabit more secure pay for post structures whilst arrangements for new hires are compromised, but it is too early to judge whether there has been any qualitative shift.



REFLECTIVE ACTIVITY 10.2

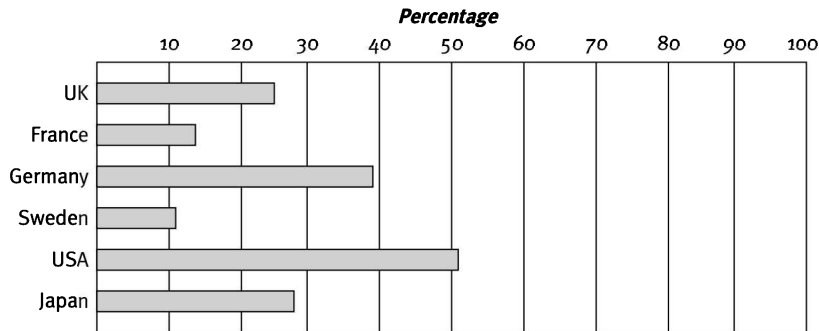
Why might the close tying of pay to post be seen as outdated? Does this view necessarily reflect the impact of such pay systems for business performance?

10.4 THE INCIDENCE OF PAY FOR PERFORMANCE

Organisations may seek to reward performance on a number of bases. Payment may be made on the basis of some assessment of individual performance, of team or group performance, of departmental performance, of the performance of a subsidiary or group or the whole organisation. The targets or criteria for reward may take an almost unlimited variety of forms. Sometimes some or all of these bases are used together to create a multifaceted or multi-layered bonus.

Good comparative data on the use of different forms of pay for performance is limited. Cranet provides the best available indication of the extent of organisations' use of different forms of pay for performance across different groups of the workforce. There are dramatic cross-national comparative differences in the use of pay for performance (PFP).

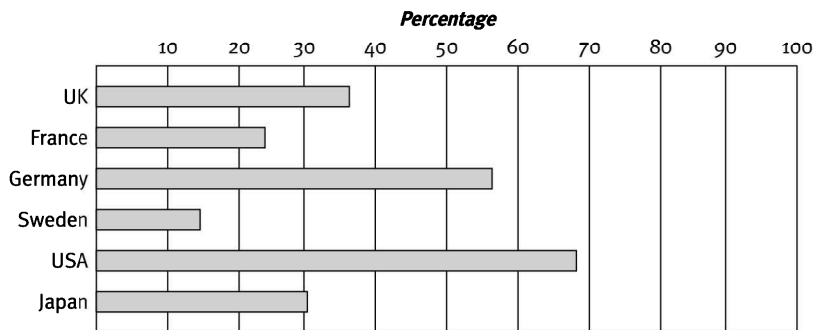
Figure 10.1 Proportion of organisations using individualised incentives (PRP) for manual employees in six countries



Source: Cranet (2010)

The situation with regard to organisations' use of individualised incentives – often termed performance-related pay (PRP) – in the packages of manual employees provides an interesting starting point (see Figure 10.1). The variation in the use of PRP is intriguing. The use of such PRP is now extensive in the USA, although comparison with Cranet 2004 suggests this is a new phenomenon: it seems that in this regard practice in the USA is finally catching up with the rhetoric within and about it. More generally, there has been strong growth in usage, although amongst the countries detailed in the figure this is not at all the case in France, in which usage has if anything faded a little. Given the continued (though significantly weakened) relevance of unions and joint regulation in Germany, the extent of PRP there is revealing – a theme we will return to later. However, whilst there has been strong growth in usage in many countries, it is interesting that it is only in the USA that a majority of organisations have adopted individual incentives for manual employees, and even here the majority is a bare one.

Figure 10.2 Proportion of organisations using individualised incentives (PRP) for clerical employees in six countries

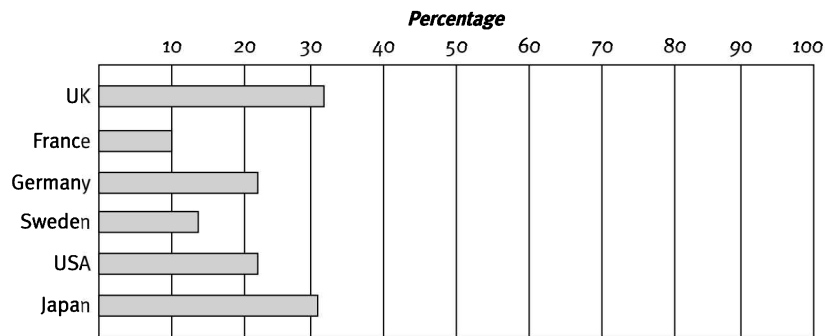


Source: Cranet (2010)

The data for clerical employees shows a remarkably similar comparative pattern, although with rather higher levels of adoption than for manual employees (see Figure 10.2); it is generally the case that the use of all forms of pay for performance systems tends to be rather higher amongst clerical than manual employees. A clear majority of US organisations deploy individual incentives for clerical employees.

What, though, of other forms of pay for performance which reward according to the performance not of the individual but of the wider group in which they work? Figure 10.3 shows the incidence amongst organisations of the use of team- or department-based pay for manual employees. Comparatively, team- or department-based pay is now quite popular amongst the Anglo-Saxon countries; reference to Cranet 2004 suggests that dramatic recent growth in usage for manual employees in the UK and USA has left these countries in a similar position to Japan. However, given the emphasis on team working in many management discussions, we might expect the proportions of organisations taking up the practice to be rather larger across these countries quite generally.

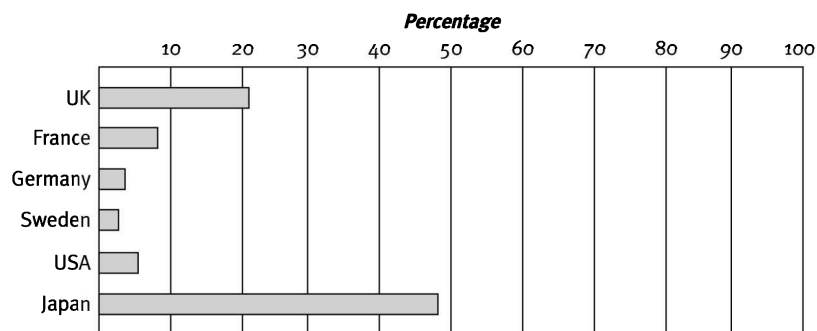
Figure 10.3 The use of team- or department-based pay for manual employees in six countries



Source: Cranet (2010)

Of course, the unit at which performance is assessed may range more broadly, to encompass the organisation as a whole. Employees may be rewarded on the basis of the performance of the entire organisation of which they are a part via share ownership, stock options or profit-sharing (Pendleton et al 2001, 2002). Such schemes can be either narrow, applied to managers or broad, applied to most or all people in the firm in an attempt to get them committed to boosting the organisation's economic, or more specifically, financial performance (Pendleton et al 2001).

Figure 10.4 The use of employee share ownership schemes for manual employees in six countries

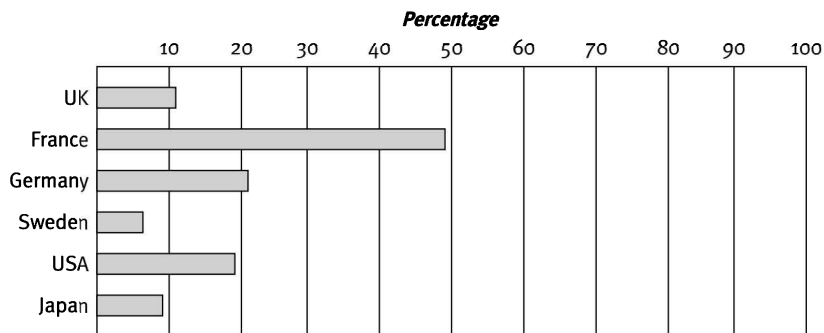


Source: Cranet (2010)

Employee share ownership schemes (ESOPs), in particular, were the subject of intense discussion in the UK during the 1980s. Figure 10.4 shows the dramatic comparative variation in the extent of the use of such schemes for manual employees. We might expect share schemes to in general be more widely used in those countries with well-developed stock markets, including the Anglo-Saxon countries. However, use in Japan is outstanding – with almost half of organisations using the practice for manual employees. Comparison with Cranet 2004 suggests a sharp decline in French usage (a halving), and a more general fading, except in the UK where there appears some limited growth.

Figure 10.5 shows that for France and, to a lesser extent, Germany and even the USA, the use of profit-sharing rather than share ownership schemes is the preferred option. Comparison with Cranet 2004 data shows a significant decline in the use of profit-sharing in France, from a situation in which France was absolutely outstanding in this regard; in 2004 more than two-thirds of French organisations reported the use of profit-sharing for manual employees, well ahead of even the second placed country covered by the survey, Finland, where this proportion was around one-third. More general comparison with 2004 data suggests some growth in usage in the USA, but otherwise stability. In general, moreover, adoption levels are lower than might be expected from some management discussions. The comparative pattern for clerical employees (not shown here) is very similar, although quite generally the use of profit-sharing tends to be a little more extensive amongst this group than amongst manual employees.

Figure 10.5 The use of profit-sharing for manual employees in six countries



Source: Cranet (2010)



SEDUCTIVE STOCK OPTIONS

CASE STUDY 10.3

Taking lessons from the high-technology start-ups of the US West Coast, larger US corporations began making extensive use of stock options in the 1990s. Stock options afforded those they were offered to the right to buy stock at below-market prices. Stock options were seen as a solution to the principal agent problem introduced by the separation of ownership and control – they could align the interests of managers and

shareholders. Moreover, the expense of stock options did not have to be acknowledged until they were exercised. This had huge implications for balance sheets. Perhaps the most striking is the case of Microsoft, at which the cash realisation of stock options would have reduced 2001 profits of US \$7.3 billion by a third. When they were finally exercised, the extent of the implications for the surplus remaining for shareholders and

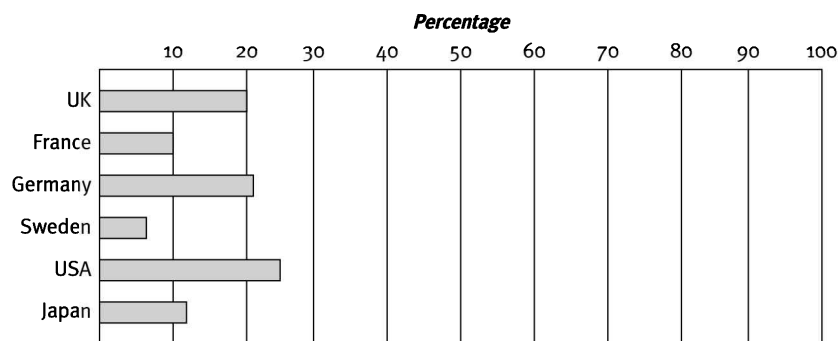
re-investment was often unclear, particularly in the context of an enduring stock market boom (Stiglitz 2003). Crisis in the banking sectors of many countries since 2008 has deepened the concerns of commentators about the wisdom of

certain forms of stock option, particularly where they reward short term executive performance, and there has been some retreat from such approaches.

What of the use of stock options for management (see Figure 10.6)? This is more extensive in the USA than in any of the other five countries shown, but Germany and the UK are only marginally behind. In Sweden and France this is not a popular HRM practice. In France comparison with Cranet 2004 data suggests a recent collapse in their use, which may well be linked to the declining use of profit-sharing for front-line employees. With regard to stock options, as with regard to profit sharing for employees shown above, Germany now sits with the Anglo-Saxon countries, suggesting an extension of international, and in particular US, influence on pay arrangements indicated in Case Study 10.4.

Recent developments in organisational deployment of PfP likely reflect at least in part a response to the rolling crises since 2008. It is intriguing that organisations have not sought to shift risk to employees by more extensive adoption of financial participation in the form of profit-sharing or ESOPs. Rather, it is group and most particularly individualised PfP which has spread. It appears that employers and managers have most typically been concerned to underscore their emphasis on individual performance and efforts, perhaps as they shift responsibility (or perhaps culpability) downwards. Whether this is likely to promote organisational performance is a quite distinct matter, to which we will return.

Figure 10.6 The use of stock options for managerial employees in six countries



Source: Cranet (2010)



REFLECTIVE ACTIVITY 10.3

What rewards practices are indicative of the different pay for performance contexts in the USA, Germany, France, the UK, Sweden and Japan?

Which Pfp practices do you think would be the easiest to converge?



VARIABLE PAY IN GERMAN MNCs

CASE STUDY 10.4

Kurdelbusch (2002) explored the emergence of modern forms of variable pay, beyond piecework, in Germany in the 1990s, affording particular attention to the non-managerial employees of large and MNCs. There is a very powerful relationship between the extent of internationalisation of German MNCs, measured by the share of employees employed abroad and in particular by the share of foreign sales in total sales, and the use of incentive-based payment. Interestingly, though, German MNCs did not seem to be adopting practices in their foreign subsidiaries via a process of reverse diffusion. Sheer exposure to an

international market appears to encourage the use of variable pay, although it remains unclear whether this is a rational response to a differing competitive context. Independently of the extent of this engagement in international markets, a shareholder value-orientation expressed in the remuneration of top executives, the existence of targets for annual rates of return and the quality of investor relations also tended to promote variable pay for non-managerial employees.

10.5 THE SIGNIFICANCE TO EMPLOYEES OF PAY FOR PERFORMANCE

As Armstrong (2006, p35) notes, even where a great deal of information and data on PFP is available, there is a danger that consideration of it rather neglects the perceptions of employees. There is little data on the proportion of pay packages constituted by PFP, but some data is available for some nations, which is at least indicative. Even in the private sector, despite fairly extensive coverage, PFP of all types accounted for less than 10% of the base pay of Italian employees in 2001. It seems that in Belgium it is of still less importance in terms of the financial reward package as a whole. Perhaps more significantly, evidence from case studies (see Vernon et al 2007) suggests that in practice there is an extremely tight bunching of the actual payouts from pay for performance. In sum, the proportion of income which an employee experiences as at risk under PFP typically tends to be low in principle, and still lower in practice. It is clear that many employees formally subject to PFP are quite unaware even of the existence of this component of their pay package.

10.6 CULTURE AND REWARD SYSTEMS

Unraveling the complex set of influences that culture can have on rewards behaviour has been a focus of one strand of recent research, often building on the work of Hofstede (1980) (see Chapter 3 for the strengths and limitations of Hofstede's original work). In principle, national culture might influence reward practice via both the expectations and attitudes of employees or the predilections of employers and managers.

Schuler and Rogovsky (1998) present an intriguing quantitative effort to systematically explore the link between national culture and indicators of national prevalence of pay systems across a dozen nations from across and even beyond the advanced industrialised world. They identify many relationships that can be made sense of through the use of the cultural lens.

They found that nations characterised by greater uncertainty avoidance – most commonly the Latin nations – tended to feature pay systems in which seniority and some notion of skill weighed heavily. These nations also put less focus on individual PFP. Conversely, nations with lower uncertainty avoidance – Protestant nations, but most of all, Anglo-Saxon nations – tended to feature less focus on seniority or skill, and more on specifically individual PRP.

They also found that nations characterised by greater individualism – most strikingly the Anglo-Saxon nations – tended to feature a greater focus on PfP generally, and still more strongly a focus on individual PfP. In contrast, nations with less individualism – most prominently Spanish- or Portuguese-speaking countries – tended to feature less of such a focus, generally lying at the opposite end of the spectrum. The findings for the focus on share ownership or options are similar.

Where nations are characterised by an emphasis on action and achievement rather than relationships and empathy – that is, those which are more masculine in Hofstede's terms, or display a materialist as opposed to personal foregrounding in the updated terminology of Bento and Ferreira (1992) – there tends to be more of a focus on individual bonuses. Thus, the Anglo-Saxon area but also Germany and to a remarkable extent Japan generally, tended to feature more individual PRP amongst professional and technical staff, amongst clerical staff and amongst manual employees. The contrast here is with the general situation in nations that rely more on personal foregrounding, such as the Scandinavian nations, and indeed the Netherlands, which tended to feature a lesser focus on such payments for these non-managerial employees. Interestingly, there was no significant difference in the focus on individual bonuses for managers specifically between these groups of nations.



REFLECTIVE ACTIVITY 10.4

Do you think that differences in reward practices across countries reflect differences in national cultures or other influences?

10.7 IS CULTURAL EXPLANATION OF REWARD ENOUGH?

Culture is assumed to have relevance for reward practice via its influence on attitudes to pay. The typical presumption is that it is the attitudes or preferences of employees which are crucial, with employers and managers responding to these employee attitudes or preferences in shaping pay arrangements. Conceivably, national culture may influence reward practices via the predilections of employees or those of employers (of course, we would expect that the impact of particular practices on performance would be conditioned more by employees' cultures than by employers'). Chiang (2005) and Chiang and Birtch (2005) offer evidence regarding the relationship between national culture, as conceived by Hofstede, and employees' expressed reward preferences.

Chiang (2005) draws on a survey of employees across all roles in 120 banks in 1999–2002, with a total of over 1,000 responses across four countries: Canada, Finland, UK and China (HK) (as do Chiang and Birtch (2005)). Whilst some preferences appear linked to aspects of culture as conceived by Hofstede, and in particular the lower enthusiasm for financial rewards in general in Finland, rated by Hofstede as very much more feminine than the other three countries, many do not. Although rated much lower on uncertainty avoidance than Finland, Canadian employees expressed the same preference for job security. Chiang and Birtch (2005) suggest the relevance of economic conditions and experiences to reward preferences, highlighting the relevance of the massive layoffs in Finnish banking in the early 1990s to Finnish employees' expressed preference for job security, and the more recent experience in Canadian banking to Canadian employees' similar preferences. Meanwhile, in considering the irrelevance of femininity to a preference for employee benefits, Chiang (2005) suggests the relevance of institutional influences such as the character of welfare states and taxation systems to such preferences.

Such expressed reward preferences may not necessarily be an accurate guide to how employees may respond when actually experiencing reward practices; there may be a gap between what employees imagine, abstractly, they prefer, and the practices which actually engender employee commitment, engagement or performance. This is not at all to suggest that 'in the real world' employees respond best to individual performance bonuses or incentives whatever they might claim; research evidence that individualistic PRP delivers better performance is remarkable for its rarity, as discussed later in the chapter. Indeed, given the well-established tendency for employees to over-estimate both their individual performance and the extent to which PRP rewards meaningful performance variation in practice and the apparent belief amongst employees that enthusiasm for PRP displays their realism and/or their ambition (see for example Armstrong 2006), rather than suspicion of employees' expression of preference for systems other than PRP being justified, circumspection in response to expressed enthusiasm for PRP is appropriate! In any event, national culture might in principle usefully inform reward practice even if employees' expressed preferences suggest it is completely irrelevant.



CASE STUDY 10.5

FINNISH EMPLOYEES' REWARD PREFERENCES

Whilst its performance has now faded, Nokia has prompted considerable interest in Finnish business and employment relationships more generally. Chiang (2005) and Chiang and Birtch (2005) draw on over 1,000 survey responses on the reward preferences of banking employees in Canada, Finland, UK and China (Hong Kong) at the turn of the millenium. The findings on the expressed reward preferences of Finnish employees stand out in a number of ways. Finnish employees accord even more importance to intrinsic reward than those in the other three countries of the international sample, and value the working environment and work flexibility more than employees in other countries. Chiang (2005) also shows that – by an enormous margin – Finnish employees regard performance-based elements of reward as much less important. Finnish employees express the strongest preference for skill- and competency-based reward systems, involving competence, or job, ladders to which pay is attached, with Canadian employees in turn significantly keener on such systems than British or Hong Kong Chinese (Chiang 2005). Correspondingly, they prefer, much more than do employees in

other the other countries, that reward be based predominantly on job ladders, career structures and internal labour markets.

These findings for Finland are intriguing because they can be linked to culture only to a very limited extent. Employee expectations and preferences appear driven by other influences. In particular, it is striking that Finnish employees display such attachment to the internal labour market structures which strong industrial unions such as those in Finland tend to create (see for example Pekkarinen and Vartainen 2006; Lazear and Shaw 2008). Moreover, they show a marked valuation of the intrinsic rewards which Nordic unions have long made a focus of their activity (see for example Kjellberg 1992, 1998) – see also the Chapter 6, on the organisation of work. It seems that Finnish preferences express the significance of collective bargaining in Finnish pay structures and systems, and the particular emphasis accorded attachments of pay to role, qualifications and demonstrable competence by the Finnish industrial unions. The findings thus provide a powerful indication of the relevance of unions and collective bargaining in shaping employees' expressed reward preferences.

Although there are certainly some indications of the usefulness of a consideration of national culture to an understanding of differences in pay practice, a focus on such dimensions of national context also has its disadvantages (Vernon 2005). Firstly, the evidence that these dimensions are enlightening in capturing and explaining either the basis for the incidence of different approaches to reward in different countries, or the typical reactions of a nation's employees to attempts to apply a single system universally, is still a little patchy. Moreover, in practice, nations display certain tendencies in these respects, but also display a great deal of individual difference in attitudes around the typical. More than this, individuals may display multiple or contradictory identities in these cultural respects, making such dimensions a shaky foundation for thinking about appropriate reward, or even for understanding the current basis of cross-national variability.

A related problem of a focus on national culture in contemplating comparative reward is that it disregards the autonomous influence of social actors and of institutions on pay structures and practices. These may act to shape cultures, cut across a dominant culture, or – perhaps most likely – channel cultural influences in a particular way. Whilst there are clear differences across countries in practice, the link to national culture is rather equivocal, reinforcing the argument that institutional explanation may have more purchase (see for example Vaiman and Brewster 2015). An alternative strand of research examines in particular the role of the joint regulation of the employment relationship, by unions or works councils in interaction with employers, in shaping reward practice.

10.8 THE ROLE OF UNIONS, EMPLOYERS' ASSOCIATIONS AND COLLECTIVE BARGAINING

Statutory pay minimums have been established in some central and eastern European nations, and are now a common feature of Anglo-Saxon nations, in force in the USA, Canada, New Zealand, and the UK (see Chapter 5). However, it is in those few nations of continental western Europe featuring such statutory pay minimums that they are set at the highest levels – the minimum rates in the Netherlands and France are the very highest by any criterion (OECD 1998). Yet even these French and Dutch statutory minimums are set at levels too low to be of direct significance to the pay arrangements of most larger, or multinational, employers (Vernon 2005). That is to say, the statutory regulation of the level of pay is generally of very limited significance for large companies.

Meanwhile, in the sphere of collective bargaining and joint regulation, employers' associations now quite generally favour a derogation of detailed pay arrangements to individual companies (Vernon et al 2007). It is unions and works councillors who, through collective bargaining and joint regulation, are the crucial social actors in shaping pay arrangements (Vernon et al 2007). Unions have traditionally tended to favour pay structures in which pay depends predominantly on the job role, qualifications, certificated competences, seniority/age or documented experience. Moreover, they have generally sought to contain pay differentials within their bargaining arena.



CASE STUDY 10.6

SOCIALLY HEALTHY PAY VERSUS INCREASING PAY DIFFERENTIALS

Some recent discussion has centred on the concept of socially healthy pay. Within societies there are boundaries placed around the range of pay differentials or multiples deemed to be legitimate. These are generally measured by metrics such as the ratio between the

highest- and average-, or the highest- and lowest-paid. In the USA high multiples are both legitimate and expected. In continental Europe much narrower multiples are felt to be appropriate. If differentials move beyond accepted limits, social reaction can be

marked. Thus, the influential Swedish confederation of manual unions, LO, has expressed considerable unease about the increase in the gap between the remuneration of workers and that of the most senior managers in organisations over the last decade or so. The total compensation of executives in large

private sector Swedish companies is now often 40 to 50 times that of front-line employees. Yet in the USA, the comparable multiple is now 400 to 500 – that is, the multiple itself is ten times larger – and yet significant public comment has only since emerged since the financial crisis.

Certainly – as, for example, Marsden (1999) and Lazear and Shaw (2008) suggest – unions and collective bargaining have a very substantial role in shaping internal labour markets involving firm attachments of pay to post, whatever the balance may be between the direct impact of unions and their joint regulation of the employment relationship with employers on the one hand and their impact via the expectations of employees or indeed managers on the other (see also Case Study 10.5). Unions organised on an industrial basis – at least, manual employees joining the same union regardless of skill or qualification – promote more unified career structures, and do so all the more strongly the more powerful are the unions concerned. Such internal labour markets are most widely observed and strongly structured in Finland and Sweden (see also Chapter 5).

More generally, the strength of unions in collective bargaining or the joint regulation of the employment relationship has an enormous influence on overall pay inequality, with stronger unions or weightier joint regulation very substantially compressing pay distributions and differentials (Vernon 2011). This is true even where unions are more fragmented or segmented, rather than taking the encompassing industrial form predominant in Finland, Sweden and indeed Germany and much of continental Europe, although compressions of pay distributions are typically less coherently structured by attachments of pay to post where unions take a more fragmented or segmented form.

The series of crises in the OECD since 2008 have put particular pressure on unions and joint regulation in some countries. Marginson and Welz (2014) show that the uneven patchwork of sector and occupational collective agreements which prevailed in Greece until 2010 has since been almost completely eradicated, whilst in Spain the new legislation prioritising enterprise level over industry level agreements (even if the local agreements contain provisions less favorable to employees) implies a significant step down in pay-to-post attachments. However, in countries where unions and joint regulation have been more significant, and where pay arrangements have been structured more strongly by coherent attachments of pay to post, developments are much more ambiguous; this is true even in Italy, despite commonplace suggestions of a crisis of joint regulation there (Marginson and Welz 2014).



CASE STUDY 10.7

THE IMPLICATIONS OF EMERGENT COLLECTIVE BARGAINING IN CHINA FOR PAY ARRANGEMENTS

As outlined in Chapter 5, the role and significance of unions and collective bargaining are changing quite rapidly in China. Though developments are very uneven, meaningful collective bargaining is now spreading beyond the Chinese operations of large foreign multinationals

to domestically owned companies, often in the form of two-tiered (sectoral and then enterprise-level) bargaining affecting small and medium-sized enterprises (Brown et al 2014).

Where it exists, collective bargaining is resulting in more structured pay

arrangements insulating employees from employer prejudice or opportunism around, for example, gender, migrant status, individual self-esteem or personal relationships. This structuring can sometimes take the form of clear and significant overtime premia, but increasingly secures elements of seniority in pay and, beyond this, follows the so-called 'Wenling model' pioneered in the wool garments sector in this town in Xinhe as long ago as 2003 to secure the broader development of standardised job and pay ladders attaching pay to post (see for example Brown et al 2014). Under this model, sectoral standard rates for differing jobs and categories of workers are secured, and there is then a further round of negotiation at enterprise level rendering them minima in practice (and sometimes extending to matters not included in the sector agreement). Such tiered bargaining broadly reflects typical practice in the countries of the old industrialised world where sectoral bargaining is general.

Even by the mid-2000s, before the recent surge in union organisation and activity, it is clear that where they existed enterprise-level unions were also delivering higher average total compensation for Chinese employees. Yao and Zhong (2013) (and their 2011 earlier but more detailed draft) show for a sample of over 1,200 enterprises across 12 Chinese cities extremely robust findings for the mid-2000s that hourly pay is greater in unionised enterprises by around 10%. Moreover, Yao and Zhong (2011) show this finding is no mere coincident expression of better sales and financial performance in enterprises which happen to be unionised. The magnitude of the union effect on pay confirms Ge's (2013) findings for a sample of over 1,000,000 [sic] enterprises almost exactly, whilst Ge's (2013) estimates also allow for the possibility that the unionisation of an enterprise is expressive of its capability or willingness

to pay higher wages by modelling the process of unionisation itself.

Moreover, these and other studies also show still clearer effects on employee benefits such as pensions and medical insurance by the mid-2000s. Ge (2013) shows that by the mid-2000s both in terms of the coverage of employee benefits such as housing subsidies, pensions and medical insurance and indeed the expenditure on benefit per employee the presence of unions at the workplace was at least as strongly promoting of benefits as pay per se.

More recently, both enterprise and sectoral level agreements have in some instances involved enormous annualised increases in standard pay rates, with for example a sectoral agreement affording an increase for production workers of 17% in Yixing City ceramics in 2011, and another affording an increase of 33% in the plywood industry in Pizhou City (Brown et al 2014). These increases much exceed both contemporary productivity gains and the increases typical of the recent past; indeed the unions involved often stress the extent to which productivity gains have come to exceed pay gains in pressing their claims.

However, Friedman (2014) shows, with references to developments in eye-glass manufacture in Rui'an City in Zhejiang province, that even by the late 2000s, in some instances at least, an infrastructure of sectoral negotiation which had already delivered a wage agreement can exist without even the awareness of senior managers, still less employees, at the SMEs it is supposed to regulate. He argues that the non-enforcement of agreements can arise where the grassroots, workplace or enterprise-level unions are weak, something which continues to apply in most Chinese provinces, cities and sectors given the continued centralisation of the Chinese union movement.

Instinctively, unions have generally regarded PfP with some suspicion. Nonetheless, pressed by employers and indeed by employees, unions which sense some opportunity to shape developments now generally accept the principle of PfP, regarding the devil as in the detail (Vernon et al 2007). Unions are often keen that no groups should be excluded from PfP where it is introduced for some, but simultaneously pursue the containment of any performance-related element of the overall pay package. Typically, unions regard PfP formally comprising 10% of total remuneration as going quite far enough. They are often keen also to compress the variation of such payments in practice, such that the actual spread in the performance-related sums paid out is much more limited. Moreover, unions determinedly pursue clarity in the specification of criteria, being profoundly uncomfortable with management discretion in the distribution of performance bonuses. In these respects union concerns with solidarity and the exposure of employees to risk still survive.

Accordingly, any effects of unions or joint regulation on the sheer incidence of PfP are ambiguous at best. This is true even where the focus of the PfP is not individual performance, something which unions have the strongest instinctive reaction against. For example, Croucher et al (2010) show that whilst JCCs or works councils had some positive impact on the use of, for example, profit sharing, local union presence had no effect on any form of financial participation.

Multi-employer agreements at the level of industries, for example, tend not to be directly restrictive of PfP (Vernon et al 2007). Yet their specification of minimum pay rates or increases implies that PfP must be made on top of such agreed pay. Moreover, where there is established local union representation and/or a works council with statutory rights to negotiation or, indeed, co-determination over pay systems, such local employee representatives negotiate over the design and operation of all forms of reward, including PfP. However, the case of Finland shows very clearly that powerful unions and significant collective bargaining do not necessarily preclude the individualised incentives of performance related pay (see the case study on PRP in the UK and Finland).



CASE STUDY 10.8

PERFORMANCE-RELATED PAY IN THE UK AND FINLAND: A REMARKABLE LONGSTANDING SIMILARITY

Large-scale national surveys of employees in the UK and Finland have long offered provocative findings (Vernon 2005). Surveys of the UK showed that across the economy as a whole, including the public sector, 25% of employees are subject to individual PRP of one sort or another. In Finland, across the economy as a whole, 23% of manual employees were subject to merit pay specifically. Among lower-level clerical employees the proportion was 40%, and still higher among upper-level clerical employees

and managers. Merit pay is the predominant form of individual PRP in Finland, but other forms are present. Conservatively, then, at least a third of Finnish employees were subject to some form of PRP. Clearly, PRP has been at least as common in Finland as in the UK for a long time. Given the significance of unions and collective bargaining in Finland, this strikingly contradicts any notion that individualised PRP occurs where unions and collective bargaining are weaker.

What, though, of law and statutory regulation of pay systems? Generally, signs of its impact are hard to identify. With regard to profit-sharing, the situation in France demonstrates the role which law can play in driving a wedge in practice between different nations, even in spheres such as this where there is cross-border management sympathy towards the broad desirability of a practice. In France profit-sharing has long been mandatory in private sector organisations with a workforce of over 50 (van het Kaar and Grünell 2001). However, it may be that recent reforms of French statute have encouraged French organisations to minimise their commitment to profit-sharing, reducing the payments involved to an extent where they are considered insignificant in some organisations. This would account for the fading in profit-sharing in France apparent in Cranet data. Whilst not resulting in quite the same extent of profit-sharing, Finnish experience shows that extensive profit-sharing can be quite consistent with powerful unions and significant collective bargaining.

Very clearly, the incidence of Pfp is far from always being what we would expect on the basis of simple cultural characterisations of societies. Moreover, the evidence belies ordinary presumptions about the implications of collective bargaining or joint regulation for pay systems. Whereas it is absolutely clear that more significant collective bargaining reduces overall pay inequality, and, particularly where encompassing industrial unionism predominates, diffuses and strengthens the attachments of pay to post or role, it has no such clearly demonstrable effect on the incidence of Pfp. However, as we have seen, joint regulation does tend to shape the precise nature of Pfp arrangements.

JOINT REGULATION, INTERNAL CAREERS AND PERCEPTIONS OF PAY FAIRNESS IN GERMANY

Remarkably, Germany remains an industrial force. Only recently did China finally overhaul Germany in the total value of manufacturing exports, implying of course massive German superiority on a per capita, or employee, basis. Germany's industrial success has been shaped in a context heavily influenced by unions and works councils. Although the purchase of joint regulation has been fading in Germany since the 1980s, a combination of industrial agreements, enterprise-level union presence and works councils with statutory rights particularly strong regarding pay arrangements (see Chapter 5) implies that it remains highly significant. Grund's (2005) study of a manufacturing multinational operating in Germany and the USA (see Case Study 10.2) shows that pay is comparatively more closely attached to post, or role, in Germany. Broader evidence suggests that this expresses the more general comparative importance of post or role for pay in Germany (see Lazear and Shaw 2008).

However, with the purchase of joint regulation in Germany increasingly uneven, there is substantial, and probably growing, variation in the strength of the attachment of pay to post within Germany. Zwick (2011) uses data from 6,750 German establishments to show that in enterprises covered by industrial agreements and featuring works councils employees' pay increases more with their tenure or seniority; such seniority pay is typically regarded as indicative of stronger internal career structures involving clear attachments of pay to post, role or perhaps competence. Pfeifer (2014) shows, on the basis of nationwide survey evidence from 5,000 German employees, that the presence of a works council – something that is much more common in enterprises also subject to an industrial agreement – promotes employees' perceptions that their pay is fair, doing so most strongly for the less highly-paid employees whose wellbeing is the focus of joint regulation.

Thus, whilst joint regulation in Germany is fading, it continues to make a significant contribution to employees' perceptions of pay fairness or equity. Most likely, it has this effect by affording the clear and transparent justification of pay arrangements which Shaw's (2014) authoritative review suggests is vital to the implications of pay dispersion or inequality for individual and organisational responses and performance.



REFLECTIVE ACTIVITY 10.5

There are extensive discussions in the literature about the influence of national institutions, laws and culture on HRM issues such as rewarding staff. Obviously, there are a range of different practices even within the various national boundaries. Are these boundaries the best level of analysis?

In what respects might unions present problems to managements introducing PFP? In what respects might their input be valuable?

10.9 INTERNATIONAL EVIDENCE ON BEST PRACTICE IN REWARD

Despite the enormously varied practice of organisations, particularly internationally:

- might there exist some generalisable or universal international best practice in reward, at least for front-line employees?
- what of the evidence on the relationship between pay systems and performance?
- can we arrive at an evidence-based notion of best practice in the field of PFP?

The popularity of individualised incentives amongst many general managers and some personnel/HRM professionals makes PRP an obvious candidate. Yet the evidence that individualised incentives deliver better business performance is remarkably limited. Cases that they do rest remarkably heavily on Lazear's (2000) study, which shows that the mid-1990s introduction of a piece-rate pay system (with some minimum hourly guarantee) at Safelite – an autoglass installer in the USA – was associated with a 44% increase in the number of units installed per person per day. Yet the study leaves a good deal unclear, arousing the suspicion that the productivity boom could have been generated by other initiatives. Moreover, the appropriateness of this very narrow performance measure, and so the significance of this performance achievement, even in this particular case remains rather debatable, and the potential of such an approach in other more complex work contexts highly dubious.

The problems of individual incentives are well known to specialists. Communicating the nature and purpose of initiatives, achieving meaningful objective-setting, eliciting employee acceptance of the legitimacy of the criteria and of the eventual distribution of reward, and avoiding the obscuring of developmental facets of performance management in review meetings have all proved particularly difficult for UK managers for example (Armstrong 2006, pp276–267). Relatedly, in organisations that have tried it there is often a view that the proper management of PRP is tremendously costly in terms of management training and time (see for example Armstrong 2006).

What, then, of the evidence for financial participation as a generalised best practice? This might appear a more attractive candidate in international context as it might be thought to meet fewer cultural barriers than does individual incentivisation. Kruse (1993) famously argued that profit-sharing could act via employee attitudes and motivation to improve financial performance, and presented some evidence on the link to the bottom

line. Coyle-Shapiro et al's (2002) longitudinal study of the implications of profit-sharing for attitudes and behaviours in a British organisation suggests that the (affective) organisational commitment of employees is promoted by their perceptions of the appropriateness and legitimacy of the profit-sharing scheme implemented. Kuvaas' (2003) study of a Norwegian organisation features very similar findings despite the very different context, suggesting that there may be general international lessons here. This, though, is no international evidence of the generalised business performance impact of any particular form of financial participation.

Kalmi et al's (2005) study of larger listed organisations in four European countries offers some evidence based upon managers' perceptions of the outcomes of financial participation where schemes are in place. It is the non-findings which are striking. Whereas almost 90% of managers regard improved productivity as a relevant aim for financial participation in principle, there is no relationship between managers' reports of the impact of financial participation on productivity and the extent of employee coverage of either profit-sharing or equity schemes. D'Art and Turner (2004) deploy Cranet data to analyse the relationship between profit-sharing for front-line staff and managerial ratings of business performance across ten European countries. They uncover a powerful link between profit-sharing and respondents' ratings of recent profitability, and some rather weaker links to respondents' assessments of the relative productivity and service quality of the organisation. Yet there are fragilities in this evidence and profound doubts about the appropriate interpretation of this evidence – most particularly since profitability likely promotes profit-sharing rather than profit-sharing improving profitability (see Vernon 2010).

Antoni et al (2005) consider the performance improvements from empowerment initiatives involving the delegation of management tasks to groups of non-managerial employees in 1,300 organisations in ten EU, focusing in particular on the effects on the success of such delegation of the use of collective PfP (whether team/department performance, profit-sharing schemes or ESOPs). Companies with such collective PfP report significantly better outcomes from group delegation initiatives, with greater reductions in management and increases in output. Moreover, where delegation is carried furthest, such collective pay is also associated with reductions in costs and in throughput times. Yet of course this evidence does not imply that collective reward per se is evidence-based best practice – even across these European countries.

With little indication of any evidence-based best practice in PfP, might there be generalised promise in less celebrated facets of pay packages? Kessler (2007) stresses the continuing relevance of linking pay to post in legitimating pay structures. Employees' notions of a good job often have at their core the structures and securities of the internal labour market (Jacoby 1997). Moreover, it has famously been suggested that internal labour markets are crucial to the active co-operation of employees which employers in a wide range of contexts require (Williamson et al 1975). In this context it may be that more substantial steps in pay through a clearly elaborated job and pay hierarchy, or internal labour market, improve firm performance.

The evidence on the last of these observations is only now starting to emerge, and is currently rather contradictory. Certainly, though, internationally, a recent survey of more than 100,000 employees of a multinational hotel chain showed that elements of an internal labour market (job security, training opportunities and promotion opportunities) are critical to front-line employees' job satisfaction and organisational commitment (McPhail and Fisher 2008). It would be surprising if this did not have implications for productivity performance.

INTERNAL CAREER PATHS AND ORGANISATIONAL PERFORMANCE IN CHINA

Conversations with Chinese employees suggest that many share the perception common in Anglo-Saxon countries that jobs for life are no longer realistic, at least outside the public sector. However, such impressions do not mean that internal career structures, which typically tie pay closely to role in job or competence ladders, cannot deliver performance benefits.

Akhtar et al (2008) show that amongst Chinese enterprises the presence of internal career paths strongly promotes both operational and financial performance (2008, Table IV). The details of the analysis reveal that such career paths are typically supported by a relatively clear specification of the duties of a role and by training programmes structured in line with internal career structures (see the factor loadings of Akhtar et al 2008, Table II). Moreover, job descriptions per se, and indeed even to a weaker extent job security per se, promote operational performance (Akhtar et al 2008, Table IV). Interestingly, the study finds that the performance effects of aspects of HRM unrelated to career structures are typically weaker.

The complementary study by Gong and Chang (2008, Table III) suggests that internal career paths promote financial performance in China via their effects on organisational commitment and organisational citizenship behaviour. With specific regard to job security, though, they suggest that whilst it may promote organisational commitment it impacts neither employee nor financial performance.

The apparent dearth of internal career paths in China (for example) should not be taken to suggest their lack of promise in promoting organisational performance.

In summary, the current research evidence cautions against a presumption that individualised incentives offer a universal best practice in reward. Collective PfP including but not limited to financial participation and/or an emphasis on internal labour markets involving clear attachments of pay to post appear more likely candidates. Still, it seems most likely that despite the focus on reward and most specifically pay amongst many managers, best practice cannot reside in isolation in this arena, but will rather take in a combination of practices across a number of arenas of people management including, for example, the organisation of work.

10.10 SPACE FOR STRATEGY

Although the implications of national culture and systems of joint regulation are not always what we might imagine, it is clear that they have an important effect on pay arrangements.



CASE STUDY 10.9

COMPENSATION PRACTICE IN MCDONALD'S ACROSS EUROPE

Perhaps unsurprisingly, McDonald's has sought to export an approach to compensation from their domestic operations across their outlets, regardless of national location. This involves avoidance of and resistance to meaningful collective bargaining over

pay, and a focus on containing wage costs. With regard to German operations it is also a matter of an ongoing struggle to prevent the formation at its restaurants of works councils which would have the right to co-determine pay systems (Royle 2000). Nonetheless, the

real pay levels of McDonald's counter staff, adjusted for the purchasing power of currencies, show marked variation within Europe. For example, real pay is typically more than 50% greater in the Nordic countries than in the UK (Royle 2000). Whatever its corporate stance, McDonald's must both attract staff and

offer them a reward package that they consider legitimate, necessitating adjustment not only to legal regulation but to the societal norms and generally prevailing pay practices which legal and bargaining institutions have served to shape.

This is not to say that organisations must simply take up what is existing typical practice with regard to reward. There is variability within nations in the cultures and expectations of employees, as well as in the bargaining institutions with which employers engage. Bloom et al (2003) stress the variability within nations in the pay practices to which employees are used, a variability present too within particular industries and occupational groups.

Clearly, there are culturally permitted alternatives which, for some reason, are not reflected in pay practice. Moreover, the space allowed for innovation in reward by unions and collective bargaining is much greater than is often thought (see the earlier discussion here and Vernon et al 2007). Employers and managers must of course reflect carefully before positioning their pay practice at the extreme of any existing range of practices, and even greater care is required if this positioning is to be beyond the range of the normal (Vernon 2005, 2010), but are less constrained than they may sometimes feel.

There are equivocal findings on the impact of MNCs on local pay rates. On the one hand, they do seem in developed economies to pay somewhat above national averages, but we also know that some MNCs go 'regime-shopping', seeking out states where controls on pay, terms and conditions of employment and basic human rights are more minimal and taking advantage of the opportunities this affords them to produce goods or services at a cheap rate. Overall, it seems that MNCs do bring in innovative practices but that by and large the main finding is that they operate rather similarly to indigenous businesses (see for example Farndale et al 2008; Le et al 2013). It seems that even the management of MNCs might be more innovative.



KEY LEARNING POINTS

- Reward practices, and notions of good reward practice, vary considerably across countries, despite increasing commonalities in the language with which debates are conducted.
- National cultures, laws and institutional arrangements are important influences on reward practice.
- Organisations have to remain aware of these differences when they determine their policies and practices in reward as in other areas.
- Different logics in different nations mean that the 'political' messages that must be communicated in order to 'sell' a policy objective soon become immersed in national culture or expectations.
- Still, the 'strategic space' (Vernon 2005, 2010) for innovation in pay practices is greater than is sometimes suggested.
- Indications of an international best practice in reward are only now starting to emerge – and they are not consistent with simple ideas about incentivisation.



LEARNING QUESTIONS

- 1 What are the main cross-national differences in the nature of pay systems and practices?
- 2 How would you characterise the underlying philosophy that British HR professionals have towards reward, compared with French HR professionals?
- 3 What are the main ways in which national culture influences rewards behaviour?
- 4 Is there a danger of focusing too much on national culture as a driver of pay practice?



EXPLORE FURTHER

D'ART, D. and TURNER, T. (2004) Profit-sharing, firm performance and union influence in selected European countries. *Personnel Review*. Vol 33, No 3. pp335–50. The authors provide an international analysis of financial participation and performance.

KESSLER, I. (2007) Reward choices: strategy and equity. In: STOREY, J. (ed.). *Human resource management: a critical text*. 3rd edition. London: Thomson. This chapter overviews the advantages of traditional pay structures linking pay to post.

LAZEAR, E. and SHAW, K. (2008) *The structure of wages: an international comparison*. Chicago: NBER. This constitutes a book-length treatment of cross-national comparative differences in reward structures within the established OECD.

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Training and Development

LEARNING OBJECTIVES

When you have read this chapter, you will:

- be able to provide a definition of training and development
- understand the range of underpinning institutional and cultural factors that impact training and development
- display a comparative understanding of training and development
- be aware of the drivers for continued education within organisations and how these differ across different country/regional groupings
- be able to integrate the themes contained within the chapter in order to articulate the implications and challenges for internationally operating organisations.

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Increasingly tangible assets such as land, building, raw materials, and machinery may no longer be seen to offer sustainable competitive advantage (Perez and Ordonez de Pablos 2003). In line with the resource-based view theory it might be argued that the success of modern organisations is determined by intangible assets such as human capital (Rashid 2013) and thus training and development remains as a key issue for management within organisations and for HRM professionals in particular. Given the vast amount that has been written about training, learning and development and the variety of terms that are used, this chapter starts with some definitions. After the definitions the chapter deals with contextual factors in order to support an understanding of comparative training and development. You are challenged to consider the implication of these contextual factors as you make decisions around the location of new enterprises or factories. Having considered both VET and typical attainment levels post-education, the chapter then moves on to consider the training and development investment that occurs within the workplace. Cranet data is used to illustrate the relative amount of time devoted by organisations and also the typical level of investment found in different contexts.

According to Armstrong (1999) training is the planned and systematic modification of behaviour through learning events, programmes and instruction which enable individuals to achieve the levels of knowledge, skill and competence required to carry out their work effectively, whereas development is the growth or realisation of a person's ability and potential through the provision of learning and educational experiences. Dowling and Welch (2004) suggest that whereas training aims to improve employees' current work skills and behaviour, development may be differentiated as being aimed at increasing ability in relation to some future position or role.

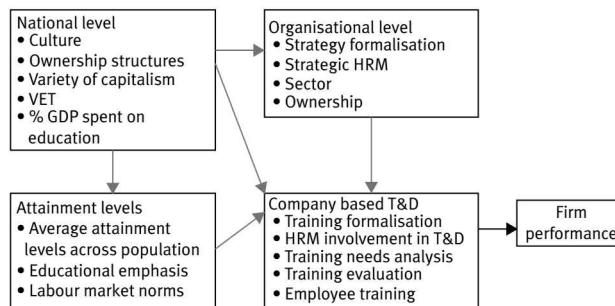
Although these definitions take an individual perspective, the OECD acknowledges human capital as a major factor driving economic growth, both in the world's most advanced economies and those experiencing rapid development. We will discuss this point further in the section on educational attainment. Tregaskis and Heraty (2011) report how the level of interest in training and development has spawned a growing literature on organisational learning and human capital. The terminological shift has seen a broadening of the agenda, which now extends well beyond the conventional territory of training interventions, and its integration with the business plan, to take in many aspects of work and corporate organisation (Reid et al 2004). Such discussions are usually linked to those around high-performance work systems or high-performance practices for non-managerial employees (see for example Appelbaum et al 2000; Ashton and Felstead 2001). At the same time there is a growing emphasis upon management development, much of which now occurs in the context of organisations that are international and wish to develop an international management cadre (see for example Woodall 2005; Mabey and Ramirez 2004, 2011). See Chapter 16 for more coverage on management development and the development of global leadership.

What tends to be lacking from many commentaries is the contextual background necessary to appreciate the different manifestations of training and development in different environments. Contextual factors such as typical levels of educational attainment across the population of a nation and the influence of the state in shaping the vocational educational system provide important background to a comparative understanding of training and development. These contextual factors are particularly important for an understanding of the challenges facing organisations as they strive to operate, recruit, rotate and performance manage staff internationally. At a macro level, a key contextual factor currently is the state of the global economy as the global financial crisis of 2008 has changed things, not least employment prospects, particularly amongst those with lower education levels (European Commission figures 2009).

11.2 TRAINING AND DEVELOPMENT IN CONTEXT

De Cieri and Dowling 1999, Harzing and Van Ruysseveldt 1995, and Schuler et al 2001 are amongst the authors who have sought to identify the factors, external and internal to the firm, which shape HRM policies and practices. We need to reconsider a number of the factors outlined earlier in the book, in particular the key role of institutions. The discussion in Chapter 2 on differing national contexts, institutional theory and varieties of capitalism is an important place to revisit, as well as more micro-level factors of the firm such as the nature of ownership (Jackson and Schuler 1995). The discussions in Chapters 3 and 4 on culture, and the tools of cultural analysis, in terms of understanding how firms in different contexts might approach training and development are also of particular relevance.

Figure 11.1 The impact of national and organisational characteristics on training and development



Source: Nikandrou et al (2008)

Figure 11.1 indicates that there are pre-existing factors or conditions that influence the type and nature of training and development practices in the workplace. These conditions include:

- culture
- ownership structures
- the role of the state and political and other forces (varieties of capitalism).

These in turn shape:

- the levels of workforce achievement, particularly literacy and numeracy which emerge as a result of the compulsory schooling system
- educational and labour market norms
- the national system of vocational educational training which sits 'on top' of the compulsory schooling system and which reflects the economic, political and cultural institutional forces at play within a country.

We will deal first with the first two of these before dealing in more detail with those factors that relate to the role of the state.

Several authors have provided general evidence of a cultural influence on training policy at the national level. Tregaskis (1997) compared training practices in organisations in the UK and France, highlighting the fact that in the UK training was less regulated and there was a greater emphasis on organisational learning. This study demonstrated how national level factors impact investment in organisational training and found that the national effect was greater than the effect of formalised HRM strategy. A further step was taken by Aycan (2005), who proposed a theoretical framework linking national level values to key HRM practices. Based on the assumption that training designs (as well as other HRM practices) are impacted by managerial beliefs about human nature and organisational versus individual needs, Peretz and Rosenblatt (2011) examined the link between a society's culture and investment in training. They find evidence to support three hypotheses that firms in countries which embrace low power distance, high future orientation and high uncertainty avoidance tend to invest more in training than firms in countries that embrace high power distance (where energy is devoted to maintaining power gaps), low future orientation (as training is a future oriented activity), and low uncertainty avoidance (as training arguably acts as a means of reducing uncertainty) (Peretz and Rosenblatt 2011).

The question of ownership is likewise a key determining factor in terms of shaping training and development strategy, along with organisational size and sector, with Peretz and Rozenblatt (2011) confirming earlier work that larger organisations (as well as high-tech organisations) tend to invest more in training. Earlier commentators such as Rosenzweig and Nohria (1994) have considered the influence of parent MNCs upon local subsidiaries, with training provision being one of these areas. As Mabey and Ramirez (2011) suggest, it has become a tendency of MNC subsidiaries to adopt parent or 'best-practice' norms particularly in the macro-HRD practices like training needs analysis, management development delivery and evaluation procedures, while allowing for the details of the delivery of local training to be determined by the subsidiary, as highlighted by Tregaskis et al (2001). In the later section on company based training and development we will say more about sector specific drivers of training and training needs analysis.

11.3 THE ROLE OF STATE NATIONAL SYSTEMS: VARIETIES OF CAPITALISM (VOC), EDUCATION, AND INITIAL VOCATIONAL EDUCATION AND TRAINING (VET)

Chapter 2 introduced you to institutional theory as it is relevant to an understanding of comparative HRM. It considered the role of the state and the related issue of the role and

strength of the unions as well as the role of ownership patterns. All of these play a role in understanding training and development and we shall begin by considering typical attainment levels before moving on to describe how national systems and varieties of capitalism shape initial forms of vocational education and training (VET). A range of studies have a bearing, such as the Programme for International Student Assessment (PISA), which is a triennial international survey to evaluate education systems worldwide that tests the skills and knowledge of over half a million 15-year-old students (that is, young people just entering the labour market). The most recent PISA results are from the assessment in 2012. Other useful sources of comparison come from the Adult Literacy and Life Skills Survey (ALLS) and the Programme for the International Assessment of Adult Competencies (PIAAC).

WORKFORCE ACHIEVEMENT: LITERACY AND NUMERACY

Educational attainment is a commonly used proxy for the stock of human capital – that is, the skills available in the population and the labour force (OECD 2012).

When dealing with educational attainment levels there are a number of definitions to consider. ‘Lower secondary education’ is defined as schooling between the ages of 11 and 13 and ‘upper secondary’ is the final element of secondary education, which is seen to be either be ‘terminal’ (that is, preparing the students for entry directly into working life) and/or ‘preparatory’ (that is, preparing students for tertiary education). The term ‘tertiary education’ is defined as higher education (HE) (OECD 2002).

On average, a five-year-old child in an OECD country is expected to remain in education for 17.5 years before reaching age 40. This same child is expected to be enrolled in full-time studies for 16.5 years: 9.5 years in primary and lower secondary education, 3.3 years in upper secondary education, and 2.6 years in tertiary education. She or he can also expect to participate in an additional 1.2 years of part-time studies, mainly at the tertiary level of education. Among countries with available data, education expectancy ranges from 12.4 years in China (full-time only) and 14.2 years in Indonesia, to 19 years or more in Iceland and Sweden and almost 20 years in Finland (OECD 2012).

Until the late 1990s indications of the comparative capabilities of countries were weak and fragmented. The International Adult Literacy Survey (IALS) of the late 1990s offered a systematic assessment of literacy, broadly conceived, across 20 OECD nations (Crouch et al 1999). It was then built upon by the Adult Literacy and Lifeskills (ALL) Survey conducted between 2003 and 2008. The first IALS survey showed that the people of Sweden were the most literate and numerate. Sweden had the highest average scores on all three scales employed, ranking first on each of prose, document and quantitative literacy. The UK ranked 13th, 16th and 17th respectively on these scales, although better than the Republic of Ireland. The USA and other Anglo-Saxon nations did a little better than the UK and the Irish Republic, but there was a clear gulf between the better-performing countries of continental Europe and those of the Anglo-Saxon world. There was also a marked contrast in the extent of variation in achievement amongst the citizens of the different nations surveyed. Each of the Anglo-Saxon nations displayed very much greater variation in the literacy of its citizens than did the nations of continental Europe. Chile and Poland footed the rankings in terms of overall average and also showed the greatest variation in their citizens’ achievements. The IALS suggests very strongly that whatever its basis in cross-national comparative variation in education and training provision and development opportunities, there is great difference in the structure of achievement of the populations of the various countries of the established advanced industrialised world. We would expect that this difference between countries would be even greater if newly emerging nations were considered. Schneider and Soskice (2009) state that

representational systems and politics plays a key role here, as educational performance at the bottom end is strikingly better in the co-ordinated/proportional representative economies than in the liberal/majoritarian ones.

The rationale behind such monitoring and the more recent updates including ALLS and PIAAC is the belief that literacy skills (and basic cognitive skills more generally) are conceived as an important determinant of the life chances of individuals and of social and economic wellbeing at the level of nations. Education therefore matters. An OECD report (2012) suggests that,

It is what people know and what they do with what they know has a major impact on their life chances. The median hourly wage of workers who can make complex inferences and evaluate subtle truth claims or arguments in written texts is more than 60% higher than for workers who can, at best, read relatively short texts to locate a single piece of information. Those with low literacy skills are also more than twice as likely to be unemployed.

Recent OECD data reveals how some countries have made significant progress in improving skills proficiency. The ALLS results shows how effective certain countries have been in developing literacy skills through successive generations. The gains made in some countries illustrate the pace of progress that is achievable. For example, Korea is among the three lowest-performing countries when comparing the skills proficiency of 55–65 year-olds; however, when comparing proficiency among 16–24 year-olds, Korea ranks second only to Japan. Similarly, older Finns perform at around the average among the countries taking part in the ALLS while younger Finns are, together with young adults from Japan, Korea and the Netherlands, today's top performers.

On the other hand, in the UK and the USA, improvements between younger and older generations are barely apparent. Young people in these countries are entering a much more demanding labour market, yet they are not much better prepared than those who are retiring. The UK is among the three highest-performing countries in literacy when comparing to 55–65 year-olds; but the UK is among the bottom three countries when comparing literacy proficiency among 16–24 year-olds. In numeracy, the USA performs around the average when comparing the proficiency of 55–65 year-olds, but is lowest in numeracy among all participating countries when comparing proficiency among 16–24 year-olds. This is not necessarily because performance has declined in the UK or the United States, but because it has risen so much faster in so many other countries across successive generations (OECD 2013).

Developing countries generally have lower rates of adult literacy, and are striving to achieve universal primary education in order to redress this situation. In many countries, low literacy undermines the competitiveness of cheap labour costs and a youthful population. In September 2000, 189 countries signed the United Nations Millennium Declaration [A/RES/55/2], committing themselves to eradicating extreme poverty in all its forms by 2015. One of the Millennium Development Goals was to ensure universal primary education by 2015. In 2014 the United Nations Report on Millennium Development Goals stated that the school enrolment rate in primary education in developing regions increased from 83% to 90% between 2000 and 2012, but most of the gains were achieved by 2007, after which progress stagnated. These recent reports also indicate a worrying concern about young people, 15–29 years of age, across the 34 OECD countries, plus Brazil, Russia, Argentina, China, India, Indonesia, Saudi Arabia and South Africa. There is a clear increase in young people who are neither in employment nor in education or training – the so-called 'NEET' population – which

spiked to nearly 16% across the participating countries in 2010 after several years of decline. This increase reflects the impact of the global recession upon young people and highlights the importance of vocational education and training programmes and opportunities for non-formal education and training (OECD 2012).

Other trends from the data (OECD 2012) suggest that if current tertiary attainment rates among 25–34-year-olds are maintained, the proportion of adults in Ireland, Japan and Korea who have a tertiary education will grow to more than that of other OECD countries, while the proportion in Austria, Brazil and Germany (among others) will fall further behind other OECD countries. Despite notable strides, some countries remain far below the OECD average in terms of upper secondary attainment. For example, in Brazil, China, Mexico, Portugal and Turkey at least half of all 25–34-year-olds – sometimes far more – lack an upper secondary education.

11.4 GROWTH IN THE HIGHER EDUCATION (HE) MARKET

Education can, of course, continue beyond the normal school-leaving age on programmes that are not vocational in strict terms, being more theoretical or academic in emphasis. According to Hall and Soskice (2001) the proportion of those aged 25–34 who in the late 1990s held a university degree was estimated by the OECD to be in the range of 10% to 17% for 15 nations. The exceptional nations were Austria and Italy, with outstandingly low proportions, and the USA, with a notably high proportion of 26%. Cascio et al in 2008 found American teenagers to be performing relatively poorly on international assessments of achievement compared to teenagers from other high-income countries. However, it seemed that the picture was reversed as the teenagers matured and by their late twenties, Americans compared very favourably to those in other locations. Cascio et al (2008) suggested this could be attributed to the fact that the USA led in terms of participation in higher education. However, more recent data from the OECD (2012) reveals that the USA has now slipped behind many other countries in college completion and that educational mobility is declining, with fewer young Americans having more education than their parents and with the USA college graduation rates ranking 19th out of 28 countries studied by the OECD.

The last 15 years have certainly seen higher education continue to grow into a global business with the number of foreign tertiary students enrolled in OECD countries doubling since 2000, equalling an average annual increase of 7.2%. In 2010, more than 4.1 million tertiary students were enrolled outside their country of citizenship. Luxembourg, Australia, the UK, Austria, Switzerland and New Zealand have, in descending order, the highest percentages of international students among their tertiary enrolments. In absolute terms, the largest numbers of foreign students are from China, India and Korea with Asian students representing 52% of foreign students enrolled worldwide (OECD 2012). With so many students studying outside their own countries there are billions of pounds, euros and dollars generated from tuition, living expenses, branch campuses, franchises and much else. The number of students in higher education has increased substantially in developing countries in Asia and Latin America. China, in particular, saw the total number of students in higher education increase from 3.6 million in 1900 to 30 million in 2006 – the highest total in the world. Many developing countries are also promoting higher education as part of a strategy to achieve long-term sustainable economic growth. Malaysia and Tunisia are world leaders in education investment, as they invest a substantial share of their wealth (around 8% of GDP) in education. However, OECD data from 2012 suggests that there is not a level playing field in terms of accessing higher education. Indeed on average across the countries surveyed, young people from families with low levels of education are less than half as likely to be in higher education, compared to the proportion of such families in the population. Meanwhile, a young

person with at least one parent who has attained a higher education degree is almost twice as likely to be in higher education, compared to the proportion of these families in the population.

11.5 VOCATIONAL EDUCATION AND TRAINING

What then, of education beyond school that does not result in a degree – the matter of intermediate skills? In the EU, evidence from the Centre for Research into Education and Lifelong Learning (2005) suggests that vocational training helps to boost the well-known earnings pay-off which accrues to people who have finished upper secondary education over those who left school early. Across the 24 EU countries studied, there is universally an earnings gain, which persists throughout working life, for those who complete upper secondary education over those who do not. The countries where this earnings differential is highest include Austria, Germany, Slovenia, the Czech Republic, Slovakia, the Netherlands and Luxembourg, where over 50% of the upper secondary students follow a vocational programme (OECD 2012). Given the possible benefits of VET, the form and extent of its provision has received particular attention (see for example Crouch et al 1999). As Chapter 4 illustrates, links have been made between varieties of capitalism and the nature and reach of VET.

According to Nilsson (2010) there is no one accepted definition of vocational education and training. One particular difficulty is how to distinguish between general and vocational education; another is that due to the multidimensional nature of VET it can be organised in different ways to include more or less government support and differing levels of time spent at college/company.

According to Hall and Soskice (2001) a dichotomy exists between national systems in which extensive provision of VET is co-ordinated by national governments or other social actors to provide a broad skill base, and those in which VET is more limited in its reach, and less co-ordinated, with greater polarisation in achievement. The co-ordinated market economies (CMEs; see Chapter 2) tend to have higher coverage of vocational educational training programmes and a longer-term view (Hall and Soskice 2001). At the other extreme, liberal market economies (LMEs; see Chapter 2) are likely to have a shorter-term focus. Broadly speaking, extensive and co-ordinated provision of VET is characteristic of the nations of northern continental Europe whereas VET is more limited and less coordinated in the Anglo-Saxon nations. Although the level of co-ordination of VET in Japan is questionable, it tends to be grouped together with the continental European nations in such analyses, because it is often suggested that initial training, though grounded within organisations, is particularly sophisticated and broad-based. Historically commentators have informed us (Esteves-Abe et al 2001) that the type and reach of initial VET has varied by location within Europe. So for example we know that training in Germany has been described by Thelen (2007) as the 'jewel in the crown of Germany's political economy'. Here the system is referred to as 'dual' and has combined school-based learning with practical firm-based training (with primacy traditionally given to the latter). The plant-based component is strongly 'collectivist' insofar as employers train not narrowly and for their own needs, but broadly and to standards that are set nationally by committees composed of representatives of business and workers. Switzerland and Austria have traditionally followed a similar approach, but with figures not quite equalling the 30% of cohort which has been reported in Germany (Esteves-Abe et al 2001). Elsewhere provision has typically been less workplace-based and with more emphasis on technical colleges, for example in Denmark, Finland and Norway, where enrolment rates are even higher than those reported in Germany. Italy, Japan and France have tended to favour company-based approaches – more like an apprenticeship system – whereas in the liberal market economies of UK, Australia and particularly the USA provision and uptake has been variable and weak (Esteves-Abe et al 2001).



CO-ORDINATION OF VET POLICIES IN USA AND SWITZERLAND

CASE STUDY 11.1

UIS (2006) argues that in the USA vocational education has traditionally been the domain of states and local communities, with the federal government playing a lesser role. Traditionally, only a small proportion of total state expenditures in vocational education flows from the federal purse. Within this system, federal policy has primarily relied on inducements and capacity building strategies to encourage states and local school agencies to shape vocational education in ways that it believes will lead to improved outcomes. Federal legislation provides guidance on programme improvements, requires states to address these in their state plans, and permits use of federal funds to develop them, with legislation in place to encourage greater compliance. States are required to develop and track four core performance indicators and negotiate with the federal government to establish benchmarks and targets for each. States exceeding targets are eligible for incentive bonuses, while those failing to reach targets may lose federal funds. In the absence of mandates or strong regulation, federal policy appears to have a relatively weak influence on vocational education delivery in the states. Federal policy is enacted consistent with state structures, policies and interests, which emphasise improvements in general education; vocational education is marginalised. The overall result has been to strengthen

somewhat the academic rigour in vocational programmes, but at the expense of specific vocational and technical learning.

In Switzerland, where the cantons and social partners have a great deal of autonomy for VET, federal legislation on VET was recently reformed. The legislation declares that VET is the joint responsibility of the Confederation, the cantons, social partners and other organisations of 'working life', working collaboratively. The purposes of VET are identified in law: to enable individuals to find a place in society and at work, and to equip them with the flexibility to remain active; to contribute to the competitiveness of enterprises; to provide equal opportunities in access to training; to develop links between different pathways in education and training; and to establish a system that is transparent. The Confederation will take more responsibility for funding VET. These funds are to be provided to cantons and 'working life' organisations – which hold major responsibilities – using mechanisms intended primarily to encourage initiatives and reform. The Confederation hopes to incentivise employers to be more active in initial and continuing VET and to encourage incremental reforms to both the school-based and dual systems. In each case, the Confederation intends to assume a more strategic lead.

Goergen et al (2009) have built upon the earlier dichotomous view of Hall and Soskice (2001) and its refinement by Amable (2003) in order to provide an overview of the likely characteristics of training provision in five 'types' of capitalist environments. These are summarised in Table 11.1.

Table 11.1 Likely impact of type of economy upon company training and development

<p>Continental/ Rhineland economies (France, Germany, Austria, Belgium)</p>	<p>Highly standardised educational system, early selection into vocational training Training systems vocationally oriented, with state involvement Firms left to concentrate on 'top up' firm-specific training Training spend low, jobs well protected and low staff turnover Unions and employer associations bargain on industry lines and have collaborative training schemes Industry-level wage-setting (quite high level) encourages individuals to acquire job specific skills, poaching less of an issue Possible gap in general cross-functional skills for managerial and senior admin roles than in LMEs</p>
<p>Social democratic co-ordinated market economies (Sweden, Finland)</p>	<p>Vocational training less effective, due to weakening industry links and increased theoretical focus Firms likely to have to provide more industry relevant skills More emphasis (and investment) on training within organisations than in continental/Rhineland economies Gaps in vocational training mean individuals more likely to take more responsibility for own skill development</p>
<p>Liberal market economies (USA, UK, Ireland)</p>	<p>Variations in quality and nature of school education and a large pool of poorly skilled job-seekers Low security of tenure May not equate with low training bills due to low entry requirements/high staff turnover contributing to high induction costs Good general university system provides pool of managerial potentials (may lessen training requirements in senior admin and management) Job-seekers incentivised to acquire such skills and increase their employability and likelihood of being retained Fierce competition in high-tech industries and in certain low-value-added areas of service sector</p>
<p>Southern European (Mediterranean) economies (Italy, Spain, Portugal, Greece)</p>	<p>Education and training provision mixed due to weaknesses in both higher education and vocational systems Declining role of state in promoting skills means firms may have to make greater use of external training providers Skill gaps likely at both senior and junior levels Education system 'lags' having adapted to needs of a low technology industry where low proportion of workforce has secondary education</p>
<p>Transitional economies (Central and Eastern Europe)</p>	<p>Tradition of autocratic management, seen in high levels of managerial autonomy</p>

	<p>Increasing liberalisation coupled with short-termist approach</p> <p>Pressure to converge with LME paradigm, but mitigated by desire for incremental change and continuity (from managerial population)</p> <p>Declining job security will discourage investment in people</p> <p>Mismatch between training needs and provision, due to gaps in training infrastructure</p>
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Source: Goergen et al (2009)

Does it matter if VET systems differ in this way? Hall and Soskice (2001) would say that it does. They argue that the extensive and co-ordinated provision of high-quality VET facilitates certain production and product market strategies, in particular encouraging a focus on continuous improvement and incremental innovation in product strategies and production processes. They contrast this situation with that where VET is limited and weakly co-ordinated, and where post-compulsory education and training is principally a matter of college and university education resulting in degrees. In these circumstances, evident in the Anglo-Saxon (LME) world, Hall and Soskice (2001) argue that radical innovation in products and processes is encouraged. They suggest that this provides a partial explanation for the strength of Anglo-Saxon nations in sectors characterised by rapid change in fundamental technologies, such as IT, and the strength of continental Europe and Japan where gradual innovation within companies themselves is critical, as in mechanical engineering.

More recent data suggests that far from converging, VET remains highly diversified across Europe and beyond with VET qualifications often being difficult to understand and not easily recognisable in other countries. Even within a specific country, it might be difficult to progress to further or higher education after completing VET studies as VET programmes are not sufficiently open, nor is the knowledge, skills and competences people acquire clearly understood (Cedefop 2010).

Table 11.2 Enrolment trends of students in vocational upper secondary education, 2000–2008 (*)

Increasing number and share	Belgium, Finland, Iceland, Ireland, Liechtenstein, Malta, Portugal, Romania, Spain, Sweden
Increasing number but decreasing share	Austria, Czech Republic, Denmark, Estonia, Italy, Luxembourg, Netherlands, Norway, Slovakia, Turkey
Decreasing number and share	Bulgaria, Croatia, Cyprus, Germany, Greece, Hungary, Latvia, Lithuania, Poland, Slovenia, former Yugoslav Republic of Macedonia

(*) Number of students in upper secondary vocational education and training and enrolment in vocational education and training as share of students enrolled in upper secondary education and training.

NB: UK and France are not included as their data are not fully comparable over time.

Source: Cedefop (2010) calculations based on Eurostat, UOE data collection on education systems, date of extraction 18 August 2010.

11.6 WHAT ABOUT THE FUTURE OF VET?

Cedefop (2010) highlights the fact that the financial crisis has raised questions about VET and its viability and acknowledges that high quality VET that keeps pace with technological and organisational change is not cheap. At the same time, they emphasise its importance and suggest strategies for its future direction which include learning outcome based approaches. Within the EU there appears to be energy to maintain and improve on VET provision. They cite examples of recent developments to highlight its adaptability and responsiveness to market conditions. For an example of a move to more flexible approaches to VET we can take Germany, where government and regions agreed in 2008 that universities should acknowledge equivalent vocational qualifications for academic study courses. As a result, higher education entrance will be possible for vocationally qualified persons after successful final VET examinations and three years' on-the-job experience. Similarly recent developments in Italy mean that apprenticeship contracts can be valid until the apprentice is 30 years old and can lead to higher-level qualifications, including PhDs, allowing enterprises to benefit from research by PhD students/apprentices (Cedefop 2010).

A NEW IMPETUS FOR VET IN EUROPE

Europe by 2020 should contribute to both excellence and equity in EU lifelong learning systems and thereby to the Europe 2020 objectives of smart and inclusive growth, with:

- initial (I)VET as an attractive learning option with high relevance to labour market needs and pathways to higher education
- easily accessible continuing VET for people in different life situations simplifying skills development and career changes
- flexible systems based on recognition of learning outcomes, including diplomas, and supporting individual learning pathways
- adequate support for those at a disadvantage
- cross-border mobility as an integral part of VET practices.

Source: European Commission (2010)

WHAT CAN INDIA LEARN FROM THE SUCCESS OF VET IN GERMANY?

In a survey conducted by the Federation of Indian Chambers of Commerce and Industry (FICCI) 90% of companies reported that the lack of skilled workers is a barrier to the achievement of their full economic potential. In a five-year plan the Indian Government has set a goal of providing vocational skills training for 500 million people by 2022 (Government of India 2008). Given the success of the German model, Pilz and Pierenkemper (2014) have questioned whether aspects might be transferred to India. To do this they focus on the existing training practices of German companies operating in India, on the assumption that these German companies will prefer to seek to implement the approaches they know to work from their parent country, along the lines described by Heenan and Perlmutter (1979) as ethnocentric, or 'country of origin' effects. However, the findings reveal that this is not the case and that the Indian-based companies operate almost entirely autonomously from their German parent and adapt to local needs. There was no evidence of the co-operation that exists in Germany between state and businesses in order to create the dual system. Most problematic, however, is the fact that

vocational training in India is impacted by its own cultural context. The Indian school system is highly theoretical and most parents who can afford it aim to get their young people into university to continue their theoretical training. Young people who are not able to go on to higher education, due to a lack of qualifications or financial means, usually go straight into the workforce. At the same time the local labour market operates on a very flexible basis and the risk of staff turnover may prevent employers investing in their employees' skills. As a result there remains a clear need for young people trained at an intermediate level of skill and this is predicted to increase (Ernst & Young 2012). According to Pilz and Pierenkemper (2014) it is essential for the state to establish funded vocational schools (ideally within leading state universities) with teachers who are themselves educated to at least Bachelor's level. However, they point out that although this is likely to increase the quality of provision there is still a need for the Indian labour market and society more generally to place more value on vocational training.



REFLECTIVE ACTIVITY 11.1

- What is VET?
- What implications might the difference in initial training provision between the USA and Germany have for the organisation of work and the character of relationships between managers and non-managerial employees?
- What are the institutional features required to support extensive initial VET and what are the challenges to it being sustained for the long term?

11.7 CONTINUING TRAINING – THE ROLE OF THE EMPLOYER

Here we discuss broader company training than that which might be defined as VET. In the context of organisational-funded employee training and development the emphasis is upon a systematic approach to learning and development to improve individual, team and organisational effectiveness (Goldstein and Ford 2002). In addition to the acquisition of skills and knowledge, Armstrong (2009) suggests that training can act as a pathway for learning and that learning and development is an important factor in creating a sense of progression and purpose that leads to organisational commitment. Thus we might expect that organisations will invest in training not only in the hope of it improving performance, but also because of the links to organisational commitment.

11.7.1 WHAT ARE THE RETURNS TO AN ORGANISATION FOR THEIR INVESTMENT IN TRAINING?

There are various theoretical perspectives in support of the idea of training being a driver of improved firm performance (see discussion by Barba-Aragon and Sanz-Valle 2013). The approach most used in empirical research on training is the universalistic perspective. This holds that some human resource practices are always better than others because they always have a positive impact on performance, and therefore all organisations should adopt these best practices (Delery and Doty 1996). One of these best practices is training and, in particular, formal training (Russell et al 1985; Bartel 1994). The resource-based view of the firm also provides support for the idea that training has a positive effect on firm performance. According to this perspective, the main sources of competitive advantage for the firm are its intangible resources (Barney 1991). Among these, human resources, in particular human knowledge, skills and attitudes, are

highlighted (Wright et al 1994; Kamoche 1996; Mueller 1996; Barney and Wright 1998). Although all practices of personnel management are involved in the development of these resources, training is considered the main activity in getting qualified, flexible and well-prepared employees (Bartel 1994; MacDuffie and Kochan 1995; Bae and Lawler, 2000). More recent studies have focused more upon on the knowledge perspective, with organisational knowledge being seen as a key to competitive advantage (Kim 1993; Nonaka and Takeuchi 1995).

11.7.2 HOW TO ORGANISATIONS DECIDE WHAT TRAINING TO DELIVER?

Some training is mandatory in certain contexts, for example health and safety or ethical training. Other training is about ensuring social norms (see for example Jones et al 2013 on diversity training; Jones et al 2007 on social inclusion in financial services in India). Some areas of work, for example health care (Carlisle et al 2012, for example), and construction and sales (Singh et al 2015) receive more consideration in the literature, possibly because these are areas where it is easier to define a common curriculum.

CONSTRUCTION INDUSTRY EXAMPLE

Contributed by Interserve PLC and the Khansaheb Training Centre, Dubai

Interserve is one of the world's foremost support services and construction companies. Their vision is to redefine the future for people and places. They are headquartered in the UK and listed in the FTSE 250 index with gross revenues of £3.3 billion and a workforce of around 80,000 people worldwide. The organisation is committed to its sustainability agenda having made commitments to: build jobs for local people; support supply chain; improve nutrition and wellbeing and positively impact local communities. Interserve has been particularly successful in the Middle East where its associates and subsidiary companies play a key role in supporting growth across a range of sectors including oil and gas, hospitality and leisure, retail, and transport and infrastructure.

The construction industry is one with particular concerns over industry standards and safety. To support their growing business in the region and in line with their sustainability agenda Interserve's associate opened the Khansaheb Training Centre in Dubai in March 2014 to provide its own in-house trades school. Health and safety is a critical component of the training, which includes demonstrations, practical tutorials with mentorship and ongoing peer review on how to get the job done, the safe way. The Khansaheb Training Centre provides a full trades training curriculum that is based on the Construction Industry Training Board (CITB) framework and adapted to the needs of the business in the UAE. The Centre trains 160 employees per month, on a 12-day structured curriculum for each trade. The curriculum covers key site skills, such as masonry, block-laying, plastering, tiling and paving, steel-fixing, carpentry and supervisory skills. The approach allows trainees to be sorted into gangs or teams consisting of one chargehand, six skilled workers and four labourers who can then be trained as a team. In addition there is a structured training course for front-line supervisors (both foremen and engineers) who supervise the chargehands and gangs. The emphasis throughout is upon delivering improvements in performance, particularly with regard to health and safety, productivity, quality and of course team work. As well as noticing a steady increase in quality, and health and safety performance, managers have seen a dramatic increase in employee engagement.

In the majority of sectors training needs analysis is the methodology which, according to a best practice approach is deployed by organisations to determine what training needs to be delivered. A basic training needs analysis examines the current state of performance and defines the desired state of performance, with the gap between states characterising needs (Rossett 1995). Models of training needs analysis present a systematic series of actions. Typically there are seven steps in this process although more simplified five-step processes have been provided (for example Price et al 2010). According to Wright and Geroy (1992) in a seven-step approach the stages would include: refer to culture and organisational philosophy; be proactive; have a method to distinguish between gaps which may be correctable via training and those which may not; allow for various organisational actors to participate; be based on observable skills; consider the varied use of sample techniques and data analysis; have cost-benefit analysis. Ferreira and Abbad (2013) present a critique of training needs analysis literature that spans over ten countries and reveals that the majority of such research is being conducted in England, followed by the US, and that there is little agreement on how to measure training needs. They conclude that most of the current TNA models and methods are reactive and do not pay enough attention to contextual factors.

11.7.3 TRAINING METHODS

Thanks in part to the availability of cheaper and faster ways to send and receive information using the Internet, human resource management interventions and training efforts in particular are taking place at a global level (Cascio and Aguinis 2008). Technology-delivered instruction (TDI) continues to become increasingly popular in industry (Paradise 2007), although researchers have been slow to study factors that facilitate or limit its effectiveness (Brown 2001; Welsh et al 2003). Approaches include web-based training and instruction on single workstations, PDAs and MP3 players, as well as embedded just-in-time training in work-related software (Aguinis and Kraiger 2009). Such approaches transfer a degree of control to the learner and although this may appeal to the learner, a recent meta-analysis by Kraiger and Jerden (2007) indicated that high learner control has only marginally beneficial effects on learning outcomes. Technology-based approaches lend themselves more to certain sectors than others. (See Malmstedt et al (2012) for an account of workplace e-learning for automotive assembly operators, describing how virtual training can serve as an effective alternative to traditional on-the-job training.)

Irrespective of delivery method there have been studies to investigate the return on investment firms achieve as a result of their training investment. Tan and Batra (1995) present a comparative study across Indonesia, Columbia, Malaysia, Mexico and Taiwan and they report that training had a positive and significant effect in all five countries. Although there has been an increase in the empirical studies on the relation between training and performance over the last two decades (see Aguinis and Kraiger, 2009; Bartel 1994; Huselid 1995; Percival et al 2013; Barba-Aragon and Sanz-Valle 2013) the evidence is not always supportive of a link between training and performance (Black and Lynch 1996; Krueger and Rouse 1998; Schonewille 2001; Aragon-Sanchez et al 2003). Some of the technical difficulties include establishing causal linkages, or the fact that practitioners struggle to find reasonable performance measures of the impact of training upon specific populations within an organisation. By selecting firms who introduced training during a three-year window, Bartel (1994) estimated the impact of formal

training programme on productivity and found it to be a 6% increase in productivity per annum. Bartel (2000) describes other approaches to gauge the impact (Black and Lynch 1996; Holzer et al 1993) and highlights some of the challenges in seeking to establish the causal impact of training investment due to the fact that increases in productivity could be due to other exogenous factors. Despite the presumed positive effect of training on all levels of organisational outcomes – individual and team, organisational and social (Aguinis and Kraiger 2009) – training is often criticised for being too expensive, not transferred to the workplace, or for being implemented only to reward and retain certain employees (Kraiger et al 2004).

How do organisations seek to calculate or measure the costs and benefits of the training they provide? The Kirkpatrick Model (Kirkpatrick 1994) is a common concept used to assess the effects of training and utilises the four levels of reaction, learning, behaviour and results. In practice the first of the four levels (learner reaction) is the one where the majority of firms apply their efforts as this is easily achievable (Sutton and Stevenson 2005). Nilsson (2010) points to the inherent difficulties in measuring effects of training, coupled with the fact that it is often seen in relation to the wider areas of motivation and commitment. According to Eurostat data, the situation in Europe is one whereby 56% of companies do not evaluate training effects (Gruber et al 2009). Where studies do exist of its impact they tend not to include cost-benefit analysis, due to the difficulty of securing this data (Bartel 1994). One of the reasons for these difficulties is often cited as being the paucity of evaluation practices within organisations. As a result very few firms are able to establish clearly the impact of their training provision and where approaches are in place these often go no further than the level of self-administered questionnaires (Alliger et al 1997; Kraiger et al 2004).

11.7.4 THE COSTS OF TRAINING

What of the extent of companies' commitment of financial resources to continuing training? There is wide variation in the amount of money companies invest in training around the world. In companies in Bulgaria, the USA, Sweden and Greece, spending on employee training has been reported as being between 4% and 6% of their pay bill; compared to firms in Cyprus, Iceland and Slovakia where the figure is closer to 1% (Coget 2011).

In terms of investment in training France is an interesting example, as here the training effort is particularly evenly spread across employees of all grades (Cranet 2004). Uniquely in the advanced industrialised world, the number of days of training experienced by non-managerial employees in France is almost as great as that experienced by managerial employees. This egalitarianism in training provision contrasts even with the situation in the Nordic countries. Much, but not all, of this French exceptionality is explained by law. French statute compels French employers of more than ten employees to devote 1.5% of their pay bill to continuing training. However, it seems clear that training provision by French employers typically exceeds this statutory requirement. Some part of expenditures beyond the statutory minimum may be nurtured by the procedural requirements applying to those organisations subject to the terms of a collective agreement; the vast majority in the French case (see Chapter 2). Such organisations must formally consider training requirements several times each year, in conjunction with works councils where appropriate, and establish an annual training plan. This both heightens awareness of training issues and eases their consideration.

Figure 11.2 Comparative distribution of average training days for different categories of employees across six countries

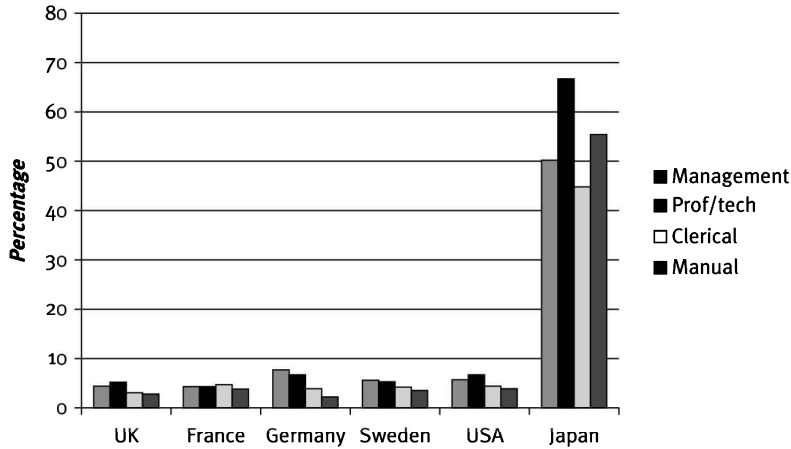


Figure 11.2 shows us that cross-national comparative training provision varies dramatically, as is clear in the data on the distribution of average training days for manual employees. The 2010 Cranet data show some marked differences. Note the remarkably high volume of training days in Japan. Germany and the USA outpace the UK and France on the volume of training for professional and technical grades; Germany stands out, after Japan, for management training. When it comes to training for manual staff, there is little variation across European countries.

Comparison of previous Cranet data on training days, from the early 1990s (Holden and Livian, 1993), reveals marked differences in national trends over the last decade or so. Provision for manual employees in Germany is very little changed, whereas that in France appears to have fallen off a little. In contrast, there has been a marked expansion in training provision in the cases of Sweden, Denmark and also the UK. Other countries have typically seen a more limited growth. There is thus little sign of convergence across national borders in training provision.



REFLECTIVE ACTIVITY 11.2

- Who gains from training and development?
- Who is responsible for employees' training and development?
- What role does context play in shaping the requirement for company training and development?

COMPARING THE SUCCESS OF TWO FOREIGN-OWNED RETAIL STORES IN CHINA

CARREFOUR AND ITO-YOKADO

From July, 1992 small numbers of foreign retailers were allowed to enter into six cities and five special economic zones within China although single proprietorship was not allowed at that time and there was a set of strict conditions and rules, which were finally relaxed in 2004. Both Carrefour and Ito-Yokado entered China due to its high economic growth and the development of its retail industry. Both retailers may be judged to have been successful in the Chinese context, but their success takes different forms and has been achieved by different management strategies. Carrefour was reported (in 2009) to be in the top ten Chinese retailers (CCFA 2010), whereas Ito-Yokado, though ranked lower in terms of its overall sales, reports the highest sales unit per store amongst all retailers in China.

Carrefour was established in France in 1959 and following its introduction of the hypermarket to the world in 1963 it grew to become the second largest retailer in the world by 2000. Once market saturation was reached in France, the group looked to diversify into credit cards and insurance and entered into overseas markets at the same time, opening its first overseas store in Belgium in 1969 and entering into the Brazilian market in 1975. Carrefour opened its first Asian store in Taiwan in 1989, where it enjoyed excellent success. Although ranked seventh amongst Chinese retailers in 2010, the company initially entered China without official permission. From 2004 onwards there was an increase in the speed of opening new stores, having 170 hypermarkets by 2011 as well as supermarkets and discount stores. Suburban areas, inland areas and the north-east were targeted due to severe competition in established city districts. The company uses localised products, for example stocking up to half of manufactured food in accordance with local people's tastes (Zhu 2012). Although it has on occasion suffered bad publicity (for example a boycott of French goods following an incident in Paris during the torch relay for the Beijing Olympics), on the whole Carrefour has tended to be quite good at attracting positive media attention (Zhi 2012).

Ito-Yokado, on the other hand, does not have a long history of international retailing. Indeed China is its only venture beyond Japan. Having first been given approval to operate in 1995, the approach has been to open new stores relatively slowly and by 2010 the company had 12 stores in China. The company is well known for its high quality service in China. Like Carrefour there is localisation of products, sourcing 100% of clothing and 95% of fresh food from China (Li 2008). The store operates as a department store, a model familiar to the Chinese market, and its good reputation encouraged other retailers to move in under a model known as 'shop of shops'. Unlike Carrefour there is little coverage in the media and self-promotion is not sought.

There are considerable differences in terms of training and development which link to the overall retailing philosophy of the stores. In China Carrefour has looked to recruit and train young local staff, establishing the Carrefour Chinese Institute in Shanghai in 2000. A situation was soon reached whereby in some cities, such as Wuhan and Guangzhou, all store managers or even district managers were young Chinese in their 30s and the company had aspiration of having Chinese managers run the business from 2018.

On the other hand, compared to certain western retailers, Ito-Yokado places less emphasis on intensive training, having more concern with the transmission of corporate culture. Store manager candidates have the chance to go to Japan for training, which lasts for one week. The company organises this training once a year and Japanese language ability is not required. Other training takes place via meetings and conferences. Conferences are a daily event with some observers suggesting that this is to convince employees to believe the corporate culture, or even to 'brainwash' them.

One of the most telling differences between the two successful retailers is that Carrefour seeks to give local people enough authority to recruit qualified staff, whereas Ito-Yokado restricts this and operates a more controlled environment. There are even examples of punishments for staff who do not obey the rules in terms of appearance or standing up straight (*Beijing Business Today*, May 2010).

It would therefore appear that Carrefour is more advanced in terms of its localisation of HRM; evidenced by the appointment of more and more locals as store managers and a greater focus upon training them locally. On the converse side, Ito-Yokado places much more emphasis on the details of its proposition and does not feel these can be quickly instilled in others.

11.8 SUMMARY

There is considerable interest in the development of international management elites, and there are many indications of the establishment of international notions of best practice in the nurturing of development amongst such groups. However, examination of prevailing practice in training and development beyond such elites reveals continuing differences across national borders. There seems some coherence in the character of these national systems, practices fitting together according to different logics of development. It may be that development initiatives aimed at international management cadres would similarly benefit from greater sensitivity to cross-cultural variation in management identity and learning styles.

Innovation in training and development is of course possible in all national settings and the past two decades have seen the adoption of technology and new media to support the training and development of staff. To some extent, cross-national variation in practice seems buttressed by national management approaches to employment and work, rather than emerging from a rational consideration of what is possible or effective in a particular institutional or cultural context. This implies opportunities for MNCs to innovate successfully. However, adherence to typical local practice offers benefits in terms of the comprehensibility and legitimacy of arrangements in the eyes of employees. Forms of job design, or of performance management, accepted as natural in one country may be perplexing to employees, and thus be disruptive, in another. As in other spheres, in training and development the task for international organisations is to meld innovation with a sensitivity to key dimensions of the national settings in which they operate.



CASE STUDY 11.2

'CONTAINERS WORLDWIDE': THE CHALLENGE OF TRAINING AND DEVELOPMENT IN REMOTE LOCATIONS

Container terminals are almost always built in remote locations, away from cities and with a requirement for high-level operational structures and equipment, given that the task of handling around one million containers a year is a complicated one.

HRM professionals face particular challenges when setting up such large infrastructure operations in remote locations where experience with highly modern operational equipment is far from the norm. The typical level of attainment

might be low in such cases, which may also include employment skills such as being able to drive. The apparent lack of existing qualified people in the workplace may be further compounded by an apparent lack of training infrastructure in the countries. Thus two major challenges are resourcing in time for the opening of the facility and the ongoing training required for continued competence of the workforce.

Containers Worldwide were developing a new Egyptian facility with a requirement

for over 1,000 employees. The Head of HR decided to start with the end goal in mind. He knew when the building works would be complete and when the equipment such as gantry cranes, trucks, RTGs, straddle carriers, etc would begin to arrive and, most importantly, when the first vessel would arrive.

The only really unknown variable in this start-up was the people. Here some innovative thinking was deployed in order to recruit individuals with even remotely appropriate skills. The approach which was adopted was seek to recruit any local people where an individual was found who made a good first impression – for example taxi drivers, hotel employees, KFC and Pizza Hut staff. So, for example, taxi drivers had proven expertise in driving and could possibly be ‘re-trained’ to operate a gantry train (not

a simple task, but one which was trialled).

The training approach was to second operators from other leading terminals in the global network to act as local trainers for a prolonged period. These individuals could both meet the immediate resourcing requirements to ensure the facility was operational on time and also could engage with the local recruits to develop them on the job. In the case of their new Egyptian container port, Containers Worldwide was able to have the facility open for training purposes for approximately one month before the first ship arrived, thus allowing for simulation training before real on-the-job training commenced.

Contributed by Tommy Olofson, Henley MBA Programme 2010–11



REFLECTIVE ACTIVITY 11.3

Imagine you are the resourcing and training manager responsible for the establishment of a new operation. You have some influence in the selection of the location, but must meet both quality and budget requirements.

- What factors would you take into account when evaluating the options?

Goergen et al (2009, p462) highlight the relationship between dominant corporate governance regimes and the enduring role of the state in the provision of education and training and the employment relationship (see Table 11.1). They suggest that the theories of corporate governance and links to VET are central to an understanding:

of the nature and extent to which companies need to and are prepared to, and/or are encouraged to, invest in their people.

Organisations are likely to find themselves with a skills training gap which is to some considerable degree shaped by their context (see Figure 11.1). However, irrespective of context, almost all larger organisations now have a written policy for training and development. Apart from pay and benefits, this is more common than any other HRM policy (Cranet data). Training provision (usually assessed by the number of days’ training undergone annually for employees) is one of the very few indicators of the stance taken by an HRM department that can be related to organisational performance across the entire array of institutional and cultural contexts. Clearly, therefore, this is an area where HRM departments retain strong influence.

The chapter has dealt with the large area of education in relation to employee training and development. It has sought to reiterate the key points about context which are relevant to this element of HRM practice. In particular it has considered the role of

culture, the role of the state in shaping education and vocational education and training and how this impacts on workforce attainment rates. It suggests that these factors form the backdrop against which we may then consider the role of training and development in the workplace – what are the likely skills gaps for different levels of worker and does the organisation need to take into account the views and influence of intermediary groups, whether these be workers councils, trade unions or industry groups.

The chapter concludes that training and development are particularly sensitive to contextual/comparative factors and the provision from training and development – whether that be for managers or non-managers – is shaped not only by the skill and capability of the individual and his or her career aspirations and motivation, but also by the educational, professional and institutional norms of a given country as well as by the different culture definitions of effective performance (Neelankavil 2000). Thanks to Peretz and Rosenblatt (2011), we know how culture may influence firm investment in employee training and development and this knowledge should help human resource practitioners in multinational companies adapt training and development practices to the different cultural environments where they do business. However, more work is still required in terms of the impact of strong organisational cultures as well as institutional factors (Coget 2011).



KEY LEARNING POINTS

- There are differences in the national systems of VET; these impact on the type and extent of in-work training and development that is required by organisations.
- The role of institutions is key, with links needing to be made to the varieties of capitalism literature (VoC) as outlined in Chapter 2 and elsewhere in Part 1.
- Although the majority of OECD nations have educational systems involving compulsory secondary school, levels of attainment differ across geographies and this is a key factor for organisations to take into account when considering where to locate new plants or operations.
- Levels of higher education have increased hugely in the last 15 years and higher education generates millions of pounds, euros and dollars.
- Irrespective of context, almost all organisations now have a written policy for training and development. Apart from pay and benefits such a policy is more common than any other HRM policy (Cranet data). Despite this fact and the amount of money being invested in training staff, it is still commonplace for there to be no systematic evaluation of training effects.



LEARNING QUESTIONS

- 1 What are the implications for international HRM departments of the range of levels of literacy and numeracy that they will encounter in different countries?
- 2 What would be the implications for a training manager of moving from performing that role in western Europe to performing that role in China?
- 3 For an internationally operating organisation, what aspects of training and development policies are best retained centrally and what are best handled locally? Why?



EXPLORE FURTHER

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Global HRM Departments

LEARNING OUTCOMES

When you have read this chapter, you will:

- understand that HRM departments are variously placed to fulfil ambitious new roles departing from administrative ‘personnel’ roles
- understand the cross-national differences in the place or role of HRM departments
- be able to outline the differences between countries in the allocation or assignment of HRM tasks to line managers
- understand the potential effects of outsourcing, shared services and e-HRM on the role of the HRM function
- be able to evaluate the bases of cross-national comparative variation in the role of HRM departments
- assess the sense in which global organisations are seeking to overcome these national and regional differences.
- consider the potential of MNCs global HR departments to fulfil global roles, and the challenges they face in so doing.

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Chapters 5 to 11 have considered a range of specific arenas or realms of HRM³-employee relations and communications, the organisation of work, managing flexibility, recruitment and selection, performance management, rewards, and training and development. We have examined cross-national comparative variation in each arena of activity, and drawn attention to the relevance of cultural and institutional influences. This chapter differs from previous ones as it does not deal with a specific HRM practice or arena of people management but rather focuses on the nature, status and role of the specialist people management department. By implication, this also involves consideration of the cross-national comparative variation in the relative roles of the HRM department or function and of line managers in the task and activities of managing non-managerial or front-line employees. This chapter not only considers cross-national comparative variation in the roles of HRM departments but also how global organisations seek to deliver global HRM solutions in this context.

In the UK, for example, the traditional specialist people management function - ‘personnel’ - acquired a rather bad name, and was regarded as something of a backwater, dealing with pedestrian or troublesome issues such as health and safety, grievances and disciplinary cases and payroll. Suggestions that the HRM departments which have come to replace them are - or should be - distinct from the personnel functions of old are common. The need for a strategically oriented HRM function

rather than a reactive, 'firefighting' personnel department, is often stressed; the HRM literature accords much emphasis to the nature, status and role of the HRM department or function (see for example Boxall and Purcell 2011; Brandl and Pohler 2010; Brewster et al 2006; Mayrhofer et al 2011; Vernon and Brewster 2013). Cross-national comparative variations in the nature, status and role of HRM functions are considered of potential importance not only to specialist personnel, but to line managers and the people they manage (Brewster et al 2013; Brewster et al 2015). If, as we argued in Chapter 1, the meaning of HRM is disputed, so too is the role of the department charged with managing human resources. However, a broad approach to the promise of HRM departments which emphasises new ambitions has gained much prominence. When we compare the approaches that we see to structuring the HRM department across countries, and later when we consider the role of corporate HRM departments in MNCs, this provides a useful reference point.

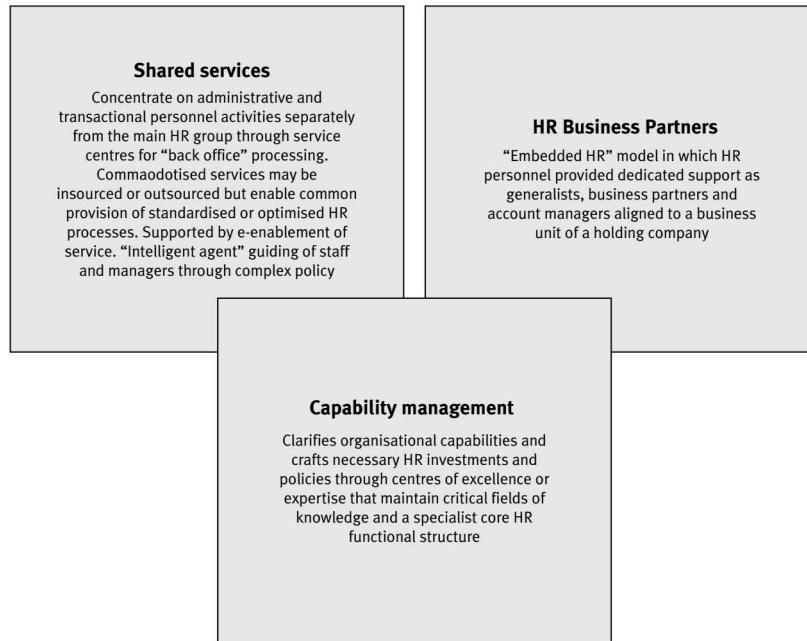
12.2 COMMON AMBITIONS FOR THE HRM DEPARTMENT?

There is a universalist view about the ideal shape and role of HRM departments. Ulrich and Lake (1990) brought together perspectives from the fields of the management of change, organisational design and leadership, and argued that organisational capability was about competing from the inside out. Organisational capability focuses on the ability of a firm's internal processes, systems and management practices to meet customer needs and to direct both the skills and efforts of employees towards achieving the goals of the organisation. This perspective argues that HRM is and implies an organisational capability, and that the structure of HRM departments should therefore reflect and develop this capability. It argues that trends of globalisation, market liberalisation, deregulation and technical evolution have both restructured global markets and have challenged the traditional approaches to gaining competitive advantage (Hamel 2000). It is only the possession of specific capabilities and resources, the argument goes, that now enables firms to conceive and then implement strategies that can generate what the economists describe as above-average rates of return (Barney 1997).

This view is founded on the resource-based view of the firm. It argues that in the current environment it is resources that add competitive value through being rare, inimitable and non-replaceable; that it is the people and the way they are managed that are more significant than other sources of competitive advantage (Wright et al 1994; Lado and Wilson 1994). Competitive advantage is derived from both internal knowledge resources and the strategic resources or capabilities of the firm. It is 'bundles of resources' rather than any particular product-market strategy that provide an organisation with the capability to compete. These bundles of resources are generally considered to be complex, intangible and dynamic.

In addition to the management of people, developing organisational capability includes the means through which the organisation implements policies and procedures. These means are centred on – and require HRM professionals to understand – economic and financial capability, strategic/marketing capability and technological capability. Strategic or marketing capability is based on offering uniqueness to customers. Perceived customer value is considered to result from responsiveness (meeting needs more quickly than competitors), the formation of endearing and enduring relationships, and the pursuit of service quality through guarantees.

Figure 12.1 The original Ulrich three-box model



Source: Sparrow et al (2010)

The basic arguments that the Ulrich model – and much practitioner discussion – laid out is shown in Figure 12.1 (see Sparrow et al 2010). These principles have now become a general mantra in the USA and UK, and have received enormous attention in other countries. These ideas have been developed over time, but began with the adoption of a three-box model of HRM. In outline:

- The first box represents the more transactional aspects of activity, which may be delivered from service centres or processing hubs, in multiple geographical locations, or outsourced to third-party providers.
- The second box illustrates an embedded HRM business partner structure, typically employing fewer HRM employees but of a higher calibre and capable of working with a specific line of business in terms of supporting their success.
- The third box describes more added-value and specialist centres of excellence or functional support. These are HRM employees with a specialism in a certain aspect of HRM such as employment relations, reward or performance management. These provide support and advice to HRM employees in shared service or line (business partner) roles. They may also provide support and advice direct to line managers.

At the model’s heart, then, lies a set of HRM professionals in the second box, embedded within line businesses and working on processes and outcomes central to competitive success. They are supported by efficient processes to handle the more transactional aspects of HRM work and specialists in particular topics. More strategically orientated expert HRM knowledge is handled by functional expertise or centre of excellence (COE) structures.

In order to make this diffuse concept of organisational capability more concrete, over a decade ago Ulrich (2000) went on to describe the collection of attributes that it involves in

terms of a series of important outcomes that result. The role of the HRM professional is, it is argued, to help clarify these organisational capabilities and to craft the HRM investments that are necessary to build them. The specification of the HRM department role is of course prescriptive – and you might argue very USA-centric.



KEY FRAMEWORK

Rules of HRM engagement with the line?

For Ulrich, HRM departments should:

- *be able to move with speed and agility* into a new market in order to be the firm that sets the rules and then controls the future changes to these rules (in HRM terms, removing bureaucratic processes, establishing clarity of governance to enable rapid decision-making, building safeguarding disciplines into the organisational thought process, and removing vestiges of old ways of doing things)
- *develop a brand for the firm*, such that its reputation draws consumers, and the brand associated with the customer experience of the firm also becomes part of the experience or identity of the firm in the mind of all stakeholders (customers, employees, investors); employee actions and HRM policies should be aligned with this identity
- *create a customer interface that captures and develops a more intimate relationship*, such that data on customers contains more insight into their actual behaviour and needs, business processes are built around these needs as a priority, and customers also have involvement in or can comment on the design and practice of internal systems (for example, providing feedback for performance management)
- *encourage superior talent*, reflected in high levels of employee competence and commitment, such that there is an employee value proposition that makes the firm an attractive place to work, helps attract people into the right job, entices employees to give their discretionary energy to the firm, and orients them towards effective performance very quickly
- *leverage innovation and learning*, reflected in new and faster-developed services and products, a culture of inquisitiveness and risk-taking, competencies of inventing and trying, and an ability and willingness to learn from mistakes
- *source resources across alliances*, whereby firms can work across boundaries, marshal connections, share information and develop a sense of mutual dependency between a network of partners, which means that the best resources can be brought to bear on a situation, to everyone's benefit, without having to formally own or control them
- *assign accountability*, such that standards exist for employees and that organisational decision-making (who makes them, how they are made and what processes are followed) is carried out with competence, authority and responsibility.



REFLECTIVE ACTIVITY 12.1

Consider some organisations from different countries:

- How does their HRM function measure up against these criteria?
- Do they do any of this in practice?
- Even if they do not, would HRM specialists aspire to organise themselves this way?
- Should they even aspire to doing this?
- Have HRM professionals from different countries got the same professional skills and career backgrounds to enable them to work effectively in such an HRM structure?

Clearly, the answer to these questions could well differ depending on whether you were looking at a typical organisation operating in domestic markets in the country in question, or at an organisation that is an MNC or is globalising, or indeed a subsidiary of an overseas MNC.

The HRM structure of an international firm within a country looks a bit different to one that is purely domestic. IHRM specialists have to grasp the overall business-level and corporate-level capabilities that are relevant to a particular international strategy. Tallman and Fladmoe-Lindquist (2002) summarised the key capabilities required on three axes:

- strategies of international expansion or global integration
- the necessity to continue generating competitive advantage or to innovate through global learning
- skills and activities operating at the business level or corporate-level routines that integrate these skills across operations.

Yet Ulrich is often taken to suggest that HRM function should fulfill key roles regardless of context. Whilst seen as vague, overambitious or implausible by some, Ulrich's (1997) ideas have influenced the thinking of many HRM practitioners. Ulrich and Brockbank (2005) updated Ulrich's earlier work from 1997 and identified five main roles for the HRM department:

- employee advocate
- human capital developer
- functional expert
- strategic partner
- HRM leader.

In Ulrich and Brockbank's (2005) model, Ulrich's former (1997) category of employee champion has been split into two:

- employee advocate – a representational role, focused on the needs of today's employee
- human capital developer – focused on developing and preparing employees to be successful in the future.

The model also features three further roles:

- Functional expert – holding that effective administrative practices are central to HRM value the model suggests a more attractive heading than administration! Some HRM practices are delivered through administrative efficiency (such as technology or process redesign), and others through policy menus and interventions.
- Strategic partner – this role has multiple dimensions: business expert, change agent, strategic HRM planner, knowledge manager, and consultant.

- HRM Leader – this new emphasis in Ulrich and Brockbank (2005) covers both leadership within the HRM function and facing other functions and general management. It thus involves not only developing the other four roles but also collaborating with other functions, setting and enhancing the standards for strategic thinking, and ensuring corporate governance.

The specification of roles continues to develop as does the debate about its strengths and weaknesses or likely future developments (see Ulrich et al 2008; Ulrich et al 2015; Sparrow 2014, 2015; CIPD 2015). For example, Evans et al (2010) draw upon recent academic work on ‘HRM delivery models’ (Lawler et al 2006; Caldwell 2008; Ulrich et al 2008; Sparrow et al 2010). They argue that research needs to catch up with developments in practice, and needs to differentiate between:

- process and content development: that is, how HRM policies, practices and processes are developed, who is responsible, who is involved, and in what capacity
- HRM service delivery: the solutions used to actually deliver HRM support to employees and internal customer units (such as the automation of transactions, use of self-service, the adoption of enterprise resource planning techniques to optimise HRM processes, and delivery through shared service centres)
- business support roles of the HRM function: that is, the direct ways in which the HRM function works with line and top managers on HRM issues.



REFLECTIVE ACTIVITY 12.2

Research on the HR function, its structures, activities, resources and outcomes by such authors as Ingmar Björkman, Vesa Suutari and Paul Sparrow is asking a range of questions about delivery models in international contexts. Discuss the following:

- As the boundaries of HRM work have expanded from the original personnel administration department into other more strategic areas, has the definition of the structure and roles of the HRM function become increasingly blurred?
- What kinds of activities do HRM professionals engage in, why, and with what consequences?
- What kinds of *resources* do HRM specialists use in order to carry out their work, and with what results?

In any event, Ulrich’s ideas provide an ambitious model for HRM departments and practitioners – and indeed for wider organisations looking to develop their people management. What, though, of actual practice internationally? The next section will consider the context and challenge for HRM across different locations before we move on to consider how organisations drive to deliver a global HRM operation.

12.3 LIVING UP TO NEW AMBITIONS?

There are at least three ways of answering the question about whether HRM professionals play similar roles across countries:

- to look at the professional standing and activities of the different national institutes that exist.
- to look at the level of integration between the HRM function and the board.
- to look at the involvement of the HRM function in strategic decision-making.

It is also quite often suggested that the extent to which line managers are assigned responsibilities which have traditionally been considered matters of ‘personnel’ indicates more strategically integrated HRM departments, both as such arrangements suggest an organisation-wide commitment to people management but also as this frees HRM departments for more strategic contemplation, activity and involvement. This matter of assignment to the line is something we will turn to a little later.

12.3.1 THE NATIONAL INSTITUTES

These personnel management institutes and associations vary considerably in their foci and activity (Farndale and Brewster 2005). The CIPD in the UK seeks to be an all-encompassing organisation, with well over 100,000 members, nearly all of whom have gone through a qualification process. Despite its heavy UK focus it is an organisation with an active agenda for internationalisation. On the other hand, the ANDCP in France is a resolutely elitist organisation covering the heads of HRM in the major organisations only. Most of the members of the DGFP in Germany are corporates. Spain has very strong regional associations, with a relatively weak centre. Sweden has a well-resourced central organisation. When these potential variations are extended to the rest of the world, with over 70 different national associations ranging from the giant, long-established Society of Human Resource Management in the USA to tiny, new associations in some of the developing countries of Africa and Asia or the transition countries of central and eastern Europe, the range becomes huge. Levels of entry qualifications, restrictions on membership, levels of education and the extent of training provided by the associations vary enormously (Farndale and Brewster 1999, 2005).

The target group for membership of personnel management associations tends to expand, increasing the risk of competition with other professional associations. At the same time, more specialist organisations are established (for people-management issues in the public sector, or for coaching specialists, for example). The role of these organisations is going to be increasingly important, and controversial, as the profession expands.



REFLECTIVE ACTIVITY 12.3

- How important is the professional HRM association in your country (or one you know)?
- What might it do to achieve more influence?

12.3.2 MOVING AWAY FROM MERE ‘PERSONNEL’?

It has long been argued that the place of HRM specialists in the organisational hierarchy is crucial to their role, and in particular to their ability to go beyond the administrative or transactional duties of traditional personnel. In the UK, for example, an informed HRM input to top-level debates is most likely only where the head of the HRM function is a member of the key policy-making forum (Purcell 1995, p78):

There is clear, unambiguous evidence... that the presence of a personnel director on the main board makes a considerable difference to the role played in corporate strategy.

12.3.3 INTEGRATION OF HRM HEADS INTO THE BOARD OF DIRECTORS

Figure 12.2 is taken from the Cranet 2010 data and shows the proportion of companies with an HRM presence at the level of the board (or equivalent – the data covers different countries with different legal governance arrangements and different sectors). There are significant differences. In 63% of the organisations in the UK, the personnel manager is a member of top management, with a similar situation in the USA and Japan. In France and Sweden, on the other hand, around 90% of organisations have an HRM representation on the main board. Note that the low figure for Germany is a reflection of other institutional arrangements (see later).

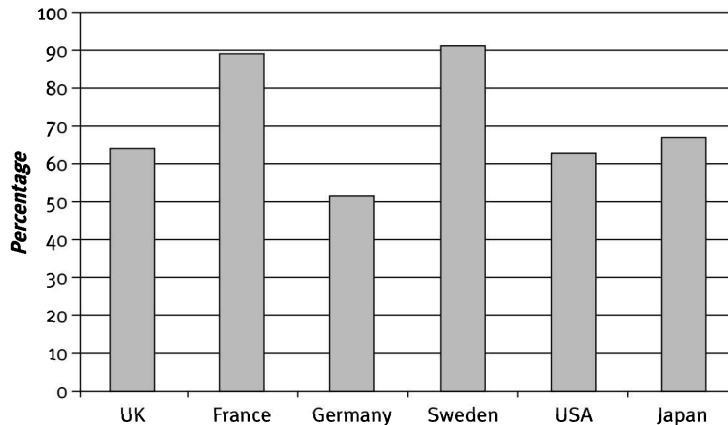
Other data in the research indicates that where there is no specialist presence at this level, the responsibility for HRM rests most frequently with the managing director or an administration manager. Of course, in such circumstances this could mean either that the topic is taken very seriously, being allocated specifically to the top person, or that it is not taken seriously at all, being dumped into the ‘and everything else that goes on in the organisation’ category and hence swept under the CEO’s general responsibilities. In either case, it is not clear that the specialist input to decisions from the HRM angle is always going to be available.



REFLECTIVE ACTIVITY 12.4

- What are the advantages for the HRM department if its head is on the main board?
- How might the cultural influences noted in previous chapters affect that?

Figure 12.2 Proportion of organisations with HR on the board in six countries in 2010



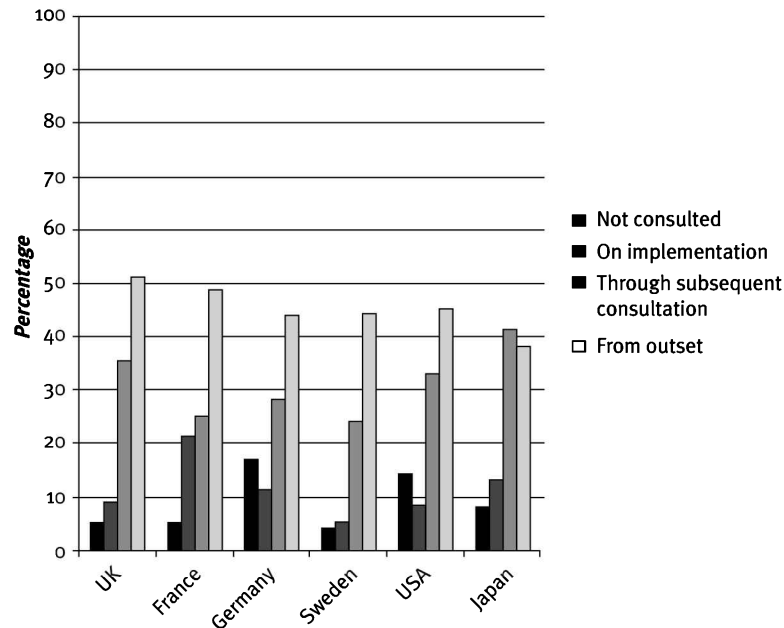
12.3.4 INVOLVEMENT OF HRM IN STRATEGIC DECISION PROCESSES

Membership of the board certainly gives the head of the HRM function an opportunity to influence corporate strategy – but is it taken, and is it the only way to ensure that HRM is taken seriously in such decisions? Storey claimed back in 1992 that personnel directors were rarely involved in strategic policies as ‘strategic changemakers’, and Purcell (1995,

p77) argued that both finance and personnel people believe that '[i]t is in the implementation of decisions that the personnel function is most likely to be involved'.

This too, however, seems to vary considerably by country. Other evidence from the Cranet study examined at what point the personnel function is involved in the development of corporate strategy. It showed that on this key issue – using data collected, remember, from the senior HRM specialist in the organisation – that somewhere between a half and two-thirds of all organisations claim to be involved from the outset. In the UK, HRM influence from the outset of the development of corporate strategy approximately mirrors board-level involvement (see for example Farndale 2005). In Sweden there are considerable numbers of HRM specialists with a place on the board who nevertheless, by their own admission, are not involved in the development of corporate strategy until a later stage. However, the data shows that in Germany human resource issues are taken into account from the outset in the development of corporate strategy by significantly more organisations than the number who have board-level representation for the HRM function: companies apparently consult with non-board HRM specialists at the earliest stage of formulating corporate strategy (Wächter and Müller-Camen 2002).

Figure 12.3 HR involvement in development of corporate strategy in six countries



Source: Cranet (2010)

THE DEVELOPMENT OF STRATEGIC HR DEPARTMENTS IN NEWLY INDUSTRIALISED COUNTRIES: INDIA VERSUS CHINA?

Budhwar and Varma (2010) argue that whilst HR departments in Indian enterprises can take very different roles depending amongst other things on region and sector, it is common to find that they have developed a strategic role. They suggest that this is a product of a distinct constellation of a long history of labour and employment legislation (despite the weaknesses of

such arrangements as discussed in Chapter 5 and a more recent effort to engage with and learn from HRM practice in the countries of the established OECD with which India is increasingly engaged, in large part through the activities of multinationals, both foreign and Indian.

Budhwar's (2012) study of 74 (medium and large) Indian subsidiaries of foreign-owned MNCs suggested that in every case the subsidiary HR director was of Indian origin, and typically recruited locally. Most remarkably though, responses to (Cranet-style) questioning about the strategic role of the local HR departments indicated that they were extremely well strategically integrated (2012, Table 2), to an extent matching that typical amongst enterprises in the nations of the old industrialised world where such strategic integration is particularly well developed. Perhaps relatedly, Budhwar (2012) argues that, with regard to recruitment practice for example, the Indian subsidiaries generally enjoy much autonomy in the manner in which they operationalise practice within the guidelines set by their corporate parents.

Cooke and Budhwar (2015) argue that HR departments tend to be very much better developed, more professional and strategic in Indian than they are in Chinese enterprises. They also suggest that HRM practice tends to be rather more sophisticated in India, with Chinese people management much more focused on containing cost via for example deployment of temporary and fixed-term contracts and short-term individual incentives. Björkman et al's (2008) study of 170 Indian and Chinese subsidiaries of western-owned MNCs provides some clear evidence regarding the comparative extent of the strategic role of HR departments. Generally, despite Budhwar's (2012) finding that India was characterised by Indian subsidiary HR directors leading highly strategically integrated HR departments, Björkman et al (2008) found, across their two country sample, that HR departments tended to have a more strategic role where the subsidiary's HR director was an expat rather than a local. Most strikingly and overwhelmingly, though, there was a powerful and distinct tendency for subsidiary HR departments to have a more strategic role in India than in China (2008, Tables 1 and 2). There was also, perhaps relatedly, some weaker suggestion that HRM practices in subsidiaries in India were more responsive to local conditions than were those in China.

Intriguingly, as we discuss further later, Thite et al (2014) suggest that, at least in the IT sector, where corporate parents are Indian, the corporate HR department grants their foreign subsidiaries very little autonomy. Thus, it is possible that rather than Indian enterprises being committed to the local autonomy of HR departments, they merely stridently assert a need for Indian control.

12.3.5 STRATEGIC HRM WITHOUT THE STRATEGIC INTEGRATION OF HRM DEPARTMENTS?

The evidence is not only that the strategy process varies by country (Brewster and Larsen 2000). It may involve different objectives (Brewster 2006). In practice it may work in different ways and through different systems involving different people. Thus, the strategic implications of a management decision in Germany or Austria will be subject to the involvement or scrutiny of powerful works council representatives or the worker representatives on the supervisory board of the company (see Wächter and Müller-Camen 2002 on Germany, and Brandl and Pohler 2010 on Austria). Indeed, in most of these companies the knowledge that their decisions are subject to scrutiny – and can be reversed or varied – at that level means that managers tend to operate with HRM issues in mind. Inevitably, this means that the assumptions in the universalist paradigm that HRM strategies are 'downstream' of corporate strategies cannot be made: there is a more interactive process in which both sets of strategy potentially influence each other simultaneously. And assumptions that strategies are the preserve of senior managers (or even just managers) cannot be sustained either. Hence our finding that HRM is involved

in the development of corporate strategy in for example Germany in more organisations than have allocated the HRM department head a place on the board.



REFLECTIVE ACTIVITY 12.5

- Identify the effect that worker directors on the supervisory board and the existence of central (company level) works councils might have on the role of the HRM department in Germany.

12.4 THE ROLE OF LINE MANAGEMENT IN HRM

One key issue in HRM – one that is said to differentiate it from ‘personnel administration’ (Freedman 1991; Legge 1989; Mackay and Torrington 1986; Schuler 1990; Weiss 1988) – is the responsibility placed on line managers for the management of their people. What is the balance of responsibilities for the management of people between the specialists in the human resources department and the line managers who have day-to-day responsibilities for organising the work and the progress of their subordinates? This topic has driven the attention of a number of authors for nearly two decades (see Brewster et al 2015; Brewster and Larsen 1992, 2000; Brewster et al 1997; Brewster and Soderstrom 1994; Hoogendoorn and Brewster 1992; Larsen and Brewster 2003; Mayrhofer et al 2011). Some have argued that because HRM is central to the well-being of an organisation and to its ability to perform effectively, the subject has to permeate the responsibilities of every single manager in an organisation. Guest (1987, p51) argued that ‘[i]f HRM is to be taken seriously, personnel managers must give it away’.

Alternatively, others have claimed that without a knowledgeable, experienced and influential human resources department specialising in the subject, the organisation will never give HRM the prominence that is needed and will not have the necessary expertise in this crucial area. As a consequence, the organisation will be unable to take the most successful approach to the topic. Does the idea of sharing responsibilities mean that the specialists are in danger of not just giving HRM away, but of ‘giving it up’ (Blyton and Turnbull 1992, p11)?

In historical perspective, it has been argued that, in relation to line management, developments have been almost tidal, ebbing and flowing as the HRM specialists move between opposition to the line, through the roles of power-holder, administrative centre, advocate for co-determination and change agent (Scott Myers 1991). Here we outline the reasons that have been advanced for the growth in line management responsibility and consider some of the problems that it may involve; we examine the evidence for the trends, and particularly explore the differences between countries. Finally, we draw some conclusions about the implications for the HRM department and examine some of the dilemmas involved in the management of human resources within the organisation in the future.

It is argued that the line manager needs to be aware of the synergy between human, financial and physical resources. For line managers, allocating time, money and energy to the management and development of subordinate staff is not only an investment in enhanced effectiveness and future success but a necessary precondition for it. This responsibility cannot be undertaken by the human resource specialist. The HRM function is seen as playing the role of co-ordinator and catalyst for the activities of the line

managers – a ‘management team player... working [jointly] with the line manager solving people-related business issues’ (Schuler 1990, p51).

To consider developments in the balance of responsibilities it is useful to use the term ‘assignment’ (Brewster et al 1997) rather than devolution or delegation. ‘Assignment’ avoids any assumption of a particular direction of change in matters of the assignment of responsibility. The assignment of HRM issues to the line has become a major feature of HRM texts in the last few years (Brewster and Larsen 2000) because:

- there has been a trend towards managing organisations through the development of cost-centre- or profit-centre-based approaches – and labour costs are usually the major operating cost involved
- it is line managers, not the specialist staff in the HRM department, who are in frequent, often constant, contact with employees – allocating tasks, enthusing (or upsetting) them, monitoring performance: ‘Line management is, and always has been, responsible for the performance of their subordinates’ (Lowe 1992)
- there is a growing influence of the service industries, with their focus on responsiveness to the customer
- staffing decisions are increasingly made in real time, and there has been a widespread movement towards reducing the numbers in ‘overhead’ departments, such as HRM. In such circumstances the role of line management in HRM can be seen as an alternative to outsourcing the function: the ‘internalising’ shift (Pauwe 1995).

There is plenty of case study evidence that responsibility for HRM has been increasingly allocated to line managers (Gennard and Kelly 1997; Hutchinson and Brewster 1995). And there was international survey evidence (Brewster and Larsen 1992; Brewster et al 1997; Brewster and Soderstrom 1994; Larsen and Brewster 2003; Mayrhofer and Brewster 2005) confirming this anecdotal data. The evidence showed that recruitment and selection, health and safety and the expansion and reduction of the workforce are more likely to have been assigned to the line, while industrial relations and training are more likely to stay with the HRM function. However, more recently, it appears that such trends have been reversed (Mayrhofer et al 2011), highlighting the danger of assumptions that even well documented trends will continue.

There are clear and consistent variations between countries in their overall assignment rankings with countries like Denmark and Switzerland consistently assigning most responsibility to line managers and countries like Italy, France, the UK and Ireland retaining most responsibility to the HRM function. Not only are these figures consistent across subject and country, they are also consistent over time.

Of course, within each country there are considerable variations between organisations. It is important to emphasise that there are elements of choice here. Organisations can exercise their option differently from their neighbours. However, the effect of country differences is clear.

REASONS WHY THE ASSIGNMENT OF HRM RESPONSIBILITIES TO THE LINE HAS NOT GONE FURTHER

There are six reasons why this is the case:

- Line managers are often not enthusiastic about taking on responsibility for HRM for the people in their area.
- Line managers under pressure often give HRM responsibilities a low priority – they are often ignorant about legal requirements, trade union agreements or agreed practices.

- There is little evidence that organisations are providing any formal training to help their line managers to handle the human resource management tasks that are being allocated to them.
- They are not particularly interested in HRM issues and are unable to keep up to date with the latest HRM thinking.
- However devolved responsibility for HRM in the organisation has become, there will be a need for co-ordination of HRM at some level (Paauwe 1995).
- Perhaps most significantly, the devolvement of HRM responsibilities to the line will not achieve the objectives hoped for if it is done in a policy vacuum, as it often is, just as a means of cost-cutting.



REFLECTIVE ACTIVITY 12.6

Review:

- the reasons for the growth of allocation of HR responsibilities to line managers
- the reasons allocation has expanded no further.

What does this suggest for the future?

12.5 INFLUENCES ON CROSS-NATIONAL COMPARATIVE VARIATION IN THE ROLE OF HRM DEPARTMENTS

It might be expected that culture and institutions might influence the role of HRM departments in practice. Thus, for example, policy formalisation may be more likely if an organisation operates in a country with comparatively low hierarchical structures, so that written policies that everyone can refer to may be viewed favourably. In other countries the senior specialists may prefer to leave themselves free to take decisions unencumbered by paperwork, knowing that their hierarchical position will give them the credibility they need for implementation. On the institutional side, the extensive legal and trade union constraints mean that there is inevitably more formalisation and a greater involvement of HRM in corporate strategy in order to make sure that the organisation does not fall foul of its obligations, with consequent disruption and cost.

The evidence about the (relative) size of the HRM department (numbers of HRM staff relative to total employees) shows unequivocally that although we imagine that there are universal performance and technological pressures on HRM functions these are not everywhere equally large (Brewster et al 2006). Size varies considerably with the country in which the function is located as well as with the sector of the organisation and its overall, with larger organisations having relatively smaller HRM functions. Interestingly, it is also clear that stronger unions are associated with relatively smaller HRM departments. Generally, countries with stronger unions feature smaller HRM departments, and moreover even within national boundaries organisational-level variation in the strength of unions is negatively related to the size of HRM functions. It is also clear that despite the mooted changes in the nature of the function and the alternative ways in which people management can be carried out, the size of the function has changed very little over the last couple of decades (Mayrhofer et al 2011). Whether this is because the changes have not been as dramatic as many people have claimed, or because the HR function is finding other roles to perform is less clear.

Evidence on the forces shaping the extent of the strategic integration of HRM is now growing. There have been some suggestions, based on experiences in Germany and Austria, that the social regulation of work by employee representatives displaces HRM

functions, inhibiting their strategic integration (see for example Wächter and Müller-Camen (2002) on Germany, and Brandl and Pohler (2010) on Austria). Yet Farndale (2005) shows that the board representation of HRM grew very rapidly in the 1990s, converging on that in other countries. Moreover, recent international analysis (Vernon and Brewster 2013) suggests that to the extent that statutory provision for employee representation in Germany and Austria still inhibits the strategic integration of HRM in these countries this is a result of the very particular legal arrangements for representative employee participation in these countries. In general, internationally, the more prevalent are works councils and most particularly the stronger are unions the *greater* is the strategic integration of HRM departments. Organisations with works councils and in particular stronger unions are more likely to have HRM represented on the board, viewing itself as centrally involved in strategic decision-making, and pursuing a greater formalisation of HRM strategy (Vernon and Brewster 2013).

A glance at the cross-national comparative pattern of HRM board representation or early involvement in strategising apparent from Cranet data deployed earlier suggests also that the weightier labour law and more generous welfare states of, for example, France and the Netherlands may also promote the strategic integration of the HRM department, whilst the very limited social regulation of work in the USA inhibits it, whatever the ambitions of US HRM gurus may be. Overall, it seems that where employees have fewer resources on which to draw as individuals and as a group then organisational commitment to the strategic integration of the specialist people management function is less than where employees are well-protected and independently represented.

Having considered cross-national comparative variation in the roles of HRM departments, and the influences thereon, the next section will consider the extent to which a globalisation of approach, particularly within MNCs, is possible or desirable.

12.6 GLOBAL HRM DEPARTMENTS IN MNCs

Some argue that differences between countries in their HRM are reducing (see Chapter 2). Pudelko and Harzing's (2007) survey data from 849 HR managers in nine groups of companies headquartered in, and with matched subsidiaries in, the USA, Japan and Germany, found that subsidiaries in the three different countries acted differently. US multinationals were localising practices to a degree in Japanese subsidiaries, and significantly in Germany. Motivations for localisation also differed: Japanese subsidiaries in the USA localised for dominance reasons but localised in Germany for local institutional reasons. The subsidiary's strategic role has much importance.

We have a limited understanding of how MNC headquarters export and diffuse HRM policies and practices out to subsidiaries. Less has been written about reverse diffusion processes (Edwards and Ferner 2004), whereby advances in subsidiaries influence other parts of the MNC operation, but such reverse diffusion appears to be limited. Bouquet and Birkinshaw (2008) note that the attention of executives at corporate headquarters is scarce and ask how subsidiaries gain attention. They found that the key attributes to do so were weight (the structural position that a subsidiary occupies within the corporate system), voice (the strategies used to gain attention), the success of the subsidiary, geographic distance and competence (with manufacturing, R&D, strategic support services or centres of excellence with knowledge that can be leveraged into other markets having a greater input).

Dickmann and Müller-Camen (2006) argue for a process perspective (focusing on broad processes such as innovation or lateral co-ordination) as a way of understanding patterns of IHRM. Similarly Farndale and Paauwe (2007) call for a deeper examination of how multinationals balance the dualities between producing similarities or maintaining differences in global HRM practices, and how both sets of practices respond to either competitive or institutional pressures. Like us, they argue for a more contextual

understanding of the competing drivers for change in HRM. The not unexpected conclusion of the research was that:

... given the multitude of contextual factors and strategic choice opportunities, it is not surprising that the HR practices across these high-performing firms were found to be both similar in some respects and vary in others at the global and the national level. (Farndale and Paauwe 2007, p371)

The current consensus is that organisations are not as global or international as is often assumed. A country-of-origin effect is still evident in some cases. US MNEs, for example, tend to be more centralised and formalised than others in their management of HRM issues, ranging from pay systems through to collective bargaining and union recognition. They tend to innovate more and import leading edge practices from other nation-states. Japanese MNEs, on the other hand, have been at the forefront of work organisation innovations through lean production, but expect their subsidiaries abroad to fit in with this approach. Even though standard worldwide policies and formal systems are not as apparent as in US MNEs, there is stronger centralised direction and ethnocentric attitudes. In short:

MNEs, far from being stateless organisations operating independent of national borders in some purified realm of global economic competition, continue to have their assets, sales, work-force ownership and control highly concentrated in the country where their corporate headquarters are located. (Ferner and Quintanilla 1998, p710)

From the perspective of institutional theory, three factors are identified as being important in determining the extent to which an organisation adopts standard practices worldwide or adapts them to suit local conditions:

- The degree to which an affiliate is embedded in the local environment – through its method of founding and its age, as well as its size, its dependence on local inputs and the degree of influence exerted on it from local institutions.
- The strength of flow of resources such as capital, information and people between the parent and the affiliate – the stronger and more important the flow, the more there is a need for global co-ordination.
- The characteristics of the parent – for example, the degree of uncertainty avoidance (see Chapter 2) of the home country will affect the freedom of subsidiaries. Equally, if the culture of the home country is perceived to be very different from the culture of the subsidiary country, more cultural control will tend to be exercised by headquarters (that is, an ethnocentric approach) in order to achieve internal consistency.



REFLECTIVE ACTIVITY 12.7

Each of these theoretical perspectives has value, but assume for a moment that you were asked to choose between them.

- What order would you put them into, based on their value in explaining strategic IHRM?

The next example shows the challenges Indian MNCs face when attempting to develop IHRM. In the support materials is a case study to illustrate the difficulties faced by a Japanese MNE when seeking to roll out a global HRM strategy in China.

DEVELOPING GLOBAL HR IN INDIAN IT SERVICES MNCs

Thite et al's (2014) study of Indian MNCs in the IT sector suggests that in principle the global HR department may, on the one hand, adopt a variety of roles concerning processes, whether these be in championing processes or knowledge management, managing culture and diversity, seeking organisation-wide knowledge management or receptivity, or being a political interlocutor, but may, on the other hand, also seek to shape actual HRM practices organisation-wide. They suggest that in general the development of the role of the global HR department is shaped by the structure and governance of the broader organisation, but also by strategies and assumptions, and thus more profoundly by organisational origins in various respects.

In practice, Thite et al (2014) find that to the extent that corporate HR in Indian IT MNCs has sought to influence actual HRM practices, in particular by deploying learning and development to promote employee engagement, they have faced acute challenges, in large part around the limits of departures from ethnocentricity to global mind-sets. Broadly, they suggest that corporate HR departments in Indian IT MNCs have sought to focus on influencing processes, but even here face severe challenges, again in large part relating to the limited development of a global mind-set, but here in particular this is expressed in a broader organisational difficulty in coming to terms with differing local and regional contexts. Overall, at least in the IT sector, it seems that the corporate HR departments of Indian MNCs grant their foreign subsidiaries very little autonomy.

12.7 TOWARDS A GLOBAL HRM DELIVERY MODEL

According to Sparrow and Brewster (2006) progress towards globalising HRM service delivery is being made in three areas:

- technology (commonality of underlying systems and databases)
- process streamlining (optimisation of processes)
- sourcing (making decisions about the possible centralisation or outsourcing of some areas of activity).

Developing a global HRM and technology strategy and implementation plan covers everything from the information management of data to global appraisal systems, compensation and benefits management, to a knowledge base with a single global Internet feel and look, and to a knowledge-management system. However, effective technology-based solutions are to a large extent dependent on the level of process streamlining. We will deal initially with outsourcing and then return to the topic of shared services.

12.8 THE PRESSURE TO OUTSOURCE SOME TRANSACTIONAL ACTIVITIES

There are two strategies at play when organisations consider changing the way they locate their HRM activities):

- 'sourcing' (across organisational boundaries between a client entity and non-client entities such as vendors, suppliers and third parties)
- 'shoring' (across either on-shore – same country – or wider geographical boundaries).

Sometimes offshoring is further differentiated into near-shoring (shared borders or close institutional and cultural regulatory regimes) and offshoring (used specifically to refer to sourcing across a wide geographical and cultural distance).



KEY FRAMEWORK

Four core strategies for HRM delivery models

Chakrabarty (2006) used a four-fold taxonomy to inform research on HRM sourcing and shoring. The core strategies that might be applied are:

- 1 *In-country insourcing*: Where the supplier–customer relationship is still formalised and contracted, and activities sent to a different location generally for reasons of cost-efficiency), *but* where the activities are still performed in-house, in one of the organisations' own subsidiaries or a service centre. The responsibility and delegation of tasks to the service provider means that they are still an internalised 'client-entity'.
- 2 *Global insourcing*: Where the re-design and re-configuration of activities and processes to become more efficient and effective allows some geographical flexibility over the location of the activity. For economists, ownership of 10% of offshore operations constitutes direct foreign investment between a parent operation and an affiliate.
- 3 *Outsourcing*: when a third-party provider is used to carry out the activity, with the production of services purchased externally, but still within the same country. It is generally aimed at achieving higher profitability by using fewer in-house resources (Espino-Rodriguez and Padrón-Robaina 2006). It involves a discontinuation of internal production (whether it be production of goods or services) and an initiation of procurement from outside suppliers. Human resource outsourcing involves the purchasing by an organisation of ongoing HR services from a third-party provider that it would otherwise normally provide by itself.
- 4 *Offshoring*: A particular type of specialisation in which the production of services or goods is moved overseas. Offshoring involves a broad range of tasks that are executed by a firm in another country, ranging from the establishment of a foreign subsidiary to a relatively arm's-length relationship with another firm (Abramovsky et al 2005). More arm's-length relationships tend to involve a more explicit practice of contracting with individuals or companies in foreign countries to perform work that might reasonably be conducted domestically. Offshore transactions also typically involve two parts: a transfer of *responsibility* for the operation and management of part of an organisation; and a *guaranteed provision of services* to the client organisation by the vendor for a time period. Given the distances involved in offshoring, the factors of production are rarely transferred to offshore sites, but the services, processes and decision rights are.

The above four notions are part of a new rhetoric of HRM in many countries. However, many organisations also remain resistant to the notion – and there is a clear country effect with the outsourcers finding it very difficult to make any money in certain countries. Sparrow and Braun (2008) and Budhwar and Cooke (2009) have drawn attention to the persistence of wide international differences in the pursuit of HRM outsourcing, pointing to evidence that suggests that many non-US firms continue to favour captive (in-sourcing) arrangements rather than pure outsourcing scenarios. HRM directors in Europe still see an in-sourced shared services route as the best stepping-stone to future HRM outsourcing.

Asian organisations are not adopting outsourcing to the same extent as found in US and European organisations (Budhwar and Cooke 2009). They link the current (limited)

use of outsourcing by indigenous MNCs or small firms to the size of domestic businesses, the sophistication of HRM functions, the extent to which there is a developed local HRM outsourcing market, cultural norms and other institutional factors. They examine the specific challenges associated with the offshoring of HRM work to India and China, noting that currently the motivation to offshore to each is different. They argue that, unlike IT outsourcing and offshoring, the same decisions in relation to HRM work tend to be tied far more closely to the internationalisation strategy of the firm, and driven by motivations to reduce levels of uncertainty and to gain insight into local market conditions.

Alewell et al (2009) examined the use and non-use of a broad spectrum of personnel services by German firms based on interviews with 1,021 chief executives and human resource managers. More than 40% of the firms never even considered the external procurement of specific HRM functions – even for well-known and comparatively often used services such as temporary agency work, consulting and payroll accounting. For outplacement, interim management and the complete outsourcing of HR management, the respective proportions increased to more than 80% of the firms. The triggers of explicit decisions on HRM outsourcing were strongly related to organisational changes (such as restructuring decisions, in- and outsourcing decisions or innovations in processes and products).

Sparrow and Braun (2008) argue that IHRM functions clearly face complex decisions, and the outcome will continue to vary across national ownership. In a global context, local country managers argue that much of the corporate HRM armoury requires deep tacit understanding of the national culture and therefore should not be a candidate either for operation through shared services or indeed for any subsequent outsourcing. Organisations must make sensible assessments of this tacit knowledge constraint. They also draw attention to other national factors that will influence the effectiveness that might be achieved in outsourcing (and associated automation) of HRM activity. Research looking at international differences in service perceptions draws attention to the role of ethics in explaining cultural differences in service perception on the way in which perceptions, attitudes and behaviours towards the new organisational forms may differ internationally (Ruzic 2006, p99):

Within the e-business environment, while there is evidence that the processes of engineering and implementation of . . . systems are being successfully exported. . . as a consequence of globalisation, the adoption of western social and ethical values. . . is another matter.

Employee engagement with and use of e-enabled services is influenced by a series of ethical judgements made about the provision of such services, namely:

- perceived personal benefit
- social benefit
- societal consequences
- level of benevolence (help to those in need)
- paternalism (assistance to others to pursue their best interests when they cannot do it themselves)
- honesty (lack of deceit)
- lawfulness
- autonomy (freedom over action)
- justice (due process)
- rights to information, privacy and free expression.

Such factors are likely to have some utility in explaining international differences in the attractiveness (or not) of e-enabled HRM services that often accompany outsourcing.

Earlier in this chapter we outlined the three-box model (Figure 12.1). Of course, for a number of MNCs influenced by this way of thinking about HRM structures, the challenge becomes one of making the model work across multiple geographies. The development and implementation of what has become called the three-box model is having a significant impact on IHRM functions. In combination with the other changes such as e-enablement, centres of excellence, outsourcing and offshoring, it is being used to provide the template for a global HRM delivery model. It is moving the focus of the IHRM function away from managing a global set of managers towards becoming a function that can operate a series of value-adding HRM processes within the business internationally. As with many HRM innovations, elements of this model:

have followed the Gulf Stream... drifting in from the USA and hitting the UK first, then crossing the Benelux countries... and Germany and France and proceeding finally to southern Europe. (DeFidelto and Slater 2001, p281)

To date there does not appear to be a common path to the internationalisation of shared-service models. Many organisations have chosen to create regional centres as part of a single international organisation structure. The constraints tend to be around those HRM services that are affected by employment law, employee relations, works councils, procedures governing dismissal and setting up an employment contract – all more country-focused activities. For example, the holding and processing of personal data in EU countries invokes requirements to gain consent from employees and is associated with different restrictions in different countries (data listing religion and ethnic origin is forbidden for German and Italian companies).

THE IMPACT OF A THREE-BOX DELIVERY MODEL ON THE IHRM FUNCTION

The adoption of this model creates a number of pressures, requiring MNCs to:

- consider the cost efficiencies of delivering HRM services across different geographical areas
- identify the new HRM co-ordination needs as organisations continue to move away from line-of-country reporting arrangements towards global lines of business
- provide the systems necessary to support strategy on a global basis
- understand which HRM processes really have to be different, and which ones are core to all countries
- manage a process of migration towards regional or global HRM service centres
- cope with problems of information deficiency where country-based systems do not provide the information needed to support a global line of business
- manage deficiencies in their own manpower, where headcount savings mean that there is not a good match between HRM professionals in each area and the functional data that is needed.

We shall outline many of the issues involved in the management of expatriates and diversity in international mobility in Chapters 13 and 14. But before we do that, it is important to remember that a host of people and units interact with expatriates and their management is interesting from the perspective of a global HRM department. A number of researchers have given attention to the way that MNCs combine the requisite balance between co-ordination and control, sufficient integration of key service tiers and expert resources, and the provision of access channels for delivery of service to end-users, into what is called an over-arching 'HRM service delivery model' (Caldwell 2008; Evans et al 2010; Ulrich et al 2008). Hird and Stripe (2010) debated the applicability of an Ulrich

model to Nestlé, and Sparrow (2012) examined the process of functional and structural realignment within the international mobility function within a range of MNCs.

Let us take a while to consider the issue of where MNCs might choose to locate responsibilities for the management of international mobility within the corporate HRM structure.

WHERE SHOULD CORPORATE HRM FUNCTIONS LOCATE THE INTERNATIONAL MOBILITY FUNCTION?

Sparrow (2012) found that two of the three forces that drove this process of structural evolution are changes to the strategic delivery model and the growth of increasing flexibility in the nature of international work. The third factor was the extent to which MNCs operated in emerging markets, but we focus here on the first two. In order to manage international mobility a range of necessary external relationships and interests become important. These include the need to align the interests of home and host HRM units or HRM business partners, home and host line managers or business units, internal administrators, and outsourced specialist service providers. In practice, it is the business units that typically select employees, handle performance management and training, provide career direction, enforce disciplinary action, and determine salary. But then, the corporate HRM function might be responsible for developing, monitoring, benchmarking, and conducting internal opinion surveys, implementing change in international mobility policy, and addressing any exceptions. There might also be expatriate administrators who establish and approve policies and programs and obtain feedback as to whether they meet objectives. In addition, vendors and specialist service providers have to adhere to contract terms and conditions. The expatriates themselves need to understand their new job duties and responsibilities, meet performance standards, and follow procedures before, during, and at conclusion of the assignment.

The study by Sparrow (2012) found that two factors were at play:

- the choice of strategic delivery model, and
- the structural relationship between the international mobility and talent management functions (see also Collings 2015; Vaiman and Brewster 2015).

Both these structural issues helped determine the speed and pace at which organisations could manage their path to globalisation. The strategic delivery model had to enable the selection of suitable expatriate or alternative assignees according to the organisational objective or assignment driver but, despite the need for more strategic workforce planning, long-term succession plans could not always deliver the right talent mix when needed because turbulence undermines the ability to forecast the talent/needs match. A more strategic role for the international mobility function was dependent on a number of structural and role contingencies: whether the in-country HRM business partner could 'see' the bigger picture and the requisite capability needs of the operations they were attached to; and whether the policy had been adjusted so that assignments could better build the social capital needed for assignment success, helping both the assignee and the receiving country to understand the networks that would provide the assignee with the connectivity to build their business acumen and cultural insight. This renewed importance of linking talent management, strategic workforce planning and international mobility issues together had significant implications for the HRM function.

The trend towards the regionalisation and localisation of businesses and IHRM practices introduces other layers of complexity into the mix of relationships that the function has to manage. As the demography of international mobility continues to diversify, we see increasing variety in the forms of international work, which as a consequence leads to growing importance

of the role of the individual as a stakeholder in decisions about, and management of, mobility. The management of international mobility also has to foster the appropriate network ties between the expatriate and their host and home support networks. The study by Sparrow (2012) found a three-stage model of flexibility, with each stage having different implications for the best corporate HRM structure, positioned along a continuum that ranged from:

- a globally integrated but standardised flexibility strategy based on limited exceptions policy
- through to a customised flexibility strategy (akin to a 'cafeteria benefits' philosophy) that allowed for (centrally chosen) variation to match different employee segments based on a variety of set policy types; and finally
- towards a form of individualised flexibility, that is completely flexible to individual needs.



REFLECTIVE ACTIVITY 12.8

Discussion: In terms of its position within the corporate HRM structure:

- Should the international mobility function (and associated expatriation activity) become a centre of excellence in its own right, or should it report via another such centre?
- Should that centre be focused on rewards, as still is often the case, or talent management?
- Would the choice as to where to locate such activities structurally have an impact on how professionals thought about their role and remit, and how issues of international management might be addressed within the general HRM function?

12.9 THE IMPACT OF SHARED SERVICES AND THE EFFECTS OF ELECTRONIC HRM

Another development has been in shared services (Cooke 2006). Shared services are created when the organisation chooses to concentrate its administrative personnel activities into a centralised back-office function. Administrative processing is carried out separately from the main HRM group. Although the term 'shared services' tends to denote centralised provision, a better term to use is 'common provision'. The relevance of this development to IHRM is considerable. Shared service thinking – and the associated technologies used to enhance delivery – represent a force for a fundamental realignment of the HRM function. It carries implications for the level of centralisation-decentralisation and devolvement evidenced across countries, regions and corporate headquarters. Moreover, it changes the economics of HRM service provision and introduces competing dynamics for not only the standardisation of HRM processes but also the potential for mass customisation. Several large organisations developed shared service models for their HRM. By the beginning of this decade, some MNCs believed that shared services would represent a fundamental change in HRM (Alf Turner, Director of HRM Services, BOC, cited in Reilly 2000, p2):

Separation of strategy from service delivery and the creation of shared services is in that league of change with the switch from welfare to personnel in the 1930s and from personnel to human resources in the 1980s.

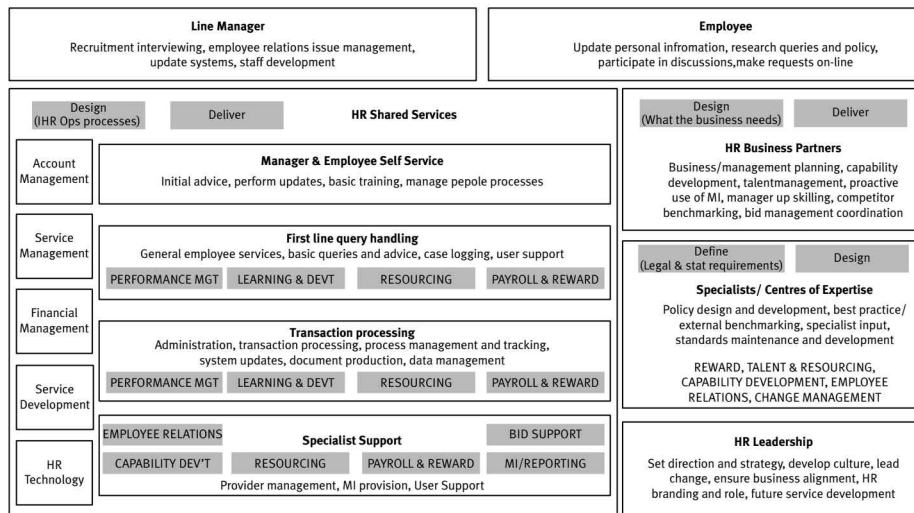
The sector that an organisation operates in, however, has a significant impact on the attractiveness of pursuing common technical platforms for the delivery of HRM services. For example, in the banking sector the employee cost base is variable across organisations and operations, but would be seen as low in comparison to other sectors – typically from

40% to 60%. Given a lower employee cost base, the pressure to reduce the costs of HRM service delivery are not as great as might be seen in other sectors. However, because the banking business model is itself technology driven, then there is an expectation that HRM functions should also be run off common technical platforms.

In theory at least solutions such as outsourcing or developing shared services would be combined with the extension of existing information and communications technology (ICT) systems, and the implementation of new ones, to transform internal operations (CIPD 2005; Kettley and Reilly 2003; Gueutal and Falbe 2005). This process has become known as the e-enablement of HRM (e-HRM), which is qualitatively different from earlier applications of IT to the information function of HRM itself (known as HRIS). e-HRM (Bondarouk et al 2009) refers to the application of ICT to HRM, which, in the process changes it from a face-to-face relationship to an increasingly virtual one. It is argued that it has the potential to fundamentally transform the nature of the HRM function as e-business has done in areas such as financial services, retailing and knowledge management. Such transformation is already evident in translating individual e-learning into organisational learning and knowledge management, deep-web mining for talent, interactive self-selection and career management, real-time employee engagement surveys and other forms of interactive communications, creating virtual communities and teams, bringing customers/clients and employees into closer virtual relationships, and e-enabling home working and other, more flexible, ways of working (Martin 2005).

Figure 12.4 is an illustration of the possible structure of a technology-enabled global HRM department. It is possible to see four main lines of HR activity: manager and employee self-service; first line query handling; bulk transaction processing; and specialist support. There are also three main categories of HR professional: HR business partners; specialists; and leaders.

Figure 12.4 The structure of a technology enabled global HRM department



Source: Used with permission of Orion Partners



REFLECTIVE ACTIVITY 12.9

Some MNCs find it a challenge to adopt a standardised delivery model for their HRM services. This activity gets you to think about some of the challenges in relation to the Ulrich model outlined in Figure 12.1 and the challenges of translating it into a technology enabled global HRM department as illustrated in Figure 12.4. Imagine that an organisation has chosen to adopt this type of structure at a corporate level. This would have very significant implications at a local – or country – level. It would also require significant changes in the skills and capabilities of local HRM professionals. It would additionally impact on the way that important international HRM responsibilities, such as the management of international mobility, might be organised. As a reminder, in Figure 12.1:

- the first box represents the more transactional aspects of activity, which may be delivered from service centres or processing hubs, in multiple geographical locations, or outsourced to third-party providers
- the second box illustrates an embedded HRM business partner (HRBP) structure
- the third box describes more added-value and specialist centres of excellence or functional support.

Choose a particular country, and some of the major international organisations within it. For those organisations, consider the challenge of implementing a structure along the lines of that illustrated in Figure 12.4.

Some academics (Martin and Hetrick 2008; Snell et al 2001) have proposed that these technological developments may lead to the ‘virtualisation’ and/or significant ‘leaning’ of HRM by reducing substantially the numbers of HRM specialists required. However, whilst it has been argued that e-HRM simultaneously improves the quality of the services provided by the HRM function by enabling them to play a more strategic role, a counter-argument is that e-enablement of HRM leads to routine administrative tasks simply being dumped onto already overloaded managers and employees or else eliminated; it can also have negative consequences on the expectations and benefits of face-to-face relationships between HRM staff and employees.

Despite the ubiquity of e-HRM systems in large enterprises, at least, their implementation has been fraught with problems, in part because practitioners lack a sound body of theory and evidence on which to proceed (CIPD 2005), particularly in the areas of innovation, absorptive capacity, technology acceptance and change management. HRM specialists cite lack of guidance as one of the most important problems hindering the adoption of e-HRM systems (Martin 2005). Few studies have systematically explored the nature of e-HRM technologies in use, the rationale for their adoption, problems influencing their implementation, technology acceptance and their broader organisational effects (though see Sparrow and Brewster 2012). Indeed, the consequences of ICT enablement for HRM specialists, line managers and other employees is not well understood, with researchers highlighting both significant benefits and problems for these stakeholders (Florkowski and Olivás-Lujan 2006; Lawler and Mohrman 2003; Shrivastava and Shaw 2004).

Clearly, the dissemination of e-HRM technologies is uneven, reflecting the complex nature of inter- and intra-organisational relationships at regional and sectoral levels and between countries. This process is a relatively under-theorised one, although recent advances in institutional theory have focused on the causes and nature of such diversity in organisational practices, and differing degrees of receptiveness to new technologies (Streeck and Thelen 2005; Brewster et al 2006).

ORACLE CORPORATION – THE JOURNEY FROM LOCAL TO GLOBAL

Oracle Corporation is a highly successful US-headquartered technology company, founded in 1977 in California, with a FY14 US\$38.3 billion total revenue. With over 400,000 customers, including 100 of the Fortune 100, and more than 25,000 partners, Oracle enjoys market leadership in 50 of its key products. Success has been achieved through a combination of investment in research and development and acquisition. The EMEA (Europe, Middle East and Africa) region comprises over 22,000 people across 216 offices in 61 countries and accounts for 34% of worldwide revenue.

Before 2000, Oracle operated independently around the world with each country managing its own profit-and-loss and business strategy. HR was also decentralised with different process and policies across offices, even within a country. It was a situation which had much in common with the majority of organisations at that time in which there was no reliable people data and numerous HR administrators operating 100s of different paper- and/or technology-based systems.

From 2000 onwards Oracle responded to the need to transform. The drivers for change were both external and internal and they tasked themselves with producing \$1 billion of cost savings through the use of their own technology across the global business. Naturally HR, along with other functions, responded to this challenge and made huge changes that included, or resulted in:

- a move to a single global process and the constant questioning of any new HR initiative, 'is it scalable?'
- automation and self-service (typically being first to use own products)
- local to centralised decision-making
- change in mindset from managing director to country leader
- engaging in offshoring and centres of excellence, supporting this with extensive use of the HR business partner role
- support (in HR as well as other technical areas) now 'follows the sun' with global centres of expertise being able to pass open queries onto the next timezone
- 38% of EMEA staff now have an 'out of country manager'
- 10% have an 'out of region manager'
- managing integration is now a key skill with almost half of Oracle's UK workforce having been acquired
- increasingly global strategies and solutions being called for.

Areas where common HR processes have been rolled out include:

- 1 recruitment – which now follows a common global process for sourcing candidates
- 2 self-service technology across the globe
- 3 employment contracts – within EMEA all are now sent from one location and comprise a 'standard' contract and terms and conditions, with local add-ons in line with the local country legal requirements
- 4 talent management – the development of new HCM technology makes it possible to look at the availability of talent to fit any specified job role within Oracle by scanning the competency and skill requirements for the role and matching this to profiles of employees globally.

This chapter has shown the developments in approach, capability and infrastructure which have surrounded the specialist HRM function in the past 25 years. It has discussed the work of Ulrich amongst others and considered the challenges of implementing these 'best practice' practices against a background of different cultural and institutional contexts. Particular emphasis has been given to the role of HR professionals and line managers, as well as the role of technology-enabled HRM.



KEY LEARNING POINTS

- There are significant changes going on in HRM functions or departments: the strategic involvement of the head of the HRM department is changing; the role of line managers has more surely changed; the impact of outsourcing, downsizing, shared services and e-HRM are all being felt.
- New ambitions for HRM departments are common currency across and even beyond the countries of the established OECD or old industrialised world, yet there is marked cross-national comparative variation in developments in terms of the actual place and role of HRM departments.
- Even general trends cannot be assumed permanent, and countries start from quite different places, so that there is little evidence of convergence in the place or role of HRM departments.
- The influence on HRM departments of country, with its cultural and institutional environment, is strong.
- Any notion of international best practice in the place or role of HRM departments is a work in progress.



LEARNING QUESTIONS

- 1 Given that the notion of HRM is seen in some countries to be more advanced than the idea of personnel management, why might the latter continue to be the preferred terminology in most of Europe?
- 2 Is a high level of assignment of HRM responsibilities to line managers a sign of HRM influence or of mistrust of HRM specialists? How might this vary by country?
- 3 What advantages and disadvantages might a line manager see in being asked to adopt greater HR responsibilities?
- 4 Choose three countries for which evidence is presented above. How far does the data presented in this chapter help you to identify the most significant roles in the Ulrich model for each country?
- 5 Consider three (other?) countries for which evidence features here. What are the key influences on cross-national comparative variation in the place and role of the HRM function?
- 6 Are shared-service models going to represent a new force for convergence and standardisation of HR practices on a global basis, or will they result in more localised and customised policies and practices?
- 7 Evidence on the role of HRM functions in developing and newly industrialising countries is currently anecdotal at best. What role would you expect them to have? On what are you basing your conjectures?



EXPLORE FURTHER

BREWSTER, C., WOOD, G., BROOKES, M. and VAN OMMEREN, J. (2006) What determines the size of the HR function? A cross-national analysis. *Human Resource Management*. Vol 45, No 1. pp3–21.

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MAYRHOFER, W., BREWSTER, C.J., MORLEY, M. and LEDOLTER, J. (2011) Hearing a different drummer? Evidence of convergence in European HRM. *Human Resource Management Review*. Vol 21, No 1. pp50–67.

This paper shows internationally that shifts in the balance of responsibilities between HRM departments and line management do not necessarily endure as we might assume.

BUDHWAR, P.S. and COOKE, F.L. (2009) HR offshoring and outsourcing: research issues for IHRM. In: SPARROW, P.S. (ed.) *Handbook of international HR research: integrating people, process and context*. Oxford: Blackwell. pp 343–362.

This chapter examines comparative developments in the outsourcing of the HRM department's activities.

VERNON, G. and BREWSTER, C. (2013) Structural spoilers or structural supports? Unionism and the strategic integration of HR functions. *International Journal of Human Resource Management*. Vol 24, No 6. pp1113–1129.

The authors deploy Cranet data on 34 countries to examine the influences on the strategic integration of HRM departments, with a particular focus on the implications of union presence.

To see the latest debates around HR operating models, access the CIPD (2015) report or access the free download of ULRICH, SCHIEMANN and SARTIN (2015) at the CIPD website: http://www.cipd.co.uk/binaries/the-rise-of-hr-wisdom-from-73-thought-leaders_2015.pdf

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PART THREE

INTERNATIONAL HUMAN RESOURCE MANAGEMENT

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International HRM: Theory and Practice

LEARNING OUTCOMES

When you have read this chapter, you will:

- be able to link the choice of strategic IHRM (SIHRM) approach with international business strategy approaches
- be able to identify the strengths and weaknesses of alternative theoretical perspectives on SIHRM
- be able to describe the components of IHRM.

REFERENCES

We have of course introduced some theory relevant to the study of IHRM in previous chapters. In Chapter 2 we looked at ideas from a comparative HRM and also institutional perspectives. In Chapters 3 and 4 we looked at the ideas that have come from a cross-cultural management tradition. Having explored these comparative issues in detail, in this third section of the book we turn to the concept of IHRM, which can be traced back to the broader field of international management. As explained in Chapter 1, IHRM examines the way in which international organisations manage their human resources in the different national contexts in which they operate. Usually, these are private sector international organisations, generally referred to in the literature as either multinational corporations (MNCs) or multinational enterprises (MNEs). We have already seen the extent and complexity of environmental factors such as different institutional, legal and cultural circumstances. These affect what is allowed and not allowed in the different nations and regions of the world, but more significantly also create differences in what makes for cost-effective management practices. Organisations working across national boundaries, therefore, have to agree HRM policies and practices which maintain some coherence while still being sensitive to critical aspects of difference.



REFLECTIVE ACTIVITY 13.1

In Chapters 5 to 12 we drew attention to some particular regional challenges. Looking across each of the HRM functions outlined in these chapters – employee relations, organisation of work, recruitment and selection, performance management, rewards and training and

development – what do you think might be the unique influences on IHRM in each of the following geographies, and why are they important?

- western Europe
- transitional economies in eastern Europe
- North America
- Latin America
- Africa
- Asia-Pacific
- the Middle East.

13.2 LOOKING TO THE FIELD OF INTERNATIONAL BUSINESS

The study of global strategy lies at the intersection of two academic fields: strategic management and international business. Peng and Pleggenkuhle-Miles (2009, p51) argue that global strategy has emerged as ‘one of the frontier disciplines within business schools’. As IHRM researchers it is important when making observations on another field – that of international business – to avoid misrepresenting some of their debates or conclusions. However, it is worth signalling our understanding about some of their recent discussion.

International business (IB) researchers have always been concerned about context, culture and political risk. IB theory tends to be built around a combination of arguments about capabilities as well as governance structures (Cantwell 2014).

For IB researchers a framework can be seen as a conceptual or real structure that can be used to help build or expand on an idea. We present a number of such frameworks to help shape thinking about the link between theory and practice in this area.



KEY FRAMEWORK

Three ways to view global strategy

- As one form of MNC strategy, whereby the organisation treats countries around the world as a common and global marketplace – the other strategies being international (export-driven), multi-domestic or transnational. A number of writers argue that this type of global marketplace strategy is either: an ideal that hardly ever exists in practice (Rugman and Verbeke 2004), or an experiment that can be disastrous (Ghemawat 2007).
- As a form of international strategic management (Inkpen and Ramaswamy 2006)
- The strategy of firms around the globe – that is, their view of how they can compete successfully (Peng 2006). This view of how to compete globally requires an understanding of both cross-border and domestic strategy.

IB researchers therefore do not always ask the same sorts of questions of people management in international organisations. They tend to have their own perspective on the world. So before we look at the sorts of theory that IHRM professionals need to understand from this perspective, let us remind ourselves of what the IB field tends to focus on in the first place! There are four debates that currently lie at the heart of the IB field:

- 1 *Cultural versus institutional distance* – Between culture and institution, which is the more comprehensive construct? We reviewed this debate throughout Chapters 2, 3 and 4. Beginning with the work of Kogut and Singh (1988) this has also been a long-standing debate in IB research. The debate, however, has been reignited by the recent resurgence of an institution-based view (Wood et al 2014). This resurgence of an institutional view has not been seen just in the field of comparative HRM – as we explained in Chapter 2 and saw within several of the chapters in Part Two. It has also become important in the field of MNCs and of global strategy (Lee et al 2008; Peng and Khory 2008; Peng et al 2008). This perspective argues that firms' strategies are enabled and constrained by the different rules of the game around the world.
- 2 *Global versus regional geographic diversification* – Determining the 'global-ness' of the firm also has a long history (Perlmutter 1969). The recent consensus is that the majority of MNCs are actually organised more regionally. However, the evidence on this is debated between Rugman and Verbeke (2008) on the one hand and Osegowitsch and Sammartino (2008) on the other. This debate has raised the need to understand two things: the impact of intra-regional rather than inter-regional behaviour, on HRM activity; and the difficulty of managing internal international networks that cross between regions.
- 3 *Convergence versus divergence in corporate governance* – We also saw this debate in Chapter 2. Does ideology (and HRM is an ideology, market economics is another) or national culture drive societal values? Convergence protagonists argue that globalisation unleashes a 'survival of the fittest' process forcing adaptation to best practices. From the governance arrangements built into national business systems down to the structures and processes that manage human resources, economic or other performance evidence is used to argue best practice. Divergence protagonists argue that the informal norms, values and traditions that make any practice effective cannot be transplanted around the world, so some sort of cross-vergence of arrangements is best.
- 4 *Domestic versus corporate social responsibility* – Is it an obligation of organisations to maximise the wealth just of equity holders, or of the wider society whose resources they draw upon? Is social performance linked to financial performance? How can corporate social responsibility strategies be aligned with the conflicting demands of domestic and overseas markets, domestic and overseas employees and communities?



REFLECTIVE ACTIVITY 13.2

Looking at the sorts of issues we have listed here that those who study global strategy are interested in,

- how similar or different do you see the issues compared to those that were identified in Chapters 2, 3 and 4?
- what sorts of new insights would you hope that the study of global strategy should bring to the field of international HRM? What are the practical questions that you would hope that this chapter on theory should be able to answer?

In Chapter 1 we outlined the evolution of definitions of IHRM, and the growth of more critical perspectives on IHRM. There are three criticisms of the existing literature that we would like to remind you of now. These criticisms should be noted and borne in mind throughout this chapter.



KEY FRAMEWORK

Critical reflections on globalisation

- *There can be an over-statement of current levels of globalisation within multinationals* – Despite the sorts of statistics noted in the UNCTAD reports, as was made clear in Chapter 2, researchers coming from an institutional perspective remind us still that in reality, stateless organisations operating independently of national borders under global rules of economic competition are few and far between (Ferner and Quintanilla 1998; Edwards et al 2005; Wood et al 2014). The majority of multinationals continue to have assets, sales, ownership of workforces and control concentrated in home countries or regions.
- *The need for a broader geographical base to our understanding about IHRM* – Until recently, most of the writing in this area has reflected a predominantly US focus. There are now ever greater numbers of countries with substantial international organisations, and ever more internationally operating organisations that are not based in the USA. There are in practice US-global firms, European-global firms, Japanese-global firms, and others, each operating in distinctive national business systems with their own patterns of corporate governance and human resource management (Sparrow et al 2004; Sparrow et al 2016). The strategies that they pursue towards the globalisation of HRM, and the associated shifts in centralisation and decentralisation, are therefore bounded by this inheritance. Strategic decision-making inside organisations has elements that are driven simultaneously by global, regional and national logics and these logics may not always be mutually supportive.
- *The need to study a wider and more diverse set of organisations, beyond just multinationals* – IHRM theory has tended to overlook important areas of internationalisation. Parker (1998) noted that a true understanding of global operation must also incorporate the learning from international family business units, overseas networks of entrepreneurs, and even illegal gangs, all of which have learned how to operate more globally. Inter-governmental international organisations, such as the United Nations, the EU and the regional banks, and internationally operating non-governmental organisations, such as charities and churches, employ increasing numbers of people around the world (Brewster and Lee 2006; Brewster et al 2016).

We can also think of different levels of analysis that can be used to explore the consequences of globalisation.



KEY FRAMEWORK

Different levels of globalisation

Sparrow and Brewster (2006) note that the main models and frameworks that have been used in the field concentrate on four different levels of analysis, each of which can present a different picture of the true extent of globalisation and the HRM issues that consequently need to be managed:

- *Globalisation of industries* – Global industries are ones in which a firm's competitive position in any particular country is dependent upon competition that might exist in other countries (Makhija et al 1997). The level of international trade, intensity of international competition, worldwide product standardisation and presence of international competitors in all key international markets are all high and firms can only achieve efficiencies through global scale, local responsiveness and worldwide learning.
- *Relative levels of internationalisation of the firm* – Estimating the degree of internationalisation of the firm is still an arbitrary process and both the choice of constructs to evidence it and the actual measures used are contentious (Sullivan 1994). The most popular single measures used are things like: foreign subsidiaries' sales as a percentage of total sales; export sales as a percentage of total sales; foreign assets as a percentage of total assets, as an estimate of the material international character of an organisation; number of foreign subsidiaries, to distinguish the degree of foreign investment; tallying of the cumulative duration of top managers' international assignments; or the dispersion of subsidiaries across cultural groupings and zones in the world.
- *Progressive building of international capabilities within firms* – The concept of organisational capability focuses on the ability of a firm's internal processes, systems and management practices to meet customer needs and to direct both the skills and efforts of employees towards achieving the goals of the organisation. This level of analysis emphasises the way in which firms manage the resources that enable them to develop core competences and distinctive capabilities. International expansion is only possible when firms can transfer their distinctive knowledge-assets abroad into new international markets (Caves 1996). Organisation structures have to respond to a series of strains faced by the process of globalisation (for example growth, increased geographical spread, and the need for improved control and co-ordination across business units) and organisations have to build capability in each stage sequentially in order to maintain integrated standards for some business lines but remain locally responsive in others (Hamel and Prahalad 1985; Yip 1992; Ashkenas et al 1995).
- *Functional realignment within globalising organisations* – At this level of analysis it is argued that globalisation within organisations is driven by what happens within business functions as they seek to co-ordinate (develop links between geographically dispersed units of a function) and control (regulate functional activities to align them with the expectations set in targets) their activities across borders (Kim et al 2003).

As the key framework on globalisation shows, we need to understand how organisations enhance the ability of specific functions to perform globally.



REFLECTIVE ACTIVITY 13.3

Debate the following:

Malbright (1995, p119) argues that true 'Globalisation occurs at the level of the function, rather than the firm'.

- Is this right? Using the key framework above, what evidence would satisfy you that an organisation was becoming truly global?

Werner (2002) analysed research published in the field of international management in the top US journals – that is, the discourse that is important within the US (and increasingly non-US) academic promotion system. Early international management research could broadly be divided into three categories:

- studies that looked at the management of firms in a multinational context – the international aspects of management that do not exist in domestic firms, such as the internationalisation process, entry-mode decisions, foreign subsidiary management and expatriate management
- comparisons of management practices across different cultures (cross-cultural studies) and nations (cross-national comparisons)
- studies that looked at management in specific (single) countries within the domain of international management (in order to overcome the bias of early work that had a North American perspective).



KEY FRAMEWORK

The 12 early domains of international management

Werner's (2002) analysis of published research broke the field down into 12 domains:

- *Global business environment*: threats and opportunities of global economy, global markets, political and regulatory environments and international risk
- *Internationalisation*: descriptions and measurement of internationalisation as a process, its antecedents and consequences
- *Entry-mode decisions*: predictors of entry-mode choices, equity ownership levels and consequences of entry-mode decisions
- *Foreign direct investment (FDI)*: timing, motivation, location and firm and host-country consequences of FDI
- *International exchange*: international exchange, determinants of exporting, export intermediaries and consequences of exporting
- *International joint ventures (IJVs)*: partner selection, partner relations and consequences of IJVs
- *Strategic alliances and networks*: alliance relationships, networks and outcomes of strategic alliances
- *Transfer of knowledge*: antecedents of knowledge transfer, processes and consequences of transfer
- *Multinational enterprises (MNEs)/multinational corporations (MNCs)*: multinational enterprise strategies and policies, models of MNCs
- *Subsidiary-HQ relations*: subsidiary role, strategies and typologies, subsidiary control and performance

- *Subsidiary and multinational team management*: subsidiary HRM practices, subsidiary behaviours, multinational negotiations and multinational team management
- *Expatriate management*: expatriate management, issues for expatriates, expatriate and repatriate reactions.



REFLECTIVE ACTIVITY 13.4

Look at the types of research literature in the key framework above, and make a list of the strengths that this would give you (the sorts of phenomena that would be understood well by reading these sorts of studies). Then make a list of the sorts of phenomena that would be missed out – what these sorts of studies might ignore.

We noted the critical view on IHRM in Chapter 1. For De Cieri et al (2007) the term ‘global’ rather than ‘international’ used by many researchers reflects the view that IHRM has become a key aspect of MNC strategic planning and implementation – part of a bigger set of questions aimed at understanding what determines the international success and failure of firms. Big theory, they argue, does not assist us in answering such questions.

For many academics, the task of producing a grand theory that brings together the diverse perspectives inherent in these theories is neither feasible nor desirable – by their nature each theory sheds light on the many different processes and phenomena that come to the fore as HRM is managed in an international context.

What we have to do is link these theories to the sorts of organisational problems that they help solve in order to understand the value that each theory brings to the analysis of the problems of internationalisation.

The topic of IHRM or, more appropriately, SIHRM, has become a separate, and crucial, field of study in its own right. This chapter provides the theoretical underpinning of this section of the book. We explore IHRM in the following way:

- First, we explore a number of different lenses (life-cycle and organisational design models) through which we can examine the subject of IHRM.
- Then we consider the key issue of differentiation versus integration.
- Next we examine contingency approaches to SIHRM.
- We explore four key theoretical models that can be applied to the subject
- We present a model of ‘global HRM’.

As the challenges of internationalisation have become more complex, there has been a ‘transfusion’ of ideas across these theories (Sparrow and Braun 2008).

13.3 LIFE-CYCLE MODELS

Theoretical frameworks in SIHRM have been – and still are – influenced by three developments that emerged in broad historical sequence (Sparrow and Braun 2008):

- early attention to life-cycle models based on the concept of ‘fit’ between HRM and the progressive stages of HQ management attitude to international operations: product life cycles, or organisational life cycles
- the subsequent development of ideas about organisational design and the process through which strategy and structure can be matched or ideal MNCs created

- the development of integrative ‘contingency’ frameworks premised on the need to both integrate and differentiate HRM policies.

At first, attention was given to a series of life-cycle models. These models reflected the need for there to be strategic fit between HRM policies and practices and the international evolution of the firm. One of the earliest sets of studies to leave a strong mark on future SIHRM frameworks was by Perlmutter (1969) and Heenan and Perlmutter (1979). These authors saw staffing decisions within MNCs as a consequence of attitudes of the management at headquarters. They identified four main approaches to describe how MNCs deal with the staffing and management of their subsidiaries.



KEY FRAMEWORK

Attitudes to internationalisation

In the *ethnocentric approach*, few foreign subsidiaries have any autonomy; strategic decisions are made at headquarters. Key positions at the domestic and foreign operations are held by headquarters' management personnel. In other words, subsidiaries are managed by expatriates from the parent country (PCNs).

In the *polycentric approach*, the MNC treats each subsidiary as a distinct national entity with some decision-making autonomy. Subsidiaries are usually managed by local (host-country) nationals (HCNs) who are seldom promoted to positions at headquarters. Likewise, PCNs are rarely transferred to foreign subsidiary operations.

The *regiocentric approach* reflects the geographic strategy and structure of the multinational. Personnel may move outside their countries but generally only within a particular geographical region (such as Europe or Asia-Pacific). Regional managers may not be promoted to headquarters positions but enjoy a degree of regional autonomy in decision-making.

In the *geocentric approach*, the MNC takes a worldwide stance in respect of its operations, recognising that each part makes a unique contribution with its overall competence. It is accompanied by a worldwide integrated business, and nationality is ignored in favour of ability. PCNs, HCNs and third-country nationals (TCNs) can be found in key positions anywhere, including those at the senior management level at headquarters and on the board of directors.



REFLECTIVE ACTIVITY 13.5

- Why do managers need to be able to understand the importance of attitudes to internationalisation?
- How would you link them in with each of the areas of HRM explored in the previous ‘functional’ chapters on HRM? That is, how would you link them in with attitudes held towards the performance management system, to recruitment and selection, work organisation, and so forth?
- What do you see as the practical implications of organisations (or key managers within the organisation) being positioned in each of the four internationalisation approaches? How would they manage each of the HR functions?

Adler and Ghadar (1990), in the early literature in this field, followed Perlmutter's approach but suggested that organisations will inevitably develop through certain stages – influenced very much by these different types of attitude – and will have to follow very different IHRM policies and practices according to the relevant stage of international corporate evolution, which they identify as:

- domestic
- international
- multinational
- global.

Proponents of life-cycle models argue that there is a link between the variation in an MNC's HRM policies and practices and either their product life cycle or organisational life cycle. Consequently, in all these models, human resource flexibility becomes central to effective internationalisation, and is dependent upon the capacity of HRM to facilitate the ability of the organisation to adapt to changing demands both from within the MNC or its context both effectively and in a timely manner.

However, there has been increasing discomfort with the view that firms have to follow a progressive stage model of globalisation. Malhotra and Hinings (2010) posed this question: why do we observe different processes of internationalisation, and consequently approaches to the commitment of resources to a foreign market, over time? They argue that there are some important characteristics of internationalising firms that determine the path they take. Many of our assumptions about the process of internationalisation stem from the original work, known as the Uppsala model (the 'U model') of Johanson and Vahlne (1977, 2009). This argued that internationalisation is an incremental process of building commitment in a host country. Market uncertainty is only reduced by the gradual acquisition, integration and then use of knowledge about the host context. Firms can only learn from these experiences by undergoing the experience.



CASE STUDY 13.1

ONE SIZE DOES NOT FIT ALL

The answer to many of the questions about internationalisation depends on the type of organisation. Mass production organisations (whether product or service) tend to follow one of two paths, depending on the importance of the technical or relationship component needed as part of the physical presence in country. They either follow a 'slow and steady' path from exports or licensing – slowly moving to partnering arrangements then wholly-owned ventures – or a 'leapfrogger path'. Where an organisation has accumulated market experience because of the prior internationalisation of its other businesses in a host market, it might jump straight to a joint venture (experimenting with different depths of relationship) or advance rapidly from alliances to wholly owned subsidiaries. In

service sectors where production can be broken up into several components – such as hotels, fast-food restaurants or car rental – then a 'contractual path' can be followed. The business performance tends to be more people-centric. To reduce market uncertainty, knowledge has to be codified and put into operating guidelines. There needs to be continual monitoring of and scanning for new local customer groups. Management service contracts, or franchise arrangements, can be renewed and engineered through successive or stepped-up levels of scope and control to create a consistent customer experience or brand. Finally, project-based organisations can follow a 'bounded commitment path'. They can ride on the coat-tails of a local partner or seek connections from one temporary project to another. Writing more than 30

years after their original piece, Johanson and Vahlne (2009) made clear that opportunities in international business are becoming less a matter of country specificity and more about relationship or network specificity. For project

organisations, the mobile nature of the primary assets – people and project expertise – means that the depth of local resources and commitment can be switched on and off rapidly, either within a project, or between projects.

Over time, the debate ranged from whether incrementalism really existed, to which factors (or contingencies) moderated the relationship between market uncertainty and incremental behaviour, and how the process evolved through the strategic decisions that got made. Some studies demonstrated that there does indeed seem to be a series of stages – an incremental and successive establishment of operations in small steps, from exports through sales to manufacturing. Other studies suggested this view is too narrow and demonstrated systematic variations to this assumption (Malhotra and Hinings 2010, p331):

Since the Uppsala model was proposed, the landscape of internationalising organisations has changed significantly. A wider array of organisations are entering foreign markets. They include manufacturing firms; consumer services such as hotels, restaurants, leasing, car rentals and retailing; professional services such as accounting, engineering, architectural firms, management consulting, health and financial services; and other knowledge-based organisations providing software development and R&D services... To understand why internationalisation processes proceed in a certain way we need to [pay] attention to what these organisations do to organise the creation and delivery of a product or service in a foreign market.

In practice, there are four conceptually distinct elements of an internationalisation process – four critical questions:

- *Focus of entry*: how does a firm enter a specific foreign market – by specific client or by market as a whole?
- *Degree of presence*: how does a firm sustain or enhance its commitment or continued presence in a market?
- *Physical presence*: to what extent and in what form does it need a physical presence in the market?
- *Choice and path of international form*: what international forms are adopted, and best reflect, a firm's evolving resource and institutional commitment to a host market?



CAN YOU BE BORN GLOBAL?

CASE STUDY 13.2

eBay is often used as an example of rapid internationalisation. It was founded in California in 1995 and is now the largest platform for Internet auctions worldwide. Its first international operations were in the UK and in Canada in 1998, with an adjusted Internet presence designed for local customers. By 1999 it had entered into a strategic partnership in Australia and expanded to Germany by acquisition.

In 2000 it entered France and Japan, and Korea and Taiwan by 2001. By 2005, within ten years of its founding, it was present in 29 countries,

Hedlund and Kverneland (1985) talked about 'leapfrogging' to describe the situation when a firm jumps over stages in the classical stages of internationalisation model. Then the concept of 'born global' was first used in

1993 in a survey for The Australian Manufacturing Council by the consultants McKinsey (McKinsey and Co 1993). The McKinsey report was interpreted by some as meaning that gradual internationalisation is dead. It was argued that even the smallest firm has access to information about the export markets and can begin to export from the birth of a new firm (Cavusgil 1994; Knight and Cavusgil 1996; Cavusgil and Knight 2009).

Many – usually innovative – firms are also being described as ‘born global’. Different yardsticks are used, but typically they are firms that have reached a share of foreign sales of at least 25% within a time-frame of two to three years after their establishment. Post-recession, national governments are interested in understanding what can be done to help support such firms – asking what the role of networks and ecosystems may be. These firms tend to be knowledge-intensive or knowledge-based firms, selling products that are so specialised that their market is global from an early stage. They therefore do not need to take the traditional route of developing a home market first and then expanding incrementally into a series of overseas markets. Firms that are international right from their birth are called a lot of things – ‘international new ventures’, ‘global start-ups’, and ‘infant multinationals’ (Rasmussen et al 2001).

As time went by, people asked: can a firm really benefit from an accelerated process of internationalisation – where it can

access competitive advantages across national borders, internationalising its value chain activities quickly? Research has gone on to examine what is really meant by becoming a ‘born global’ firm and the factors important for their survival and performance (Bell et al 2003; Knight and Cavusgil 2004; Gabrielsson et al 2008; Weerawardena et al 2007; Holtbrügge and Enßlinger 2009; Gerschewski et al 2015).

Are there business models that allow such firms to be globally efficient, effective and as competitive as possible right from the start? Both the entrepreneurship and international business literatures have shown that quick expansion, especially in foreign markets, can be very difficult to manage. A born global strategy can provide early advantages for firms; it can also introduce complexity that can destroy any potential benefits. Three criteria, including timing, countries, as well as ownership have to be taken into account in order to differentiate early internationalising firms (EIFs) from born global firms (BGFs).

Question:

- Do born global firms create unique people management and organisational issues?
- What HR functions covered in Part Two of the book become most relevant for the management of such firms?

The literature on born globals continues to develop. It has also brought with it the need to consider the speed of internationalisation, that is the speed of learning and knowledge development (primarily about the best modes of market entry and the best markets to enter), and increasing foreign market commitment (Casillas and Acedo 2013). Chetty et al (2014) argue that the speed to internationalisation is a crucial part of decision making for managers in most internationalisation strategies, as misjudgements about the most appropriate pace and resources can be very damaging, especially for new market entrants, start-ups and small and medium-sized enterprises. Speed implies the time taken and distance covered – or the internationalisation distance covered and the time passed to reach this.

SPEED OF INTERNATIONALISATION: THE SPANISH EXPERIENCE

The 'stage model' literature proposes that the internationalisation process can be broken down into various successive stages over time, each with an increasing level of international commitment, and a time sequence of the events that occur. Internationalisation is assumed to be a slow and path-dependent process, grounded in experiential learning. Casillas and Moreno-Menéndez (2014) asked whether the diversity and depth of past international activities affects the speed of the internationalisation process? They examined data on nearly 900 Spanish MNCs over a 23-year period from 1986 to 2008. The results show that the accumulation of experience in a particular country and the geographic diversification of past international operations impact the speed of internationalisation in opposing ways, with both U-shaped and linear relationships:

- In the short term, firms may accelerate their internationalisation process through new operations in markets with which they already possess experience, although the diversity of activities throughout their entry into new countries remains slow.
- In the long term, the greater the diversity of countries in which the firm operates, the greater the speed of the process, thanks to the accumulation of knowledge on internationalisation .
- However, the accumulation of operations in a small number of countries tends to slow the internationalisation process down.
- Diversity of past international activities has a different effect on the speed of the internationalisation process (retarding at first and later accelerating) than depth of international activities (accelerating at first and later retarding).

The study argues there is a trade-off between exploration and exploitation in the process of internationalisation and practitioners should maintain a particular rhythm in the internationalisation.



REFLECTIVE ACTIVITY 13.6

Think of a modern type of business.

- Does the argument hold true that it must work through successive stages of internationalisation before it can truly globalise?
- How might an organisation safely leapfrog some stages?
- What sorts of arrangements can be put in place to speed up the learning process?

13.4 ORGANISATIONAL DESIGN MODELS

Another development was the advent of organisation design models. The challenge of considering how an MNC can best implement international policies and practices was taken up by giving attention to organisation design and the match between strategy and structure.



KEY FRAMEWORK

Information processing theory

Many of the assumptions about organisation design in MNCs are driven by information processing theory. This makes a basic assumption that organisations are open social systems exposed to both external and internal sources of uncertainty (defined as the difference between information possessed and information required to complete a task). They have to develop information-processing mechanisms capable of dealing with this uncertainty (Tushman and Nadler 1978; Egelhoff 1991). Information processing in organisations includes the gathering of data, the processing and transformation of data into information, and the communication and storage of information in the organisation. Effective organisations create a 'fit' between their information-processing capacities and the information-processing requirements determined by such factors as their strategy, task characteristics, inter-unit interdependence and their organisational environment. MNCs are large and complex and have very high information-processing requirements because:

- a transnational strategy requires a reciprocal interdependence between affiliates and headquarters
- their focus on flexible, people-based co-ordination and control mechanisms requires high levels of informed action.

MNCs frequently reach the limits of their information-processing capacity and the competing demands of globalisation and localisation influence the choice of structure and management control processes within international organisations. A number of typologies of organisational forms have been developed. In general, these typologies denote a move away from hierarchical structures toward network or heterarchical structures.



KEY FRAMEWORK

Different international forms

Hierarchy approaches – Under this form, control rests at the MNC's headquarters, with strong reporting and control systems for subsidiaries. Senior management is composed of parent-country nationals (PCNs). Birkinshaw and Morrison (1995) synthesise earlier work on hierarchical MNC structures to arrive at three basic assumptions underlying these configurations:

- Co-ordination costs are economised by grouping tasks according to the geographical or product markets on which they are focused.
- Critical resources (including management expertise) are held at the centre to ensure the most efficient use of scarce resources.
- The development of an appropriate system to monitor and control divisional managers ensures that the likelihood of opportunistic behaviour on their part is minimised.

Polycentric approaches – Organisations adopting this type of structure reflect less parent control and much greater autonomy of subsidiaries. The term 'multinational' is used by Bartlett and Ghoshal (1986) to define this type of organisation in that it operates in multiple geographical contexts, and functions may be duplicated internationally.

Network/heterarchy approaches – In this type of organisation the driving force is to capitalise on the advantages of global spread by having multiple centres. Subsidiary managers are responsible for their own strategy and the corporate-wide strategy. Co-ordination is needed across multiple dimensions (for example functions, products, and geography). Each subsidiary is aware of the role of the others; no subsidiary sees itself in isolation from the rest of the global organisation (Hedlund 1986). This type of organisation has been called a transnational by Bartlett and Ghoshal (1987). Transnational organisations aim to develop a truly global culture and mindset amongst their employees.



REFLECTIVE ACTIVITY 13.7

Consider the key frameworks presented so far:

- How might you combine the different forms of international operation and the different attitudes to globalisation?
- How might the different levels of globalisation impact on an organisation's forms and attitudes?

13.5 DIFFERENTIATION AND INTEGRATION

A unifying theme throughout all SIHRM studies is the tension between differentiation and integration – sometimes referred to as the 'global versus local' dilemma – as a defining characteristic of the international perspective on HRM (Ghoshal 1987; Galbraith 1987; Punnett and Ricks 1992; Schuler et al 1993; Evans et al 2002; Evans et al 2010).



REFLECTIVE ACTIVITY 13.8

Think about the answers to the following questions – questions that all international organisations face:

- What freedom does an international organisation have in regard to imposing its own approaches to HRM on its operations throughout the world?
- How can an international organisation, aware of the need to be sympathetic to local cultures, still ensure that it gains optimum value from its internationalism?
- What is the relationship between the strength of organisational culture and national cultures?

Evans et al (2002) see this tension as a critical component of duality theory. Proponents of this perspective argue that opposites and contradictions are not 'either/or' choices but 'both/and' dualities that must be reconciled. Fit or contingency theories are seen as too static for the fast-moving modern age and do not provide an adequate conceptual basis

for understanding organisational dynamics. Explaining the nature of the local responsiveness/global integration duality, Evans et al write:

All firms maintain corporate integration through rules, central procedures and planning, and hierarchy. But as the needs for integration grow, more rules, more control and more bosses at the center simply will not work, but instead will only kill local entrepreneurship and drive away good people. So these classic tools need to be complemented with more informal mechanisms for co-ordination: lateral relationships, best practice transfer, project management, leadership development, shared frameworks, and the socialisation of recruits into shared values. These tools of 'glue technology', as we call them, are to a large degree the application of human resource management'. (Evans et al 2002, p83)

A key determinant of an organisation's eventual positioning on the integration-differentiation continuum is the nature of the international business strategic approach adopted.



REFLECTIVE ACTIVITY 13.9

Ask yourself:

- What range of options is open to international organisations carrying out operations across national boundaries?
- How might each of the 'glue technologies' discussed by Evans et al (2002) affect the strategic positioning of the IHRM function?

The ways in which MNCs organise their operations globally has been the subject of extensive research by international management scholars (leading names include Prahalad and Doz 1987; Bartlett and Ghoshal 1989; Porter 1990). Recurrent themes in the literature are the link between the strategy-structure configuration in MNCs, and the competing demands for global integration and co-ordination versus local responsiveness. Where global integration and co-ordination are important, subsidiaries must be globally integrated with other parts of the organisation and/or strategically co-ordinated by the parent. In contrast, where local responsiveness is important, subsidiaries should have far greater autonomy and there is less need for integration.

Factors that influence the need for integration in global business strategy include:

- *Operational integration* – This might be the case in technology-intensive businesses such as chemicals and pharmaceuticals where a small number of manufacturing sites can serve wide geographical markets. Equally, universal products or markets, such as in the case of consumer electronics, lead to high demands for integration.
- *Strategic co-ordination* – Organisations can select specific areas where there is a need for centralised management of resources in line with strategy. For instance, significant resources such as research and development may be co-ordinated in terms of strategic direction, pricing and technology transfer, while other functions such as sales are not.
- *Multinational customers* – Global competition places greater demands on the co-ordination of resources, equipment, finance and people. For example, it is important to co-ordinate pricing, service and product support worldwide, because a multinational customer can compare prices in different regions.

Factors that influence the need for differentiation in global business strategy include:

- *Market demands* – Local responsiveness is more common where local competitors define the market competition. This is equally true where products have to be customised to local taste or regulations, such as in the case of processed foods or fashion.
- *Legislative demands* – Local legislation may prevent full standardisation of services across the globe, leading to a requirement for more tailored approaches.
- *Political demands* – Barriers to entry in some markets may require an organisation to set up a more autonomous subsidiary primarily staffed by host-country nationals (HCNs).



REFLECTIVE ACTIVITY 13.10

You are the HR manager of a UK-based small to medium-sized enterprise about to expand into several European countries. Based on your reading of the earlier chapters and this one so far, prepare

- a brief report for the board outlining the key HRM issues you will face with internationalisation, and
- an initial project plan for the internationalisation activity.

13.6 STRATEGIC INTERNATIONAL HRM: CONTINGENCY APPROACHES

A full understanding of SIHRM in MNCs requires an integration of multiple disciplinary bases and theoretical perspectives (Sundaram and Black 1992). Taylor et al (1996, p960) provide a definition of SIHRM derived from the SIHRM literature:

Strategic Human Resource Management (SHRM)... is used to explicitly link HRM with the strategic management processes of the organisation and to emphasise co-ordination or congruence among the various human resource management practices. Thus, SIHRM (strategic international HRM) is used explicitly to link IHRM with the strategy of the MNC.

Schuler et al (1993) offer an integrative framework for the study and understanding of SIHRM which incorporates features unique to the international context (see Figure 13.1). They define SIHRM as (Schuler et al 1993, p720):

Human resource management issues, functions and policies and practices that result from the strategic activities of multinational enterprises and that impact on the international concerns and goals of those enterprises.

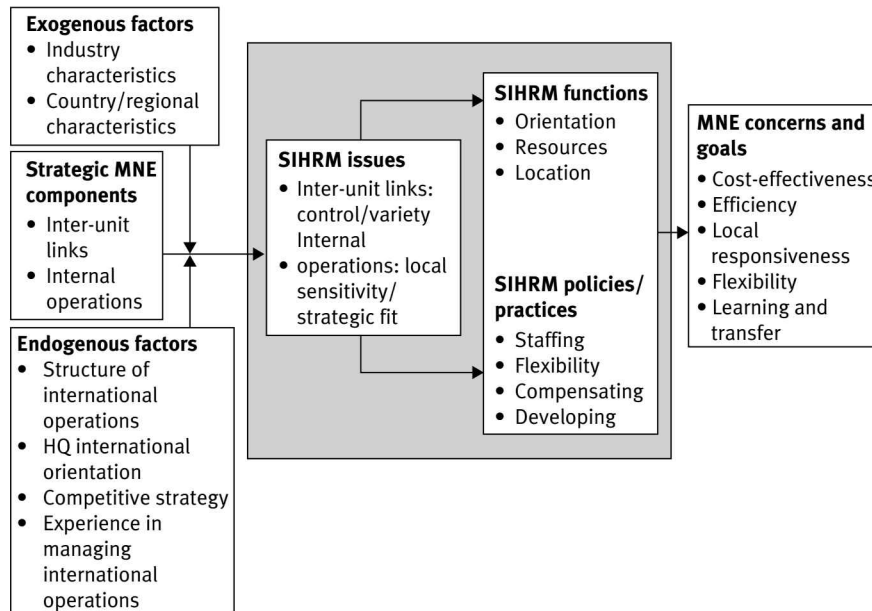
The breadth of issues is illustrated by their framework, which links SIHRM orientations and activities to the strategic components of the inter-unit linkages and internal operations of the MNCs. These authors again argue that the key determinant of effectiveness for MNCs is the extent to which their various operating units across the world are to be differentiated and at the same time integrated, controlled and co-ordinated. Evidence of different solutions adopted by MNCs to the tension between differentiation and integration are seen to result from the influence of a wide variety of external and internal factors.

External factors include:

- industry characteristics, such as type of business and technology available
- the nature of competitors

- the extent of change
- country/regional characteristics (political, economic and socio-cultural conditions and legal requirements).

Figure 13.1 The Schuler framework



Source: Schuler et al (1993)

Internal factors include:

- the structure of international operations
- the international orientation of the organisation's headquarters
- the competitive strategy
- the MNC's experience in managing international operations.

So how does theory help international managers to make sense of these complex considerations? An overview of theoretical and empirical developments in the study of SHRM in MNCs identified four theoretical perspectives (Sparrow and Braun 2007):

- resource dependency theory
- the resource-based view of the firm
- the knowledge-based view of the firm and organisational learning theory
- relational and social capital theory

We expand on each of these in the following sections.

13.6.1 RESOURCE DEPENDENCY THEORY

The resource dependency perspective focuses predominantly on power relationships and resource exchanges between an organisation and its constituencies (Pfeffer and Salancik 1978). In this respect, organisational decision-making is not seen as an outcome of strategic choice. Rather, the theory assumes that all organisations depend on a flow of valuable resources (for example money, technology, management expertise) into the

organisation in order to continue functioning. MNC affiliates may have more or less dependence and power, as these resources are controlled by various actors, internal to the MNC (such as the parent company or regional operations) or external to it (such as the stock market or government institutions). The higher the scarcity of the valued resource, the more the power of the entity that controls that resource increases. An example might be the lack of suitably qualified people in a certain country of operation, thus necessitating the costly transfer of personnel from other countries in the organisation's set-up. Equally, work permit restrictions in many countries limit the extent to which labour is completely mobile. If external parties control vital resources, an organisation is vulnerable and will strive to acquire control in order to minimise its dependence (De Cieri and Dowling 1999). The resource dependency perspective highlights the important influence of external environmental conditions on the ability of an organisation to maximise the effectiveness of its human resources. It is one of the key building blocks of the SIHRM frameworks discussed earlier (see Schuler et al 1993; Taylor et al 1996). It has been used to explain the findings of a number of studies that have looked at MNC HRM practices and HRM practices in joint ventures (Rosenzweig and Nohria 1994; Hannon et al 1995; Lu and Björkman 1997).

13.6.2 THE RESOURCE-BASED VIEW OF THE FIRM

The resource-based view (RBV) of the firm has become, perhaps, the most common theoretical perspective (Wright et al 2001; Morris et al 2005). This perspective sees the firm as a unique bundle of tangible and intangible resources (Wernerfelt 1984). It stresses the inherent 'immobility' of valuable factors of production and the time and cost required to accumulate those resources. Firms accumulate different physical and intangible assets. It is only possible for others to imitate these assets if they have gone through the same process of investments and learning. This historical evolution of a firm constrains its strategic choice.



KEY FRAMEWORK

Qualities needed for a resource to provide competitive advantage

Barney (1991) and Peteraf (1993) argue that in order for firm resources to hold the potential of sustained competitive advantage they must be:

- valuable – that is, the resource exploits opportunities and/or neutralises threats in a firm's environment
- rare among a firm's current and potential competitors
- imperfectly imitable – that is other firms do not possess the same resources and cannot obtain them easily
- non-substitutable with strategically equivalent resources.

The resource-based view of the firm presents the clearest argument as to why firms must transfer capabilities globally. MNCs operate in multiple environments and so possess variations in both their people (reflecting the skillsets created by national business systems) and in their practices (which reflect local requirements, laws and cultures). SIHRM practices allow a firm to capitalise on its superior skills and exploit the cultural synergies of a diverse workforce (Morris et al 2005). Strategists argue that in a competitive marketplace the act of integrating disparate sources of knowledge within the organisation,

utilising 'organisational capabilities' worldwide becomes a source of advantage (Ghoshal 1987; Grant 1996; Nohria and Ghoshal 1997). In the HRM field the term 'organisational capability' was developed by Ulrich (1987). As a concept it combines ideas from the fields of management of change, organisational design and leadership. It concerns the ability of a firm's internal processes, systems and management practices to meet customer needs and to direct both the skills and efforts of employees towards achieving the goals of the organisation and is therefore about competing 'from the inside out'.

The resource-based view of the firm has been questioned recently. Although this theory discusses the importance of learning and knowledge transfer, it has tended to emphasise the role of the corporate centre in MNCs, which is generally assumed to be one of shaping the strategic direction of the organisation and designing the strategic change programmes pursued in the subsidiaries. Knowledge transfer processes inside MNCs are central to the global transfer of capabilities (Foss and Pedersen 2004; Morris et al 2005). More attention has now been given to the mechanisms that explain why mutual transfer of capability (to and from the corporate HQ and subsidiaries) is beneficial to the organisation, and how this actually happens.



REFLECTIVE ACTIVITY 13.11

What does the pursuit of 'organisational capability' mean for the design of IHRM functions and for the role of HR business partners?

Why might the organisational capabilities associated with strategic goals such as 'meeting customer needs' be constituted in the same way in different international operations of the firm?

How would you use the resource-based view of the firm to explain how the following mechanisms can develop the business and technological skills needed to ensure the mutual transfer of capabilities?

- international diversification into multiple markets
- collaborating with organisations that have mutually complementary competences (for example through joint ventures)
- emphasising strategic leadership roles for national subsidiaries
- gaining access to foreign-based clusters of excellence
- building internal centres of excellence based on global best practice.

Although resources can provide a global advantage to the MNC as a whole, this is only if the knowledge, skills, and capabilities can be leveraged appropriately. We must draw upon organisational learning perspectives to understand how this can be done.

13.6.3 THE KNOWLEDGE-BASED VIEW OF THE FIRM AND ORGANISATIONAL LEARNING THEORY

Because of the increasing focus of attention that is given to knowledge transfer, knowledge-based views of the firm and theories of organisational learning have come to influence the field of SIHRM. We return to these issues in Chapter 17, but at this stage we will outline some of the relevant theory.

During the 1980s, researchers argued that continuous change in the competitive environment creates a need for MNC organisational structures to be adjusted, generally along a continuum from local market responsiveness to global market integration

(Hedlund 1986; Bartlett and Ghoshal 1989; Gupta and Govindarajan 1994; Nohria and Ghoshal 1997). By the 1990s it was argued that one of the ways in which they should manage this tension was by design – specifically by building differentiated networks, where knowledge is created in different parts of the MNC and moved to various interrelated units, to tie together diverse and dispersed subsidiaries (Gupta and Govindarajan, 1994, 2000; Zander and Kogut 1995; Foss and Pedersen 2002; Björkman et al 2004; Yamin and Otto 2004; Adenfelt and Lagerström 2006; 2008). At the same time, attention was given to:

- the role of knowledge as a strategic resource (Buckley and Carter 2004; Grant 1996)
- the ability to transfer dispersed knowledge about customers, suppliers and other market entities as a primary determinant of the ability of MNCs to expand their position in world markets (Korbin 1991; Gupta and Govindarajan, 1991, 1994, 2000; Mudambi 2002)
- but also the considerable barriers – the ‘stickiness’ – that hinders knowledge sharing (Spender 1994; Szulanski 1996; Szulanski et al 2003; Jensen and Szulanski 2004).

This IB research on knowledge transfer and absorptive capacity is very relevant to several issues of interest to those IHRM researchers who look at global knowledge management. However, there are still some surprising gaps in our knowledge, especially in terms of how each organisational or knowledge integration mechanism affects the acquisition, assimilation, transformation and exploitation of new knowledge. Tallman and Chacar (2011) point out that whilst there is a fairly solid understanding of the organisational mechanisms used to accumulate and transfer basic, low-tacit and content knowledge, it is still unclear:

how... local units access... complex knowledge from a foreign external environment when local presence is no guarantee of access to knowledge pools... [and how] sticky, or geographically bound, tacit knowledge can be transmitted efficiently [and recombined] to other units of the MNE network. (Tallman and Chacar 2011, p279)

Knowledge flows involve (Subramanian and Venkatraman 2001):

- local processes, whereby knowledge developed in and for one subsidiary may be adapted by other subsidiaries as knowledge is shared (a ‘waterfall’ strategy)
- global processes, whereby knowledge sharing occurs simultaneously across several subsidiaries and is then shared across yet others (a ‘sprinkler’ strategy).

The international business literature stresses two points:

- Knowledge flows are only of value if the organisation also has the ability to capture and understand complex knowledge in the first place.
- Captured knowledge (whether complex or simple) is most valuable once, having been created, it is also put to effective use through shared operating procedures, practices and routines that are interpreted and understood in the same way, and shared.

The IB literature is therefore centrally concerned with the following sorts of questions:

- How can global knowledge management involve the provision and receipt of knowledge that is shaped by both the sharing and receiving units (Zhao and Luo 2005)?
- Must this require not just communication and transmission of knowledge, but also successful interactions based on an understanding of each other’s capabilities (Nonaka et al 1996)?
- What role must be played by reverse transfers of knowledge? (Najafi-Tavani et al 2012; Michailova and Mustafa 2012)?

The knowledge-based view focuses explicitly on the role of tacit knowledge as a resource. There are two contrasting views that are taken (Tallman and Fladmoe-Lindquist 2002):

- *Capability-recognising* – This strategy or perspective notes that although MNCs possess unique knowledge-based resources, these are typically treated as being home-country-based or belonging to central corporate functions and top teams. These capabilities are only disseminated to international operations on a ‘need-to-know’ basis.
- *Capability-driven* – This perspective (also called the dynamic capability perspective in the strategy literature) is more proactive. It is concerned with a wider process of how firms build, protect and exploit mutual capabilities between, for example, corporate HQ and subsidiaries. In terms of international management, the world is not just a source of new markets but also an important source for new knowledge.



REFLECTIVE ACTIVITY 13.12

Debate the following in the light of the two different perspectives that dominate theories in this area, the capability-recognising and the capability-driven:

- What are the HRM implications for an organisation that pursues a capability-driven strategy rather than a capability-recognising strategy?
- How feasible is it for organisations to put this into practice?
- Will it matter to them if they cannot deliver this strategy? Why, or why not?

The organisational learning literature has had a major influence on the SIHRM frameworks discussed earlier in the chapter. These frameworks stress the effect that time and experience has on organisational learning. The capability-driven perspective has begun to dominate theory and research. It takes a very clear stance with regard to the question ‘Should firms transfer HRM systems?’ It argues that by deploying these resources and progressively integrating them into their most value-adding activities, organisations can build a series of important capabilities such as industry-specific skills, networks and relationships, and appropriate organisational knowledge and structures.



KEY FRAMEWORK

Absorptive capacity

An important capability that must be developed has been called ‘absorptive capacity’ (Cohen and Levinthal 1990) or ‘knowledge transfer capacity’ (Martin and Salomon 2003). Absorptive capacity is defined as ‘the ability of a firm to recognise the value of new, external information, assimilate it, and apply it to commercial ends’ (Cohen and Levinthal 1990, p128). It is one of the central IB constructs in the study of global knowledge management (Lane et al 2006) and was originally introduced as a concept in the context of innovation processes within organisations. It soon found support in the literature on organisational learning, strategic alliances, knowledge management and resource-based view of the firm.

There are four theoretical dimensions of knowledge management involved in absorptive capacity (Zahra and George 2002):

- acquisition (identify and acquire externally generated but critical knowledge)
- assimilation (routines for analysis, processing, interpretation, and understanding of information)
- transformation (routines for combining existing and newly acquired information)

- exploitation (routines that allow refinement, extension and leverage of existing competencies to create new ones and incorporate knowledge into operations).

Prior related knowledge gives organisations the ability to recognise the value of new information, assimilate it, and then apply it to new ends. Organisations learn by 'encoding' inferences from history into their structures, designs, rules and procedures. These routines also serve to help individuals learn because they socialise employees into desired ways of behaving, educate them about the business environment they face and ensure that practices imitate the assumed best ways of coping with this world. Knowledge transfer – and the integration of this knowledge into the routines of the organisation – is, however, only facilitated when the respective parties have the absorptive capacity or prior experience that is necessary to understand the new ideas (Szulanski 1996; Tsai 2002). Groups with large amounts of international experience, for example, are more likely to be able to integrate knowledge from other parts of the organisation than those that do not have such experience.

However, as the concept of absorptive capacity has been applied to more contexts, it has also come under more scrutiny, redefinition and refinement (Jansen 2005; Lane 2006; Lichtenthaler 2009). These lines of criticism move absorptive capacity into the realm of IHRM research interests. Jansen et al (2005, p999) considered that:

few [studies] have captured the richness and multidimensionality of the concept [and]... organisational antecedents have largely been ignored... organisational antecedents may have differing effects on dimensions of absorptive capacity and subsequently lead to different performance outcomes.

Lane et al (2006) systematically assessed the literature on the construct of absorptive capacity, reviewed the topics and contexts where absorptive capacity has been used and identified critical assumptions in the literature. Of the 289 papers published between 1991 and 2002 using the construct: 33% never discussed the different dimensions of absorptive capacity; only 22% made more than minor use of the construct; 40% viewed it as a capability; 15% as a resource; 4% as both; and 41% never discussed the construct as either. Eighty per cent of the literature cited the construct in a ritual way. One hundred and fifty of the 289 papers never went on to be cited by other studies using the construct. Lane et al concluded: 'researchers using the absorptive capacity construct have not developed a strong, focused research community and... it is likely the construct has become reified [a process whereby researchers take the construct for granted and fail to specify the assumptions that underlie their use of it]' (Lane et al 2006, p 843).

There has been little investigation of the acquisition, assimilation and commercial application of business knowledge and management techniques, beyond R&D issues. In relation to how organisations respond to valuable external knowledge, there is little understanding of the influence of industry conditions. In relation to the need for relevant prior knowledge, there is little to no understanding of how to manage the capacity of effective knowledge transfer, and studies have made no actionable recommendations. The assumption that an organisation's competitive advantage is based on the scarcity of its knowledge understates the importance of how the knowledge resource is used in the organisation. The capability to disseminate and apply acquired knowledge may be more important than the amount of external knowledge acquired. Finally, the assumption that absorptive capacity resides in the organisation alone overlooks the role of individuals in developing, deploying and maintaining absorptive capacity – it should be seen as a multilevel construct.

Attention is now being given to the structure, policies and processes within an organisation that affect knowledge transfer, sharing, integration and creation. We still have limited insight into how organisational mechanisms affect the acquisition and assimilation of knowledge (called 'potential absorptive capacity') and the transformation and exploitation of new external knowledge (called 'realised absorptive capacity') (Sparrow 2012).

The need for prior related knowledge, and for a focus on learning processes, helps connect the absorptive capacity literature with traditional IHRM concerns. The knowledge integration mechanisms (KIMs) outlined in Chapter 17 need to be managed in ways that foster common knowledge assumptions across the parties involved. The way in which these KIMs facilitate the acquisition, and more importantly the assimilation, of knowledge within MNCs becomes a central issue. Assimilation across cultural and institutional divides is in turn a central debate within IHRM literature.

To conclude, globalisation, then, is forcing organisations to improve their capability to transfer knowledge. If an organisation learns to do this well, then it can develop a superior 'knowledge transfer capacity'. This means that the organisation has to develop two mutually reinforcing capabilities (Martin and Salomon 2003):

- the ability of the organisation (or business unit) to articulate the uses of its own knowledge, assess the needs and capabilities of the main recipients for that knowledge, and then transmit knowledge so it can be used in another location ('source transfer capacity')
- the ability of the transferee to assimilate and retain information from a willing source – that is, evaluate external knowledge, take in all its detail, and modify or create organisational procedures to accommodate the new knowledge ('recipient transfer capacity').



REFLECTIVE ACTIVITY 13.13

- Can organisations enhance their 'absorptive capacity'?
- If so, what managerial actions are the most important?
- What sort of organisational culture becomes important?
- What sorts of abilities and motivations do employees need?
- What does this mean for the design of IHRM policies and practices?

Source: Minbaeva et al (2003)

There have been some attempts to specify the contribution that HRM makes to global knowledge management processes (Sparrow 2006, 2012). This topic is considered in more detail in Chapter 17.

13.6.4 RELATIONAL AND SOCIAL CAPITAL THEORY

The organisational learning theories discussed here have provided us with a much clearer focus on how organisations need to navigate their way through the internationalisation process. This focus on the need to better understand the 'how' has also been helped by work on relational and social capital theory (Buckley and Ghauri 2004, p83):

The process of globalisation is... not only reorganising power at world level but also at national and subnational levels. As domestic firms move part of their production to other countries, technology, knowledge and capital become more important.



REFLECTIVE ACTIVITY 13.14

- Think about the impact that e-commerce and more flexible networks of organisations have had on the way international business is conducted.
- How has this created new complexities in the relationships between organisations or new opportunities in the way they deal with each other?

One response to globalisation has been the development of complex cross-business networks. These networks might be built around groups of independent firms, or neighbouring firms within a regional industrial cluster or district that share a common need (Rugman et al 1995). A number of changes inside organisations – such as more transparent internal transfer pricing arrangements or service level agreements – have brought internal prices more in line with external prices. This has sometimes allowed divisional managers to bypass what are considered to be weak or incompetent sections of their own organisation and develop supply or production arrangements that service all members of these broader cross-business networks. The literature on inter-organisational trust has considerable relevance to the study of global organisations. It gives attention to the role of what is termed ‘relational capital’ (Chen et al 2004).



REFLECTIVE ACTIVITY 13.15

- Why is ‘relational capital’ important, and how does it help organisations build competitive advantage?
- What links would you draw between national culture (see Chapters 3 and 4) and the importance of relational capital?

Relational capital is primarily concerned with business networks and the inter-firm relationships that exist within these networks. It concerns the sets of interdependent business relationships upon which repeated business transactions are based. This includes things like goodwill and trust that exists between a firm and its customers, suppliers, partners, government agencies, research institutions and so forth. Competitive advantage is assumed to result from this form of capital primarily for four reasons:

- Knowledge-sharing across these relational networks reduces the cost of transactions between network members, and thereby facilitates value creation and innovation.
- Organisations can access and deploy their existing capabilities within this network in ways that help them seek new markets, resources, efficiencies and assets.
- The social networks inherent in the relationships affect the rate of creation of new inter-firm links, and this improves the organisation’s ability to align its structure and design with its global strategy.
- The ability of partners to absorb and learn from each other at more equal rates is facilitated, thereby extending the life cycle of arrangements such as joint ventures.

However, despite the growth of such cross-business networks, often made easier also by technology, face-to-face contacts with foreign partners are still crucial in cultivating trust, providing access to the flow of information within the network, and providing the opportunity for international managers to create new relationships. Many of these

relationships can be captured in what is called an individual or group's 'social capital'. Bourdieu and Wacquant (1992, p119) defined this as:

The sum of the resources, actual or virtual, that accrue to an individual or group by virtue of possessing a durable network of more or less institutionalised relationships of mutual acceptance or recognition.



KEY FRAMEWORK

Structural holes and social capital

International managers and expatriates often possess a lot of influence because their position in the organisation gives them 'brokerage' opportunities, in relation to their participation in, and control of, information diffusion across international operations. Central to this process of information diffusion is the concept of 'structural holes' (these are holes in the social structure within a network). The 'hole' might not reflect a total unawareness of the other parties, but it certainly reflects a lack of attention given to them (Burt 2000). Structural holes are often implicit in the boundaries that exist between cohorts of employees, teams, divisions, subsidiaries and between firms. Individuals, units or organisations that have relationships that 'span' these holes or implicit boundaries can create a competitive advantage for themselves, depending on the nature of their 'brokerage'. Holes act as buffers, people on either side of the hole circulating in different flows of information. They therefore offer an opportunity to broker the flow of information between people and to control the projects that bring people together from opposite sides of the hole. Knowing the holes that exist inside the organisation and one's ability to broker across these boundaries can be of benefit both to an individual's career or, more altruistically, to the process of internationalisation.



REFLECTIVE ACTIVITY 13.16

- Would it help to know what relationships and social capital a candidate for an important international role has?
- Would these relationships be more or less important than their international skills?
- Across which holes inside your organisation would it be useful to force employees to work in order to foster their international mindset?

HRM's role in building social capital beyond organisational boundaries to encourage co-operation across the company and improve firm success has been recognised in the literature for many years (Gratton 2005; Lengnick-Hall and Lengnick-Hall 2006; Mäkelä 2007; Taylor 2007; Zhao 2015).

Beware, though. Human and social capital – when applied to the practical realities of international managers and employees – is really a theoretical construct created originally by researchers in economics and sociology to interpret the relationships between individuals and the contexts they operate in. They are both 'capitals', in that they are considered resources accessible to all and destined for the realisation of individual objectives. Social capital can belong to individuals, but also to a community. It

may be something that an international manager builds up after years of working as an expatriate or consultant, or it might be something that an important unit within the organisation develops because of the resources that it controls and influences. In the international context, it has been defined (Lengnick-Hall and Lengnick-Hall 2005, p477) as:

the intangible resource of structural connections, interpersonal interactions, and cognitive understanding that enables a firm to (a) capitalise on diversity, and (b) reconcile differences.

Possessing the right relationships makes possible the achievement of certain ends that would not be attainable otherwise. The management of social capital has become viewed as a critical business competence. Whereas human capital theory assumes that people, groups or organisations do better (that is, they receive higher returns for their efforts) because of their personal traits and characteristics, social capital theory assumes that they do better because they are better 'connected' (Sparrow and Braun 2006). This 'connection' might be realised in the form of trust, obligation or dependency. Certain network structures, or having a job or role that is located in a powerful place amongst this set of exchange relationships, become assets in their own right. The management literature has long pointed to the role of international managers and expatriates as 'information brokers' or 'transferers of knowledge' (Bonache and Brewster 2001).

For example, Mäkelä's (2007) study of expatriates showed how social capital becomes important for global talent – their relationships are richer, more trustful and longer-term than more arm's-length cross-border relationships, and these properties create more opportunities for knowledge-sharing, and have a multiplying effect by spreading ties more effectively across new units. Lengthened participation in the assignment unit typically leads to a higher level of shared cognitive ground, effectively facilitating knowledge. Taylor (2007, p337) argues that a pressing need now is

the identification, development and retention of managers, particularly those crossing geographic and cultural boundaries (high-value boundary spanners or HVBS), who can successfully develop social capital in multiple cultural settings.

She highlights the need for IHRM functions to manage both structural social capital (the configuration, density and strength of relationships between HVBSs) and cognitive social capital (shared goals and shared culture – that is, language, codes and narratives). She notes that the competencies needed to do this are little understood.

Is it possible to ask the managers (or ask about the organisations that they work in) directly about their own human or social capital? Do you begin either from the responses an individual gives to other questions, or from their life or organisational story itself and then reinterpret the answers according to the definition of human and social capital we have chosen?

Sparrow et al (2009) note that empirical work has helped to explain the role of social networks in IHRM. A fair amount is now known about the extent to which networking is used by international organisations. Tregaskis et al (2005) described the function, structure and process typically associated with international HRM networks, which may be run through top-down or more collaborative remits and operate through leadership, project or special-event team structures. They can serve a range of functions including policy development and implementation, information capture, exploitation of knowledge, sharing of best practice, achieving political buy-in and socialisation of members. Face-to-face contact is also important in the process of relationship and

reputation-building but is often supplemented by virtual working as a way of signalling more global cultures. The level of localisation is generally driven by the politics of acquisition, size, expertise and level of resistance in subsidiaries. HRM leadership through networks, it is argued, can facilitate more collaborative solutions, but this depends on the strength of international HRM networks.



REFLECTIVE ACTIVITY 13.17

- In what ways, and through which structures, does greater social capital make international managers more effective?
- Is social capital separate from human capital, or are there particular skills and competencies that help an international manager build social capital?
- What other attributes must be combined with social capital in order to lead to the creation of a global mindset? (What, for example, is the role of cultural intelligence, as discussed in Chapter 16?)
- What is the role of HRM processes in building, protecting and capitalising on social capital?

Based on their study of a large international news and financial information organisation, Sparrow et al (2009) go on to identify learning points about the operation of social networks.

LEARNING POINTS ABOUT THE OPERATION OF SOCIAL NETWORKS IN ORGANISATIONS

- 1 In the continual duality between wanting global integration and being locally responsive, a key bridging mechanism for organisations involves networking.
- 2 The actual networks that are developed are dependent upon, but also help create, both social and political capital.
- 3 Understanding the shape of the networks offers powerful insights into organisation design questions within IHRM functions. By tracking the actual networks inside any multinational organisation, the validity of the existing structures, such as centres of excellence, regional hubs and strategic project groups can be assessed.
- 4 Delivering HRM leadership through networks can facilitate more collaborative solutions, but this depends on the strategic capability of the function, board-level support and the strength of international HRM networks.
- 5 Network and project-based structures have had – and will continue to have – an impact on the conduct and quality of international HRM interventions and the career trajectories of HRM professionals.



CASE STUDY 13.3

HOW COULD YOU MEASURE THE STRUCTURE OF THE NETWORK IN AN IHRM SETTING?

Sparrow et al (2009) developed a methodology that enables an IHRM function to analyse four 'positional attributes' of its networks:

- Who is particularly well-connected? What is the prominence or importance of an individual, as indicated by their position in the network? A high level of centrality indicates the presence of highly valued ties between an individual and their first-level connections. This is called 'centrality'.
- How 'near' is an individual (in terms of frequency of contact) to all the others in the network? This is called 'closeness'.
- How important an 'intermediary' is the individual? What is the position in the HRM network and the extent to which an individual lies between the various other important actors in the network? This is called 'betweenness'.
- Who are the most important brokers of exchange within this HRM network?

They designed an instrument that can be used to display how effective and complete the networks are inside an IHRM function. The exercise had two parts to it. In exercise one, respondents listed all the key people/units that formed part of their network. In exercise two, for each person or unit that they identified, respondents provided some key information (in the form of ratings) about the dyadic relationship. Respondents generated a list of (up to ten) people/units/stakeholders that they dealt with (each person/unit was called a node). They were asked the following questions:

- 1 In order to execute your HRM strategy, who is the target – that is, who do you interact with?

- 2 Why do you interact with them?
- 3 How important is the relationship?

Respondents were then asked to select their top five interactions and answer the following 13 questions about each one, on a 1-to-5 scale:

- 1 How frequently do you interact with this node?
- 2 To what extent do you transfer expert knowledge to/from this node?
- 3 To what extent do you broker information to/from this node?
- 4 To what extent do you provide consulting support for this node?
- 5 To what extent do you have to persuade this node to do something?
- 6 How deep is the relationship?
- 7 How much power do you have in the relationship?
- 8 What would happen if interaction never took place? How serious would the consequence be for IHRM?
- 9 To what extent is value added or created for the HRM function from this relationship?
- 10 To what extent is value protected through this relationship (for example, brand/reputation, corporate social responsibility, risks controlled)?
- 11 What is the level of reciprocation in this relationship?
- 12 Who most influences what is delivered?
- 13 How central to (the organisation's) strategy is the relationship?

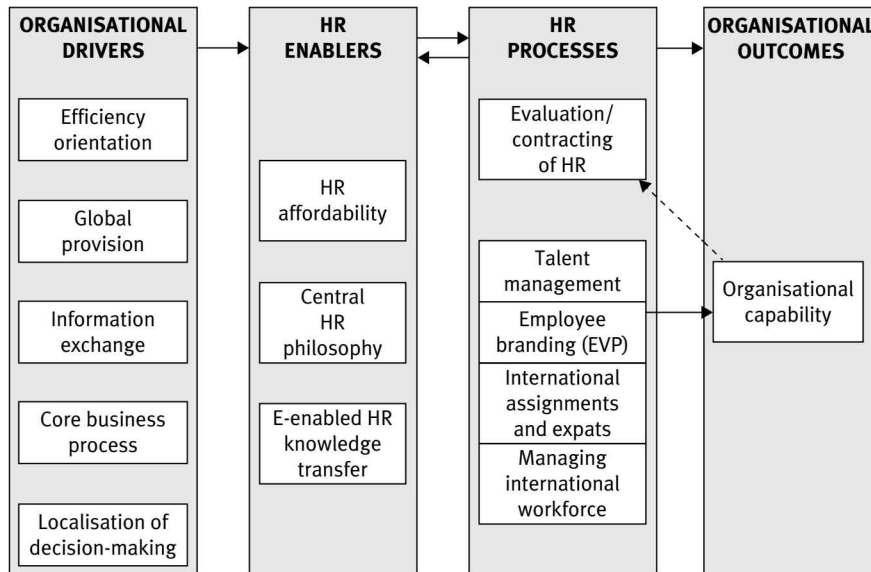
13.7 A MODEL OF GLOBAL HRM

In a study of global HRM strategies in UK MNCs Brewster et al (2005, p950) found that there were five different strategic drivers (efficiency orientation, need for global provision, information exchange, core business processes and localisation of decision-making) but multiple ways in which the MNCs combined the drivers. They argued that we need now to challenge the view that single sequential paths to globalisation of structures and HRM make best sense:

The field is changing rapidly and, arguably, theorising has not kept up with developments in practice... To distinguish our analysis from those developed previously, we end the paper by using the term 'global HRM' (GHRM) rather than the more familiar terms 'international HRM' (IHRM) or 'strategic international HRM' (SIHRM). Our study set out to explore what is happening, at the beginning of a new century, to HRM in a global context.

They argue that there is a need for better understanding of these developments. The study used questionnaires and a longitudinal case study design, involving organisations from both the private and public sector with a broad sectoral range of sizes and contexts. The authors note that extant models of the SIHRM process tend to be static and do not include many key drivers and enablers. Figure 13.2 provides a conceptual model of this process. These factors are creating a new set of pressures on HRM specialists.

Figure 13.2 Processes involved in globalising HRM



Source: Brewster et al (2005)



KEY FRAMEWORK

Three enablers of high-performance international HRM are being developed for MNCs

As included in Figure 13.2:

- *HRM affordability*: the need to deliver global business strategies in the most cost-efficient manner possible. Both people and activities are now examined to identify their added value, and organisations are devoting considerable attention to ensuring that people are operating where they can be most cost-effective and that central overheads are as low as possible.
- *Central HRM philosophy*: the need to ensure a common philosophy and coherent practice across disparate countries and workforces.
- *E-enabled HR knowledge transfer*: the use of networks and technology to assist organisational learning. In relation to this factor, Sparrow (2006, 2011) has outlined five main forms of global knowledge management, or integration mechanisms that are currently dominating the actions of organisations, namely: organisational designs and the use of centres of excellence; managing systems and technology-driven approaches to global knowledge management systems; capitalising on expatriate advice networks; co-ordinating international management teams; developing communities of practice (COPs) or global expertise networks.

This research illustrates the need for global HRM functions to be able to position themselves in a range of ways in order to deliver the enablers and processes that lead to organisational capability.



- HRM decisions in the international sphere are very complex.
- The broad scope of IHRM now goes far beyond the issue of expatriation to an overall concern for managing people effectively on a global scale.
- In adopting a SIHRM perspective, HRM practitioners in international organisations would be engaging in every aspect of international business strategy and adopting HRM policies and practices aimed at the most effective use of the human resource in the firm.
- Researchers coming from an institutional perspective remind us that in reality, stateless organisations operating independently of national borders under global rules of economic competition are still few and far between.
- The main models and frameworks that have been used in the field concentrate on four different levels of analysis, each of which can present a different picture of the true extent of globalisation and the HRM issues that consequently must be managed: globalisation of industries; relative levels of internationalisation of the firm; progressive building of international capabilities; and functional realignment.
- The task of producing a grand theory that brings together the diverse perspectives inherent in the range of IHRM theories is neither feasible nor desirable – by their nature each theory sheds light on the many different processes and phenomena that come to the fore as HRM is managed in the international context.
- Life-cycle models reflect the need for there to be strategic fit between HRM policies and practices and the international evolution of the firm.
- MNCs frequently reach the limits of their information-processing capacity and the competing demands of globalisation and localisation influence the choice of structure and management control processes within international organisations.

- A unifying theme throughout all SIHRM studies is the tension between differentiation and integration – sometimes referred to as the ‘global versus local’ dilemma.
- A key determinant of effectiveness for MNCs is the extent to which their various operating units across the world are to be differentiated and at the same time integrated, controlled and co-ordinated.
- Globalisation is forcing organisations to improve their capability to transfer knowledge. Attention has been given to the mechanisms that explain why mutual transfer of capability (to and from the corporate HQ and subsidiaries) is beneficial to the organisation.
- Despite the growth of such cross-business networks, often made easier also by technology, face-to-face contacts with foreign partners are still crucial in cultivating trust, providing access to the flow of information within the network, and providing the opportunity for international managers to create new relationships.



LEARNING QUESTIONS

- 1 Which of the theoretical approaches to SIHRM are the most useful in explaining your organisation’s current IHRM policies and practices?
- 2 To what extent can there be such a thing as ‘best practice’ in IHRM?
- 3 Describe the key features of a typical HRM approach under each of Heenan and Perlmutter’s (1979) orientations to internationalisation.
- 4 Plot your current organisational approach to HRM on the model of processes associated with the globalising HRM model in Figure 13.2.



EXPLORE FURTHER

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Managing Expatriate Assignments

LEARNING OUTCOMES

When you have read this chapter, you will:

- understand how international assignments link to an organisation's international strategy
- be able to evaluate trends in the nature of expatriation
- recognise the critical components of the expatriate management cycle
- be able to critique theory versus practice in international manager selection
- identify antecedents to adjustment in international assignments
- be able to design appropriate pre-departure preparation programmes for expatriates
- know how to compare ways of measuring the performance of expatriates
- be able to describe best practice in relation to repatriation.

14.1 INTRODUCTION

This chapter links international assignments with organisational strategy. A critical component of the work of HRM departments in multinational enterprises (Chapter 12) now involves the IHRM strategy and particularly the management of internationally mobile staff. This chapter examines the traditional assignment of expatriates – groups of managers and experts who transfer between HQ and subsidiaries or between subsidiaries on enhanced terms and conditions of employment to disseminate corporate strategy and culture to local units and to transfer competence across borders. The next chapter (Chapter 15) examines the wider issue of managing internationally mobile capabilities and the full range of international mobility options.

It seems that in newer affiliates there is a clear correlation between the use of expatriates and organisational success – and if it is a larger subsidiary, having more expatriates also correlates with success (Sekiguchi et al 2011). In addition, high-potential managers from headquarters have been sent abroad as a developmental method prior to progression to senior management. However, changes at both organisational and individual level, and in the academic understanding of international mobility, are causing a fundamental rethink of international staffing policies. This chapter explores how international mobility fits within an organisation's overall strategic IHRM approach. It also examines critical components in the effective management of international assignees.

Aligning international assignments with organisational strategy can be thought of in relation to the dominant orientation of the international organisation. The generic patterns of expatriation associated with the four main modes of international orientation (ethnocentric, polycentric, regiocentric and geocentric) were outlined in Chapter 13.

The extremes are the ethnocentric approach, where expatriates are sent out from headquarters because they 'know better' (about organisational policy or specific skills or practices), and the geocentric orientation, where planning for international assignments is just one part of global HRM planning. A trend towards a more global approach to international staffing (Sparrow et al 2004) would represent a significant move away from the traditional ethnocentric mode of international assignments. Mayrhofer and Brewster (1996), however, note that there has been no wholehearted rejection of an ethnocentric approach to international staffing, pointing out the numerous advantages, as well as the disadvantages, of such an approach (see Table 14.1). They note that most MNCs are still fundamentally ethnocentric.

Table 14.1 The advantages and drawbacks of ethnocentric staffing

Advantages	Drawbacks
<ul style="list-style-type: none"> ● efficient co-ordination ● effective communication ● direct control of foreign operations ● diffusing central values, norms and beliefs throughout the organisation ● broadening the view of expatriates and chance of growth for expatriates ● rapid substitution of expatriates possible ● no need for a well-developed international internal labour market ● appropriate for entry into international business 	<ul style="list-style-type: none"> ● adaptation of expatriates uncertain ● selection procedures prone to errors ● high costs ● complicated personnel planning procedures ● private life of expatriates severely affected ● difficulties in mentoring during stay abroad ● reduced career opportunities for locals ● potential failure rate likely to be higher ● government restrictions

Source: Mayrhofer and Brewster (1996)



CASE STUDY 14.1

HSBC: THE INTERNATIONAL MANAGER PROGRAMME

HSBC is a major financial services organisation that employs 284,000 employees worldwide and operates in over 80 countries. The bank has colonial roots and was originally based in Hong Kong. It was managed by 'international officers' who were largely British expatriates. In the early 1990s, Midland Bank was acquired. Major acquisitions in North America have also made HSBC the largest foreign bank in Canada and the USA. The corporate centre is now in the UK. The bank's vigorous advertising campaign features the need to be sensitive to local culture and customs in order to succeed in business, proclaiming it to be 'the world's local bank'.

The expanding geographical reach of HSBC and its growth through acquisitions increased the need for the international

deployment of people. It has operated a traditional elite expatriate model, virtually all senior managers being drawn from a tight-knit cadre of international managers (IMs) who were seen as 'the DNA of the organisation' (*Economist*, 2006, p99). This currently outweighs the decreasing need for expatriates in some of HSBC's earlier markets, where more highly skilled local people are now available. HSBC has retained a specific group of international managers. IMs are globally mobile, generalist commercial bankers who provide a pool of resources, often at short notice, to meet the group's needs. They are exposed to a wide range of commercial banking business areas across a range of geographical, operational, functional and cultural barriers. HSBC recruits and plans for IMs

to stay with the group in the long term. Individuals are recruited direct into the International Manager Programme either from higher education or internally. The career deal for IMs is clear. They can be sent anywhere and at short notice, and so give high commitment to the organisation. In return, the individual has a good employment package, a wide range of challenging jobs and good career prospects leading to general management positions. Realistic job preview is an important feature of the recruitment process. Attention is drawn to the potential downsides such as not being able to choose where you work; being prepared to spend an entire career outside your native country; being trained as a generalist and not a specialist; being able to work and live amongst a range of cultures, customs, nationalities and languages; having an ever-changing circle of friends; and living in a world where partners and children must accept an IM lifestyle. Once the five-

year development programme has been completed the managers are deployed on new postings every two to three years on a rolling basis. Each move is planned to provide a steep learning curve. By their early forties successful managers become country managers or the chief executive of an operation. Development is measured against core skills throughout the process by means of a systematic Executive Performance Development Programme.

The scheme, which peaked with around 800 expatriates, has now been scaled back to 380 employees who come from 33 countries. Despite this there has been a large expansion in other types of foreign posting. In addition, there are 1,600 people working as secondees, contract executives and short-term assignees (mainly technical staff). Each group has its own compensation and benefits package.



CASE STUDY 14.2

TODAY'S CONTEXT FOR GLOBAL MOBILITY

Consultants' surveys are usually done amongst their clients or potential clients for the purpose of selling their services and therefore have limited academic validity. But they are frequent and more up to date than academic texts and give us some indications of what is happening. Recent surveys (for example BGRS 2010, GMAC 2008) demonstrate that:

- 1 most organisations deploy 50 or fewer expatriates; much smaller numbers have up to 100 or even over 1,000 expatriates
- 2 more expatriates now are women (maybe as many as a quarter, amongst the larger companies) and most are aged between 20 and 45
- 3 family concerns and spouse career issues continue to dominate reasons for failure to accept an assignment and also assignment failure
- 4 only a minority of employees in the surveyed organisations have international experience
- 5 the economic crisis starting in 2008 led many companies to reassess their use of these very expensive employees, but the latest figures show that increasing growth in the numbers has been re-established
- 6 formal cross-cultural training is made available to only a minority of employees
- 7 expatriate attrition rates are at least double those of other employees, around a third to a half of repatriates leaving their organisation within two years of return.

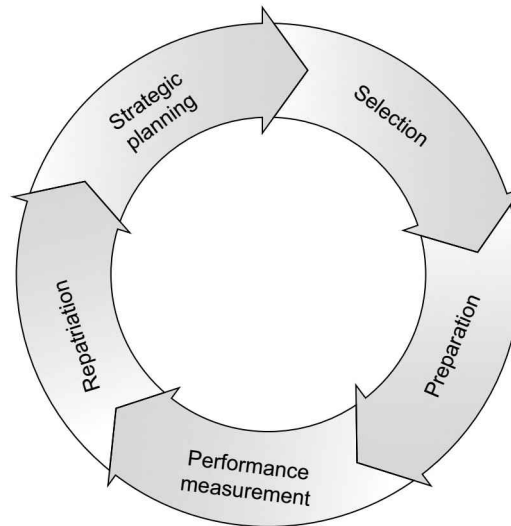
As the second case study shows, there have been major changes in terms of the profiles of individuals undertaking international assignments and their expectations. We are moving away from the standard career-expatriate model, usually filled by white middle-class male employees from headquarters.

Key features of the modern expatriate population include the following.

- There are more people from outside the headquarters country: ‘third-country nationals’ (not from the home or the host country) and inpatriates (that is, people brought into headquarters) as part of a more geocentric staffing policy.
- There may be more women. The numbers of women expatriates vary with country (Bonache et al 2007), but early estimates range between 2% and 15% of the total expatriate population (Adler 1986; Scullion 1994; Harris 1995; Caligiuri and Tung 1998). Although there is extensive research into female expatriates (Harrison and Michailova 2012; Shen and Jiang 2015; Tung and Haq 2012) and it is clear that they continue to face numerous barriers to participation (see Chapter 15), we still have little idea whether the number of female expatriates is increasing or not.
- The number of ‘dual-career couples’ has increased significantly. For them, an international assignment presents a series of challenges (Caligiuri and Tung 1998; Käsälä et al 2015). There is little research on the expatriate family as opposed to research on partners and children as constraints on the expatriate (although see Andreason and Kinneer 2005; Haslberger and Brewster 2008). Fewer partners, male or female, are prepared to accept a ‘trailing’ role – not working, but being expected to act as support to their MNC-employed partner, and even to act as (typically) ‘hostess’ for corporate functions. Partners now more frequently have their own career, and expect to work in the new country (see Chapter 15).
- The expatriate population is now better educated than it used to be. Increasing demands for expatriates to deliver value during assignments, linked to the use of expatriate assignments for developmental purposes for high-potentials, have resulted in an expatriate population made up substantially of well-educated individuals, with degrees or MBAs.
- Changes have occurred in employee expectations that international assignments will lead to career progression, in line with changes in the psychological contract. Research suggests that managers increasingly view an international assignment as enhancing their careers (Tung 1998), even if that may not be with their current employer (Jokinen et al 2008). Emerging notions of ‘internal’ or ‘boundary-less’ careers (Arthur and Rousseau 1996; Parker and Inkson 1999) suggest that managers value an international assignment for the opportunity it brings for skill acquisition, personal development and career enhancement, even though it may not help them advance within their company. Many expatriates now find their own way to another country rather than being sent by their organisation (Suutari and Brewster 2000, 2003; Banai and Harry 2004). This trend has major implications for organisational policy and practice in terms of repatriation and career management.
- The increasing development of new communications technology – and new transport options – means that many, though not all, of the advantages of using expatriates can be achieved by other means: short-term assignments and frequent flying (Welch and Worm 2006) and virtual teamworking (Zimmerman and Sparrow 2007) (see Chapter 15).

In order to address some of the ways that organisations are attempting to manage their expatriate workforce, Figure 14.1 shows the ‘cycle of expatriation’.

Figure 14.1 The global assignment cycle



The complexities of managing this cycle have been the focus of sustained academic research over many years. Despite this focus, key challenges still remain under each of the cycle components. The whole of the global assignment cycle has to be managed effectively. Expatriate failure in the usually defined sense – the premature return home of an expatriate manager – is rare (Harzing 1995). Some US literature has claimed very high failure rates, and it does seem that expatriate failure may be a less significant issue for European MNCs (Suutari and Brewster 1998; PriceWaterhouseCoopers 2000). However, the cases that occur are invariably traumatic for the individual and the organisation. And perhaps more serious are the many more numerous cases of poor performance. Preventing or minimising these will involve HRM specialists in work on:

- planning
- selection (recruitment)
- preparation
- adjustment
- rewards
- performance measurement
- repatriation.



REFLECTIVE ACTIVITY 14.1

- In what circumstances might ethnocentric staffing be valuable, and why?
- And when should it be avoided?

14.1 INTRODUCTION

Discussions of overall orientation to internationalisation and its impact on staffing practices provide the context for the more detailed formulation of strategic operational goals and their link to international assignments.

Bonache and Fernandez (1999) addressed the question ‘What relationship exists between the MNC’s international strategy and the expatriate selection policy?’ According to their resource-based view, competitive advantage can occur only in situations of heterogeneity (resources are unevenly distributed and deployed across firms) and immobility (they cannot be transferred easily from one firm to another). A sustainable competitive advantage is achieved when firms implement a value-creating strategy that is grounded in resources that are valuable, rare, imperfectly imitable and non-substitutable. In an international context, resources that provide the company with a competitive advantage in the firm’s home country are also useful in other countries.

Now look back once more at the advantages and disadvantages of ethnocentric staffing as listed in Table 14.1.



KEY FRAMEWORK

Four categories of subsidiary

In line with the resource-based view of the firm, it is the transfer of intangible resources – in particular, knowledge – which is most important to the firm both in value and as a basis for competitive advantage. Depending on the extent to which subsidiaries develop these dimensions of internationalisation, Bonache and Fernandez (1999) classified them in four categories:

- Implementor subsidiaries apply the resources developed in the headquarters or other units of the organisation to a specific geographic area. Skills knowledge transfer is expected to be a critical reason for using expatriation here due to the high need for tacit knowledge transfer.
- Autonomous units are much less dependent on the human and organisational resources existing in the rest of the company’s international network. They therefore will have little use for expatriates for knowledge transfer and co-ordination, and would tend to use local country nationals in key positions.
- Learning units acquire and develop new resources that may later be exported to other parts of the organisation. The dominant pattern of international transfer will therefore be one of moving managers from these units to another country.
- Finally, globally integrated units develop new expertise but also use the resources generated in other subsidiaries or in the headquarters. Expatriates are used for knowledge transfer, but also for co-ordination.

Research reveals an extensive list of possible strategic reasons for MNCs’ using international assignments (see checklist in the key framework on strategic targets).



KEY FRAMEWORK

Strategic targets addressed by an international assignment:

- to improve business performance
- to foster the parent corporate culture in the subsidiary, or share cultural views: to develop the 'corporate glue' that holds international organisations together
- to break down barriers between the parent company and subsidiaries
- to solve technical problems
- to develop top talent and future leaders of the company
- to open new international markets
- to handle politically sensitive business
- to control business improvement initiatives
- to improve the trust/commitment of the subsidiary
- to reduce risks
- to train host-national employees in order to improve individual skills
- to improve team skills
- to implement knowledge practices – for example development, sharing, codification, combination, transfer and mapping of the organisation's knowledge
- to develop, share and transfer best practices
- to improve business relationships
- to develop networking processes at intra- and inter-organisational level
- to develop an international leadership with a global mindset
- to control financial results.

At this level management has to answer a fundamental question: why do we need to send people on an international assignment to perform the strategic goals? Since expatriates are very expensive, an organisation has to clarify why it is sending them on an assignment. For an organisation they represent a high-cost investment. This cost should be justified against a set of payoff benefits (see Chapter 15). The situation with regard to the use of expatriates has been changing quite rapidly in recent years. Rising costs and staff expectations and greater risks associated with certain locations mean that each assignment is increasingly viewed on the basis of a cost-benefit analysis. Many organisations are in the process of reconsidering the role of their internationally mobile employees (Sparrow 2006).

14.3 SELECTION (RECRUITMENT)

After planning, the next step in the cycle is identifying the right person for the post. For the organisation, we are generally discussing selection rather than recruitment because in most cases the candidates are already employed by the organisation (but note that Sutari and Brewster (2000), found a substantial proportion of people working outside their own country had made their own way there). These appointments normally fall into the category of transfers or promotions and are often linked with prior identification of potential (particularly in the case of developmental assignments). With organisations often using expatriation as a 'testbed' for wider managerial responsibilities, there is a relationship between expatriation and the 'talent management we examine in the Chapter 15 (Cerdin and Brewster 2014). External recruitment tends to be limited to specific skills (deep-sea drilling, logistics, etc) and to difficult-to-fill assignments in unpopular or dangerous countries.

How best should we think about the selection of people for international roles inside organisations? Morley and Heraty (2004, p634) point out that:

There is an emerging recognition that international assignees may impact the bottom-line performance of MNEs, and thus, as Dowling and Welch (2004) observe, finding and nurturing the human resources required to implement an international strategy is of critical importance.



REFLECTIVE ACTIVITY 14.2

While/after reading the following sections, answer the following questions:

- Can the competencies that become important for international management be developed?
- Are some competencies so complex, rare on the ground or time-consuming to build that the real issue is to select and motivate a small elite of managers?
- Can we identify a clear hierarchy of international management skills, from the most basic, to higher levels of performance and sophistication, or must we be left with endless lists of desirable characteristics with assumed relevance?
- Do internal resourcing systems realistically make such graded and calibrated decisions about managers?
- Are line managers just happy to find candidates who are half-competent but are willing and mobile?

The consensus view from HRM practitioners is that it is possible to specify a set of competencies for international assignments, and that these can be used to assist the selection of some people in some jobs. However, there are very different views about the practicality of using them to select international managers.

Sparrow (1999) reported two competing resourcing philosophies: one view, the clinical risk assessment approach, finds favour with HRM professionals who argue that there are limits to the use of personal competencies as a selection criterion for international employees. The reasons for unsuccessful international management assignments often go beyond problems of the managers' cultural adaptability, maturity, and stability to include issues such as the adaptability of the partner, dual-career difficulties, national attitudes to mobility, and pay arrangements. Scullion (with Starkey 2000, and Collings 2006) has argued that the pool of potential expatriates is reducing (although it may be that this is only true in certain cases and in ethnocentric organisations). They cite NCR as an example of an organisation that pursues the strategy of designing the assignment to match the skills of the manager, rather than the other way round.

The second, more traditional 'psychometric' approach, argues that there is an identifiable set of competencies that are associated with success and that these can be used to predict effective performers in international roles (see Chapter 15 for a review of this work). It is generally accepted that certain factors have to be given more attention when operating internationally (such as openness to experience, tolerance of ambiguity, extroversion, the ability to generate and inspire trust in others, and proactive information-seeking). Research in many countries finds that despite this, technical competence is seen as the number one criterion.

14.3.1 SELECTION CRITERIA: THE THEORY

The literature on the criteria used for expatriate manager selection also has a tendency towards prescription and a heavy North American bias. We discussed some of the assumptions and competing perspectives about the desirability of selecting people against individual characteristics for successful international working in Chapter 8. In the context of selecting expatriates, sometimes theoretical lists of competencies for international

managers can look amusing. One book on cross-cultural management (Harris and Moran 1996) cites 68 dimensions of competency, of which 21 are perceived as 'most desirable'. Staff with these competencies should probably be chief executive officer rather than expatriates! Yamazaki and Kayes (2004) reviewed the expatriate literature and analysis of the skills necessary for cross-cultural learning and identified 73 skills that clustered into ten high-level competencies! Others (such as Phillips 1992) suggest that there is not much difference between the competencies required for an international manager and those required for a domestic manager. Most studies dealing with the skills needed for expatriates have focused on lists of criteria, competencies and personal characteristics that should be assessed. In terms of characteristics to be considered, an amalgam of recent studies (see Caligiuri et al 2009; Yamazaki & Kayes 2004; and Stroh et al 2005) reveals the characteristics listed in the following key framework.



KEY FRAMEWORK

Characteristics of the successful expatriate manager

Professional and technical competence and experience on the job:

- Experience in the company
- Technical knowledge of the business
- Previous overseas experience
- Managerial talent
- Overall experience and education

Relational ability 1 – Personality traits and relational abilities:

- Communicative ability and interpersonal skills
- Maturity and emotional stability
- Tolerance for ambiguity in personal relations, unfamiliar situations/new experiences
- Behavioural and attitudinal flexibility: willingness to acquire new patterns
- Respect for the culture of the host country
- Adaptability and flexibility in a new environment

Relational ability 2 – Perceptual dimensions and life strategies:

- Information-seeking skills: listening and observation
- Modelling capacities: drawing upon observational learning to acquire knowledge, attitudes, values, emotional proclivities and competences
- Non-judgemental frameworks
- Non-evaluative in interpreting the behaviour of host-country nationals
- Self-maintenance factors
- Ability to substitute traditional reinforcements with other activities
- Stress-reduction techniques
- Self-maintenance, confidence in own ability to perform specific behaviours (self-efficacy)

Leadership and motivational factors:

- Relationship development and personal influencing skills
- Willingness to communicate
- Action and initiative skills
- Belief in the mission
- Interest in overseas experience
- Congruence with the career path

Cultural awareness:

- cultural robustness: understanding of the differences between countries
- host-country language skills and translation of concepts, ideas and thoughts in verbal form
- understanding non-verbal communication.

Family situation:

- stability of the family situation
- spouse and family's adaptability and supportiveness.

Certainly global leaders must possess some very specific skills and competencies simply because the roles that they perform are complex: '[Global leaders] have to possess a complex amalgamation of technical, functional, cultural, social and political competencies to navigate successfully the intricacies of changing cross-border responsibilities' (Harvey and Novicevic 2004, p1173). There have been many attempts to distil the key criteria from the more extensive lists. However, it may be the case that expatriates from some countries are more successful than others, either because of their cultural similarity with the host country (Gong 2003) or because some cultures (for example, those with a higher tolerance of uncertainty (see Chapters 3 and 4) make better expatriates. There are two main findings from the empirical research into selection practices amongst MNCs. The first is that expatriates are primarily selected on the basis of their technical competence (see, for example, Harris 1999). Companies' perception of international selection as a high-risk operation leads to a tendency to place emphasis in recruitment on technical and managerial qualifications, to ensure that the job can be done competently (Antal and Izraeli 1993). Put another way, expatriates who are not at least competent in the job they are performing are really going to struggle to bring any other competences into play. The second finding is that there is an underlying assumption of the universal nature of managerial skills, as first identified by Baker and Ivancevich (1971).



CASE STUDY 14.3

THE ASSUMPTIONS ABOUT THE SKILLS NEEDED BY INTERNATIONAL MANAGERS FOR ADJUSTMENT

Mendenhall et al (2002) explain that the assumptions we make about the skills needed by international managers can be traced back to four theoretical models:

- *Learning models* – These assume that the skills and competencies that international employees need have to do with learning new skills and techniques of adaptation in coping with the impact of the 'other' culture. The major task facing expatriates is to adjust their social skills such that they can learn the salient characteristics of the new environment in terms of new roles, rules and norms of social interaction. Cross-cultural training is

generally designed on the basis of this assumption.

- *Stress-coping models* – These assume that feelings of anxiety, confusion and disruption associated with culture shock are akin to individual stress reactions under conditions of uncertainty, information overload and loss of control. Role theory argues that competing assignment demands make role conflicts unavoidable and it is this that impacts on effectiveness. Stress management (coping strategies), rather than stress avoidance, is necessary in order for expatriates to engage in necessary engagement behaviours. International employees have to draw

from a wide range of such strategies to manage problems, although there may not be congruence between what is necessary to manage stress and what is required for effective management of the assignment.

- *Developmental models* – These assume that there are a series of phases of adjustment that an international employee has to go through (for example, contact, disintegration, reintegration, autonomy and independence) that reflect progressive stages of cultural awareness. Individuals undertake adaptive activities only when environmental challenges threaten their internal equilibrium. Processes of periodic (rather than linear) disintegration, regrouping/regeneration then higher maturation (progressive inter-cultural sensitivity often also associated with global leadership competence) are an inevitable consequence of exposure to other cultures. In a rare qualitative study of returned expatriate stories, researchers adapted the metaphor of heroic adventures to note the

importance of personal transformations that accompany adjustment processes.

- *Personality-based models* – These assume that such development can in part be predicted by a set of generalisable attitudes and traits, such as adaptation, cross-cultural and partnership skills or personality variables that are associated with model cross-cultural collaborators. The importance of these prerequisites depends on the nature of the position and task variables, organisational characteristics and the host country. Empirical support is, however, still weak, and again there may be contradictions between what is required for interaction adjustment and work adjustment. Moreover, as found in a study of German international employees assigned to work in Japan and the USA, each country presented different problems and conflicts for the employees and therefore required differential personality-related coping strategies.

14.3.2 SELECTION CRITERIA: THE PRACTICE

In practice, most expatriates are not selected on the basis of such criteria. One factor is the selection process. Research into expatriate selection practice (see Mendenhall and Oddou 1985; Dowling et al 1994) highlights the predominance of informal selection processes – what Harris and Brewster (1999b) called the ‘coffee-machine system’ – which leads to selection from a small pool of people known to senior managers, to potentially discriminatory outcomes and to some serious failures. Lack of attention to developing formal expatriate selection systems can be extremely costly to an organisation. Many leading-edge organisations, however, have recently been employing more sophisticated procedures. One such approach is outlined by Sparrow (1999) and consists of a cultural adaptability assessment focused on helping employees understand the personal qualities required to work overseas and the implications of an international assignment for themselves and their families. The approach concentrates on identifying the psychological adaptations that have to take place on an international assignment. One potential drawback with such an approach is the reluctance on the part of an employee to be completely honest about family problems when the assignment is seen to be critical to progression. Issues of political and social capital also have relevance to this kind of ‘risk assessment’ approach to international resourcing.

14.4 PREPARATION

One of the key ways in which organisations can support individuals undertaking international assignments is through the provision of pre-departure preparation, which can include training and other forms such as briefings, visits and shadowing. Expatriates are very positive about the value of training programmes (Ehnert and Brewster 2008; Harris and Brewster 1999a; Waxin and Panaccio 2005). However, the latest consultancy surveys continue to find that formal cross-cultural training is given in only around a fifth of all organisations – even though most expatriates want it. A major problem is that the length of time between the decision to go and leaving for the new country is often very short.

Cross-cultural training has long been advocated as a means of facilitating effective interactions (Brislin 1986). Tung's (1981) framework for selecting cross-cultural training methods has two main dimensions: degree of interaction required in the host culture; and the similarity between the expatriate's home culture and the host culture. Mendenhall and Oddou (1985) developed this framework to include the degree of integration and level of rigour required, and translated this into the needed duration of time for each type of training programme. The framework consisted of three levels: information-giving approaches (for example, factual briefing and awareness training), affective approaches (for example, culture assimilator training, critical incidents and role-plays) and immersion approaches (for example, assessment centres, field experience and simulations).

Mendenhall himself (Mendenhall et al 1995), however, points out that this model does not specify how the level of rigour is determined and refers only to cross-cultural training. A framework developed by Black and Mendenhall (1989), based on social learning theory, suggested a decision-tree model which logically links and integrates the variables of culture novelty, required degree of interaction with host nationals, job novelty and training rigour.



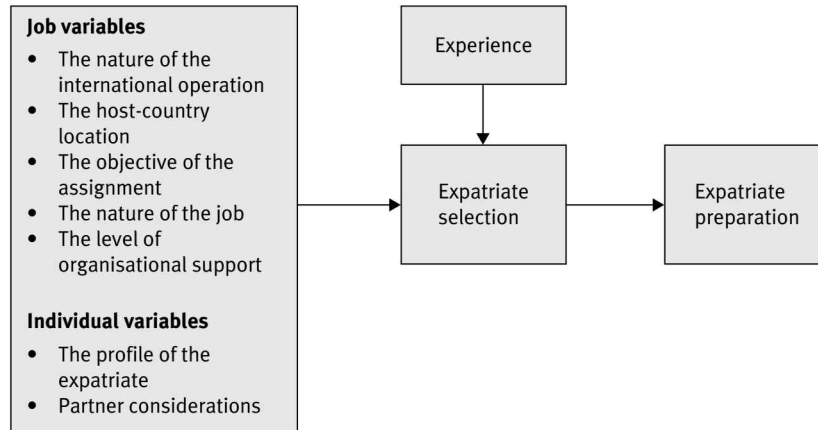
REFLECTIVE ACTIVITY 14.3

Check out your own organisation, or one that you know:

What forms of pre-departure training does it offer?

After reviewing existing approaches to pre-departure preparation, Harris and Brewster (1999a) argued that organisations should take a more holistic approach to pre-departure preparation for expatriates. The authors suggested an integrative framework that takes into account job variables at the home- and host-country level, including the nature of the international operation, the size of the home-country organisation, the host-country location, the objective of the assignment, the nature of the job and the level of organisational support, together with individual variables in terms of the expatriate profile and partner considerations (see Figure 14.2). These antecedents are considered alongside an assessment of the individual's existing level of competency before deciding on an appropriate preparation scenario.

Figure 14.2 Integrative framework for pre-departure preparation



Source: Harris and Brewster (1999a, p236)

14.4 PREPARATION

Once selected and prepared, a key issue concerns the ability of the expatriates – and their families – to adjust to their new environment. But note, too, that adjustment may not be entirely one-way: one of the roles of expatriates is often to introduce new practices into the subsidiary organisation – local employees will have to adjust, to some extent, to the ways of the expatriate and perhaps to the new practices they are bringing in (Brewster 1995).

The prevalent adjustment model describes linear causal relationships between antecedents and three, narrowly conceived and one-dimensional, adjustment outcomes: interaction adjustment, general adjustment and work adjustment. These categories are an artificial construct from the adjustment measure used (Black and Stephens 1989) and are not comprehensive or, more critically, analytical or discrete. Further, the model excludes feedback loops to account for the real-life dynamics of expatriate adjustment. Thus, it does not reflect the complexities of expatriate adjustment (Haslberger 2005). Finally, the model addresses adjustment only on one level – that of the individual expatriate. Recent research indicates that about three quarters of expatriates are accompanied by at least one family member (Dickmann et al 2006) so that family adjustment becomes important too (Haslberger and Brewster 2008).

Work based on the Black and Stephens (1989) model has been very productive and has indicated a relationship between these measures of adjustment and job satisfaction, organisational commitment, withdrawal intentions and performance (Bhaskar-Shrinivas et al 2005; Hechanova et al 2003). The weaknesses of the Black and Stephens model are, however, manifold. A wider model of adjustment, covering 'dimensions, domains and dynamism' (Haslberger and Brewster 2009; Haslberger et al 2014) fits reality better.

The dimensions of adjustment include cognitions, or knowledge; emotions (Searle and Ward 1990; Ward et al 1998; Ward and Kennedy 1999) and behaviours, as distinct outcome components (Kim 1988).



KEY FRAMEWORK

The variety of factors that determine adjustment

These fall into four main groups:

Factors to do with the individual include self-efficacy, relational and perception skills, flexibility, a desire to adjust, tolerance of ambiguity, leadership qualities, interpersonal skills and self-confidence, cultural empathy, emotional stability (Hiltrop and Janssens, 1990; Coyle, 1992; Collins, 1995), language ability and previous international experience (Black and Stephens 1989; Black and Gregersen 1991).

Non-work factors include, particularly, the family situation. Crossover effects exist between expatriate and spouse adjustment (see for example Takeuchi et al 2005). An inability of the spouse and children to adapt to the cultural environment is a common source of difficulty (Moore and Punnett 1994; Collins 1995; Jones 1997). If a spouse or family member is undergoing severe culture shock or experiencing difficulty in making the cross-cultural adjustment, the morale and performance of the expatriate may be affected adversely (Torbiörn 1997). Children may also be very resistant to moving due to the educational and social disruption it may cause. A positive family situation is likely to enhance the expatriate's cross-cultural adjustment and increase the chances of a successful assignment (Punnett and Ricks 1992; Collins 1995).

Organisational factors have been classified by Black et al (1991) as organisation culture novelty (how different the subsidiary is from the expatriate's previous experience), social support (whether the organisational culture encourages support from others) and logistical help (housing, payment of school tuition, practical information about shopping, etc). McCaughey and Bruning (2005) review evidence on expatriate satisfaction and a range of important outcomes such as assignment completion. They look at how three sorts of support strategies impact on satisfaction (and adjustment): pre-assignment support strategies (such as career planning and development, training in deficits in knowledge, skills and abilities, partner/family involvement); assignment support strategies (such as using mentors and partner employment counselling); and repatriation support strategies (utilisation of knowledge, skills and abilities learned on assignment). Mendenhall et al (1995), however, warn that too many 'buffers' may reduce the learning that the expatriate gets from the experience.

Job factors which affect adjustment include role novelty, role clarity, role discretion, role conflict and role overload.

The domains within which adjustment occurs vary too. Analyses from the migration literature (Navas et al 2005, 2007) identify a number of different domains in which adjustment has to take place:

- systems of public order, reflecting rules of conduct such as registration requirements, traffic laws, etc
- work
- economics, including consumption of goods and services
- social relations
- family relations
- ideology, including culture, religion, etc.

In broad terms, these are easier to adjust to at the top of the list (driving on the correct side of the road, carrying appropriate documentation), more difficult as one reaches the domains at the bottom – families may have to behave differently in public, but in private

will often go back to their own ways. And it is unlikely that expatriates, usually only in the country for a limited time, would change their deep-seated beliefs or their religion.

Adjustment, crucially, is a dynamic process. It is likely that cognition (understanding) will improve in a more or less straight line over time, and so might behaviours, but feelings are likely to go through a roller-coaster of ups and downs as different experiences happen. Equally, the expatriate might adjust to systems of public order and to work fairly quickly but need more time to adjust to social relationships (Haslberger and Brewster 2009). The expatriate may find it difficult to perceive and learn appropriate behaviours, thus increasing the period of time required for adjustment. Glanz (2003) has examined how sensemaking – the use of rational thought to re-analyse and bring order to confusion and surprise – can be engendered through the use of narratives about the expatriate experience. This perspective shows that expatriate experience is not simply an incremental development towards adjustment but involves periods in which previous learning becomes overturned and revelations occur at an accelerated pace.



REFLECTIVE ACTIVITY 14.4

Take any one of the factors itemised above and ask yourself:

What might the individual – and what might his or her employer – do to make adjustment less of a problem?

14.4 PREPARATION

Managing compensation and benefits for international assignments has traditionally been one of the core functions of the IHR manager (Bonache 2006; Suutari and Tornikoski 2001), but it is one that has attracted little academic attention. The high costs of assignments mean that attention is focused on developing more cost-effective systems which will still provide an incentive to move. Key determinants of the type of system to be employed include (Evans et al 2002, p131):

- cost-efficiency – making sure that the plan delivers the intended benefits in the most cost-effective manner (including tax consequences)
- equity issues – making sure that the plan is equitable irrespective of the assignment location or nationality of the expatriate
- system maintenance – making sure that the plan is relatively transparent and easy to administer.



CASE STUDY 14.4

DEVELOPMENTS IN INTERNATIONAL REWARD AND RECOGNITION

There is increasing focus on how expatriates perform and add value across global networks inside the organisation. The study by Perkins (2006, p26) found that rewards strategists at Boots, BT, Cable and Wireless, Cadbury-Schweppes, Citigroup, Diageo and Shell are reappraising the basis on which

expatriation has to be managed, 'integrating organisational networks around common governance principles'. This brings tensions into the relationships between expatriates and local employees, and renewed attention to reward comparability factors. Package design is moving towards generically

composed frameworks that can be flexed to ensure a fair reflection of the mobility pressures. Organisations are exerting more control over the reward–effort bargain by standardising aspects of their rewards systems. Motivating talented employees to undertake assignments in an environment of regionalised political tensions continues to require idiosyncratic reward solutions, but there are moves to eliminate personal deals, increase transparency and knowledge about the assignment, and encourage ownership amongst local line managers. A philosophy of ‘value creation’ is being exported across operations (a ‘one organisation – one global reward system’ strategy), reducing the difference between rewards systems designed purely for expatriates and those that are designed to manage an internationally mobile set of talented managers. There is a process of directional convergence, not final convergence, in rewards policies.

Sixty-two per cent of rewards specialists claimed that rewards systems were still adapted to local context, but 78% would prefer a globally integrated approach, and 84% wanted to integrate the rewards approach with global strategy. MNCs are combining tools and techniques across the whole HRM process and applying them to all populations of internationally mobile managers. Unilever combined the talent management, organisational effectiveness, learning and reward functions in order to help its international managers better understand how they add value. The balance between what the business wants and what is fair to employees is increasingly reflecting the underlying reason for mobility and estimate of business value, which varies according to factors such as skills shortages, project logics, employee-initiated or career development motivations.

Table 14.2 provides a summary of the current approaches to expatriate compensation systems.

Table 14.2 A summary of expatriate compensation systems

Compensation system	For whom most appropriate	Advantages	Disadvantages
Negotiation	Special situations Organisation with few expatriates	Conceptually simple	Breaks down with increasing number of expatriates
Localisation	Permanent transfers and long-term assignments Entry-level expatriates	Simple to administer Equity with local nationals	Expatriates usually come from economic conditions different from those experienced by local nationals
Headquarters-based balance sheet	Many nationalities of expatriates working together	No nationality discrimination Simple administration	High compensation costs Difficult to repatriate TCNs

Compensation system	For whom most appropriate	Advantages	Disadvantages
Home-country-based balance sheet	Several nationalities of expatriates on out-and-back-home assignments	Low compensation costs Simple to repatriate TCNs	Discrimination by nationality Highly complex administration Lack of conceptual purity
Lump-sum approaches	Consistently short assignments (less than three years), followed by repatriation	Resembles domestic compensation practices Does not intrude on expatriate finances	Exchange rate variation makes this unworkable except for short assignments
International pay structures	Senior executives of all nationalities	Tax- and cost-effective Expatriates and local nationals may be on the same compensation plan	Inhibits mobility for lower levels of expatriates Lack of consistency among locations
Cafeteria approaches	Senior executives	Tax- and cost-effective	To be effective, options needed for each country Difficult to use with lower levels of expatriates
Regional plans	Large numbers of expatriates mobile within region(s)	Less costly than global uniformity Can be tailored to regional requirements	Multiple plans to administer Discrimination between regionalists and globalists
Multiple programmes	Many expatriates on different types of assignments	Can tailor compensation programs to different types of expatriates Possible lower compensation costs	Difficulty of establishing and maintaining categories Discrimination by category Highly complex administration

Source: Evans et al (2002, p132)

One of the most popular methods is the 'balance-sheet' approach. This is designed to maintain standards of living for expatriates, irrespective of their assignment location. Under this approach, expatriates are kept on the home pay system, while allowances and differentials are used to maintain home equity for items such as goods and services, housing and income tax. The idea is that the expatriate should neither gain nor lose, thus encouraging mobility. The system is administratively simple.



REFLECTIVE ACTIVITY 14.5

What are the potential disadvantages of the balance-sheet approach for:

- the individual?
- the organisation?

Alternatives to the balance-sheet approach include a 'global' compensation structure in which national origin or home has no impact. This type of scheme is more often applied to senior executives who are regarded as truly global employees. However, such systems are fraught with standard-of-living issues, not to mention complexities of tax and pension planning.

Expatriate compensation is becoming more problematic as the profile of the typical expatriate becomes more diverse. Packages based on the traditional white male with a trailing spouse and children may be completely inappropriate for a woman from the Indian subcontinent who leaves her children at home. In addition, the role of the compensation package as a key motivator for international mobility may well differ, depending on the life-stage and/or career intentions of the assignee. The trend towards rationalisation of expatriate compensation and benefits packages, linked with increasing numbers of dual-career couples, makes the decision whether to accept an international assignment or not a much more complex one.

A developing trend in Europe is for companies to treat the whole of the EU and its related partners in EFTA as 'one country' – no work permits are required, there is a right to residence in every country, medical help is available everywhere, etc. Moving people within the EU means providing the same sort of support that a transfer within one country would attract, but no 'expatriate' allowances.

14.7 PERFORMANCE MEASUREMENT

Expatriates are amongst the most expensive people that an organisation employs, yet it is surprising how little is known about the assessment of their performance and contribution. Of course, it involves a complex range of issues, and research to date suggests that rigorous performance appraisal systems for expatriates are far from universal (Brewster 1991; Schuler et al 1991; Fenwick et al 1999). The assessment of expatriate performance requires an understanding of the variables that influence an expatriate's success or failure in a foreign assignment.

An objective appraisal of expatriate performance is likely to be highly complex. This is because the general difficulties of performance measurement are compounded in the case of expatriates by the HQ's lack of knowledge of the local situation.

The already problematic relationship is further complicated by the necessity of reconciling the tension between the need for universal appraisal standards with specific objectives in local units. It is also important to recognise that more time may be needed to achieve results in markets which enjoy little supporting infrastructure from the parent company (Schuler et al 1991).



REFLECTIVE ACTIVITY 14.6

What techniques might an organisation use to assess the performance of an expatriate?

The issue of return on investment for these expensive employees has attracted recent academic and consultancy interest (McNulty et al 2009; McNulty and Inkson 2013) including attempts to encompass the perspectives of different stakeholders (Colakoglu et al 2006; McNulty et al 2013). Basically, this literature shows that there are too many factors in play, not least a tendency by MNCs to want assignment to meet a variety of different objectives, for there to be any objective ways of measuring results effectively. MNCs are aware that there are no easy answers here and tend to use a variety of methods. Thus they may combine formal performance appraisal with visits from HQ; visits back to HQ; an assessment of results in the area under the expatriate's command; reports; emails – in short, anything that will help them make a judgement. Formal appraisal systems for expatriates may either be local (with the value of cultural sensitivity and local knowledge, but with little comparability between results from different parts of the world) or be worldwide, with the opposite advantages and disadvantages.

14.4 PREPARATION

The final element in the global assignment cycle is the repatriation phase. The relationship between the foreign assignment and the future human resource needs of the organisation has become more important with an increasing focus on the need to develop international/global mindsets (Osland et al 2006) and the role of expatriates as mechanisms of knowledge transfer (Bonache and Brewster 2001). In this respect, evidence of major problems with repatriation for multinational companies is worrying evidence of inadequate HRM. Surveys suggest that up to a quarter of expatriates leave their company within 12 months of repatriation (Black and Gregersen 1991; Solomon 1995), a figure which is notably higher than for equivalent non-expatriates (Black and Gregersen 1991), and that between a quarter and a third of repatriates leave their firms within two years of returning (Suutari and Brewster 2000). In a sample of Finnish expatriates, even amongst those who stayed with the same employer well over half had seriously considered leaving (Suutari and Brewster 2003). Many had changed employer whilst on assignment, before repatriation job negotiations had started.

The expansion of foreign operations has taken place coincident with a rationalisation of HQ operations. In the leaner HQ operations of today's world there are few spaces for expatriates to 'fill in' while the organisation seeks for a more permanent position for them. A majority of organisations nowadays do not provide post-assignment guarantees (BGRS 2010). From the repatriate perspective, other problems associated with reintegrating into the home country are: loss of status, loss of autonomy, loss of career direction, and a feeling that international experience is undervalued by the company. Alongside these there will also be a loss of income and life-style, and family readjustment problems (Kraimer et al 2012).

A critical issue in repatriation is the management of expectations (Stroh et al 1998; Welch 1998). Work-related expectations of repatriates can include: job position after repatriation, standard of living, improved longer-term career prospects, opportunities to utilise skills acquired while abroad, and support and interest from supervisors and colleagues in the home country. There are few empirical studies concerning the expectations of repatriates. The ones that have been reported note generally high expectations. Most expatriates expect the return to enhance their career prospects and their return to be exciting and/or challenging (Suutari and Brewster 2003). Often it is not. Research on the careers of CEOs in the USA and Europe (Hamori and Koyuncu 2011) found that – at least for those at the very top – international experience was a negative

influence on careers: better to stay in the political spider's web of headquarters if you want to make it that far.

For most expatriates, the experience is hugely positive and of great value in their careers as we indicate in the next section. Often, however, this value is obtained for a company other than the one that paid for the international experience. This is a substantial loss for the company, made worse by the fact that these individuals rarely change their careers radically: they are more likely to go and work for competitors than move into an entirely different industry. This is not great HRM.

Together, the research suggests that organisations should devote more attention to their handling of repatriation, and that it should be part of the overall planning of the international assignment. Examples of best practice in this area include:

- pre-departure career discussions
- a named contact person at the home-country organisation
- a mentor at the host location
- re-entry counselling
- family repatriation programmes
- employee debriefings
- succession planning.

In any international company, effective handling of all stages of an international assignment is critical to ensuring the full utilisation and development of human resources. Mishandling of returning expatriates means that a good deal of critical knowledge is lost to the organisation.

14.9 THE INDIVIDUAL PERSPECTIVE: CAREERS

So far, we have examined all these issues from the point of the organisation – our book is about international human resource management. However, it is also the case that expatriation can be considered from an individual perspective. Research has only recently begun into why people go on expatriate assignments (Dickmann et al 2006), the relationships between expatriates and locals (Toh and DeNisi 2007) and the effects of expatriate assignments on careers. Research attention is switching to the longer-term effects on expatriate careers, requiring longitudinal research (Reiche 2012), seeing expatriation as just one stage in a career (Doherty et al 2008). There is some recognition in the literature that expatriation is for most people a very exciting and enjoyable experience. Much of the careers research, however, focuses around the notion of career capital – the fact that expatriation is one of the strongest learning experiences that anyone can have (they learn all about themselves, their relationships, their ability to cope, a new country, a different view of the world, etc). In the process they tend to build three types of career capital: know-how (competencies: the ability to understand the way things work and to see how they work differently in different situations), know-whom (relationships: the network of contacts and people that the individual can relate with), and know-why (motivation: a deeper understanding of what is important in their life and their career anchors (Jokinen et al 2008).

The next chapter explores this issue further, and also examines the issues related to other kinds of international working.



KEY LEARNING POINTS

- The international aspect adds many difficulties in addition to those involved in managing staff in one country, and those difficulties occur at each point of what we have called the 'global assignment cycle'.
- This is likely to be an ever-growing part of the work of HR departments.
- However, changes at both organisational and individual level are causing a fundamental rethink of international staffing policies.
- There have been major changes in terms of the profiles of individuals undertaking international assignments and their expectations; more people from outside the headquarters country; perhaps more women; more dual-career couples.
- The expatriate population is also now better educated and changes have occurred in employee expectations of international assignments.
- In newer affiliates there is a clear correlation between the use of expatriates and organisational success; and if it is a larger subsidiary, having more expatriates also correlates with success.
- Because expatriates are almost invariably amongst the most expensive people for companies to employ, and because they are usually in important positions, the necessity of taking a strategic view of the use and management of expatriates is obvious.
- The whole of the global assignment cycle has to be managed effectively: strategic planning, selection, preparation, performance measurement and repatriation.
- It is possible (if not actually practical to try to put into practice) to specify a set of competencies for international assignments, and to use these to assist the selection of some people in some jobs, but there are very different views about the practicality of using them to select international managers. The 'coffee-machine system' is widespread.
- Organisations should take a more holistic approach to pre-departure preparation for expatriates.
- The ability of the expatriates – and their families – to adjust to their new environment may be problematic, but adjustment has to be two-way.
- Adjustment has to take place to: systems of public order, reflecting rules of conduct such as registration requirements, traffic laws, etc; work; economics, including consumption of goods and services; social relations; family relations; and to ideology, including culture and religion.
- Expatriate compensation is becoming more problematic as the profile of the typical expatriate becomes more diverse. One of the most popular methods for rewarding expatriates is the 'balance-sheet' approach but 'global' compensation structures in which national origin or home has no impact are also used.
- Surprisingly little is known about the assessment of the performance and contribution of expatriates.
- Evidence of major problems with repatriation for multinational companies provides worrying evidence of inadequate HRM: expansion of foreign operations has taken place coincident with a rationalisation of HQ operations in many geographies.
- Looking at expatriation from the individual and not just organisational view is important: why people go on expatriate assignments; the relationships between expatriates and locals; and the effects of expatriate assignments on careers.



LEARNING QUESTIONS

- 1 Expatriation is an expensive process: what are the reasons that cause companies to continue to use it?
- 2 In light of the ease with which we can communicate internationally through electronic means, and the increasing ease of air transport, is it likely that there will be fewer expatriates in the future? Give reasons for your answer.
- 3 Compare the advantages for companies and individuals of using permanent, career expatriates who go from country to country as opposed to single-assignment expatriates.
- 4 What would be the best and most cost-effective form of pre-departure training and development for an expatriate?
- 5 Why should a company be worried about expatriates leaving them at the end of an assignment? What should they do to minimise the possibility?



EXPLORE FURTHER

JOKINEN, T., BREWSTER, C. and SUUTARI, V. (2008) Career capital during international work experiences: contrasting self-initiated expatriate experiences and assigned expatriation. *International Journal of Human Resource Management*. Vol 19, No 6. pp981–1000.

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www.eca-international.com

www.cipd.co.uk/global

For expatriates themselves there are a large number of potential websites available to help: they should just type 'expatriate' into their search engine.

14.4 PREPARATION

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Managing Diversity in International Forms of Working

LEARNING OUTCOMES

When you have read this chapter, you will:

- be familiar with the various forms of international working and be able to assess the pros and cons for international enterprises of using them
- appreciate the issues involved in measuring the value of international assignments
- be able to evaluate the strengths and weaknesses of various forms of diversity initiatives in international organisations
- be able to recommend ways of increasing the number of women in international management
- be able to explain how organisations operating internationally can manage the mix of international working and assignments
- understand the problems of assessing performance and outline ways in which such enterprises might manage these issues in practice
- recognise the challenges in managing international management teams.

15.1 INTRODUCTION

In order to become truly global in orientation, organisations need to ensure that they maximise their human resources wherever they are located. As we have seen in the preceding chapters, achieving this entails a clear understanding of a wide range of institutional and cultural factors that impact the development of a truly diverse workforce and management cadre. Here we examine in more detail the variety of ways that international enterprises can provide international experience for their employees and discuss some of the HRM policies and practices associated with each type. Within that we explore diversity management initiatives which aim to capitalise on the diversity in a firm's workforce (including such characteristics as race, ethnicity, national origin, gender, age and disability). Finally, we consider how internationally operating organisations can manage the mix of these forms of international experience, and how they assess whether or not they are working effectively.

The range of formats and the types of people that multinational enterprises use for international work is growing ever wider. We start by assessing the range of formats, and then look at the range of people.

15.2 GLOBAL SKILLS SUPPLY STRATEGIES

Organisations now have to develop global skills supply strategies. The study of global staffing has traditionally concentrated on the need to resource key positions within multinational enterprises (MNEs) and top management team positions at HQ and subsidiary locations. However, the definition of the 'international employee' inside organisations continues to expand.



REFLECTIVE ACTIVITY 15.1

What factors have led to the increase in demand for more flexible forms of international management?

The changing structure and role of IHRM functions (see Chapter 12) means that these functions and their business partners now have to help their organisations manage a very wide range of options associated with global sourcing (Hustad and Munkvold 2005), leading to a plethora of recent articles attempting to assess the range of options and provide clear definitions (Mayrhofer et al 2008; Meyskens et al 2009; Suutari and Brewster, 2009; Teagarden 2010). This increased demand for new forms of international mobility is due to a number of factors (Salt and Millar 2006):

- the need for skilled people to help build new international markets (Findlay et al 2000)
- the growing importance of temporary and short-term access to specialised talent to assist the execution of overseas projects (Minbaeva and Michailova 2004; Hocking et al 2004).
- the growing need for highly mobile elites of management to perform boundary-spanning roles to help build social networks and facilitate the exchange of knowledge (Tushman and Scanlan 2005).

Moreover, the opportunity for broader resourcing strategies has increased markedly in certain labour markets because these labour markets have themselves become globalised (Ward 2004). For example, considerable attention has been given to the globalisation of healthcare labour markets (Aiken et al 2004; Clark et al 2006).

Globalisation is also leading to new relationships between a number of corporate functions and the development of many hybrid professionals capable of using the tools and techniques of each function (Sparrow et al 2004). A number of tools and techniques strongly influenced by marketing, corporate communications and IT thinking have become part of the mainstream armoury of HRM functions when dealing with international recruitment. This convergence of thinking has brought the language of employee value propositions, employer branding, corporate social responsibility, market mapping and recruiting ahead of the curve into the mix of HRM activity in this area. The challenge now is to try to manage these approaches on a global scale. An issue for many recruitment and selection functions in many organisations is that they have not yet 'internalised' this influence of global markets into their structures and strategies. Many believe that they will increasingly have to do so (Harvey et al 2000, p382):

What is needed is a global management staffing strategy that enables global consistency among various managerial pools and the foreign subsidiaries.

The correct balance of standardisation versus differentiation is hard to achieve. Harvey et al (2000) argue that organisations need to integrate a transcultural emphasis into their global staffing systems. Often it is the local in-country HRM business partner who has to manage these tensions (Sparrow 2007).

15.3 INTERNATIONALISING THE SOURCING PROCESS IN ORGANISATIONS

Organisations can use the development of an increasingly bi-cultural (Furusawa and Brewster 2014) or even multicultural (Fitzsimmonds 2013; Fitzsimmonds et al 2011) workforce to the advantage of an internationalisation strategy. However, as Case Study 15.1 shows, the sorts of HRM issues that have to be managed in relation to recruitment as the internationalisation process proceeds are also quite complex (Sparrow 2007).



CASE STUDY 15.1

BARCLAYCARD INTERNATIONAL: RECRUITMENT IN THE CONTEXT OF AN INTERNATIONALISATION STRATEGY

Barclaycard was the UK's first credit card, and as one of the largest global credit card businesses now has a rapid growth strategy. Outside the UK, it operates in the USA, Germany, Spain, Greece, Italy, Portugal, Ireland, Sweden, Norway, France, Asia-Pacific and across Africa. A strategy to become as meaningful a contributor to the group as Barclaycard UK currently was by 2013 witnessed alliances with Standard Bank of South Africa, acquisition of Juniper Financial Corporation (rebranded as Barclays USA) and a series of in-country launches. It employed 3,000 staff, with 15% based in the UK. To enable expansion, Barclaycard International built a platform of people management processes (processes, structures and frameworks) to bring stability, governance and control. Challenges varied across countries but always included ensuring rigour and consistency across operations in very different cultures, business markets and labour markets. Primary agenda items for the HRM team in 2006 were international resourcing, international mobility, talent acquisition and development of global policies and frameworks. Resourcing, then transferring, capability globally, either within an existing business or during start-up and building of a local business, necessitated a range of preferred

recruitment suppliers and the building of networks across them to transfer learning about the management of different types of supplier and agency, the assessment of their true global capability, and the availability of skills in each labour market. Intranets exchanged vacancy information between Hamburg, Zaragoza and Dublin. A new International Resourcing Business Partner role acted as a support mechanism for HRM business partners and business leaders to facilitate the acquisition of top talent through: negotiation of global preferred supplier arrangements for headhunters and research institutions; the development of an employee value proposition and employment brand across countries; advice on global versus local process; sources of best practice; and through appropriate geographical diversity in the use of international talent.

Barclaycard's call centre in Dublin acted as a central platform and nursery for future international expansion. It grew from 10 to 360 people between 1997 and 2006. Initially intended to support non-UK operations, it grew to serve eight countries including the Republic of Ireland, Italy, Spain, France, Germany, Portugal, Greece, and Botswana. Dublin was chosen because of the nature of the role, the employee base, and the city's labour market. The recruitment population

was well qualified, with intentions to stay in-country for around 12 to 18 months. Employees spoke (and were hired for) their mother tongue in the markets they served, requiring principles of cross-cultural management to be applied to a single internal labour market. The acquisition of Banco Zaragozano enabled a new contact centre in Spain: 35 employees moved from Dublin to Spain to help transfer practices. HR business partners dealt with setting up legal entities to transfer employees, deciding the best mix of local recruitment, the use of local job centres, assessing funding support, and understanding the implications and ramifications of local employment law and sector agreements. New country operations oversaw other start-up operations (Portugal and Italy were initially resourced under the guidance of the Spanish HRM partner). Considerable insight into country capability resided at HRM partner level. A 'framework for growth' was established to replicate in-country moves and transfer learning. Many aspects of recruitment and selection could be 'cut and pasted' across operations (procedures, training plans, interview and induction processes, job standards) whereas others had to be dealt with flexibly (for example, criteria-based interviewing and diversity practices). Dublin acted as a nursery (providing people to facilitate international expansion).

Rapid global expansion required the deployment of skills and experience in a multitude of countries at short notice, not always achievable quickly through local recruitment. A new international mobility framework reduced the cost and complexity of expatriating individuals by securing talented employees on global contracts with a premium for global mobility but only 'light' expatriation benefits. Assignments were designed by HR business partners and International Assignments Services (IAS) teams located within key global regions. Two initiatives supported a global mindset: awareness-

building amongst the senior leadership community through workshops on the cultures of current and potential labour markets, and cross-cultural training interventions linked to a global induction programme. Talent management tools and techniques supported international resourcing through successive application to top leadership roles, senior cross-Barclays role potential, top 450 leadership potential, and finally, a broad business talent population. Succession planning and talent identification processes were integrated with long-term incentives tied to identified capabilities. The top 10% within internal expertise fields were identified on a global basis. Rather than wait until Barclaycard International was in- or near-market, people were recruited for target markets ('resourcing ahead of the curve') with investments made in forward market mapping (using research agencies and headhunters to map a wider range of geographical labour markets, and researching people working in target roles). Global policies and frameworks operated on an exception basis (even if culturally uncomfortable, explicit guidance and global protocols governed activity unless it was illegal to do so). The aim was to ensure that consistency, rigour, global governance and risk management and control monitoring processes were aligned with institutional requirements such as Sarbanes Oxley in areas such as pre-employment screening policy.

Questions

Is there a clear sequence of HR issues that have been managed during the internationalisation process?

As an organisation globalises, what decisions have to be made as to which HR processes will be managed at a global level and co-ordinated in-country?

What is the role of local business partners in relation to recruitment and selection as the activity develops?

15.4 CROSS-CULTURAL ADJUSTMENT OF SKILLED MIGRANTS

We discussed questions about multiculturalism and how this impacts on the way organisations should think about culture in Chapter 4. Skilled migrants have become very important both to the global economy, to organisations and to many national labour markets. For example, Switzerland is an attractive location for much skilled labour given its high wage and low tax levels and purchasing power, and firms tend to have a reputation for multiculturalism. Swiss MNCs use the label 'foreign employees' to include both assigned expatriates and highly skilled migrants. Swiss Post employs over 140 nationalities, and firms such as Nestlé, Philip Morris and Medtronic have pooled efforts to integrate the partners of foreign employees, launching an International Dual career network. In 2010, the majority of the 139,000 foreign nationals entering as permanent residents were from neighbouring European countries such as Germany, France and Italy, followed by the UK and USA, but with a significant number also entering from Asian countries. In 1990, 23% of migrants to Switzerland were highly skilled, growing to 62% by 2000. This has continued, and by 2012 64% of top managers in the largest Swiss companies were foreign born, compared to 27% in German companies and 22% in French companies (Davoine and Ravasi 2013).

However, Dabic et al (2015), in reviewing four decades of research into expatriates, concluded that whilst the literature provides us with some useful conceptual tools to explore the cultural adjustment of managers and insight into specific support practices (discussed in detail in Chapter 12), we still know little about the support given to the partners of foreign employees, especially as they first settle into a new location.

So is it easier to adjust culturally if moving into Switzerland as a foreign employee?



CASE STUDY 15.2

WILL HIGHLY SKILLED FOREIGN EMPLOYEES BE ABLE TO CULTURALLY ADJUST?

Ravasi et al (2015) studied the cultural adjustment of 152 foreign employees (coming from 130 countries) and 126 of their spouses living in the French-speaking parts of Switzerland and working for six Swiss MNCs, as linked to the provision of various forms of support. On average the managers had been in Switzerland for two years and had six years' international experience. They found that despite the espoused multiculturalism of Swiss MNCs, there were relatively low levels of cross-cultural adjustment, especially in terms of interaction adjustment (the comfort associated with socialising with host-country nationals, both inside and outside of work).

This was the case regardless of the time spent in Switzerland or the type of assignment, although the possession of local language skills helped to a degree. There was some good news. The support practices of allowance for or payment of

language courses for the expatriate, or for the partner or spouse, cross-cultural training in the host country for the expatriate or for the spouse, and spouse employment support, all correlated with the general adjustment of the foreign employee's partner.

However, none of these were linked to the adjustment of the foreign employee themselves. Schools for children and payment for schooling costs were linked to partner adjustment. Housing, dealing with administrative paperwork and tax support were not correlated with any dimensions of adjustment. The low levels of interaction adjustment were attributed by the authors to the structural change within the population of foreign employees in Switzerland, which is moving progressively from an 'expat community' to a 'highly skilled migrant community', with potentially changes in attitude of the local community.

15.5 OTHER FORMS OF INTERNATIONAL WORKING

The nature of international work has always been varied but is increasingly so – there are many ways in which organisations might now source and use what can be termed international employees. The traditional expatriate, or long-term, assignment (discussed in Chapter 14) is by no means dead. In fact, despite predictions during the economic crisis that began in 2008 that the use of these expensive types of assignments would decline as organisations found cheaper ways to work internationally, they appear to continue to be growing. However, organisations also use a variety of other types of assignment to fulfil international working obligations, and these appear to be growing even faster. Amongst these, some of the key ones are self-initiated expatriation; short-term or project assignments; international commuting; frequent flying; and working in international teams or ‘home-based international working’! The first few forms have been called ‘new’ (Peltonen 2001) or ‘alternative’ or ‘emerging alternatives’ (Collings et al 2007), but they have in fact been used for a long time, although improved travel arrangements have made them easier. The final forms are more recent, created and sustained by more communications technology.

Self-initiated expatriates (SIEs) were first identified by Suutari and Brewster (2000) and there has since then been an explosion of research into the phenomenon (see for example Andresen et al 2012; Vaiman and Haslberger 2012). SIEs are people who have gone to another country independently and now work there, with the option of moving on after a while. They may have applied for a foreign-based job whilst they were at home or they may have got the job after they got there. Either way, they bring the organisation some of the international knowledge and capabilities of traditional expatriates (though without the knowledge of headquarters) but, since they are employed on local terms and conditions or, in intergovernmental and charity organisations at the same rates as everyone else, they do so at a significantly reduced cost

ALTERNATIVE FORMS OF INTERNATIONAL WORKING

Short-term assignments – An assignment with a specified duration, usually between one and 12 months (Collings et al 2015). Typically, such assignments are for less than six months because in many countries this means that the assignee can continue to be paid from home, and tax and social security issues do not arise. The family may accompany the employee, but normally they do not. Many of these assignments are project-based with clear and limited targets, and the contract ends when the targets have been met.

International commuters – Employees who commute to a place of work in another country, usually on a weekly or bi-weekly basis, while the family remains at home or in a nearby country. These are often used for less safe countries but are also common in Europe where borders are less restrictive and people can travel easily.

Frequent flyers – Employees who undertake frequent international business trips, spending just one or a few days in each location, but do not relocate at all. Often used by salespeople who sell externally and by senior managers to ensure social relationships within the organisation.

Remote international working – This is where an individual or a team of people has responsibility for work in another country or across the organisation but do it from their home location, relying on email, social networking, telephone calls and video-conferencing to achieve their objectives.

Standard expatriation contracts are expensive (see Chapter 13). So, organisations that need to move their people around also use alternative methods of international working. Some methods such as short-term expatriation, however, are mainly used because they simply fit the work requirement better. But, whilst all of these methods are cheaper (they don't have expatriate supplements or the costs of moving the family abroad) none of them is without problems of its own, for both organisations and the individuals concerned.

Short-term assignments are, positively, more likely to fit the work well in many situations – most tasks don't last three years. They also mean that the family can stay at home. Individuals on such assignments tend to work long hours to get the assignment completed and tend to be very productive. Their costs are usually included in project budgets rather than the local unit budget or the IHRM budget. Negatively, for individuals there can be serious work–life balance issues, which include social and family separation (Starr and Currie 2009). Because, on projects, employees are often under severe time constraints and staying in a hotel or compound, many project workers prefer to put in long hours. This may not always be the most efficient way to work. For the organisation, central control of the number of employees on such arrangements is often difficult because their numbers are linked to specific projects which are controlled by the line management. There are often complaints about variations within the organisation caused by the type of project rather than reflecting the individuals involved. And short-term assignees may fail to develop good relationships with local colleagues and customers and do little to spread knowledge (Tahvanainen et al 2006).

International commuter assignments have the benefits of cost (travel is cheaper than expatriate terms and conditions), mean that the individual is focused on their work whilst at the workplace, and do not disrupt family and social life to the same extent. They are most widely used in Europe, where there are a lot of countries close together and work permits are not an issue for most citizens (Mayrhofer and Brewster 1997), but are also used where it is too dangerous to locate families in a country so they remain at home or in a nearby safer country. They are more structured than frequent flying (Stahl et al 2012) and appear to be used by a significant minority of organisations (KPMG 2013). The main problems for the individuals involved are 'burnout' (like the short-term assignments but on a longer-term basis, commuters spend extra time at work and, in addition, a lot of time travelling; maintaining a balance between work in one country, and home life in another) and dealing effectively with cultural issues in a foreign setting (very few organisations provide cross-cultural training for employees on these types of assignments). There is also the issue of perceived commitment – a poor image is created in the host country when, on every chance that the commuter gets, he or she rushes away from that location. For organisations, it is often difficult to strike a balance between pressing the commuter to be available in the office for more days and recognising that he or she has to get home.

Frequent flyers give the organisation the opportunity to get crucial people to relevant places at key points. They are used to ensure that projects run efficiently and to maintain knowledge of and control over individuals and operations. However, for individuals there are again work–life balance issues. Paradoxically, these employees may spend less time at home than, say, short-term assignees or international commuters (Konopaske et al 2009; Welch and Worm 2006). Further, there is a limit to how long employees can successfully operate when they live 'out of a suitcase'. Burn-out is common (Collings et al 2007). For organisations, many companies are unable to identify frequent flyers within their workforce because the budgets are often under the control of line managers and hence there is often an absence of any policy for this type of international assignment (CReme 2000; PWC 2000), though this may be (Brookfield, 2015) changing and accordingly a concern with cost-effectiveness. How valuable can someone be who flies into a situation that they do not understand in detail, takes responsibility and makes decisions (otherwise why send them?), sometimes cutting across authority lines within the host organisation, and then leaves others to cope with the fall-out from their decisions? How much can

controllers know of a situation in which they have only spent a couple of days with people acting outside their normal work (if only to 'host' the frequent flyer)?

Remote international working has expanded as the technology, particularly teleconferencing and video-conferencing, has developed from the original clunky systems to the much more user-friendly versions now available. It avoids many of the problems noted above but raises others. For individuals these include the fact that they have to work outside the comfort of their home culture (Spreitzer et al 1997), but without the expatriate experience of learning how to manage across cultures. In most cases they have no training or education in cross-cultural skills, and many will have to work in a second or third language. For some people, taking responsibility for or sharing responsibility with others that you may physically never, or only rarely, meet is not always a comfortable situation. The individual's adjustment within an international team is not influenced solely by his or her own competencies (Zimmermann and Sparrow 2007). Instead, the power balance between team members is likely to have a major influence on the course of adjustment. Depending on the distribution of the nationality of headquarters, language capability, leadership, and the customer interface, the expatriate will have more or less power to demand changes from the other side, and to achieve them through teaching and control. For organisations, selecting the right people to make up a virtual multicultural team can be problematic; team training can be important but costly. Organisations such as Ciba-Geigy insist that in all remote international teams the members meet face-to-face, for business and socialising, before remote working commences, so that they know who they are working with.

Overall, most decisions on expatriation and alternative forms of international working are taken in response to immediate issues and pressures. The decisions are generally taken by line managers. Few organisations have as yet thought through the best HRM policies to 'manage the mix' (Brewster et al 2001) of the different forms in the most cost-effective way possible for their overall HRM strategies.

15.6 TYPES OF INTERNATIONAL EMPLOYEES

The format of international working is changing, but so too is the profile of individuals doing international work and the way that they get into it. The traditional long-term expatriate was very often white or at least from one of the developed countries, was male, was an experienced practitioner, and was selected and sent by his ethnocentric employer. Increasingly, international employees come from all parts of the world, female members of the international workforce are receiving more attention, expatriates are well-educated and many have used their own initiative to get the post.

Today, there is growing recognition of international working by people who do not come from the WEIRD countries (Henrich et al 2010) – the western, educated, industrialised, rich, developed countries that are a small minority of all the countries in the world. There has been a boom in MNCs from the emerging nations, with different strategies and often very successful ones (Williamson et al 2013): firms like Samsung, Tata, Infosys and Huawei. Our research into the expatriates from these countries is still sparse but is increasing all the time (see Thite 2015). It seems that these MNCs do not necessarily follow the patterns of expatriation that have been popular in the firms from the more developed countries.

15.6.1 DIVERSITY MANAGEMENT PROGRAMMES

Despite a prevalence of diversity programmes in the USA, and anti-discrimination programmes in the EU, it is unclear how much this type of approach has been taken up in organisations in other parts of the world (Klarsfeld et al 2011).



KEY FRAMEWORK

Common features of diversity programmes in the USA

These include the following:

- A broad definition of diversity, often known as *universal inclusion*. This is a broader definition than employment discrimination legal compliance and can encompass any personal characteristics that affect employees' workplace treatment or productivity.
- A *business case* motivation for diversity initiatives. Typical objectives include being an employer of choice, attracting and retaining talent, developing high-potential employees, increasing productivity and keeping up with competitors.
- Diversity *administrative structures*, which may include a small, specialist consulting group at headquarters, either reporting directly to a senior executive or located in the firm's human resources department; diversity councils at corporate and local levels; and affinity groups (for example women or ethnic minority networks) to link and represent employees who are members of specific demographic groups. Short training programmes are a key feature of the diversity approach.
- Integration of the organisation's diversity initiatives into organisational change programmes.

In countries other than the USA, patterns are different and there are acceptable approaches to dealing differently with employees of, for example, different genders (as in the Arab countries, for example), or different ethnic groups (as in India and Malaysia, where some ethnic groups are privileged) that would not be acceptable in other countries.

In IHRM contexts, a key debate is the extent to which diversity programmes should be standardised across subsidiaries. In principle, the organisational structure of an MNE's diversity management activities should support the approach the firm has adopted for its overall activities. This would assume that an organisation adopting an ethnocentric or geocentric approach would have more or less standardised programmes across the world. However, this area is particularly influenced by local institutions and culture, which may render company-wide programmes inappropriate, indeed even unlawful in some countries. Many organisations therefore allow a considerable degree of autonomy to their subsidiaries in developing their own diversity programmes, often providing expert assistance from headquarters if needed.



INTERNATIONALISING DIVERSITY MANAGEMENT IN A US-BASED TELECOM COMPANY

Telco (not the company's real name) adopts a 'multi-local' approach in all aspects of internationalisation. Internationalising diversity is therefore driven from the bottom rather than by the top. Each international facility is responsible for developing, designing, implementing and funding its own diversity management work. The role of the corporate headquarters is an advisory

one, communicating the corporate-wide diversity message and responding to requests for assistance.

The experience of Telco in running a multi-domestic diversity approach has highlighted both the strengths and weaknesses of such a system. Making local staff responsible for shaping diversity activities was seen to have the following positive benefits:

- | | |
|---|---|
| <ol style="list-style-type: none"> 1 harnessing the energy of managers who feel personally involved in the outcomes 2 unleashing considerable creativity and commitment 3 resulting in activities well targeted towards issues of local relevance. | <ol style="list-style-type: none"> 3 the fact that initiatives were limited to training interventions because of managers' lack of resources and authority to explore system-wide diversity problems embedded in HR systems. |
|---|---|

On the negative side, localised efforts were seen to be problematic due to:

- 1 lack of time to invest in diversity initiatives on an ongoing basis
- 2 lack of training and expertise in diversity management on the part of local managers, which led to 'reinventing the wheel' on occasions

Questions

What steps would you take to implement a global diversity strategy, taking into account the issue raised in the case above?

15.7 WOMEN IN INTERNATIONAL MANAGEMENT

The development of a global mindset – the goal of many transnational organisations – can only be achieved through exposure to diversity. It is hardly likely that a homogeneous group of managers will develop a global mindset unless the composition of the group is changed to reflect the diversity within the organisation and potentially within its client base. Many aspiring global organisations strive to develop a broad international cadre of managers amongst their most promising junior and middle management employees who are expected to feed into the most senior positions in the company. International management assignments constitute a vital component of the development of a geocentric mindset amongst this body of managers and are increasingly seen as a key contributor to global talent management programmes (see Chapter 16 and Cerdin and Brewster 2014; Collings 2014). Adler and Bartholomew (1992, p18) stressed the importance of international assignments to developing a 'global firm':

Foreign assignments become a core component of the organisational and career development process. . . Foreign assignments are used. . . to enhance individual and organizational learning in all parts of the system.

Despite this increase in demand for international assignees, the numbers of women in such positions remains low, although there is evidence that it is higher in multinationals from the Nordic countries (Suutari and Brewster 2003). This situation might slowly be improving. For example, a GMAC survey (GMAC 2008) suggests that with regard to global mobility more than a quarter of expatriates are now women (up from 10% in 1994). Although exact numbers have to be taken with a pinch of salt – consultant surveys tend to cover just larger and more sophisticated companies – there may be a trend.

The still low incidence of women on international assignments is puzzling when one looks at research into the criteria for effective international managers. Here, as noted in Chapter 13, the emphasis is on interpersonal, intuitive and co-operative styles of management as the key skills for working internationally. These are skills that tend to be more common in the female expatriate population (Napier and Taylor 2002). Why, therefore, do organisations continue to under-use such a valuable source of diversity and a potentially powerful aid towards developing a truly global mindset? Adler (1984a) argued that there were 'myths' at work: women do not want to be international managers; foreigners' prejudice against women renders them ineffective, even when they are sent;

and companies don't like to send women abroad. Her research found that the first and second myths were wrong; but the third was accurate (see also Sinangil and Ones 2003).

Caligiuri and Cascio (1998) developed a four-factor model for predicting the success of female global assignees. The four antecedents in the model are: personality traits, organisational support, family support, and host nationals' attitudes towards female expatriates. Organisation support is defined in the model in terms of cross-cultural and gender-specific training for women on assignments and projecting female expatriate managers as being most suitable and highly qualified for the job to local nationals. The model does not, however, include the role of organisational selection systems for international assignments as a critical variable in organisational support.

Harris (1999) examined the impact of organisational selection systems for international assignments on the participation rates of women. She drew on the wider research into discrimination in selection to assess the extent to which differing types of selection system would influence ideas about 'fit'. From a sociological perspective, selection is seen as a *social* process, to be used by those in power within the organisation as a means of determining the continuing form of the organisation by recruiting and promoting only those individuals who most closely conform to organisational norms. Harris's research with UK-based MNCs revealed the existence of four typologies of selection systems for international manager positions. These were constituted in two dimensions: whether selection systems are open (widely advertised, open to all) or closed (chosen from a limited pool of candidates); and whether the process was 'formal' (more objective) or 'informal' (more subjective). Four possible selection systems were therefore identified (see Table 15.1).

Table 15.1 A typology of international manager selection systems

	Formal	Informal
Open	Clearly defined criteria Clearly defined measures Training for selectors Open advertising of vacancy (internal/ external) Panel discussions	Less defined criteria Less defined measures Limited training for selectors Open advertising of vacancy Recommendations
Closed	Clearly defined criteria Clearly defined measures Training for selectors Panel discussions Nominations only (networking/reputation)	Selectors' individual preferences determine criteria and measures No panel discussions Nominations only (networking/ reputation)

The implications of these variations in selection systems for international assignments in relation to women's participation are:

- *An open/formal system* would see greater clarity and consistency in thinking about international managers and a greater link with formal criteria. This system was seen to provide the greatest opportunities for women to be selected for international manager positions.
- *A closed/formal system* was seen to be similar to an open/formal system. However, the lack of personal contact with the candidate and the fact that the field of potential applicants is determined by the selector/s with the attendant risk of omission of suitable candidates, may permit individual preferences by selectors to influence nominating individuals.

- *An open/informal system* would decrease clarity and consistency and linkage with formal criteria, and was therefore seen to provide less opportunity for women to enter international management positions, because selection decisions would be more subjective.
- *A closed/informal system* was perceived as the worst situation for equality of opportunity in this area, combining as it does the potential for subjectivity on the part of the selectors and a lack of access on the part of potential candidates.

Case study investigations, carried out as part of this research, indicated that the type of selection system in use for international assignments clearly affected the number of women in international organisations and that the main differentiating factor in participation rates for male and female expatriates was the type of international selection system in operation. In practice most expatriates are selected through a closed informal system (Harris and Brewster 1999), the one least likely to produce women expatriates.



REFLECTIVE ACTIVITY 15.2

From your own experience:

- What do you feel are the key barriers to women gaining international assignments in your own organisation?
- What recommendations would you make to increase the number of women on international assignments?

Harris (1999) recommended the following strategies, for organisations wishing to foster diversity (gender, geographical, ethnic etc) in their expatriate management population: becoming more strategic in their planning; clarifying the appropriate competencies and criteria; monitoring outcomes; training selectors to be more aware; and providing support for alternative arrangements for the domestic aspect of international assignments that might influence the perception of accessibility amongst people with non-traditional domestic arrangements.

15.8 DUAL-CAREER COUPLES

Although the numbers of dual-career couples expatriating remains small, this is becoming increasingly common and an increasing source of concern to organisations sending individuals on international assignments. Assumptions about the problems associated with sending a woman abroad if she is in a dual-career couple have in the past caused organisations to use this as a reason for not selecting potential female expatriates (Adler 1984c). Issues surrounding dual-career couples remain a significant part of the decision over whether or not to send an employee on an international assignment. Of course, organisations will have to look for solutions to the dual-career issue for *both* genders, not just for male employees. The process is complex and difficult, both for the organisation and the expatriates (Känsälä et al 2014)

15.9 THE IMPLICATIONS OF INTERNATIONAL WORKING ON WORK-LIFE BALANCE

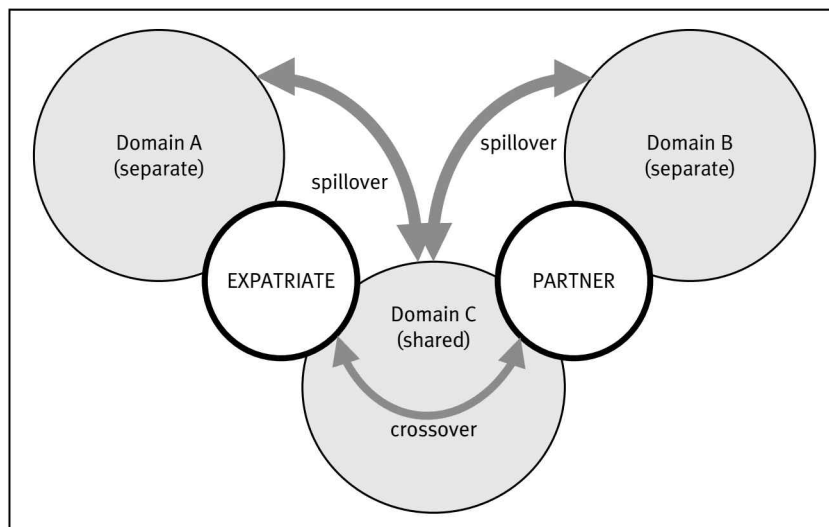
We introduced the topic of work–life balance in Chapter 7. This book has underlined the importance of international assignments to organisations working across national borders in order to build global competence and integration. It has also shown evidence of significant problems in managing some long-term assignments. It is important to realise, however, that

success in international assignments is not just a function of the individual but also of the partner and family. Families have only occasionally been seen as a focus of research (Haslberger and Brewster 2008). The disruption caused by international working and geographical relocations puts significantly greater pressure on work–life balance than work in the same country does (Caligiuri and Lazarova 2005; Lazarova et al 2010). Work–life issues are amongst the most cited problems associated with international working patterns for both those in relationships and single employees (Suutari 2003).

Most studies are based on the assumption of a reciprocal relationship between two types of work–family conflict: work-interference-with-family conflict, and family-interference-with-work conflict. Not only does the adjustment of one partner spill over from one aspect of their lives into others, but there will be an interaction (crossover) between them (see Figure 15.1). With other family members (children, parents) this relationship becomes even more complex (Haslberger and Brewster 2008). Thus effective adjustment in one area can affect adjustment in others, and the effective adjustment of one will also affect the others – and the links run both ways, so an expatriate happy in their work (or unhappy) will bring that well-adjusted (or ill-adjusted) feeling to their family. The nature of the family’s adjustment will also impact on the expatriate at work.

International working often involves the physical relocation of the entire family. In such cases, the boundaries between work and home become blurred (Caligiuri and Lazarova 2005). The work is usually important and often stressful, draining energy and focus from family life (Mäkelä and Suutari 2011). For dual-career couples, the partner’s career may be disrupted and his or her sense of worth and identity may suffer (Harvey 1997). The children’s education may also be interrupted (Fukuda and Chu 1994) and their social networks destroyed, which may affect their feelings of security and well-being. In short, in international assignments, family life becomes more significant because the whole family is uprooted (Lazarova et al 2010; Mäkelä et al 2013). Even in the case of short-term assignments and international commuting assignments, where the family may not physically relocate, the additional stressors of the individual’s living away from home have been seen to exacerbate work–family conflict.

Figure 15.1 Spillover versus crossover





REFLECTIVE ACTIVITY 15.3

What can organisations do to ensure a good work–life balance for employees and their families while on international assignments?

15.10 MEASURING THE RETURN ON INVESTMENT FOR INTERNATIONAL ASSIGNMENTS

The need for a more strategic and detailed approach to managing international working from both the organisational and individual perspective has been highlighted both in this chapter and in Chapter 13. Ideally, the financial and non-financial costs should be less than the financial and non-financial benefits of the assignment to the organisations (McNulty and Tharenou 2004) and for the individual (McNulty et al 2013). However, despite the importance of international assignments, MNCs find it hard to fully evaluate the benefits associated with their use. Far less than a fifth even try to apply any kind of return on investment measures (Johnson 2005). Thus, although some organisations have a clear outline of the international assignments' costs, very few, if any, have anything but a vague or unclear picture of the related return on investment. The need to develop a methodology to measure the value of international assignments is currently the focus of many consultancies operating in the area of IHRM and an increasing amount of literature.

The problems for such organisations fall under three headings. First, in order to understand whether an assignment has been successful, the objectives of the assignment have to be clear and unambiguous. As already noted in the previous chapter, international assignees are usually sent abroad for one of four main strategic reasons: professional development, knowledge transfer, transfer of scarce skills, control and co-ordination. In reality, given the costs of assignments, most organisations try to achieve several of those objectives for each assignment, but without allocating priorities. So assignments may be more or less successful for each objective and balancing them up becomes very hard.

Second, there is the question of whose investment and whose return. McNulty et al (2013) make the point that an assignment might be very successful for the organisation or the individual, but not necessarily both. If we then factor in the expatriate's family and co-workers, the complexity becomes apparent.

Third, there is the problem of timescale. Time is a largely neglected issue in management and HRM research, but is clearly significant (Mitchell and James 2001). When should the expatriate's results and impact be measured?

THE POWER OF MR POWER

Mr Power was sent to head up the company's largest and most profitable foreign affiliate. Although it was the most profitable, those profits had been gradually declining for a number of years and there was a feeling in headquarters that the subsidiary had become 'fat and comfortable'. Rex Power was seen as one of the company's brightest young talents and was fully briefed before he went.

He spent a couple of months 'making himself aware', as he put it. Then he started to change things. He offered generous early retirement to some of the older managers. He promoted some of the people he identified as being potential future leaders, often jumping them several grades in the hierarchy and including an unusual proportion of women. He moved managers ('shuffling the pack', as some of his critics put it) from operations to sales and from the north of the

country to the south. He reduced the individual sales managers' entertainment budgets. He broke up long-established teams. He brought in-house some services that had been outsourced. He instituted leadership programmes for junior managers.

There was a strong reaction. A series of staff meetings were held. Letters were written and HQ had to deal with a series of complaints and appeals, including handling a visit by local union leaders. Although some people loved the changes, many did not, and for them dealing with customers took second place to their attempts to fight the changes. Profits took a further knock and were at their lowest for a number of years.

Over a number of months, however, more people began to buy into the changes and were re-energised by their new roles. Towards the end of Rex Power's time in the subsidiary, profits had begun, for the first time in many years, to increase and by the time he left at the end of his three-year term they were back to the levels when he started. His successor oversaw profits rising to unprecedented levels.

Questions

How should the organisation evaluate Mr Power's assignment?

Should local managers do it, or headquarters managers?

Profits were higher before he was there and improved strongly after he left. Were the expatriates who ran the affiliate before him better than him?

How should the organisation judge the performance of his successors?

In practice, most organisations use a mix of intuitive evaluation systems: combining looking at subsidiary performance, global and local performance evaluation, frequent reporting, visits from the expatriates to headquarters and from headquarters staff to the subsidiary, all in an attempt to establish whether they feel that their international employees are doing a good job. And in the end it is often more the feelings of experienced senior managers that matter more than any of the formal numbers.

15.11 THE MULTICULTURAL TEAM

Looking at the different assumptions that we make about the skills and competencies that are needed by global leaders (see also Chapter 16), one could be forgiven for asking, 'But surely, this is only important for large organisations that employ a small cadre of internationally mobile managers and expatriates? What about organisations that might simply source international employees from and in different parts of the world? Do they need to recruit for these sorts of competencies?' If we look at what we know about the use of international employees, the answer is probably 'Yes'. Organisations rely upon cross-cultural skills and at surprisingly low levels in the hierarchy. Salas et al (2008, p115) note that:

[t]he United States has often been referred to as a melting pot, consisting of individuals from numerous cultures, backgrounds and religions. With the expansion [by the late 1990s] of over 10,000 companies worldwide to global markets, a multicultural workforce is inevitable. . . To add further complexity, organisations' use of teams as a means of improving organisational outcomes is increasing. The likelihood of multicultural teams (ie two or more individuals from at least two different national cultures who must work interdependently to reach the team's goals) being developed in organisations is therefore greater than ever.

The use of teams, even within highly individualist countries such as the USA, has become accepted as a key means of coping with the highly complex and dynamic nature of work

in the twenty-first century. Why do internationalisation strategies require managers increasingly to work through multinational team networks?

WHY DO INTERNATIONALISATION STRATEGIES RELY ON TEAMS?

There are three main reasons:

- Organisations are pursuing strategies of localisation, attempting to reduce their reliance on expatriates in their traditional co-ordination and control role.
- Strategies that rely on rapid internationalisation through international joint venturing, strategic partnership arrangements and global start-ups place international managers into team and work contexts in which they may have less position-power but a heightened need to ensure that their organisation learns from the partnership.
- As organisations globalise their operations, the requirement for international working is pushed lower down the hierarchy.

HRM policies and practices that support the use of teams include selecting team players, rewarding on the basis of teamwork, and developing mentoring and coaching behaviours for potential leaders.

For international organisations, there are a number of benefits of working in transnational teams (Schneider and Barsoux 1997). They can encourage cohesiveness amongst national and functional units. They help create lateral networks to improve communication and information flow between subsidiaries and HQ, and among subsidiaries (Ghoshal et al 1994). They provide opportunities for team members to understand international issues better and to note the interdependencies between units. They also provide opportunities for team members to learn how to function more effectively within different cultures with suppliers, customers or employees. Finally, they can help foster knowledge transfer and organisational learning.

Evans et al (2002) view cross-boundary teams as the basic unit of the global economy and argue that strategic decisions in global organisations are complex. Transnational teams contribute to what they term 'glue technology': the underlying process technology used in co-ordinating mechanisms within international organisations. From this perspective, the foundation of most mechanisms of co-ordination is relationships between people.

Cross-boundary teams can take many shapes and forms – they may (for example) be part of an international supply chain in a major pharmaceutical company, or a cross-national team of consultants put together to deliver a business solution for a global services company, or an international relief team working for a not-for-profit organisation.



REFLECTIVE ACTIVITY 15.4

From our earlier discussions of cross-cultural differences in Chapters 3 and 4,

- what would you see to be the pros and cons of forming a team with individuals from the USA, Germany, Japan and Brazil?
- what process recommendations would you make to ensure effective functioning of the team?

Multicultural teams tend to be either very high-performing or very low-performing (Shapiro et al 2002). The relative productivity of a series of four- to six-member problem-

solving teams. Culturally diverse teams tend to become either the most or the least effective, whereas single-culture teams tend to be average.

Adler (1997) argued that the difference between highly productive and less productive teams lies in how they manage their diversity, not in the fact that they include diversity. According to Adler, a multicultural team's productivity depends on its task, stage of development and the ways in which its diversity is managed.

In terms of task, multicultural or diverse teams are seen to perform better than homogeneous teams in situations where innovative ideas/solutions are required. Most of the major consulting companies create international and cross-functional teams to deliver competitive leading-edge solutions for multinational clients. In contrast, a team working on the standardised assembly of electronic components will require individuals with the same standard of manual dexterity.

A team also progresses through various stages: entry; work; action. At the *entry* stage a team must develop cohesiveness and begin to know and to trust each other. Creativity is essential at the *work* stage, when the team has to devise ways of defining its objectives, gathering and analysing information and assessing alternative plans of action. The final *action* stage, when agreement on a final solution is required, requires coherence. Diversity can be seen to hinder both the first and final stages, but be extremely beneficial at the middle stage.

15.12 KEY COMPETENCIES FOR MULTICULTURAL TEAMS



CASE STUDY 15.4

MUTUAL ADJUSTMENT WITHIN INTERNATIONAL TEAMS IN GERMAN MNCs

Cross-border research regarding what occurs when two diverse groups begin interacting is an example of what Sackmann and Phillips (2004) call the intercultural interaction perspective. Study of international teams often shows the need for accelerated processes of cultural bridging. Cross-cultural interactions are an integral part of the functioning of such teams. Zimmermann and Sparrow (2008) studied 116 participants over a one-year period in eleven bi-national teams within German MNCs: two German–British teams, five German–Indian, two German–Japanese, and two German–Austrian teams. The study showed the importance of *mutual adjustment processes* (multiple interactions between team members of several different nationalities) across all combinations in order to overcome the difficulties associated with differences regarding work practices and communication styles. Such mutual adjustment achieved better relational and work outcomes. Five internal adjustment components (strategies) were identified:

communication, change of views, evaluation of differences, negotiation, and teaching and control. These highlight the cognitive, affective, and behavioural skills that become important for international managers when working through international team structures. External factors were also important. The nationality of headquarters impacted on the way team members changed both work practices and communication styles. Three elements were important: organisational culture and regulations guided work practices across the countries; globally standardised practices and structures designed at headquarters to co-ordinate team activities across nations; and headquarter membership within teams allowing for greater access to information. The organisations' globalisation and localisation strategies also set the ground for the degree of influence that the nationality of headquarters, the nationality of leadership, and the external customer had on the direction of adjustment within teams.



REFLECTIVE ACTIVITY 15.5

- What international differences in work practices and interaction styles do you think are most likely to cause difficulties that require international teams to mutually adjust?
- How do you think mutual adjustment takes place?

We discussed multiculturalism for the individual in Chapter 4. But we can also think about multiculturalism at the collective level, within a whole team. Members of international teams have to understand what the required behaviour is, why it is considered desirable, at whom it is aimed, where it is most often to be seen, and how that behaviour is delivered (Sparrow 2006). Although individuals with cultural intelligence are important, it is also the quality of cross-cultural communication at team level that determines the effectiveness of multi-cultural teams (Kealey and Protheroe 1996; Gudykunst 1998; Matveev and Nelson 2004). Table 15.2 shows the specification of cross-cultural communication competence that can be applied both to individual and also to team interactions.

Table 15.2 Cross-cultural communication competencies

Interpersonal skills	Team effectiveness	Cultural uncertainty	Cultural empathy
Ability to acknowledge differences in communication and interaction styles	Ability to understand and define team goals, roles and norms	Ability to deal with cultural uncertainty	Ability to see and understand the world from others' cultural perspectives
Ability to deal with misunderstandings	Ability to display patience	Tolerance of ambiguity and uncertainty due to cultural differences	Exhibiting a spirit of inquiry about other cultures, values, beliefs and communication patterns
Being comfortable when communicating with foreign nationals	Ability to give and receive constructive feedback	Being open to cultural differences	Ability to appreciate dissimilar working styles
Being aware of own cultural conditioning	Ability to discuss and solve problems	Ability to exercise flexibility	Ability to accept different ways of doing things
Having basic knowledge about the country, the culture, and the language of team members	Ability to deal with conflict situations		Non-judgemental stance toward the ways things are done in other situations
	Ability to display respect for other team members		
	Displaying a participatory leadership style		
	Ability to work co-operatively with others		

Source: Matveev and Nelson (2004)

15.13 STRATEGIES FOR MANAGING MULTICULTURAL TEAMS

Multicultural teams do not differ from mono-cultural teams in terms of basic team dynamics – typically they will go through four stages of development (‘forming [Adler’s ‘entry’ stage], storming [Adler’s ‘work’ stage], norming and performing [Adler’s ‘action’ stage]’). They will also have to consider composition issues such as the resources allocated to the team, membership profile, numbers, etc. And they will have to address how to run the team. Core team dynamics studies should identify both task and process issues relating to effective team performance. The same is true for multicultural groups, but given the complexity of different cultural perspectives, assumptions about the nature of task and process issues ought to be questioned by all team members in order to achieve a ‘common reality’ and from there to establish common ground rules for the development of the team.

A comprehensive list of the issues to be addressed in both task and process aspects of managing multicultural teams is presented by Schneider and Barsoux – see Table 15.3.

Table 15.3 Task and process issues to be addressed in multicultural teams

Task considerations	Process considerations
<p><i>Purpose, timing and process of meetings</i> Clarity and explicitness? Meaning of ‘commitments’? Adherence to formal agenda and meeting structure? Involvement of various stakeholders and levels of involvement? Protocols for information exchange: who, when, formal vs informal?</p>	<p><i>Relationship management</i> Social time versus business focus? Timing and importance of social time? Role of status and rules for addressing people? Rules for interruptions? Protocols for face-to-face and informal feedback? Preferred process for conflict management and negotiation strategies?</p>
<p><i>Meeting conduct</i> Role of communication technologies and IT? Definition and expectations of an effective argument? Preferences for use of facts, philosophy, emotions? Rules about when a decision has been made – consensus, compromise, majority rule?</p>	<p><i>Trust</i> How is trust earned? How important is it?</p>
<p><i>Team and performance targets</i> Trade-off between cost, quality, and time targets, different deadlines? Meaning of ‘on time’? Need to surface hidden ‘rules of the game’? Formalisation of roles and responsibilities?</p>	<p><i>Role of language</i> Preferred language for business meetings? Same language for informal exchanges? Managing different levels in fluency?</p>
<p><i>Team leadership</i> Role of team leaders and members? Division and integration of tasks? Rules for the ‘team together’ and ‘team apart’?</p>	<p><i>Social power</i> Patterns of domination? Natural allies and coalitions, supporters, dissenters?</p>

Source: ideas drawn from Schneider and Barsoux (1997)

The checklist of communication competencies shown in Table 15.3 illustrates the potential for conflict on even the most basic team-management issues. Teams incorporating diverse nationalities tend to ignore differences at the start-up stages of the teams and to focus on similarities (such as, young, well-educated, professional). With depressing regularity, team dynamic problems surface later, when the pressure of work kicks in. Complaints of non-inclusion from those from high-context, neutral cultures are greeted with shocked surprise by UK and US members who view their time- and task-focused approach, combined with an assertive manner, as the 'right' approach to teamwork. The introduction of inter-cultural awareness sessions, combined with discussion around team-building issues for multicultural teams (perhaps using selected questions from Schneider and Barsoux's task and process strategy checklist), leads to a significant decrease in complaints and more effective teams.



KEY LEARNING POINTS

- Diversity in an international workforce is a major advantage – and a major concern for internationally operating organisations.
- The role of women in international management should be addressed: their low participation rates are to some extent a function of the home-country selection.
- International working can have a significant effect on work-life balance.
- Organisations need to measure the value of international assignments, including diversity considerations, but this is not easy and in practice multiple methods are adopted in most organisations.



LEARNING QUESTIONS

- 1 What are the advantages for international organisations in ensuring a diverse workforce?
- 2 If diversity is seen to be a critical factor of competitive advantage for international organisations, why is the expatriate population still largely white and male?
- 3 Suggest practical steps an organisation can take to alleviate work-family issues for international assignments.
- 4 Is it possible to create metrics to measure the value of international assignments? Suggest critical success factors for implementation.



EXPLORE FURTHER

CALIGIURI, P.M. and CASCIO, W. (1998) Can we send her there? Maximising the success of western women on global assignments. *Journal of World Business*. Vol 33, No 4. pp394–416.

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Integrating Global HRM Practices

LEARNING OUTCOMES

When you have read this chapter, you will:

- be able to explain why corporate headquarters often attempt to create more standardised or optimised HRM practices around the world
- understand the need to balance global integration and local responsiveness
- be able to explain the impact of country of origin, country of operation and hybridising processes on global HRM integration
- identify typical best practice transfers, such as transferring high-performance work systems
- be able to explain the processes that are important to increase the chance of successful transfer of HRM practices
- understand the role of three core HRM practices – management development through global leadership, global performance management and global talent management – in providing necessary operational integration in IHRM
- be able to explain the nature of global leadership and understand how organisations build it
- understand the cross-border dimensions of global performance management
- understand the role of four different philosophies for talent management
- appreciate how organisations try to evolve more global talent management systems to develop linkages between geographically dispersed units

16.1 INTRODUCTION

This chapter takes a strategic view of some of the developments in IHRM that are occurring as a result of decisions being made about the function and the scope and scale of its activities. It examines how organisations attempt to create common global operations. It has long been argued that globalisation of itself brings the HRM function closer to the strategic core of the business and also leads to considerable changes in the content of HRM (Pucik 1992; Stroh and Caligiuri 1998). However, as we noted in Chapter 13, historically many MNCs relied on either a federated (international) operating model, in which the rest of the world was subordinate to or subsidiary of the organisation's home market, or an entrepreneurial multi-domestic model, in which multiple geographies would be treated as distinct and separate. In a more globally integrated operating model, favoured by many organisations, their home market is treated as just one of many global markets, major business operations (including both front- and back-office functions) are made to appear seamless around the world facilitated by the e-enablement of HRM systems and procedures on a regional, and in some cases global scale, and operations are made flexible enough such that the complete operating model, and the work process it involves, can be shifted to any global location. Offshore resources can also be for

higher-value activities, such as R&D, knowledge processing, and advanced analytics. Changes in technology have led, in many cases, to the rise of global customers and talent markets, making it easy for people to communicate and collaborate (Deloitte 2012).

A critical aspect of creating effective IHRM strategies, therefore, is the ability to judge the extent to which an organisation should implement similar practices across the world or adapt them to suit local conditions – the ‘global versus local’ debate. This challenge requires a high level of strategic thinking on the part of IHRM professionals. While scanning the world for best practice, they need to ensure that the policies and practices they implement are appropriate to the unique nature of their international operations. IHRM professionals also have to act as the guardians or caretakers of national difference. Having to help implement such changes can lead to marked identity issues faced by IHRM professionals. Operating through global networks and transferring knowledge across international operations mean that they have to learn how to avoid automatically pursuing a one-best-way philosophy (whether for HRM solutions or indeed in terms of general management activity). As organisations become less ethnocentric and knowledge and ideas about best practice flow both from the centre to the operations and vice versa, it is not uncommon for IHRM professionals at all levels of the organisation to feel that their ideas are being overridden by those of other nationalities or business systems. Whereas within a domestic HRM setting offering advice on best practice might seem to be an appropriate solution and a service that has to be delivered by the HRM function, IHRM specialists cannot be experts in the context of all the countries they cover and have to work with ‘domestic experts’. Moreover, IHRM professionals have to experience and endure frequent changes in the level of decentralisation or centralisation across their constituent international businesses, making it difficult to establish with authority where their power lies. HRM is moving towards a world where it has to satisfy line-of-business – and not just country – needs, and this is beginning to shift the way that HRM professionals think about problems (Sparrow et al 2016).

16.2 THE BALANCE BETWEEN GLOBAL INTEGRATION AND LOCAL RESPONSIVENESS

The problems of transferring ideas across borders, multiple countries and layers of management are considerable (Kostova 1999; Kostova and Roth 2002). But the corporate centre generally always attempts to shape the strategic direction and strategic change programmes of international subsidiaries, by acting either directly as an explicit source of innovation in the pursuit of global cost advantage, local differentiation or knowledge transfer amongst subsidiaries, or indirectly by openly or tacitly structuring an agenda for acceptable HRM change strategies or innovations in subsidiaries (Martin and Beaumont 1998). Martin and Beaumont (1998, 2001) developed a process model of strategic HRM change in MNCs involving the internal factors that influence the transfer of HRM practices from headquarters to foreign units. In terms of adoption of HRM practices, subsidiaries may be true believers, ritualists, non-conformists or dissidents.

We saw in Chapter 12 that it is important for HRM departments to adopt a global HRM delivery model. But in order to do this, one of the key issues in the practice of IHRM is the need to manage the dual pressures of global integration and local responsiveness (Brewster et al 2008; Evans et al 2002; Rosenzweig 2006; Björkman 2006). The bottom-line question for Scullion and Starkey (2000) is: what is it that the corporate HQ can do that cannot be done by financial markets or the business units, acting as independent market contractors?

Many studies have shown that foreign subsidiaries’ HRM practices reveal some similarities with, but also differences from, both local practices and parents’ practices, depending on particular contexts (Farndale et al 2008; Farndale and Paauwe 2007). These studies typically draw upon diverse theoretical perspectives on social capital, trust,

knowledge management and procedural justice. Rather than solely emphasising external factors such as national institutional and cultural factors, they highlight the importance of intra-organisational factors.

[T]ransfer of organisational practices is not an event, but a dynamic, contested and shifting process. (Gamble and Huang 2009, p1700)

[T]ransfer thus implies a dual process of contextualisation (what meaning do practices have outside their original context?) and re-contextualisation (what meaning do they have in a new context?) in which several stakeholders play important roles. (Yahiaoui 2015, p1667).



KEY FRAMEWORK

Country of origin, country of management and hybridising processes

As discussed in Chapter 2, researchers have long been interested in the question of how the country of origin influences the transfer of HRM practices within a MNC to its foreign subsidiaries over time. The country of origin effect refers to comparative institutional differences between national business systems and how these affect the operation of both markets (such as financial, product and labour markets) and the behaviour of market actors (Ferner 1997; Pudelko and Harzing 2007). A strong country of origin effect may be seen where the HRM practices in a MNC's subsidiaries closely resemble those of the MNC parent, rather than the practices of other host country firms.

Kostova (1999) introduced the concept of 'institutional distance' to discussions about the transfer of practices between national institutional domains. Institutional distance is the difference between the 'country institutional profile' of the country of origin and country of operation – an index of the regulatory, normative and cognitive institutions of a country. The 'cognitive institutions' are the established, taken-for-granted routines of thought and action, and models for interpreting reality (Scott 1995). Where a practice is not consistent with the recipient country's cognitive institutions, then the MNC subsidiary employees face difficulties in interpreting and evaluating the practice correctly, and this will impede the smooth transfer of practices such as HRM across international borders. Smith and Meiksins (1995) also referred to 'dominance effects' to reflect a natural hierarchy of relationships between national economies within the global economy, with MNCs from the more dominant economies (Japan in the 1970s and 1980s, the USA since and China next?) assuming that their practices are more superior and appropriate to transfer compared to those of their subsidiaries and, indeed countries from emerging economies often assuming the same thing and aiming to copy what are seen as the dominant practices (Pudelko and Harzing 2007).

Country of operation effects arise from internal relationships that bring with them micro-political and social capital considerations (Rupidara and McGraw 2011). Micro-politics concern how actors protect and progress their own interests, the resources they use, and the way they resolve conflicts – managers in subsidiaries interpret the possibilities and constraints in a host country's institutional and cultural environment and can make strategic or tactical decisions that weaken, modify or defend against what might be seen as disagreeable or irrational demands from HQ (Ferner et al

2004; Edwards et al 2007). The social networks and relationships of key managers can also be mobilised to resist the transfer of parent HRM practices (Almond 2011).

More recently, researchers have also begun to ask how country-of-origin effects interact with a country of operation effect (Chang et al 2013). Case studies often reveal a myriad of strategic, tactical and relational considerations at play, and these bring into question the ability of institutional and cultural approaches (explained in Part One of the book) to explain the transfers of HRM practices effectively. They do not explain either how transfers are affected by the competing pressures that managers often understand, or the important and influential role that key actors in both MNC HQ and foreign subsidiaries can play throughout a transfer process. Distinguishing between the global integration or local adaptation of HRM practices in MNCs becomes difficult to do, and also potentially misleading, because of the fluctuations in the transfer process. HRM practices being transferred often continue to change and evolve throughout their implementation (Gamble and Huang 2010). This can have a bearing on the creation of new and 'hybrid' HRM practices based on complex sets of considerations.

The debate between global integration and local responsiveness has been extended by researchers who are interested in understanding what has been called the 'forward diffusion' of HRM practices from an MNC's home country to its foreign operations (Edwards and Tempel 2010, p19). Headquarters might exert control over subsidiaries in many ways such as appointing a board of directors, assigning expatriates, transferring corporate culture, standardising job descriptions, and periodic processes of reporting. The HRM system as a whole is one such control mechanism.

16.3 TRANSFERRING HIGH PERFORMANCE WORK SYSTEMS

A high-performance work system (HPWS) (often also called high involvement work processes) is based on the argument that firms need to adopt a complete package of HRM practices. Separate practices, including rigorous selection procedures, internal merit-based promotions, cross-trained teams, high levels of training, information sharing, skill-based pay, and group-based rewards, need to be formed into an inter-connected whole. By promoting trust, collaboration, skill development and communication and enhancing employees' scope for decision-making and greater responsibility, these will elicit high levels of commitment amongst their employees (Boxall et al 2015). However, Sparrow et al (2004) argued that a HPWS reflects western cultural values of low power distance, individualism, and achievement orientation.

Many MNCs from different countries use Hong Kong as their Asian base in order to co-ordinate their business in the region. Foley et al (2012) argue that the relationship between an MNC's corporate headquarters and its foreign subsidiary will impact decision-making as to whether the subsidiary should adopt a HPWS or not. Given the cultural differences, these practices may not be as effective in Asian countries (Ngo et al 1998; Yalabik et al 2008). MNCs with origins outside of North America may be less likely to be using HPWSs at headquarters, and so of course, in turn, their subsidiaries may not have adopted a HPWS. Some attention then has been given to the transfer of HPWSs to China and related geographies.

Attention has been given to the challenge of transferring HPWS to China. China's organisational landscape and workforce has changed enormously over the last 25 years. Previous personnel systems that were based on job security have been replaced by more market-based models in many sectors, and employee values have also slowly changed. As a form of best practice, HPWSs have gained popularity among multinational, private and

state-owned enterprises in China throughout the 2000s as many firms attempted to implement more progressive HRM policies and practices (Wei and Lau 2005; Wang et al Kun et al 2009; Ngo et al 2011).



CASE STUDY 16.1

DO HIGH PERFORMANCE WORK SYSTEMS EXPORT TO CHINA?

Kun et al (2009) examined the perceptions of over 1,100 employees in six Chinese manufacturing firms in two cities. They investigated how the perceptions regarding the existence or not of HPWSs differed across different groups of employees in terms of demographic features such as their age, gender, marital status, and education. Such differences are especially important in the context of China given its diverse workforce and ongoing cultural and economic transformations. They found that demographic factors such as gender and marital status do indeed moderate the relationship between perceptions of the existence of a HPWS and organisational commitment. Male and unmarried Chinese employees were significantly more positively affected by the existence of HRM practices, in terms of their commitment, than female and married employees. Younger, single and educated employees were, however, less committed to their current organisations. However, despite such differences, they also found that overall a HPWS did positively contribute to higher levels of organisational commitment in China, replicating many of the findings previously shown in the USA, Europe, Australia and New Zealand, and suggesting the potential value of exporting this system across organisations in the region.

In relation to this second issue, Foley et al (2012) have looked specifically at the adoption of HPWSs in foreign subsidiaries in the region. They ask whether the strategic HRM orientation (see Chapter 13) and the level of HQ influence is

different in subsidiaries originating in different regions of the world, and evaluate the effects of this on the adoption of HPWSs in foreign subsidiaries. They studied foreign subsidiaries of MNCs operating in Hong Kong, 60 from North America, 53 from the EU, and 50 from Asian countries. They found that a strategic HRM orientation was positively related to adoption of a HPWS and the adoption of a HPWS was positively related to subsidiary performance. However, there were significant differences in the strategic HRM orientation, HQ influence, and adoption of HPWSs depending on the region-of-origin of the MNCs. Subsidiaries of American-origin MNCs had the strongest strategic HRM orientation and levels of use of a HPWS in their Hong Kong subsidiaries, followed by Europe and then Asia. The researchers suggest that, given the lower cultural difference between Asian countries, Asian MNCs may feel comfortable using more trust and fewer formal control mechanisms in their Hong Kong subsidiaries. The study concluded that 'the implementation of HPWS in foreign subsidiaries requires substantial financial resources, effort, and commitment provided by [the] HQ' (Foley et al 2012, p111) and also that 'each HQ-subsidiary relationship presents different constraints, opportunities, and outcomes for HRM, and thus should be managed in a differentiated manner... nationally established patterns of managing human resources have not disappeared in the face of globalisation' (p112).

16.4 UNDERSTANDING THE PROCESSES OF HR PRACTICE TRANSFER

A number of researchers argue that much of this research is deterministic and overly focused on external factors, such as the influences of home country, parent company, host country and other MNCs (Edwards et al 2007; Edwards and Tempel 2010; Ferner et al 2012). Studies often fail to consider the role and importance of strategic actors. There remains a space for choice and negotiation by national actors. The work of Björkman and colleagues (generally on Finnish MNCs) also shows the importance of a number of 'intra-organisational factors' that matter in the management of this dual pressure of global integration and local responsiveness (Björkman 2006; Björkman and Lervik 2007; Björkman et al 2009; Mäkelä et al 2009). They too argue that we understate the factors at play when seen from the point of view of important corporate actors.

The organisational domain within MNCs then is always contested – characterised by 'actors' who have competing rationalities (Geppert et al 2006). This contested nature of the MNC makes the task of attaining global integration and local responsiveness problematic. In turn, corporate actors have to act with nuanced sensibilities, informed by a deep understanding of the underlying dynamics behind the hidden and potentially contradictory forces that are involved in striking the balance between global integration and local responsiveness.

However, *how* do these corporate actors intervene in sensible ways? Once cultural or institutional boundaries are crossed, it is sometimes impossible to find a direct parallel in another local environment that keeps the original practice coherent and sound. Attention has been given to the ways in which organisations of different national origin find solutions or variations that achieve the same purpose as the original practice.



KEY CONCEPT

Hybridisation

Hybridisation is defined as 'a complex pattern of creating new management practices through simultaneous processes of highly selective adoption, transfer, and local adaptation' (Chung et al 2014, p551). It results from the interactions between several national, legal and institutional systems, multiple political contexts, labour markets and skill structures. It is a non-deterministic process, with unpredictable results, that may lead to the emergence of entirely new and unexpected practices, or to practices that are functionally similar to those transferred (Boyer 1998).

The process was observed after the Second World War when transferring the American production model to European countries (Djelic 1998). The Japanese similarly experienced this when they tried to export their automobile production system, surrounded as it was by the unique Japanese culture, to Europe. They had to adapt their practices, by finding 'functional equivalents' (Oliver and Wilkinson 1989; Elger and Smith 2005). Similar findings emerge from studies of societies such as Russia undergoing transitions to capitalism (McCann and Schwartz 2006; Schwartz and McCann 2008), where critical junctures steer business actors or networks towards the need to re-mould institutions, business strategies, structures and the organisation of work. Ideas about hybridisation have been used in examining the transfer of practices from Japanese retailers to their Chinese subsidiaries (Gamble 2010), the adaptation of global HRM practices in the subsidiaries of South Korean MNCs (Chung et al 2012; Chung et al 2014), the adaptation of global talent management practices in professional and financial services firms during the global financial crisis (Sparrow et al 2013), and the transfer of practice in French MNCs to their subsidiaries in former colonies such as Tunisia (Yahiaoui 2015).

Resistance to the direct transfer of practice is often seen as a political act, a reaction to the imposition and one-way transfer (with reverse transfers also being in a single, albeit different, direction) of practices. More recent characterisations position hybridisation as a piece of thoughtful and co-negotiated strategy, striking a balance between the diffusion and adoption of practice, or the adaptation of that practice. For Yahiaoui (2015) it involves the creation of a 'third space' or set of 'distinctive configurations' around the design of HRM practices. For Chung et al (2014, p554) it involves 'careful choices of specific elements of HRM practices for global standardisation, modification of global standards, or localisation, in parent firms' approach to subsidiary-HRM practices' based upon a process of optimisation.

Chung et al (2012) have investigated the intra-organisational factors that corporate HRM actors perceive as being key in shifting the balance of dual forces in the direction they desire, using two Korean MNCs.



CASE STUDY 16.2

KOREAN MNCs: PROBLEMS IN TRANSFERRING THEIR BEST HRM PRACTICE TO SUBSIDIARIES

Chung et al (2012) studied two Korean MNCs, both global players in their respective industries, automotives and electronics, with significant global market shares and organisational spread. Their overseas operations included manufacturing plants, sales and marketing offices, service centres, R&D centres and design centres. Both had been transitioning their HRM function from a multi-domestic state to a transnational state but faced serious resistance from their subsidiaries and hence considerable tensions inside the organisation. Two salient themes emerged. HRM professionals in both companies acknowledged that the needs of global integration and local responsiveness are not an either/or choice; rather, they see that both are mandatory requirements that need to be sought simultaneously. However, there was a perceived lack of a strong sense of legitimacy, the 'liability of country of

origin' issue. As MNCs from a non-dominant economy, transferring their home country's HRM practices to their subsidiaries was difficult. It would be inappropriate to impose what they called 'Korean-style HRM practices', which could be mostly characterised as the seniority-based HRM system traditionally used in Korean firms, to subsidiaries. Adopting so-called global best practices would be the better solution. This drove them to search for external sources of legitimacy such as 'ready-legitimised' global best practices. In both organisations, their US subsidiaries initially showed negative responses to the global HRM frameworks. That the practices were staunchly resisted by the subsidiaries in a country that could largely be seen as the origin of such practices presented an interesting irony.

In this process, key corporate actors came to recognise the importance of a number of enabling mechanisms, notably a range of cognitive, social and procedural factors, in managing the duality of IHRM and in helping to ensure that the integration mechanisms being pursued were actually effective. Chung et al (2012) sort the intra-organisational factors into three broad categories – age-related, relational and procedural factors.

Sparrow and Brewster (2011) analysed how MNCs attempt to manage these processes of migration, often initially towards regional HRM service centres, with an aspiration of eventually moving towards global ones. The IHRM function had to understand which of its processes really have to be different – should remain localised – and which ones could be made core to all countries, globally integrated.



PRAGMATIC ROUTES TO GLOBALISATION: REUTERS

CASE STUDY 16.3

By 2008 Reuters, as it was then called, had grown, and continued to grow, through acquisitions. It was an MNC in the high-technology information industry, issuing financial information and more general news to the financial sector and to news organisations, with revenues of over £2.5 billion. It employed around 17,000 staff in over 100 countries and had nearly 200 in-country sites and establishments. There were three regional headquarters: in Europe, the Middle East and Africa (Switzerland), the Americas (the USA), and Asia-Pacific (Singapore). It operated through business divisions, a series of geographical sales and service channels and shared resources operations.

The change management processes were owned by the business and supported by HRM, so were positioned and embedded in the cycle of business activities, forming part of an annual HRM ‘roadmap’. The global/local divide was driven by the following prerogatives:

- High-level strategy was set globally.
- HRM business partners worked with leadership teams globally and

nationally to develop a talent pipeline in the right context for their needs.

- Some central initiatives (for example, reverse mentoring for senior leaders) were replicated locally as required.
- Accountability was taken by the line, and overall ownership held by the group leadership team.
- Regional councils took responsibility for leading initiatives that resonated with local needs.

Support and budget was given to local employee groups to encourage mutual support of activities. The organisation needed global consistency – it could not afford the information provided to vary depending upon source. It had structured its business model to reflect this globalised reality and invested heavily in a globally applicable management information system with a strong e-HRM component. Every manager and every employee was given access to the HRM information they needed from the website. The global HRM function was given information on all aspects of HRM around the business, wherever located.

16.5 GLOBAL INTEGRATION THROUGH MANAGEMENT DEVELOPMENT AND GLOBAL LEADERSHIP

The corporate centre has to have the ability to manage the process of integration. We now focus on the nature of operational integration within IHRM. To do this, we debate the role of three particular practices as being mechanisms for global integration:

- 1 management development and global leadership
- 2 global performance management
- 3 global talent management.

The first of our integrating mechanisms is that of management development and global leadership. There is an ongoing preoccupation both within governments and MNCs with the calibre of their managers and leaders. In many countries, particularly the USA, it is believed that senior managers are critical to organisational performance and therefore are worthy recipients of training and development investment.

Before we outline some of the global and integrating elements of management development, it is important to remember there are strong comparative differences in this area of HRM. In Chapter 3, when we discussed organisational culture, we noted that there are still fundamental differences in the way that 'managers are made', by which we mean the cultural assumptions that surround what we expect a manager to do, and the institutional arrangements (such as vocational education and training or VET) that are mobilised to develop them. Management development is central to an organisation's approach to HRM, and a telling signal of the value it places upon its staff (Mabey and Ramirez 2011).



CASE STUDY 16.4

IS THERE SUCH A THING AS THE 'EURO MANAGER' OR ARE MANAGERS 'MADE IN EUROPE'?

Much of the work on differences across Europe in management development was carried out in the 1990s. There was a good reason for this. After the creation of the single European market in 1992 European MNCs asked themselves if they could create the 'Euro manager' – a pan-European brand of management – or whether they had to accept that they made managers (differently) in different countries in Europe. They concluded the latter was the case (Sparrow and Hiltrop 1994).

The distinguishing feature of the French business system goes beyond education and is tied to the tiers of *cadres* – unique to management in France (Mabey and Ramirez 2011). Managers are seen as highly respected but are further divided into a series of formal titles. There is little inter-firm managerial mobility, particularly at lower levels. The elite *cadres* emerging from the *grandes écoles* to populate the higher reaches of management are rather wary of typical Anglo-Saxon attempts to identify high-potential individuals. French participants in executive education programmes will typically seek more abstract discussion, broad principles and critical contemplation of complex situations. They can be impatient with the pragmatic orientation and prescriptive direction that

the British favour in their dash for practical application.

In Spain there are still hierarchical structures with limited attention to firm-led management development. Norway by contrast has been influenced by the traditions of the large countries and its neighbours. During the inter-war period this included North American ideologies of 'mass production'. Whereas in the UK after the Second World War Taylorist principles of management prevailed, in Norway the emphasis was more upon egalitarian management systems with an emphasis on consensus and transparent forms of communication and good quality of working life. Denmark is different again in being able to combine high manager retention, strong career structures and also strength in general vocational and internal firm-specific training for managers. Traditionally the Danish institutional system has been considered egalitarian. What exists is a cohesive and consensual approach which is conducive to long term investment in training and development.

In the UK reliance has traditionally been upon unregulated external training providers rather than in-house and this has been aligned with weak career structures and low levels of job security.

The approach has traditionally been one of lower level of qualification for managers than in other European countries and the USA, although there has been a recent and rapid increase and improvement in postgraduate qualification.

Germany, by contrast has a highly integrated autonomous national training system. Shenton (1996) suggests that management training and education has evolved in a distinctive way that emphasises in-house training, a relatively long horizon for developing in-house

skills and long tenure for managers (Mabey and Ramirez 2004). The emphasis is upon specialist knowledge (Lawrence 1993), seen to be of a technical nature. Only experience earned on the job is important. Many high-level managers understand VET comprising of administrative and technical skills, with a recent expansion of formal management training. A high number of its senior managers hold a doctorate, signalling the importance of high levels of education as a likely prerequisite of leadership capability (Franck and Opitz 2007).

At the same time as the Europeans were examining management development, a number of commentators considered practice in Asia, where management development is seen as a science with a belief that it can be taught and applied like any other systematic operation (Borgonjon and Vanhonacker 1992). In China, since the mid-1980s, once economic reform was under way, it was thought that transfer of management knowledge and skills from western countries was necessary (Branine 2005). Around two-thirds of Chinese managers had no professional qualifications beyond high school (Warner 1996). However, a challenge still remains as to how to achieve this. Branine (1996, 2005) described how the 'norms' of western approaches to management development were unlikely to be appropriate given that the context is fundamentally different to the learner-centred approaches of western countries. Chinese managers see learning as a passive rather than an active process, with group discussions being regarded 'as a waste of time' and although the learners want to be 'modernised', as Tung (1996, p23) described it, they do not wish to be 'westernised'. Where China is chosen as a low-cost location for manufacturing, a sophisticated approach to (non-managerial) employee development is often not a priority (Zhang et al 2005). Generally, however, foreign MNCs have devoted considerable attention to management development.



CASE STUDY 16.5

MANAGEMENT DEVELOPMENT FOR LOCALISATION IN CHINA

By the 2000s, European multinationals operating in China began to show an increasing interest in localising their Chinese operations – passing more and more responsibility for their running to Chinese-born managers. Meanwhile, Chinese employees have shown great interest in achieving management status in such foreign enterprises. European MNCs have generally regarded localisation in China as requiring a significant investment in promising individuals, yet still have on occasion underestimated the extent of the

investment needed. ABB was seen as a leader in this. It achieved a substantial presence in China with a relatively few expatriate managers. Its formal planning of the localisation process was viewed as critical to the success of the company in China, in the light not only of their language skills but of their sensitivity to the cultural and political context, and to the conventions of business in China. Localisation was regarded as a business goal to stand alongside profit and market share. In recognition of the importance of the goal – and of the dangers posed by

expatriates' being asked to work to render themselves superfluous – expatriates were offered substantial bonuses tied to targets emerging from the localisation plan. This also helped to mitigate the danger that line managers would regard the immediate bottom line as the key objective. Expatriate assignments were normally expected to be for two to three years, ABB stressing to assignees the significance of such international experience for them, and the importance for ABB of imparting ABB experience to the Chinese. They discouraged expatriates' attempts to learn Chinese, since they were only to be there for a short while. ABB moved from the identification of high-potential Chinese candidates for management through to their socialisation, making use also of local business schools.

Qualifications are important in China. Chinese managers often give preference to those with degrees, and also often expect to have their development certificated. The action-learning-based programmes offered by the Siemens Management Institute to employees of Siemens and others suit Chinese managers well. Focused on the actual problems they face in their roles, and

involving extensive group work, this sort of programme avoids the theoretical study that Chinese managers often find demotivating. From the organisation's point of view, the projects emerging result in initiatives with measurable economic impact. As in other forms of management development, on-the-job training is critical. Indeed, given that authority structures tend to be centralised in China, it has a particular relevance because the absence of managers undergoing off-the-job training can have a severe impact on progress in their team. Sometimes, however, MNCs seeking localisation in China have deployed job rotation insufficiently, despite the willingness of local managers to be rotated. Job rotation can not only aid management development, but can form one element of a career and development path which encourages Chinese-born managers to remain with the organisation that has invested in their initial development. These development opportunities, alongside a good relationship with those to whom they report, are more important to the retention of the local managers than relative salaries (Worm 2001).

Such confirmation of differing management and leadership styles around the world poses a critical question for all organisations operating across borders: is there such a thing as a global leadership model? After all, Morrison (2000, p19) has stated that:

[a]s companies rely more and more on global strategies, they require more and more global leaders. This tie between strategy and leadership is essentially a two-way street: the more companies pursue global strategies, the more global leaders they need; and the more global leaders companies have, the more they pursue global strategies.

As the pace of globalisation continues to quicken, and we witness higher levels of migration, international business researchers have started to ask that we examine the link between culture and whether or not it has an impact on success. In Chapter 3 we raised the issue of individuals having multiple cultures and the GLOBE project on leadership, and in Chapter 4 we discussed multiculturalism. We have also dealt with the knowledge, skills and abilities that become important for international managers and expatriates in Chapter 14.

The earliest debates on international management strategy argued that strategic capability is ultimately dependent on the 'cognitive processes' of global managers and the ability of firms to create a 'matrix in the minds of managers' or a 'transnational mentality' (Bartlett and Ghoshal 1989, p195). There have only been a few studies that have looked at

global leaders in detail, and the evidence still tends to be more anecdotal. Pucik (1998, p41) pointed out that:

Some global managers may be expatriates; many, if not most, have been expatriates at some point in their career, but probably only a few expatriates are global managers.

In thinking about this issue, a distinction is typically made between:

- expatriate (or international) managers: executives in leadership positions that involve international assignments across countries and cultures, with skills defined by the location of the assignment, and
- global (or transnational) managers: executives assigned to positions with cross-border responsibilities, who have a hands-on understanding of international business, with competencies defined more by their frame of mind.

For Pudelko et al (2015) global leadership is a sub-discipline of broader work that has looked at 'international actors in the upper echelons of organisations' (p128). Lakshman (2013, p 930) defines global leadership as:

The ability of an individual to influence, motivate, and enable others (in cross-cultural settings) to contribute toward the effectiveness and success of the organizations in which they are members.

Academics have focused on what distinguishes effective global leaders and how organisations 'build' global leadership skills.



KEY FRAMEWORK

Global leadership

Global leadership involves more than the set of skills, or range of competencies, that are important for effective international management. Murtha et al (1998) looked at the type of cognitive change towards a more global mindset in managers and identified a core value-set or logic associated with global operations. It involves two additional aspects or components to skills:

- Attitudes and values – also called an *international orientation*. This attitude is assumed to correlate with both the extent and the quality of international experience. Researchers have attempted to develop measures that correspond to the core dimensions of a manager's thinking about international strategy and international organisation, and have then shown how this mindset changes over time.
- Cognitive structures – a good *mental model of how knowledge and information is shared* across the people with whom they need to interact if they are to help their organisation deliver an important global business process, product or service. Recent work has looked at the role of international managers as important brokers of knowledge, arguing that they help to diffuse practices across borders.

Central to global leadership is what is called *cultural frame switching* (the ability to select and apply one of several cultural frames for processing or reacting to a social situation). This in turn relies on two capabilities (Sun and Anderson 2012; Lakshman 2013):

- accurate and congruent (isomorphic) attributions about mutual expectations and reciprocal relationships (Caprar 2011)

- attributional knowledge – knowledge that ‘reflects a heightened awareness of appropriate behavior, building upon factual and conceptual culture knowledge, to correctly attribute the behavior of individuals in the target culture’ (Johnson et al 2006 p531).

Global managers need to understand how tacit knowledge spreads within top management teams. International managers often build up a lot of ‘social capital’ because they have ‘boundary-spanning roles’ and this puts them in touch with lots of different networks inside the organisation. They also develop important insights into the organisation through their interpersonal cross-border relationships. For example, Yagi and Kleinberg (2011) identify the crucial role that information processing plays for biculturals (who can act as boundary spanners in leadership terms) as they filter, summarise, interpret, infer, and store information in the performance of their boundary-spanning role.

All of these factors help global managers build superior mental models of the organisation, and enable them to become more effective (Sparrow 2006).



CASE STUDY 16.6

GLOBAL LEADERSHIP DEVELOPMENT AT INFOSYS

Infosys Technologies Ltd was set up by seven people in India in 1981 with an investment of \$250. It now considers itself to be a global leader in next-generation IT and consulting solutions, with revenues of over US\$4.18 billion in 2008 and year-over-year growth of 35%. Infosys employs over 100,000 people. It is known for its emphasis on talent management. In the opening section of its 2007/08 Annual Report its Chairman stated that ‘Our core assets walk out every evening. It is our duty to make sure these assets return the next morning, mentally and physically enthusiastic and energetic.’ The report was entitled *The Power of Talent*, and detailed initiatives undertaken by the Infosys Leadership Institute (ILI) to develop global leaders. In 2007/08 ILI provided 180,019 training days on behavioural and leadership skills

and personal development for leadership (Smith 2010).

Infosys splits its leaders into three tiers (*Workforce Management*, 2008). Tier 1 leaders are the top 50 people in the organisation, including the heads of the business units, who have an average of 20 years of experience. Board members mentor these 50 leaders. Tier 2 consists of 180 leaders with an average of 15 years of experience. They are mentored by Tier 1. Tier 3 represents 550 people who average 10 years of experience and are mentored by Tier 2.

In 2010 ILI published its first book – *Leadership @ Infosys*, produced by Penguin Books India – which explained Infosys’ ‘continued success as a corporation ahead of the curve’.



REFLECTIVE ACTIVITY 16.1

What can boundary spanners do to ensure that they and others possess the necessary explicit and tacit knowledge of how to do things and why some things are important?

16.6 GLOBAL PERFORMANCE MANAGEMENT

The second of our integration mechanisms is global performance management. In Chapter 9 we discussed performance management from a comparative perspective, and noted that although the conduct of key aspects of performance management, such as appraisals, differs markedly across cultures, the core processes involved in performance management are the same internationally.



CASE STUDY 16.7

THE ADOPTION OF CENTRALISED PERFORMANCE MANAGEMENT: JAPANESE MNCs

A Japanese consumer electronics MNC was keen to see the adoption of a centralised performance management system in its Japanese and UK subsidiaries. Production practices were highly standardised, but HRM practices were highly decentralised. The organisation was attempting to implement a 'corporate DNA' programme, intended to implement a 'one company' image. A central plank of this was the radical centralisation of co-ordinating management processes to the global headquarters, including HRM in general, and performance management in particular. The challenges that organisations face in moving towards more globalised implementation of core HRM practices is that they have to create a shared and more collective understanding of any new strategy, and the routines (in our instance here, an HRM practice can be a routine) used to

address it, in the face of individual differences in interpretation (individual differences between group HRM specialists, country HRM specialists, and country managers). The case study showed the importance of changes in the 'cognitive and motivational routines' of local actors. Those changes that built on elements of pre-existing changes were easier to implement, but where significant de-identification with existing routines was required, then motivational support was harder to engineer. In order to understand the changes taking place, it is often advantageous to break down changes in a routine (that is, HRM practice) into sub-routines, and to clarify the micro-processes at work in routine change.

Source: Stiles et al (2015)

A number of authors have examined the importance of global performance management systems as an integration mechanism in recent years (Björkman et al 2009; Evans et al 2011; Biron et al 2011; Cascio 2012; Festing and Knappert 2014; Engle et al 2014; Festing et al 2015; Engle et al 2015; Varma et al 2015). The reason behind this attention is that

it ties together organisational and individual performance by adjusting respective objectives and designing appropriate evaluation and rewards systems across business units and national boundaries. (Festing and Knappert 2014, p332)

Engle et al (2014, 2015) define global performance management (GPM) as the cross-border dimensions of performance management that enable individual performance results to be systematically aggregated in large and diverse MNCs. This involves choices around the strategic content of the PM process, design and roll out of the system, operations in country, and evaluation of the system. They have looked at the nature of GPM systems in MNCs. They found differences in the uses, metrics, systems and

processes of performance management, but also argued that GPM systems have at their heart four core processes:

- 1 'Funneling' of selective individuals deemed to be high performance to the attention of actors at the next vertical level in the firm.
- 2 'Summation' of individual performance metrics to this next vertical level, using uniform performance metrics that can be captured, organised and presented using common performance metrics throughout the MNC at plant, division, national, regional or SBU level, generally using advanced software-based decision support systems and networks.
- 3 'Conversion' of individual metrics into a form of metric (usually different to the domestic form) that can then be forwarded to the next vertical level. In this movement of performance information, an assessing group takes the results from a lower level and recasts them by altering the performance dimensions, scales and levels, into a new set of performance variables deemed more appropriate to immediate purposes.
- 4 'Sharpening' or recalibration of macro-level firm strategic performance metrics in terms of how well individual and subunit performance targets are met.

There is of course considerable overlap in many organisations between their performance management and their talent management systems. As Engle et al (2015, p1957) point out:

some MNEs emphasise the holistic, personal talent aspect of the GPM system through a series of talent tournaments. From this initial process, the top performers move on from a local talent pool to a regional, division or global talent pool. Using this approach, the strategy is to identify and move high performance employees to increasingly challenging work assignments so that their abilities and experience can be more effectively utilised in the MNE. The GPM results allow the talented individual to 'bubble up' to more challenging positions in the MNE.

16.7 GLOBAL TALENT MANAGEMENT

Finally, we discuss the third of our integrating mechanisms, global talent management (GTM). We considered the issue of expatriate management in Chapter 14 and noted that talent management on a global basis is a far broader concept than plotting a series of international assignments for young high-potentials (Cerdin and Brewster 2014; Collings 2014). Scullion and Starkey (2000, p1065) concluded that there is a:

growing recognition that the success of international business depends most importantly on the quality of top executive talent and how effectively these critical resources are managed and developed.

Early studies focused on corporate strategies and practices implemented to attract and retain key talent and the need to build a level of global leadership to secure organisational capability (Sparrow et al 2004; Collings et al 2009; Hartman et al 2010; Scullion and Collings 2012; Stahl et al 2012). GTM is defined as:

the strategic integration of resourcing and development at the international level which involves the proactive identification and development and strategic deployment of high-performing and high-potential strategic employees on a global scale. (Collings and Scullion 2008, p102)

[including] all organisational activities for the purpose of attracting, selecting, developing and retaining the best employees in the most strategic roles (those roles

are necessary to achieve organisational strategic priorities) on a global scale. Global talent management takes into account the differences in both organisations' global strategic priorities and the differences across national contexts for how talent should be managed in the countries where they operate. (Scullion et al 2010, p106)

Both of these definitions take an elitist view of GTM, which distinguishes it clearly from general HRM; others assume that all employees have talent (Cerdin and Brewster 2014) in which case talent management comes very close to just a rebranding of HRM. Tarique and Schuler (2010) see it as a subset of international HRM policies and practices focused on attraction, retention, development and mobilisation, systematically linked to the strategic direction of a multinational enterprise.

Sparrow et al (2004) found that early approaches to GTM seemed to be associated with eight common strands of practice:

- creating global HRM network initiatives around talent management and capability development
- researching into 'consumer insights' with current and potential employees, sister companies, external agencies, and benchmarking with external companies
- managing 'talent pipelines' across countries in order to recruit 'ahead of the curve'
- communicating brand and skills awareness across countries in graduate schools and businesses to get the people they need
- developing internal talent pools around the world
- creating skilled and competent teams of assessors in different regional geographies
- managing recruitment suppliers on a global basis and establishing master contracts to co-ordinate the messages conveyed and the use of preferred partners
- e-enabling global information systems such as jobs notice boards, and re-designing websites to convey important messages about the employer brand.

Such sets of practices are underwritten by one of four philosophies for talent management (Collings and Mellahi 2009):

- 1 People approach: Talent management as a categorisation of people.
- 2 Practices approach: Talent management as the presence of key HRM practices.
- 3 Position approach: Talent management as the identification of pivotal positions.
- 4 Strategic pools approach: Talent management as internal talent pools and succession planning.

The first perspective, originally advocated by Michaels et al (2001), positions talent management as the management of top elites – a small, handful of 'key people'. They are usually selected through a performance-potential selection tool, hence the connection between global performance management and global talent management. There are also connections to marketing thinking through the development of global employer brands and the adoption of employee value propositions (EVPs) designed to attract talent. This pool of people is separate to the pool of expatriates or international managers, but where talent pool membership requires certain levels of international experience, there might be some overlap. Individuals become part of this pool when they are hard to find and difficult to replace. They are seen as adding a disproportionate amount of value to the organisation compared to other employees mainly because they are deemed to have intellectual skills, seen as the power to understand business and social opportunities. Such high-value, difficult-to-replace technical talent was best seen as a strategic asset: a 'star' talent philosophy advocates differentiating the management of these people using practices that are designed to attract, retain, and develop these high performance and high potential employees.

Whilst the ‘people approach’ argues that the differentiator for high-performing firms is *not* sophisticated HRM processes, the second philosophy, or ‘practices approach’ acknowledges that there is a need for a dedicated set of advanced and sophisticated practices needed. Talent management is seen as a collection of key activities, components or practices, all of which need to be connected and integrated. In order to build a GTM system organisations need several building blocks. These component practices have to be more than just a string of HRM programmes, practices and processes. They need to form part of a broader system driven by the business strategy and must be managed as a core business process (Silzer and Dowell 2010).



KEY FRAMEWORK

HRM practices brought together under a GTM system

- Identifying and recruiting talent (analysis of labour pools, benchmarking competitor strategies, decentralising or centralising recruitment strategies, co-ordinating preferred suppliers, establishing brand and reputation amongst key employee segments).
- Attracting talent to the organisation (creation of employee value propositions, management of an employer brand).
- Minimising attrition through engagement and retention (effective induction, aligning rewards and recognition structures, improving line management skills and engagement with talent, retention initiatives).
- Identifying key internal talent (systematic and effective approaches to affirm individuals with the status of talent, high potential identification systems, identifying the roles that are most talent dependent, and using appropriate assessment instruments and frameworks).
- Managing talent flows (developing effective succession systems, creating flexibility in internal mobility, career management and planning systems, succession management).
- Developing employees (coaching and mentoring, flexible portfolios of development activities, learning opportunities and options for employees, team learning processes, strategic and operational leadership development programmes, coaching).
- Delivering performance (organisation talent review processes, linking data on organisational performance to the selection of talent, stretching the performance of talented individuals, managing under-performance).

Source: Sparrow et al (2014)

The third talent management philosophy – the ‘key positions’ approach – differentiates job roles into A, B or C positions (Huselid et al 2005). Whilst some HRM professionals have ethical objections to classifying people this way, there might not be the same emotional reactivity to classifying or segmenting positions or jobs within the organisation. ‘A positions’ are strategic, require autonomous decision-making, have performance-based compensation, and are deemed to create disproportionate value for the organisation as compared to other positions. The same applies in GTM as noted in our discussion in Chapter 14 of the risk carried by organisations with their expatriates – the consequences of mistakes (in job design or in hiring the wrong employee) can have serious financial repercussions. These roles have a disproportionate impact on the organisation’s ability to execute some part of its strategy, but there would be wide variability in the quality of work displayed by the employees in that position. By implication, from this perspective, talent management is no longer just linked to top tier employees of the organisation. These

positions can be anywhere and talent management truly becomes a company-wide strategy.

The fourth philosophy draws upon the notion that organisations have ‘pivotal talent pools’ (Boudreau and Ramstad 2006, 2007). These are groupings and clusters of talent (not just positions) where human capital investments make the biggest difference to strategic success – because the improvements in capabilities brought about by investment will have the most significant impact on competitiveness. A subsidiary might be one such cluster. This philosophy is driven by practices associated with human capital management, including human capital (or workforce) analytics or accounting (HCA), which blend techniques such as forecasting principles and scenario planning to create forecasts of the current and future workforce, often looking at key roles under various business scenarios (Boudreau 2010; Boudreau and Jesuthasan 2011; Cascio and Boudreau 2010, 2012). Strategic workforce planning approaches are generally seen as a subset of talent management, although in terms of the HRM structure and reporting relationships, this is not always the case. In practice, organisations tend to set up networks of global experts, or special task forces, to undertake the work, because the results of a strategic workforce plan will have implications for several central functions such as international mobility, rewards and resourcing, those HRM professionals in the business (HRM business partners) and local HRM operations (HRM in the country).



DEVELOPING AN ASIA TALENT PLAN AT ASTRAZENECA

CASE STUDY 16.8

AstraZeneca is a leading global pharmaceutical company which in 2008 employed 67,000 people worldwide – 55% in Europe, 30% in America and 15% in the rest of the world. In 2008 the HRM function undertook a project to ‘develop an Asia talent plan’, strengthening the talent pipeline for key leadership roles in the country and then more broadly developing a strategic workforce plan to identify the pipeline of skills and capabilities needed to support the business plan.

The first element involved the need to create robust and customised career plans for local employees, identify gaps in the internal leadership pipeline and document investment cases four years forward. An Asia Talent Pool was created on the basis of reviews of performance track and talent data (assessments of potential). The career plan analysis identified key experiences still needed: navigating the global organisation, leadership skills demonstrated in working with other cultures and managing delivery through a global matrix organisation, management skills, professional skills in areas such as

strategic marketing skills, business development and licensing, and language skills. A blend of local career development, short-term international moves but also long-term assignments designed around learning needs was selected. The international assignment process was redesigned around shared accountability for planning the assignment between host and home line managers, shifting to a primary objective of assignments being used for individual development with provision of local mentors rather than filling local skills gaps, and return roles planned before the outward assignment started.

The second element was the development of a forward Asian talent plan – looking three to five years out – and scoped around three geographical priorities: Japan, China and India (with follow-on plans created for Korea and Thailand). Each market created unique talent challenges – Japan is the second-largest pharmaceuticals market in the world and needs constant resourcing; China is an area of growth; India represents a strong market for scientific talent. AstraZeneca looked at competitor

practice – for example, Shell, with its scenario-planning mentality, was known to have developed plans for what would happen to talent should the Soviet Union have collapsed before it actually did. The planning process required the development of clarity around the mid- to long-term business strategy, reviews of current workforce data around demographics, hiring patterns, turnover

and movement, establishing and reviewing external labour market data and trends, projecting future capability profiles, replacement costs, defining workforce optimisation plans around projected business volumes, staffing needs and alternative staffing models.

16.8 GLOBAL PERFORMANCE MANAGEMENT



REFLECTIVE ACTIVITY 16.2

- What might be the cross-cultural difficulties of a star talent philosophy?
- How would you use the discussions throughout Part Two of the book on the sorts of functional practices that organisations around the world have or do not have to decide whether GTM would be successful or not within an international organisation?
- How might the internationalisation process of an organisation lead to the creation of new ‘pivotal talent pools’?

Since these early studies there has been growing academic interest in GTM (Farndale et al 2010; Scullion et al 2010; Scullion and Collings 2011; Schuler et al 2011; Dickman and Baruch 2011; Vaiman and Collings 2013; Valverde et al 2013; Thunnissen et al 2013; Minbaeva and Collings 2013; Björkman et al 2013; Cerdin and Brewster 2014; Sonnenberg et al 2014; Collings et al 2015). These discussions were initially dominated by both by study of Anglo-Saxon organisations and by the analyses of US academics, but within the general strategic debate attention has also turned to perspectives from Europe (Collings et al 2011; Latukha 2015; Skuza et al 2016), Asia-Pacific (Iles et al 2010; McDonnell et al 2012) and emerging markets (Hartman et al 2010; Doh et al 2014).

As with any the other HRM practices discussed throughout the book, the desirability of GTM practices, their execution, and chances of practices becoming embedded in day-to-day management are subject to cultural and institutional influences (Sparrow et al 2014). This is particularly so, because talent management comes with ideological associations. Depending on the ‘version’ of talent management that is pursued, then values of elitism and linkage and linkage to business objectives of stakeholders are involved. Questions might be asked about:

- the ‘workability’ of some of its core practices – such as the conduct of assessment centres or other techniques associated with the identification of potential
- the skill, inclination and capability of line managers to take on responsibility for employment relationship (the coaching and development of talent is very dependent on local managerial capability and attitude)
- the attractiveness of local markets in terms of their ability to deliver sufficient quantity and quality of talent (at whatever skill level) in terms of the sorts of capability, leadership and competency models that the globalising organisation choses to seek (this is likely to vary massively).

GTM systems are bounded by the natural cognitive limits of managers who have neither the time, capability nor inclination to access data about all global talent – the inclination is to select those who are ‘good enough’ based on previous experiences and beliefs about talent (Mäkel et al 2009).

A GTM strategy also has to solve many country and national labour market specific issues (Sparrow et al 2014). A study of talent management practices in 58 Polish organisations (Skuzza et al 2013) showed there was still little evidence of Polish practice converging with western models. There were differences in the intensity of challenge to do with talent identification, development or evaluation between the domestically owned and foreign-owned organisations, and the practices used for each aspect of talent management. These practices reflected the typical industrial structure and historical traditions rather than the practices prescribed in best practice or academic books, the limited power and influence of HRM functions, a cultural emphasis on personal and private networks and on the collective rather than on individual success, and biases (high potentials are a threat to your own hard-fought for position). Similarly, Valverde et al (2013) found very little awareness of the practice or rhetoric of talent management amongst medium-sized organisations in Spain. In Germany the nature of talent management and practices associated with it of course varies by type of firm, especially given the prevalence of SMEs (Festing et al 2013). Relatively low levels of unemployment and support for high levels of skilled migration, along with longer-term characteristics such as an emphasis on education, vocational qualifications and a development orientation create a specific set of practices and challenges.

Yet, at the same time, the HRM strategies of MNCs (whether of western or emerging market origin), major domestic organisations, and even national public sector organisations seeking talent from broadened labour markets, are evolving. Global organisations have to make trade-offs in terms of:

- the time it takes to find the appropriate level of talent in a local market (the cost of search – in terms of resources assigned to search – and the opportunity costs of the time taken)
- the power of their brand to attract such limited-labour versus the cost of attraction if the brand is not strong, and sometimes
- the political necessity of sourcing from the local labour market
- the implicit cost of labour, the trainability and speed to competence or acculturation, the risk of lost investment through active employee turnover.

As we noted earlier in the chapter when discussing the challenges of transferring any HRM practices on a global basis, a number of intra-organisational factors within the boundaries of the firm have to be managed as part of this globalisation process. Organisations therefore tend to evolve their way towards more GTM systems. They have to develop linkages between geographically dispersed units and use a series of integration modes to regulate functional activities across borders. Sparrow et al (2014) looked at the processes involved in the globalisation of any talent management system. They identified two key challenges:

- 1 In a global, as opposed to a domestic, talent management system, the different practices under planning, attraction, development and retention need to be aligned vertically to both the over-arching HRM strategy and the business strategy. There is a need for GTM to deliver a degree of vertical (global) integration *within* businesses across the internal labour (talent) markets (that is, between the strategy, business model and structure through to the talent management practices). There is also a need for horizontal integration (that is, across operating divisions) in order to shape requisite levels of transfer of knowledge and individuals across businesses.

- 2 As the demography of international mobility continues to diversify and there is an increase in the variety in the forms of international work (see the previous chapter) then the talent system has to be closely linked to the management of international mobility. The role of the individual as a stakeholder in decisions about, and management of, global mobility grows in importance (Meyskens et al 2009; Dickmann and Mills 2009; Howe-Walsh and Schyns 2010). GTM has to foster the appropriate network ties between the expatriate and their host and home support networks (Farndale et al 2014).



KEY FRAMEWORK

Corporate HQ roles in GTM

Farndale et al (2010) developed a conceptual model of GTM roles to explore how support for GTM strategies across the organisation might be engendered. Four roles need to be played by the corporate centre:

- 1 *Champion of processes*: developing and monitoring GTM practices and policies, strategy and tools; ensuring these are implemented across the firm; monitoring GTM processes; and improving coordination of tools, techniques and processes internally across functions.
- 2 *Guardian of culture*: ensuring a culture of mobility across the organisation; incorporating values and systems in organisational strategies and activities to support global mobility of individuals; and breaking down silo mentalities that can exist between business divisions and geographic regions.
- 3 *Manager of receptivity*: encouraging the in- and out-flow of key talent across business entities; active management of key talent to ensure individuals are looked after; encouraging receiving units to manage diversity, careers, integration and work-life balance; and encouraging sending units to share their talent for the good of the firm as a whole.
- 4 *Network leadership and intelligence*: developing appropriate networks inside and outside the organisation to support the GTM process; being aware of developments in the internal and external labour market; mobilising appropriate talent both internally and through external providers; and a sense of timing and context (sensitivity to what is going on at both local and global levels).

These roles are stable (regardless of the international context, changes in the external global context, or the organisation's positioning on a centralisation-decentralisation continuum) and their presence is necessary for organisations to build a core competence of transferring capabilities through talent on a global basis.

Subsequent empirical investigation in two professional service firms from the financial and professional service sectors examined these four roles (Sparrow et al 2013). The level of centralisation was an important contingent variable for the four corporate HRM roles, but the goals were also a product of the level of GTM maturity the organisation had in pursuing GTM strategies, and the needs of the business model.



REFLECTIVE ACTIVITY 16.3

It is often assumed that talent management practices are the preserve of large multinationals. However, charities face similar issues of having to compete for a small number of talented people. For example, when a crisis arises, will that expert in dysentery work for Save the Children or for Oxfam? Although of course the financial resources that might be devoted to talent management strategies are more constrained, the practices and experiences of not-for-profit organisations in the international management area are very similar to those of large private sector firms.

Imagine you are the IHRM director of an international charity.

- What are the talent management issues that you believe you would have to deal with?
- What would be the key elements of your talent management strategy, and what would you need employees to do to 'make it happen'?



KEY LEARNING POINTS

- A critical aspect of creating effective IHRM strategies is the ability to judge the extent to which an organisation should implement similar practices across the world or adapt them to suit local conditions – the 'global versus local' debate.
- The concepts of 'institutional distance' and 'dominance effect' have guided discussion about the transfer of practices between national domains.
- However, foreign subsidiaries' HRM practices reveal some similarities with, but also differences from, both local practices and parents' practices. In addition to national institutional and cultural factors, intra-organisational factors are important.
- Micro-politics concerns how actors protect and progress their own interests, the resources they use, and the way they resolve conflicts – managers in subsidiaries interpret the possibilities and constraints and can make strategic or tactical decisions that weaken, modify or defend against what might be seen as disagreeable or irrational demands from HQ.
- The implementation of most new HRM systems – such as HPWS – in foreign subsidiaries requires substantial financial resources, effort, and commitment from the HQ.
- Once cultural or institutional boundaries are crossed, it is sometimes impossible to find a direct parallel in another local environment that keeps the original practice coherent and sound.
- Many organisations have learned how to hybridise, that is to create new management practices through simultaneous processes of highly selective adoption, transfer, and local adaptation. The corporate centre has to have the ability to manage these processes of integration.
- The HRM strategies of MNCs (whether of western or emerging market origin), major domestic organisations, and even national public sector organisations seeking talent from broadened labour markets, are evolving and becoming more global.
- There are three key practices that tend to be early candidates for globalisation: management development through global leadership, global performance management and global talent management.

- Whilst management development is central to an organisation's approach to HRM, the way that managers 'are made' is very different across countries.
- There is a two-way link between strategy and global leadership: as companies rely more on global strategies they require more global leaders. As they have more global leaders, they can execute more global strategy. Only a few expatriates would be classed as global leaders.
- Global leadership involves more than the set of skills, or range of competencies, that are important for effective international management. It also involves attitudes, values and mindset.
- A GTM strategy also has to solve many country and national labour market specific issues. The component talent practices that form a GTM system have to form part of a broader system driven by the business strategy and must be managed as a core business process.


 LEARNING QUESTIONS

- 1 Are global integration and local responsiveness useful concepts when it comes to the design and export of an HRM practice?
- 2 What are the best practices that organisations in your country wish to 'import'?
- 3 What capabilities do IHRM functions have to develop if they are to successfully transfer HRM practices globally?
- 4 Are global leaders born or made?
- 5 Is it ever possible to develop a global talent management system?



EXPLORE FURTHER

EDWARDS, T., COLLING, T. and FERNER, A. (2007) Conceptual approaches to the transfer of employment practices in multinational companies: an integrated approach. *Human Resource Management Journal*. Vol 17. pp201–217.

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Globalising HRM

LEARNING OUTCOMES

When you have read this chapter, you will:

- understand the nature of subsidiary knowledge flows in MNCs and the challenges of trying to manage multi-directional knowledge transfers in MNCs
- identify some of the most important integration mechanisms that can be used in the pursuit of global knowledge management strategies
- be able to explain how these activities can create intellectual, social and emotional integration
- appreciate the role of knowledge management and knowledge transfer between international operations
- understand the issues involved in building organisational capability through global expertise networks and the different ways in which global networks might be designed
- explain how different types of 'HRM architecture' help enable these knowledge flows
- position employer branding as part of a longer term strategy to create social and emotional integration within an organisation
- understand what is involved in managing the perceptions of the external and internal labour market
- explain how MNCs attempt to create and manage global employer brands.

17.1 INTRODUCTION

In Chapter 4 we noted that there is much cultural interpretative work that has to take place inside organisations if they are to globalise themselves effectively, and that for knowledge transfer to be effective, organisations need significant people who are multicultural, or have cultural intelligence, as well as a series of integration mechanisms such as international teams and cross-border units. Later, Chapters 14 and 15 then examined the role of expatriates, one of which was as a conduit for global integration. Having examined the general management of expatriates, in this chapter we shall consider how expatriates can also be managed as a resource for global integration. Expatriates can act as knowledge brokers. Then, in Chapter 16 we discussed the notions of global integration and local responsiveness, and the challenges of transferring HRM practices across international operations. We showed how some key practices – notably management development and global leadership, global performance management and – are being used as part of this *operational* integration. They are being managed not just as a natural extension of the initial interest in expatriates, but also serve to bring a degree of global integration around key HRM philosophies, programmes, processes, and practices. They help to integrate the HRM function around a common set of more globalised

operations and act as common and superordinate themes in the pursuit of a more globalised HRM process.

However, in order for there to be global integration, there are some other important initiatives that are often pursued. Ghoshal and Gratton (2002) point to a number of important integration activities at corporate level.



KEY FRAMEWORK

Methods of integration

The corporate centre has the ability to manage the process of integration. This process has four critical components:

- *Operational integration through standardised technology* – Portals can provide a common front for employees and help integrate the HRM function around a common set of more globalised practices.
- *Intellectual integration through the creation of a shared knowledge base* – By creating an emphasis on creating, sharing and exchanging knowledge both within and beyond the HRM community, corporate HRM functions can ensure that the intellectual capital of the function is rapidly codified and shared across constituent HRM functions.
- *Social integration through the creation of collective bonds of performance* – This is where the function develops a clear sense of what it wants to achieve and how it wants to achieve it.
- *Emotional integration through a sense of shared identity and meaning* – This concerns the mobilisation of hearts and minds behind change processes.

In practice, then, global HRM revolves around the ability of the organisation to find a concept that has relevance to managers across several countries – despite the fact that they have different values embedded in different national cultures and despite the reality that these global themes may end up being operationalised with some local adaptation. The corporate strategy is usually expressed through performance management systems applied globally that measure and manage a balanced series of outcomes that must be achieved.

In this chapter we extend our discussion of global integration by examining two areas:

- *Intellectual integration*, through the pursuit of global knowledge management strategies, and the adoption of global expertise networks. Intellectual integration is usually an attempt to build upon core strategic competences that are considered to differentiate the firm and lead to its competitive advantage.
- *Social and emotional integration*, using the example of corporate and global employer brands, whereby organisations think about their external brand image and corporate reputation, and the ways in which their employees identify with and actively support the brand.

Each of these brings its own challenges when managed on the global stage and is considered in turn.

We focus of course on the positive initiatives that organisations put in place to achieve this kind of integration. However, to put these positive initiatives in context, we begin by reminding ourselves that the pursuit of global integration creates many challenges for the IHRM function of an organisation. It has to globalise its own professionals as well as key practices and processes. And in most cases, despite making some of the structural changes we discussed in Chapter 12 on the global HRM department, it has to work towards these solutions in very pragmatic ways, drawing upon and building its own networks.

Historically, global information and insight into local conditions and best practice have all tended to be shared through the process of IHRM professionals just talking to each other – getting groups of people together within the organisation to facilitate some transfer of learning. Network- and project-based structures play a critical role and have had a significant impact on the conduct and quality of IHRM interventions and on the career trajectories of HRM professionals. However, there is little clarity about the extent to which these networks can be local as well as global, external as well as internal.

Global networking is one of the ways that the IHRM function can help build this capability across international operations. Parkhe et al (2006, p560) state that:

Networks are reshaping the global business architecture. . . the ubiquity of networks and networking at the industry, firm, group, and individual levels has attracted significant research attention.

Considerable ‘social capital’ resides within these communities (see the theory on social capital in Chapter 13).

Tregaskis et al (2005) conducted interviews in six firms, describing the function, structure and processes typically associated with international HRM networks. These networks can be run through top-down or more collaborative remits and operate through leadership, project or special-event team structures. They serve a range of functions including policy development and implementation, information capture, exploitation of knowledge, sharing of best practice, achieving political buy-in and socialisation of members. Face-to-face contact is important in the process of relationship- and reputation-building but is often supplemented by virtual working as a way of signalling more global cultures. The level of localisation is generally driven by the politics of acquisition, size, expertise and level of resistance in subsidiaries. HRM leadership through networks can facilitate more collaborative solutions, but this depends on the strategic capability of the function, board-level support and strength of IHRM networks. The social ties that the HRM specialists can develop across the globe and the extent and value of those ties become important elements of the armoury of the IHRM specialist.



REFLECTIVE ACTIVITY 17.1

- What difficulties might organisations face in building IHRM networks?
- How might these be overcome?

Global HRM networks serve several important purposes (Sparrow et al 2004):

- providing a forum to encourage innovation and growth throughout the business, and a vehicle to get the right people onto the right teams in order to make this happen
- encouraging HRM professionals and line managers to think beyond their ‘own patch’
- creating a situation whereby membership of the network provides advantages in terms of better-quality implementation for both the line managers and the HRM professionals
- getting stakeholders (the senior HRM community, presidents in businesses) to buy in to business changes
- forcing the business agenda in forums outside the networks in subtle ways based on shared insight within the network.

THE ROLE OF GLOBAL HRM NETWORKS

- to provide and enable value-added and cost-effective global, regional, and local solutions in a series of core HR processes
- to identify customer-driven pan-national issues
- to design solutions to meet specific customer needs and support the corporate people management strategy
- to demonstrate to customers that global connectivity adds value by sharing knowledge and expertise
- to ensure that knowledge and intellectual property that resides within HRM 'silos' is made freely available to all of the organisation.

Of course, IHRM departments do not just have to create their own intellectual integration. They spend much of their time assisting the development of this in the broader organisation.

17.2 INTELLECTUAL INTEGRATION THROUGH SHARED KNOWLEDGE

An important way to look at global integration is to think about the development of intellectual integration through the creation of shared knowledge bases. In a competitive marketplace, the act of integrating disparate sources of knowledge within the bounds of the organisation has become a source of advantage. For IHRM professionals there is capability-building agenda that is often concerned with the up-skilling of a business function, and with spending more time engaging with the leadership teams of these functions.



REFLECTIVE ACTIVITY 17.2

Before we discuss some of the strategies involved in global knowledge management, reflect back on some previous important discussions:

- We introduced two theoretical perspectives around the notion of organisation capabilities: the knowledge-based or organisational learning view of the firm, and relational and social capital theory. How might these notions influence the way that IHRM should think about their role in the global organisation?
- IHRM research considers how complex knowledge must be managed across cultural divides. If you want to create more intellectual integration across a global organisation, what becomes important about the ways in that managers have been developed in various national labour markets?
- What might be the influence of vocational education and training systems on the way in which the management task is defined? How might such development shape the values that managers give to different types of knowledge?
- As we saw throughout Part Two of the book, these interests lie at the heart of much of the comparative HRM literature. What is the range of HR practices that might be brought to bear to create a more integrated organisation?

Analysis of knowledge-based enterprises and how they globalise draws attention to three capabilities that must be built by HRM practices (Sparrow 2006):

- 1 Knowledge acquisition and creation: generation of new knowledge fundamental to the long-term viability of the MNC.
- 2 *Knowledge capture and storage*: creation of an inventory of knowledge so the organisation knows what knowledge it possesses, and where it resides. The maintenance of current knowledge in usable form so that it remains valuable.
- 3 *Knowledge flows/transfer and subsequent diffusion* (vertically and horizontally within the organisation and also across organisational boundaries): subsequent mobilisation and flow of knowledge within the organisation that creates knowledge-based value.

Therefore considerable attention has been paid to the issue of knowledge management in recent years. Sparrow (2012) outlined five main forms of global knowledge management, or 'integration mechanisms', that are currently dominating the actions of organisations:

- organisational designs, such as the use of centres of excellence
- managing systems and technology-driven approaches to global knowledge management systems
- capitalising on expatriate advice networks
- co-ordinating international and transnational management teams
- developing communities of practice (COPs) or global expertise networks.

We discuss these throughout this chapter, concentrating here on the role of knowledge management in the work of IHRM managers. Theory on this has been driven by two central concerns (Sparrow 2012):

- the role and nature of knowledge flows and transfer from HQ to subsidiaries, vice versa and across subsidiaries; and
- the central role and nature of absorptive capacity.

One of the most important areas of study has been on the nature of subsidiary knowledge flows in MNCs. In a review just a few years ago, Michailova and Mustaffa (2011) identified 92 articles on the topic of knowledge flows (a topic which they note is also captured by literature on knowledge 'transfer', 'sharing', 'exchange', or 'involvement') between 1996 and 2009. The majority of studies have examined knowledge flows from HQs to subsidiaries. However, given the pursuit increasingly of global operating models and the use of world mandates, more attention is now being given to:

- the different directions that intra-MNC flows might take
- the need to understand knowledge flows as a multi-level phenomenon, crossing individuals, groups and the organisation as a whole, and covering technical, business and organisational knowledge.

These studies of knowledge transfer typically identify:

- the characteristics of the knowledge that flows
- the actors and the relationships between the actors involved
- the outcomes of the knowledge flows.

For Adenfelt and Lagerström (2008) four factors become relevant:

- the ability to comprehend and use existing knowledge
- the presence of shared practices across units
- processes of communication and transfer
- interactions, or the two-way effects of this communication.

The challenge when trying to manage multi-directional knowledge transfers is that MNCs have to accumulate knowledge that exists in peripheral, but often highly autonomous, units that are in turn immersed in local business communities. The knowledge within such units must then be disseminated both to the centre, and on to other subsidiaries (Tallman and Chacar 2011).

In order to understand global knowledge management we have to use multi-level frameworks (Todorova and Durisin 2007; Lichtenthaler 2009; Volberda et al 2010; Lewin et al 2011; Schleimer and Pedersen 2013, 2014; Song 2014). This is because:

... knowledge resides in multiple repositories. It is embedded not only in individuals, but also in an organisation's rules, routines, cultures, structures, and technologies. (Song 2014, p80)

The role of HRM in helping encourage and enable absorptive capacity has been picked up by IHRM academics (Minbaeva et al 2003; Minbaeva et al 2014). For example, Minbaeva et al (2014) examined the relationship between MNC subsidiary HRM practices, absorptive capacity and knowledge transfer in a sample of 169 subsidiaries of MNCs operating in the USA, Russia and Finland. They grouped competence/performance appraisal and training as an antecedent set of HRM practices to encourage employee ability, and then merit-based promotion, performance-based compensation, and internal communication as a second antecedent set of practices to encourage employee motivation. They re-conceptualised absorptive capacity as an employee's ability (an assessment of the overall quality of the subsidiaries' employees in relation to local competitors) and an employee's general motivation and work effort, and looked at the final transfer of knowledge (the extent to which subsidiaries claimed to use parent MNC knowledge). Whilst the motivating and ability-inducing HRM practices did have an impact on managers' perceptions of employee motivation and ability, the direct impact of HRM practices on the assessment of knowledge transfer was not significant, although there were some interactions. Amongst their conclusions was the following:

neither employees' ability nor motivation by themselves is sufficient to facilitate knowledge transfer. The significant interaction of motivation and ability shows that in order to facilitate knowledge transfer both aspects of absorptive capacity – ability and motivation of employees' – are needed. (Minbaeva et al 2014, p48).

IS IT POSSIBLE TO NURTURE THE ABSORPTIVE CAPACITY OF SUBSIDIARIES?

Schleimer and Pedersen (2014) point out that although there is ample evidence that global transfer and local implementation knowledge is an advantage to MNCs, we do not know whether actions by corporate headquarters – principally various structural mechanisms (hierarchical structure in terms of centralised or decentralised decision making authority, and social control via trust and inter-unit connectedness) or motivational processes (the intensity of effort) – can expand the absorptive capacity of their subsidiaries. Research on knowledge transfer suggests that there might be certain 'activation triggers' (planned) (Lichtenthaler 2009) or 'crises' (unplanned) (Todorova and Durisin 2007) that can achieve this. They used a teacher–student lens to examine the extent to which 213 Australian subsidiaries of foreign MNCs could be induced to absorb parent-initiated marketing strategies (that is, the extent to which the parent subsidiary could build the cognitive aspects of value recognition, assimilation, and application in the subsidiary). In other words, they examined whether the MNC parent can influence and stimulate a subsidiary's *ability* to absorb specific, parent-initiated knowledge, but not of course any *actual enactment* of the transferred knowledge in the local market, which requires yet other

capabilities and motivations. The study found that MNCs can develop and optimise their global learning footprint through both decentralized authority structures and strong normative relationships linking their subunits, but only when there was also intensive motivational efforts. This led to two core conclusions:

- ‘knowledge source characteristics (ie, intensity of effort) and knowledge recipient characteristics (ie, absorptive capacity), as well as their relationship, are inter-dependent elements in the knowledge transfer process’ (p315)
- ‘instead of having to rely predominantly on the level of prior related knowledge, [the MNC corporate HQ] can actively increase the ability to absorb new knowledge (and thus decrease the risk of decontextualisation and stickiness)’ (p316).

The findings are in line with other long-standing and recent theoretical work which suggests that motivation is a moderating factor between a subsidiary’s absorptive capacity and any MNC knowledge transfer (Minbaeva et al 2003; Song 2014).



REFLECTIVE ACTIVITY 17.3

The IHRM literature gives much attention to the bounded transfer of HRM practices across subsidiaries, the importance of relationships to knowledge management, and the role of social capital. It also draws attention to the different types of tacit knowledge that need to flow across subsidiaries.

Discuss the following:

- What type of ‘HRM architecture’ (see Chapter 12) would be appropriate and is needed to enable these flows?
- How can this architecture on the one hand help create the dynamic capabilities that result from multi-directional transfer, whilst on the other hand reduce the cultural and institutional constraints on the quality of knowledge transfer?

17.3 THE PURSUIT OF GLOBAL OPERATIONS AND DESIGNS: CENTRES OF EXCELLENCE

The traditional and evolutionary progression that many MNCs have to go through, from international, to multinational, then to global and transnational networks or heterarchy is well understood. This is generally discussed in the context of the trade-off between global integration and local responsiveness – two concepts that we examined in Chapter 16. The corporate headquarters typically adjusts its level of co-ordination and control to reflect the role of the subsidiary and the strategic importance of its mandate (Bartlett and Ghoshal 1989).

However, MNCs have increasingly dispersed activities. Although many organisations are now ‘born global’, as we saw in Chapter 13, they have often relied on specialised and very network-based structures to co-ordinate their activities. Organisations are also composed of many diverse, interdependent work groups, such as new product development teams and manufacturing planning teams, all of which have unique decision domains, and which develop unique perspectives in response to different tasks, goals and environments. Although managers can act autonomously within each of these decision domains, they are affected by each other’s actions.

Consequently, mechanisms of integration (and the underlying organisational capability to be able to manage these integration mechanisms effectively) are needed.

The first integration mechanism that we consider is the brokering of knowledge inside global organisations through formal structures. As signalled in the discussion of knowledge development across subsidiaries in Chapter 13, a variety of missions can be assigned to subsidiaries. One mission that gained early prominence is that of the centre of excellence (COE) (Holm and Pedersen 2000; Frost et al 2000; Birkinshaw 2001; Frost et al 2002; Foss and Pedersen 2002, 2004; Reger 2004; Adenfelt and Lagerström 2006, 2008; Sparrow 2006).

COEs are conceptualised as organisational units that embody a set of organisational capabilities that were explicitly recognised as an important source of value creation. A COE is defined as a:

... subsidiary selected by headquarters, as it possesses distinct knowledge in a certain field. It has, from its time of conception, an indeterminate responsibility for developing and sharing knowledge with other subsidiaries. (Adenfelt and Lagerström 2008, p320)

At the subsidiary level, COEs may be established:

- as a consequence of a long and slow internationalisation process within the organisation
- as a deliberate part of organisational design where HQ managers decide to grant autonomy to units that have also been given a specific strategic mandate.

Whether the leadership of a COE might be vested in a physical location, or the centre may be virtual, or spread across networks of teams in different geographies, the role of corporate headquarters is crucial. Corporate headquarters have to be designed as an orchestrator of resources and knowledge, seeking out high-potential opportunities to invest in, facilitating and co-ordinating the exchange of knowledge within the network, and crafting the strategic agenda jointly with subsidiaries (Ambos et al 2010).

For COEs to be effective they needed to have a strategic remit (such as the intention to leverage or disseminate these capabilities to other parts of the firm). In order to endure they need to be:

- explicitly recognised and have a declared role
- designed to have an organisational intention of deriving value from the unit's capabilities for the broader organisation.
- able to maintain one or several critical fields of knowledge that have a long-term impact on the development of activity in the other subsidiaries and units of the MNE.
- capable of operating as a focal point for knowledge development that served people with related skills or disciplines, a conduit for the dissemination of knowledge within the firm, and a problem-solving unit that provides advice and fosters new competences within the firm.
- physically present within a site or dispersed team
- focused on a superior set of capabilities that create value including tangible resources (equipment, licences, patents) and intangible resources (knowledge, experience).



REFLECTIVE ACTIVITY 17.4

What activities, processes and capabilities might constitute a COE, and how should such units be mandated?

What has to happen in terms of the ‘capability building investments’ that are needed? Is it possible to specify capabilities such as decision-making autonomy, requisite levels of connectivity to other sources of competence inside the organisation, leadership and processes of knowledge management?

To what extent do institutional factors preclude or support the long-term survival and contribution of COEs?

Discussion of COEs in the IB literature is linked to the IHRM literature through the implications that such organisational designs have for the role and competence of managers. Global managers act as information brokers, managing a web of natural ‘interactions’ that take place within their organisation. The ‘attentional mechanisms’ of global managers become important (Birkinshaw et al 2007; Andersson et al 2007; Bouquet and Birkinshaw 2008; Ambos et al 2010).

Global managers have to seek the right party with whom to exchange information, arrange the presentation of the information, manage its brokerage, integrate it with information from other databases, and monitor the performance of the interaction. There are two immediate issues created by this new organisational context:

- 1 International managers, especially those in corporate HQs, need ‘good’ mental models of how knowledge and information is shared across the people with whom they need to interact (see Chapter 15 and the discussion of global mindset).
- 2 In information-rich environments the most-scarce resource is not information, but the amount of *attention* that individuals can allocate to information search, filtration and interpretation. When competing for attention in knowledge markets: ‘a wealth of information creates a poverty of attention’ (Simon 1997, p40).



REFLECTIVE ACTIVITY 17.5

Research on COEs stresses their role in developing and building mutual capabilities. This creates a number of questions for IHRM researchers. Discuss the following:

- How can subsidiaries and important centres of knowledge be best linked with an orchestrating centre?
- How important are the social networks that surround COEs? How can the design of COEs influence the sorts of interactions that take place?
- How should the networks that manage knowledge be designed so that knowledge passes through important gateways in the organisation?
- How can we ensure the most appropriate weight (power and level of strategic influence) and voice of units (the institutional reflection of this weight in the global HR architecture and in key IHRM processes such as talent markets and career processes)?

The questions above remind us that research and practice still needs to take a political view of how knowledge transfers across units within the network, the divergent agendas of actors in the system, the shifting political coalitions, and the processes by which important knowledge actually gains attention – all topics of traditional interest to IHRM researchers.



KEY FRAMEWORK

Roles for IHRM professionals in the development of global centres of excellence

Sparrow et al (2004) identified three ways in which the IHRM function can help to relocate centres of excellence around the MNC on a global basis:

- managing the international relocation of staff as organisations move these centres of excellence nearer to the global centre of gravity of their core customers; as organisations reconfigure their core competencies on a global scale by moving manufacturing, research and development or logistics operations closer to the best national infrastructures in terms of education or transport facilities; or as organisations set up new centres as part of international ventures or as a result of mergers
- advising on the best HRM strategies to co-ordinate and control such activities
- understanding the centres of excellence that can be created within their own activities, and building networks of HRM experts within these areas of competence on a global basis.

17.4 THE USE OF EXPATRIATE ADVICE NETWORKS

A second integration mechanism is expatriates and their advice networks. Discussion of this integration mechanism forms part of the discussion of the broader need for a global frame in IHRM research, rather than one based on dyadic relations, typically between MNC HQ to subsidiaries. It has also directed attention to the overall HRM architecture in the organisation (see Chapter 12) and how this may be aligned with global knowledge transfer.

Expatriates are clearly an important vehicle for knowledge capture and transfer and also for knowledge generation. Having discussed the management of absorptive capacity in Chapter 13, and the search for management mechanisms that assist this, some researchers have drawn attention towards the role of expatriates as one such mechanism. Chang et al (2012) draw some direct links between expatriate knowledge transfer, the absorptive capacity of subsidiaries and their performance.



REFLECTIVE ACTIVITY 17.6

At this point it would be useful to pull together several strands of the book, and some of the key messages that they convey. How might the following topics be relevant to the question here about the management of expatriates as a mechanism for global knowledge transfer?

Discussion in Chapter 12 about where the management of international assignments might sit in within a global HRM department

Discussion in Chapter 14 about the role and management of expatriates across their life cycle, and in Chapter 15 about other important forms of international mobility

Discussion in Chapter 16 on:

- global mindset and the need for managers with good mental models of international operations

- global leader competencies and their role as boundary spanners
- developing cultural intelligence
- the use of global talent management as a global integration mechanism.

Discussion about the role of expatriates as a mechanism for formal knowledge transfer began in the mid-2000s (Athanassiou and Nigh 2000; Bonache and Brewster 2001; Cerdin 2003; Kostova and Roth 2003). This early work focused on the human capital of expatriates – the knowledge, skills and abilities that they needed to be effective. Indirectly, this work also began to focus on the superior cognitive processes that expatriates could develop, by equating internationalisation as a ‘matrix in the mind of managers’.

More recently, research has examined:

- the knowledge transfer processes associated with expatriation across the entire life cycle of an assignment (and individual) from expatriation–repatriation
- the social networks of expatriates.

Some of the early work on repatriation, outlined in Chapter 14, stressed its role as a knowledge integration mechanism (Lazarova and Tarique 2005; Oddou et al 2009; Furuya et al 2009). In looking at the variables that affect expatriate and repatriate knowledge transfers, and how the process of knowledge transfer occurs, these studies draw attention to the importance of two individual characteristics:

- the ability to transfer knowledge (expertise, social networks, position power and position responsibilities)
- the motivation to transfer knowledge (career considerations and commitment to the work unit).

It also argues that IHRM researchers study two important work unit characteristics in the same way:

- the ability to transfer knowledge (the orientation of the unit towards learning and its absorptive capacity)
- the motivations of sender and receiver to receive knowledge (perceived knowledge criticality, global mindset and collaborative management style).

Research has also drawn upon the notion of reverse knowledge flows we introduced in Chapter 13, through the study of inpatriates. Napier (2006) argued that dramatic levels of economic change and increased sophistication of local managers made conditions ripe for reverse knowledge flows. Drawing upon ideas from the inpatriation and mentoring literatures, she argued that a participative competence (the willingness to both send and receive knowledge) was very important in expatriate development. Sumelius (2009) used qualitative interviews with HRM and general managers to examine the role of internal and external social networks in the transfer of technical and strategic aspects of recruitment, training, compensation and appraisal.

Sparrow (2012) has revealed many of the processes involved in such globalised knowledge management, including the need to use international mobility as a strategic initiative as MNCs expand into emerging markets. This work showed that it was not just the phenomenon of growth in emerging markets *per se* that made mobility and reverse flows of knowledge more important, but primarily changes in the nature of the business model (and the specific and required task of the incoming expatriates) that shaped the nature of knowledge to be transferred, the requisite organisational mechanisms that were needed, and subsequent changes in the management of the international mobility function and its policies.

This has increased the need for reverse knowledge flows (via assignments, short-term knowledge transfer assignments to establish new operational centres, new emerging-to-

emerging market mobility and knowledge flows, mobility and knowledge flows that took local talent out to regional centres and to corporate universities designed to impart highly specialised knowledge and then transferred this from regional hub to regional hub).

In general terms, research on the role of expatriate advice networks has transformed itself broadly into either

- research on the role of global talent in transferring strategic knowledge, or
- into examinations of social capital theory and social network theory – both seen as crucial to an understanding of global knowledge management (Taylor 2007; Mäkelä 2007; Mäkelä and Brewster 2009).

For example, Reiche et al (2009) considered the nature of an individual's cross-unit social ties as the result of international assignments. Mäkelä et al (2009) found that the management of overseas subsidiaries by expatriate managers from the parent country allows for comparatively higher levels of inter-unit social capital than other staffing strategies. Meyskens et al (2009) compared and contrasted the roles of expatriates and alternative assignees in terms of knowledge transfer and capability building. Bozkurt and Mohr (2011) drew upon experiential accounts of highly-skilled employees and considered how different forms of cross-border mobility (traditional expatriation, short-term assignments and localised transfers and business travel) contributed to the establishment of social ties across MNE units.

To summarise, there have been many calls for new directions in IHRM research from within this tradition. In particular, they ask that practitioners and researchers alike think about:

- the value of international assignments in terms of building individual social capital and individual careers relative to that of building organisational social capital (Collings et al 2009)
- the role of expatriates and international mobility in brokering reverse transfers of knowledge (Corredoira and Rosenkopf 2010)
- the mechanisms that condition variations in social capital, and facilitate the transfer of knowledge and to test the alternative governance mechanisms that may be applied, and the social structures necessary for 'integrative mechanisms' for collaboration (Gooderham et al 2011)
- understanding of expatriate networks and beginning to link this to the development of potentially superior cognition (Sparrow 2012)
- social capital and knowledge transfer at the operational and middle management levels of MNCs (Mäkelä et al 2009).

17.5 TRANSNATIONAL TEAMS

A third integration mechanism is the use of transnational teams. We discussed international management teams in Chapter 15 in the context of the management of cross-cultural differences. However, after the initial interest in the benefits of cultural diversity, attention has shifted towards the use of transnational teams as a mechanism for globalisation, boundary spanning and knowledge transfer (Stahl et al 2010; Zimmerman 2011; Sidhu and Volberda 2011; Zander et al 2012).

As MNCs use projects, task forces and cross-border teams, their role in facilitating boundary spanning interpersonal interactions becomes very important. Although transnational teams are organised to operate across subsidiaries, geographical borders, hierarchical levels, functions and cultures, each team has a unique formation, and may be managed and operated through common protocols, and as an organisation mechanism for global knowledge flows.

Adenfelt and Lagerström (2008) argue that transnational teams differ from COEs in two important ways:

- 1 COEs tend to be established within already existing subsidiaries of units and are embedded in more formalised structural specificities, whereas transnational teams are established afresh.
- 2 They operate on different time frames, with COEs set up with an indeterminate timeframe but transnational teams generally existing with a pre-specified time horizon, after which they dissolve.

Both transnational teams and COEs may serve to combine local responsiveness with global integration, and are designed to create a uniform knowledge foundation for the MNC. However, they can also be differentiated in the way that they handle knowledge, and in the subsequent consequences they create for knowledge development and sharing.

Interest in transnational teams from a knowledge management perspective developed in the mid-2000s. A stream of research had looked at the role of distributed teams when there were continuous changes in the state of knowledge within the organisation (Bachmann 2006; Chen et al 2006; Maloney and Zellmer-Bruhn 2006; Maznevski and Athanassiou 2006; Sparrow 2006; Adenfelt and Lagerström 2008). This research focused in particular on their role in developing inter-unit learning, trust, commitment and co-ordination.

For example, Zellmer-Bruhn and Gibson (2006) conducted a study of team learning (defined as the collective acquisition, combination, creation and sharing of knowledge by teams) in MNCs. Organisational contexts that emphasised global integration were found to reduce team learning, whereas those that emphasised local responsiveness and knowledge management increased team learning.

... the different interaction contexts may be associated with differing levels of shared cognitive ground' and differences 'in the richness of interaction'. (Mäkelä and Brewster 2009, p596)

The IHRM literature has now picked up on the argument that too much research has focused at the aggregate MNC unit level, rather than on micro-foundations of knowledge management (Minbaeva et al 2009). As a consequence, IHRM researchers are beginning to apply fundamental individual- and team-level constructs to the study of knowledge integration mechanisms. This leads us into discussion of communities of practice.

17.5 TRANSNATIONAL TEAMS

A fourth integration mechanism is the development of communities of practice (COPs) and internal networks of practice. Much global knowledge is recognised socially and is codified. It resides at the organisational level and is embedded within organisational systems (such as rules, procedures for communication and strategies) or technical systems (hardware, software and technical operating procedures). This type of knowledge informs management action. Efforts to create integrated work flows and business processes, or efforts at creating standardised professional education, serve as examples of global integration.

However, a number of international business and IHRM researchers are looking more deeply into how knowledge must spread if it is to gain global applicability.



KEY FRAMEWORK

Two perspectives on how knowledge must spread in MNCs

- 1 *The 'sender-receiver' model*: rooted in general information and communication theories, in which social interaction serves both as an efficient conduit for knowledge transfer and a channel with requisite 'bandwidth' to transmit complex, context-dependent knowledge.
- 2 *The social learning perspective*: this argues knowledge is socially constructed through collaborative efforts, and so knowledge flows are only possible where individuals working in different units of the MNC engage mutually in social and collaborative interactions.

Researchers are adopting a social learning and knowledge management perspective. For example, Noorderhaven and Harzing (2009) surveyed reported knowledge flows between HQ and subsidiaries in MNCs headquartered in the USA, Japan, Germany, the UK, France and the Netherlands and found evidence that the social learning model was in practice and was more successful than the sender-receiver model.



REFLECTIVE ACTIVITY 17.7

Whether global knowledge and insight can be transmitted through a sender-receiver model, or requires social learning, has very important implications for many of the topics discussed in this chapter. What would be the implications for the way in which each of the following must operate?

- centres of excellence
- expatriates and their advice networks
- transnational teams

What sort of roles, mandates, skills must these global integration mechanisms possess?

The social learning perspective has also given attention to the idea of 'networks of practice'. Once COPs become closely affiliated and interact with each other, what gets created is a network of practice. These have variously been called dispersed intra-firm communities (Buckley and Carter 2003), social communities (Noorderhaven and Harzing 2009) or internal networks of practice (Birkinshaw et al 2010; Tallman and Chacar 2011).

Several researchers have investigated more network-based forms of knowledge transfer in MNCs (Bresman et al 1999; Szulanski et al 2003; Björkman et al 2004; Barner-Rasmussen and Björkman 2005; Hansen and Lovas 2004; Frost and Zhou 2005; Noorderhaven and Harzing 2009; Mäkelä and Brewster 2009; Tallman and Chacar 2011). At a practical level, examples might include:

- inter-unit meetings, and one-to-one or small groups meetings

- project groups, task specific and temporary constellations that work together toward a well-defined but limited scope objective
- technical meetings, extended visits and joint training programs
- cross-border or transnational teams, groups of employees responsible for a specific process that is broad, complex and ambiguous
- expatriate/repatriate interactions, used to co-ordinate tasks between home and host units
- Internet-based social networking sites to encourage idea exchange among geographically distant but virtually close individuals working on similar issues
- the movement of individuals through inter-unit trips and visits, international committees, teams and task forces, and training involving teams from multiple units

However, Tallman and Chacar (2011) argue that such teams or communities that come to form networks of practice in an MNC can only be effective when they are embedded within a wide range of value-adding activities within the MNC. As such, they become 'privileged sites' for the development, storage, application, and adaptation of knowledge. Researchers, then, are focusing on how best to design social networks and front end knowledge management processes. They are 'borrowing' ideas from ideas generation, creativity, decision making, and new product development, and applying them to the design of global integration mechanisms.



KEY FRAMEWORK

Two ways of thinking about international networks

The network literature traditionally adopts one of two perspectives (Kijkuit and van den Ende 2007):

- 1 *The structuralist perspective:* This argues that the *formal structure and job positions* of an international network is paramount. This structure determines the types of resources that can be acquired by a network, the quality of the relationships within it, and the ability of the network to acquire resources. The network has to be provided with information and control, and has to be able to broker across 'holes' within the organisation's structure. Network structure determines the ultimate benefits that can be derived from a network.
- 2 *The 'content' perspective:* This focuses on *who, as individuals, are in the network*, the quality of their personal relationships (social capital), and consequently how the organisational should position the actors in the network (and their knowledge) to influence the extent to which resources can be acquired. The relations between people within the network structure must also be surrounded by third-party connections (mutual friends) so that benefits are achieved, not just by information brokerage and control, but by trust, co-operation and reputation.

The challenge from an IHRM perspective is that these networks of practice cannot just be created through the spontaneous social and practical interactions that often end up forming a CoP. There are often geographic, institutional and cultural gulfs that separate them. Therefore the communities can only emerge where there has been some kind of prior intervention by the firm's managers. Things might need to be done first to increase the mutual 'absorptive capacities for knowledge' within these communities, otherwise the investments of time and money might be wasted.

How might an organisation recognise that the time has come to invest in these networks, or what the networks must achieve? Social networks have to be able of producing three important outcomes (Sparrow, 2012):

- mutual understanding (the understanding and building on each other's knowledge base, similar in many ways to the concept of absorptive capacity)
- resolution of uncertainty and ambiguity through the development of sense making (the process through which individuals create meaning, both by 'reading' and then 'shaping' the environment)
- consensus formation (the creation of a collective desire for the idea, and social acceptance).



REFLECTIVE ACTIVITY 17.8

Imagine you were responsible for bringing together a group of people or an important project needed to help develop or implement a major global programme. How might you use ideas about networks to decide who must be involved, how these individuals will work together, and build global solutions? What would constitute a good network?

Kijkuit and van den Ende (2007) argue that rather than looking at the role of individuals or units involved in knowledge management, the unit of analysis should be the 'network-of-an-idea', that is, an analysis of the way in which the network that surrounds an idea, or knowledge, leads towards the successful move from front-end ideas generation towards effective implementation. So, for example, we might look at an idea, or a practice, that has the potential to be exported globally. How did the idea itself begin to 'get some legs' and make sense in a global context?

To summarise, IHRM researchers are developing some useful and interesting avenues of work. Research on networks of practice can make some useful contributions to the study of global knowledge management. They are exploring the mechanisms of external knowledge capture and internal knowledge transfer at the micro-organisational level.

Thinking about the design of social networks also suggests some very useful contributions that might be made by IHRM researchers in the future. They might try and provide a series of criteria through which we could judge the influence of individuals or units *within a network* to the strategically important front-end of ideas that must precede subsequent knowledge transfer. By looking at contributions within networks of practice, it should become possible to make more informed decisions about who should best be involved in social networks in order for the network to create sufficient acceptance of knowledge across international groups and stakeholders.

17.7 EMOTIONAL INTEGRATION THROUGH SHARED IDENTITY: GLOBAL EMPLOYER BRANDING

The fifth main integration mechanism used by IHRM professionals is not linked to the transfer of knowledge, but rather the transfer and common application of values. The previous integration mechanisms have broadly been about creating shared knowledge, understanding and action. But at the beginning of the chapter we noted that, in addition to trying to create intellectual integration, MNCs must also try to engineer *social integration through the creation of collective bonds of performance* – developing a clear sense of what it wants to achieve and how it wants to achieve it, and through *emotional integration through a sense of shared identity and meaning*. This concerns mobilising

hearts and minds behind change processes. Organisations also use some *superordinate themes* to provide a degree of consistency in their people management worldwide and as an attempt to socialise employee behaviour and action.

In this final section we explore the mechanisms that create the shared identity. We do this by explaining the contribution that they can make by the management of an employer brand on an international basis.

We discussed the topic of talent management in the previous chapter, and of course the topics of employer branding and talent management are intimately linked for most global organisations (Sparrow et al 2016).

But many domestic and corporate HRM functions, independent of building more global talent management processes, have adopted and adapted the marketing concept of brand management – under the label of employer branding – and have incorporated this into their HRM strategies. Branding involves the creation of ‘mental structures’ that help consumers obtain knowledge that differentiates the products and services of one seller from their competitors so as to ease their decision making on purchase (Kotler and Keller 2006). Corporate brands may be captured through a name, term, sign, symbol, or design, or a combination of these.

In this section we:

- 1 define employer branding
- 2 position it as part of a longer-term strategy to manage the perceptions of the external and internal labour market
- 3 place research on employer branding into an international context.

An employer brand is a feature of the employment conditions in the organisation, which characterise it as *an employer*. It brings together a number of key components: the corporate culture and values, the existing people, the employment conditions, the motivational mechanisms and the opportunities created by the full spectrum of HRM practices (Backhaus and Tikoo 2004; Barrow and Mosley 2006; Hulberg 2006; Brexendorf and Kernstock 2007; Moroko and Uncles 2008). It has been defined as:

- the application of the idea of branding principles to HRM (Backhaus and Tikoo 2004; Barrow and Mosley 2006)
- the ability of brands to embody high quality employment experiences and organisational identities that talent are happy to engage with and promote (Martin and Cerdin 2014)
- a package of functional, economic and psychological benefits provided by employment and identified with an employing company (Ambler and Barrow 1996)
- the feelings, impressions, perceptions, beliefs, and attitudes toward a company (Hsieh et al 2004).

Employer branding is seen as part of a targeted, long-term strategy to manage the awareness and perceptions of employees, potential employees and related stakeholders with regard to a particular organisation, based on the creation of an image. It is therefore directed both to internal audiences (the internal labour market) *and* external audiences (the external labour market). An employer brand is intended to positively influence both current and prospective employees in order to attract employees. It is used in two main ways:

- 1 to attract and retain valuable talent to the organisation
- 2 to ensure that such talent actively engages with the culture and strategy of the organisation.

For organisations, the outcome is assumed to be:

- higher levels of employee advocacy on behalf of the organisation
- greater attractiveness of an organisation to an employee.

And these, in turn, are important predictors of the ability to recruit and subsequently retain them.



KEY FRAMEWORK

Elements in the creation of an employer brand

The creation of an employer brand requires a three-step process:

- 1 The development of the value-proposition embodied in the brand, and offered to employees, on the basis of information about the organisation's culture, management style, qualities of current employees, current employee image, impressions of product or service quality.
- 2 External marketing of this proposition to targeted potential employees and other agents in the recruitment process, designed primarily to attract applicants, and support, align and enhance the corporate brand.
- 3 Internal marketing of the employer branding order to carry the 'brand promise' made to recruits into the organisation, embed it into the culture, and ensure commitment by employees to the values and goals inherent in the brand.

Organisations then project their employer brand through a range of channels:

- *Primary*: recommendations and reviews of employees, corporate events, intranet, communication during an interview at the organisation (recruiting process).
- *Secondary*: the organisation's career website, job search websites, advertising in the media, presence of the company in social networking, job fairs and career days, university programmes and other.
- *Tertiary*: word of mouth.

Finally, there are two types of benefit for the employee that can derive from an employer brand:

- *Economic*: including rewards and remuneration, functional benefits included such things as training, skills and development activity.
- *Psychological*: including identity, recognition and belonging.

However, the majority of the research on employer branding as an HRM strategy is a-cultural and most studies have been US- or UK-focused. Despite this, most of the human processes that branding makes use of – values, attraction and attachment, identity – are assumed to be generic. Researchers and practitioners are only just now at the stage of asking questions about cultural or institutional differences, and indeed such questions might be misguided. Because there are more similarities than differences across markets in many aspects of organisation attraction, employer branding is often seen as a force for global standardisation. It has become a focus of attention under the drive towards global integration of HRM (Martin and Cerdin 2014). As one of the unifying concepts in HRM across international markets, research, and the attention of corporate HRM functions, has focused most on understanding how employer brands can be built and managed. Notions of marketing, consumers and brands have been applied to the employer relationship. This has created more opportunity for corporate HRM functions to increase their involvement in national markets.



REFLECTIVE ACTIVITY 17.9

For Sparrow et al (2014) there are some important questions to ask about employer branding:

- Have IHRM professionals, in co-opting the idea of employer branding, truly understood the underlying marketing research?
- Have the ideas been transposed sensibly?
- Once corporate HRM functions begin to import ideas about brand and draw upon marketing and communications expertise, where should these new multi-discipline IHRM professionals best sit within the organisation?

Martin and Hetrick (2008) examine employer branding as an international co-ordination strategy within IHRM. IHRM researchers see a trend among MNCs to use employer branding as an important tool for:

- creating a sense of ‘corporateness’ among often decentralised operations
- differentiating themselves in overseas labour markets.



KEY FRAMEWORK

Three ways of thinking about an employer brand

Empirical studies and theoretical work on employer branding view it as forms of (Sparrow et al 2016):

- *Psychological contractor workplace branding*. This approach considers that an employer brand has ‘brand equity’ in the traditional sense of identifying and maximising the assets associated with a brand, and neutralising any liabilities that subtract from the brand. Specifications of the ‘exchange deal’ between employers and employees stress the need for employers to provide employees with ‘marketable’ skills, in return for employee effort, flexibility and commitment. This accurate brand knowledge is then considered to propel more useful applicant behaviour in terms of willingness to apply, accept offers, and subsequently stay with an organisation.
- *Social identity*. This view argues that organisational identification acts as an intervening variable between an organisation’s employer brand and the cultural behaviour of employees. Organisational identity is similar to group identity, in that the group has to identify with the brand and incorporate this into their own self. Only with such an identity will employees be motivated to both engage in corporate citizenship behaviours and to project an image of the organisation to external stakeholders. Therefore current employees do not evaluate the attractiveness of their own organisation’s employer brand in the same way as potential employees.
- *Image, which is a two-way signalling process*. The brand is a combination of both how the brand is built (projected identity) and perceived (image). Stakeholders use observable factors as signals about an organisation’s commitment to a specific issue. Translated to the field of recruitment, job seekers have little information about recruiting organisations and so make inferences about working conditions and other organisational characteristics. Internal brand management is the primary means to ensure that employees are attitudinally and behaviourally ready to deliver the brand promise. The key determinants of brand strength as a result of

internal brand management practices are brand commitment and brand citizenship behaviours. The need to understand the different purposes that components of an employer brand serve in terms of image. Branding is seen in the context of a broader set of signals that are emitted by the organisation, which are interpreted in either a reasoned or emotional way.

Employer branding is being adopted as a means of reconciling a key tension faced by MNCs – balancing the needs for corporate integration, control and legitimacy on the one hand with local differentiation, autonomy and initiative on the other. Martin and Hetrick (2008) develop a simplified model of the branding process, theorising key variables (such as corporate and organisational identity), reviewing the evidence as to whether it works in international context. Despite many supposed attractions to the practice, they highlight the challenges of facing unreceptive contexts for change (where MNC subsidiaries in different countries hold markedly different and somewhat negative views about the corporate headquarters' leadership, HRM and people management policies). Company image and positioning is difficult to manage internationally because cultural brands rely on corporate stories being seen as locally authentic and charismatically appealing to employees in settings which may be marked by large cultural and institutional distances between headquarters and subsidiaries.

In reality, however, the ownership of brands is often quite complex (Sparrow et al 2016):

- An employer brand might be constructed at international and group level, leaving some elements of the value proposition less meaningfully aligned with the reality of a local or regional labour market (internal or external).
- There might be multiple brands brought together by a group structure, and the balance and shape of employment across these component organisations may differ across geographies.
- Important decisions have to be made about the level of integration and standardisation of toolkits and philosophies, versus local responsiveness, across markets (product and country) and between markets and corporate headquarters.

For global organisations the challenge is how best to create an *authentic and legitimate* brand (Martin and Hetrick 2006). We can all think of marketing material that serves to put people off, either through its blandness or its rhetoric. The need for authenticity involves constantly re-selling an accurate and sustainable message. Local markets play an important role in shaping much of the employer branding activity. At a local (country) level, the messages built into the employer brand might be aligned and used in the context of different HRM priorities. There might be a pressing need to improve employee engagement in one country, whilst in another the challenge might be more one of market image. The way in which the branding activity is 'brought to life' and made authentic is often something that only local markets can do. Moreover, the cultural identity of employees when they come into an organisation is important, and only local markets might know the proportion of the labour market who might be able to match their identity with that of the organisation.

Of course, not all international organisations seek global branding: banks, for example, have the choice of looking like a major international operation with international branding, or retaining subsidiaries they have taken over in a country with the local branding with the intention of selling themselves as 'local and close to the customer'. But the management of employer brands internationally is an important challenge for many large international organisations. Employer branding represents an extension of brand management and is another development whereby HRM thinking has been influenced by that of the

marketing function. Building or defending the corporate brand or reputation has become a major concern in many industries. Employer branding requires consistency and uniformity in delivering the brand identity by all *internal* stakeholders, including employees.



EMPLOYER BRAND AND LOCALISATION IN CHINA

CASE STUDY 17.1

In most national markets consultancies run surveys to identify the ‘best employer’ as perceived by graduates. By way of example, UNIVERSUM, active in this field, published data from over 58,000 students from mainland China in 90 universities (UNIVERSUM 2011). Graduates are also flooding on to Asia’s job market from local universities, and Asians with degrees from western universities are returning home (*Economist* 2011). From 2003 to 2011 roughly 325,000 Chinese returned home after studying overseas – more than three times as many as in the entire two decades before. In addition to this positive change in talent supply, international organisations are looking for ready-made *guanxi* (business and political relationships) and people committed to staying in the countries. In 2008 Singapore granted 156,900 work visas to foreigners and less than half that number of jobs went to residents. Now the numbers are roughly equal.

Managing the employee value proposition in each overseas market becomes very important. In China, after

leading the engineering ranking since 2008, China Mobile is no longer the most attractive employer among engineering students. China Mobile lost its number one position to SGCC. In the business ranking, China Mobile moved down to third, behind the Bank of China and Procter & Gamble. By way of example, HSBC is ninth, Apple 12th, Google 18th and Unilever 35th. The differences in employer brand image between Chinese organisations that are international employers and state-owned companies are also huge. State-owned companies are highly associated with secure employment and good work-life balance, whereas international companies are very much associated with an international career, challenging and varied work, and attractive and innovative products. For Chinese female students, having an international career is more important than it is for male students, and this means a desire to live and work overseas for a period.

Baum and Kabst (2013) have called for more examination of work expectations across cultural backgrounds. However, they found strong similarities in the expectations of the next generation of talented employees across national context. There were no differences among students from India, Germany and China. All students expected their future employers to provide development opportunities. They were equally attracted to organisations that address these development expectations. In finding more commonalities than differences they concluded:

... companies [have] the opportunity to similarly attract applicants from different countries in the Atlantic and the Asia-Pacific regions. (Baum and Kabst 2013, p10).



REFLECTIVE ACTIVITY 17.10

In recruiting young employees from different cultural backgrounds, is it or is it not essential that human resource strategies pay attention to their diverse expectations and values?

Wayne and Casper (2012) studied the graduate market and found that an organisation's reputation in compensation, work-family, and diversity efforts increased intentions to pursue employment with that organisation. Kucherov and Zavyalova (2012) studied 113 Russian organisations and showed that investments in employer brand resulted in economic advantages such as lower rates of employee turnover.

WORK EXPECTATIONS OF STUDENTS

Walk et al (2014) investigated the work experiences of over 1,200 Chinese, Indian and German students and assessed their work expectations across countries, age, gender and study level. They found a generic two-factor structure to these expectations around pay and benefits and values and development, which held up across the cultural and demographic contexts. They concluded that students from all the countries shared more similarities in expectations than the literature on cultural differences might predict, though there were some subtle differences, suggesting the need still for more nuanced and targeted recruitment strategies:

- German students regarded working for a foreign organisation as less desirable than Indian or Chinese students.
- Work-life balance was the second most important aspect of work expectations for both Chinese and German students, but was ranked tenth by Indian students.
- Indian students valued development more than Chinese or German students.
- Pay and benefits were positively related to desirability of working in a foreign company, and controlling for demographics, each additional unit increase in the importance of pay and benefits, increased the odds of a student regarding a foreign organisation as desirable increases by 88 per cent.

Saini et al (2014) have examined what the best employer surveys of Indian organisations reveal about employer branding and the intention to apply. They found that that positioning of the 12 firms they studied in best employer surveys resulted in significantly higher intentions of candidates to apply. Organisational familiarity and recency of inclusion in best employer surveys were the most significant predictors of intention to apply. Finally, a study of 438 employees in an Irish bank examined how the bank could build its brand (Wallace et al 2013) and found a link between leadership behaviour in relation to that brand and employee commitment.



REFLECTIVE ACTIVITY 17.11

In the light of what you know about IHRM, and now that you are in the last chapter, how easy do you think it is to manage a global employer brand? What issues would an IHRM professional expect to have to manage? To answer this, analyse the HRM activities of an organisation (yours, perhaps) across a series of countries, and answer the following questions:

- How important is it that the performance management and development processes are made the same across all the countries? What sorts of adjustments to these processes will inevitably have to be made for local cultural and legal reasons?
- How much do the organisation's international operations vary in terms of their adherence to standards and procedures in the area of recruitment? Is there a need to set minimum standards for the conduct of HRM before you can create a consistent brand?

- What input is needed from in-country HRM partners to a branding strategy intended to work across countries, and what central supervision is necessary?
- Does pay strategy in different countries define the calibre of applicants that can be attracted? If you attract a different calibre of manager across countries because of this, does it matter? Does it impact on the way that employees will experience the brand?
- Do you have similar employee engagement data across the organisation's operations? If scores differ, does this reflect different national values, or different business models being applied, or different levels of professional line management?

In conclusion, organisations deal with employer branding issues on an international basis, the issues develop through a clear sequence over time. Initially, attention is given to stabilising key people management processes across different geographical operations (making sure that recruitment, performance management, communication activities and so forth operate to the same levels of professionalism). Once this has been done, decisions can then be made about the look and consistency of the employer brand. Basic considerations include:

- creating the same physical brand – for example, the logo and literature – drawing upon the business strategy and the reasons it provides as to why the organisation is now operating in a particular international labour market
- sharing a common mission, vision and set of stated values: attention is given to communicating these consistently through the various programmes and media
- setting minimum HRM standards and conditions to shape the nature of employee engagement
- examining how the pay strategy and associated benchmarks define the calibre of applicants
- understanding how this helps to bring consistency to the employee experience in terms of competencies and leadership capability.



KEY LEARNING POINTS

- As organisations operate more internationally, the HRM function becomes the gatekeeper of both national institutional and cultural differences, advising on which processes can be standardised and which must remain localised.
- The HRM function also becomes a knowledge agent that transfers ideas across businesses, functions and geographical boundaries within the global firm.
- The IHRM function has to work through the structural and organisation design issues that changes in the organisation's business model have invoked, and has to structure itself and design its service offerings in a way that enables it to support these wider business changes.
- Two common superordinate themes in the process of globalising HRM are global knowledge management (in order to create a degree of intellectual integration) and corporate and global brands (in order to create some social and emotional integration).
- In order to create intellectual integration, MNCs draw upon a number of important mechanisms, including: organisational designs, such as the use of centres of excellence; managing systems and technology-driven approaches to global knowledge management systems; capitalising on expatriate advice networks; co-ordinating international and transnational management teams and developing COPs or global expertise networks.
- For expatriate and repatriate knowledge transfers to be effective, two characteristics are important: the ability to transfer knowledge (expertise, social

networks, position power and position responsibilities) and the motivation to transfer knowledge (career considerations and commitment to the work unit).

- Research and practice still needs to take a political view of how knowledge transfers across units within the network, the divergent agendas of actors in the system, the shifting political coalitions, and the processes by which important knowledge actually gains attention.
- Research on employer branding shows that, as noted in Chapter 8, organisations need to be locally responsive to the nuances and norms of local recruitment practice. However, the core processes through which employer brands are managed reflect what is known about the ways in which employees form perceptions, make attributions, judge authenticity, and form emotional attachments. These psychological processes are assumed to be relatively generic and culture-free.
- It is also evident that in many MNCs, as the role and contribution of both domestic and corporate HRM functions has expanded, they have adopted both language and ideas from other related management disciplines to identify new practices. For employer branding these ideas have come principally from marketing and consumer research. IHRM researchers and practitioners therefore need to draw upon these concepts when looking at employer branding strategies.
- A distinction is emerging between IHRM and global HRM.
- Traditionally, IHRM has been about managing an international workforce – the expatriates, frequent commuters, cross-cultural team members and specialists involved in international knowledge transfer.
- Global HRM revolves around the ability of the organisation to find a concept that has ‘relevance’ to managers across several countries. It is not just simply about covering these staff around the world. It concerns managing IHRM activities through the application of global rule-sets to HRM processes.



LEARNING QUESTIONS

- 1 Identify the effects of thinking about resource capability as the key to competitive success for an IHRM department.
- 2 What would be the HRM effects of creating a centre of excellence at the British headquarters of an MNC? How might these change if it was decided that the centre should be located in Hong Kong?
- 3 To what extent is there still a role for the corporate HRM function in international human resource management?
- 4 Is it possible to create an employee value proposition on a global scale?
- 5 What types of knowledge do global HRM expertise networks need to transfer?
- 6 What will be the impact of working through networks on the careers of IHRM professionals?
- 7 Who will act as the guardians of national culture if not the IHRM function? Does this role still matter?



EXPLORE FURTHER

SPARROW, P. R., BREWSTER, C. J. and CHUNG, C. (2016) *The Globalization of HR*. London, Routledge. This focuses specifically on the mechanisms that become important in globalising the delivery of HRM.

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