INTERNATIONAL HUMAN RESOURCE MANAGEMENT

Globalization, National Systems and Multinational Companies

TONY EDWARDS & CHRIS REES

Pearson

Third Edition

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Introduction

Tony Edwards and Chris Rees

This book is about the management of human resources and employment relations within multinational companies (MNCs). Now in its third edition, the book has been revised and updated to take account of the rapidly changing context for international business as well as contemporary developments in human resource management practice. While covering broadly the same topics as previous editions, the book now has an expanded first section and a range of new contributors who are leading authorities in their fields. Our intention is to offer a research-informed textbook that will provide both a readable introduction to international HRM as well as a stimulus to further study for those who may wish to pursue their own research in this fascinating yet complex area. In this introductory section, we indicate the key analytical themes that run through the book and provide a brief overview of the content.

The book is divided broadly into three parts. Part One (Chapters 1–3) establishes a conceptual and analytical framework for understanding international HRM by analysing contemporary trends at the global, national and regional levels. In a new Chapter 3, written specifically for the third edition, the regional dimension is explored through a detailed overview of the European context for IHRM.

Part Two (Chapters 4–7) considers the place and the role of the multinational firm within these trends, examining the way MNCs are structured and how this relates to their corporate strategies in the human resource area. After considering the strategy/structure relationship and the way MNCs balance global integration with local responsiveness, this section considers how MNCs attempt to spread or diffuse their HR and employment practices, the implications for HRM of MNC merger and acquisition activity, as well as the important issue of HR outsourcing.

Part Three (Chapters 8–14) examines specific areas of HR practice within MNCs in more detail, building on the earlier chapters to address the challenges of developing effective HR policy interventions. After three chapters examining the development and functioning of international managers and the way international pay and reward policies are formulated, this section considers broader issues around the representation of employees within MNCs, how firms respond to the challenges of CSR and contemporary trends in migration and the movement of labour.

As well as this logical three-part structure, we have also attempted to weave six distinct themes throughout the book. These represent established features of international business, and have a significant impact upon the scope and direction of international HR strategies. Referenced at different points throughout the text, the themes emphasize that the book does not seek to offer 'one best way' blueprint solutions for international HR practitioners, but rather aims to take a balanced and critical stance towards the formation and execution of HR policy in MNCs, and to locate management action firmly within its economic and societal context. The six themes are as follows.

1. Globalization versus embeddedness

The most obvious theme of the book concerns globalization. The book begins by reviewing the hotly contested debates concerning the extent to which globalization is really novel, on the one hand, or has historical precedents, on the other. In developing the limitations to globalization, we show how economic activity is embedded in distinctive arrangements at local level.

2. Cultures versus institutions

If economic activity is embedded at national level, we need to consider how we might think about the nature of embeddedness. We contrast the culturalist approach, widely adopted in international HRM research, with various types of institutionalism. The strengths and limitations of each are assessed. On balance, we tend towards a more sympathetic treatment of institutionalism and offer a sharp critique of (some aspects of) the culturalist perspective.

3. Choices versus constraints

While actors within MNCs unquestionably have scope to choose how they operate and which strategies to pursue, these choices are far from being unconstrained. The nature of these constraints to a large extent follows on from the second point; if firms are embedded in distinctive cultures and institutions, then they are to some extent governed by the requirements that these present. However, we can also see institutions as facilitating certain courses of action – in other words, they are resources as well as constraints – and actors in senior positions in MNCs have some scope to choose where to operate and which policies to pursue.

4. Integration versus differentiation

As we have said, the book focuses on the multinational company, and the fourth theme relates to a key aspect of the strategies of MNCs. A familiar idea in the field is to contrast the pressures to integrate a firm's operations across borders (arising from the opportunities to realize synergies in different countries, for instance) with the pressures to differentiate these operations (that stem from ongoing distinctiveness in national contexts). We develop this in a number of respects, including the ways in which MNCs balance these pressures across regions and divisions.

5. Standardization versus segmentation

A less familiar dilemma in international HRM research is the form of integration that firms pursue. One way of integrating operations across countries is through operating units that replicate the functions carried in other countries, which we refer to as standardization, while another is to separate various parts of the production process so each is concentrated in a particular location, which we term segmentation. Profoundly different implications for how MNCs manage their international workforces flow from each of these, and there are also a range of intermediate positions.

6. Collaboration versus contestation

It is understandable that a central concern in much international HRM research is on how MNCs can arrive at collaborative ways of working across borders. Clearly, though, many of these processes are subject to contestation. That is, the preferences and strategies of various groups within firms differ, and individuals and groups will use whatever sources of power are at their disposal to advance and defend their own interests. While all organizations are characterized by political struggles between different groups, this is especially the case for large, complex MNCs that cross national divides.

There is an increasing number of impressive and useful introductory books in the field of international HRM. Our aim here is to provide a distinctive text which combines a central focus on the multinational firm with a thorough consideration of relevant theoretical and conceptual material. As in previous editions, we illustrate many of the key issues with case studies, and provide review questions and suggestions for further reading in all chapters. We are grateful once again to our colleagues and students of international HRM at King's College and Royal Holloway, London, who have provided ideas and critical feedback to help us develop this new edition.

Part 1

THE CONTEXT FOR INTERNATIONAL HRM

Chapter 1

Globalization, national systems and multinational companies

Chris Rees and Tony Edwards

Key aims

The aims of this chapter are to:

- introduce and critically evaluate the concept of globalization;
- consider the role of multinational companies (MNCs) in the process of globalization and as central to the analysis of international human resource management (IHRM);
- examine the dynamic relationship between MNCs and nation states, and consider the cultural and institutional bases of 'national systems';
- specify four levels of analysis for understanding IHRM in MNCs: the organizational, the national, the regional and the global.

Introduction

Major changes are taking place in the international economy, and in the nature of work and management across different nations and regions. International HRM operates within this dynamic context, and international human resource (HR) strategies and practices are best understood when located within prevailing social, political and economic trends. A number of important concepts have been used to explain these processes of change, and globalization is perhaps primary among these. International HRM focuses on the way MNCs attempt to influence the way people work in their operations across borders, and globalization presents new and significant challenges for managing and regulating work on an international basis.

At the core of economic globalization is the increased movement of capital and labour, of finance, goods and services between countries. This represents both a major challenge as well as a primary catalyst for change in international HRM and employment relations. In this opening chapter, we examine the nature of contemporary globalization, and consider the broad implications for management and work, particularly with respect to multinational companies. We look at the role of MNCs as key players in globalization, and consider how their actions are related to particular features of their 'home' and 'host' national locations, which are often understood in 'cultural' and 'institutional' terms. This involves paying attention to the politics of globalization, seeing MNCs as 'political actors' and acknowledging contestation and conflict in the way they operate. The chapter ends with a consideration of the interrelationship between organization-level strategies in MNCs, national and regional contexts, and forces of globalization, and hence we advance a broad four-way conceptual framework for analysing international HRM, which can act as a guide through the rest of the book.

The concept of globalization is often used in a rather vague way to indicate large-scale economic and social changes without specifying precisely what these are. Indeed, Scholte contends that 'in spite of a deluge of publications on the subject, analyses of globalization tend on the whole to remain conceptually inexact, empirically thin, historically ill-informed, economically and/or culturally illiterate, normatively shallow, and politically naïve' (2005: 1). Globalization also generates heated debate across the political and ideological spectrum. As Dicken (2007) notes, probably the largest body of opinion consists of what might be called the 'hyper-globalists', either on the political right (the neo-liberal 'pro-globalizers') or on the political left (the so-called 'anti-globalization movement'). In both cases, national governments and states tend to be seen as no longer significant political actors or meaningful economic units, and consumer tastes are assumed to be homogenized and satisfied through the provision of standardized global products, created by global corporations with no allegiance to place or community. In this way, globalization is consistently portrayed as the most powerful force for change in the modern world economy. We look at some of these competing conceptions of globalization in this chapter, examine different views on its scale and impact and consider the broad implications for international HRM, and in so doing we introduce several important themes and issues which are pursued in more detail in subsequent chapters.

The nature of contemporary globalization

While trading links and other forms of cross-border economic activity have a long history, the period of globalization since the 1980s has been associated with a particular 'neo-liberal' and 'financialized' form of unrestrained capitalism (Harvey 2005; Steger and Roy 2010), and this has dominated policy discussions concerning management and work (Williams *et al.* 2013). The United States is usually seen as the key promoter and beneficiary of this form of contemporary globalization, while the countries of the developing world are often portrayed as losing out, with their natural resources squandered and their citizens providing cheap labour in factories and call centres. However, as Martinez-Lucio reminds us:

> It is not simply a case of there being winners and losers, because even those gaining from increasing their external trade, and developing new dynamic industrial sectors, face new challenges and objectives in relation to worker expectations and new social needs, such as health services and education. (2014: 2–3)

Moreover, new players are now entering the global economy and becoming more successful and competitive. The countries of the Pacific Rim – such as Japan, Hong Kong and Singapore – have all been seen by the United States as potential economic rivals, and more recently attention has turned to India and, in particular, to mainland China as its economic growth proceeds apace (Williams *et al.* 2013). International trade has also increased sharply. During the post-war period, trade has grown consistently faster than national output in the developed economies, as a result of which a higher proportion of the goods and services that are bought and sold are produced in one country and sold in another. In fact, many goods and services are now produced through integrated global 'chains' of firms across a number of different countries (Gereffi *et al.* 2005; Lane 2008).

The central assumptions of neo-liberalism, as summarized by Grey (2013), are that (1) individuals are rational self-interested actors; (2) markets are the best allocator of resources; and (3) the state is both inefficient and immoral in restraining individuals and markets. The policy agenda which follows from this political analysis has been extensively implemented across Western economies since the 1980s, and has centred around 'deregulation of the private sector, privatization of – or creation of internal markets within – the public sector, breaking the power of trade unions and promoting global free trade' (Grey 2013: 108). In this period, there have been many powerful advocates of the benefits to governments of encouraging this form of neo-liberal economic globalization. The most prominent newspapers and magazines that focus on economics, such as *The Economist* and *The Wall Street Journal,* extol the virtues of such an approach. Likewise many influential think tanks and policy institutes, such as the Organization for Economic Co-operation and Development (OECD), praise non-intervention by governments, liberalization, transparency and freedom of capital movements. Moreover, the dominant philosophy in international economic institutions, such as the World Trade Organization (WTO) and the International Monetary Fund (IMF), is similarly pro-market forces and anti-government intervention. Governments and international financial institutions like the IMF have also responded to the recent financial and economic crisis by advancing further neo-liberal policy prescriptions, which, as Williams *et al.* (2013: 14) point out, is 'somewhat ironic given that they were largely responsible for causing it!' The response of the United States, for example, has been dominated by policies which support the interests of finance capital, and, in Europe, deficit reduction programmes, sometimes involving extreme austerity measures, have been largely based on the neo-liberal assumption that economic competitiveness, and thus prosperity, are best achieved by cutting wages, reducing benefits and weakening employment regulation (Williams *et al.* 2013). It is clear that despite the recent economic crisis exposing the inherent weaknesses in unrestrained market mechanisms, the neo-liberal agenda shows no signs of being abandoned (Stiglitz 2010; Crouch 2011).

One of the defining aspects of the current period of neo-liberal globalization is the concept of 'financialization', which captures the growing dominance of international finance, both in terms of the global banking and derivatives industries (Stein 2010) and in the sense of corporate financialization (Peters 2011). The value of foreign exchange trading has increased very rapidly in the last three decades, particularly so in the last 15 years or so (see Figure 1.1). Indeed, the value of foreign exchange trading has increased from 11 times the value of global trade in 1980 to a staggering 73 times in 2010 (Peston 2013). As a consequence, Peston observes:

> Financial globalization seems to have become disconnected from what we might see as 'real business' globalization. The amount of foreign exchange bought and sold every day in the currency markets is £4 trillion . . . far more than the amount of currency transactions needed to pay for all of the world's trade in goods and services. (2013: 87)

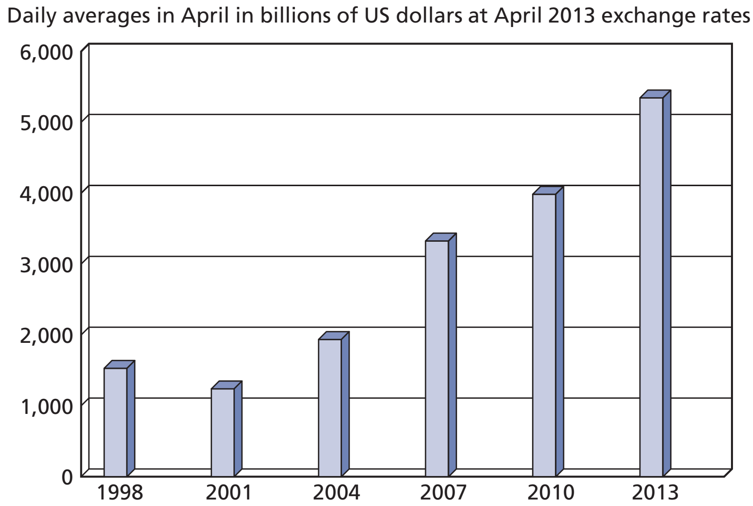

Figure 1.1 Global foreign exchange market turnover
Source: Bank for International Settlements.

This growth in foreign exchange has been driven by an explosion of high-stakes betting on markets, a truly phenomenal rise in financial speculation, involving the creation and exponential growth of whole new markets in increasingly complex products – such as 'credit derivatives' and 'credit default swaps'. The cumulative impact of these new financial products and the 'casino' activities of banks and financial institutions has been to 'make the financial system as a whole much riskier' (Peston, 2013: 93), so that today 'the global economy is powered more by debt than equity; by loans rather than by investments' (ibid.: 96). These trends are consistent with what has been termed 'the new capitalism' (Sennett 2006), in which the primary purpose of organizations is considered to be the maximization of shareholder value, and a central activity of the firm is the use of its assets for 'financial engineering'. As Grey (2013: 105) notes: 'In pursuit of financialization, companies offshore and outsource their activities to countries with the cheapest labour and the most limited protections for employment rights, seeking to 'sweat' their assets – both human and financial – to the maximum extent.' The financial crisis of the late 2000s clearly demonstrated the importance of globalized finance, as financial contagion spread rapidly from the United States, where difficulties arose in the market for sub-prime mortgages, to other parts of the world, especially Europe (Harvey 2011). As Williams *et al.* (2013) explain, in order to maintain the confidence of international investors, and thus retain access to sources of global finance, governments in a number of European countries – including Greece, Spain and Italy – have been required to initiate rigorous austerity measures, including substantial reductions in wages, pensions and welfare benefits, in order to tackle their deficits.

In terms of the implications of the recent period of globalization for employment and work, the increased intensity of international trade has meant that national systems of management and employment have been subject to greater instability and a range of diverse influences and pressures. Work and labour markets have also changed, in particular regarding trends towards feminization and increased migration (Martinez-Lucio 2014). Compared to capital, labour has traditionally been seen as more rooted in, and committed to, particular places, as less mobile and more 'sticky'. However, labour mobility on an international scale is nonetheless an important element in the recent process of globalization. In 2010, for example, over 3 million people migrated to the major economies of the Global North in search of better standards of living and work (Williams *et al.* 2013). We examine the implications of migration for international HRM in Chapter 14.

For workers, globalization brings both challenges and opportunities. There is no doubt that the heightened nature of international competition has led to pressure to cut costs and maximize quality and efficiency. In particular, this has led to job losses in European countries and to firms resorting to 'offshore' activity, such as locating their customer service departments and call centres in India, where labour costs are lower, leaving workers in many countries more vulnerable, with adverse consequences for the quality of their employment. As Williams *et al.* (2013) report, for example, in the United States there has been a growth in 'precarious' employment, as workers experience greater insecurity at work as a result of increases in temporary contracts, outsourcing of production and the decline of union representation and long-term benefits such as pensions and health care (see also Kalleberg 2009). Neo-liberal globalization has also contributed to the spread of informal work and employment around the world. The informal economy is a major source of employment – especially in Asia, Africa and Latin America – and is distinctive insofar as it falls outside legal and regulatory arrangements that govern employment in the formal sector. Standing (2011) points to the rise of a new 'precariat', as more flexible employment patterns, reduced levels of job security and weakened labour market protections render increasing numbers of workers – particularly young workers, migrant workers and black and minority ethnic workers – more vulnerable.

In summary, and following Erickson *et al.* (2009) and Williams *et al.* (2013), we can draw up the following 10-point checklist of some of the key trends commonly seen as characterizing the recent period of economic globalization:

1 National and regional economies are increasingly dominated by a new global system of economic co-ordination and control, in which competition and strategic choices are organized at the global level.
2 The internationalization of processes of production, distribution and exchange means that national economies are less distinct and markets are more global.
3 The recent period has been characterized by a particular neo-liberal policy agenda and by the rapid growth and influence of processes of financialization.
4 There is a decreased ability on the part of nation states to fully control their own economic systems. As the ability of nation states to regulate economic activities declines, so global markets increasingly dominate national economic policies.
5 There is an increase in the number and power of supra-national bodies and institutions (such as the European Union or the G8 group of countries).
6 There are significantly improved methods of transport and communication, which allow for the rapid movement of people, goods and, in particular, information across national borders.
7 There is an increasing integration of newly industrializing countries (such as China, India and Indonesia) into developing global networks.

8 A ‘new international division of labour’ is emerging, in which unskilled manufacturing work shifts to poorer, less developed countries, whereas research and development activities are centred in the richer and more advanced industrial societies.

9 Labour mobility is increasing on an international scale as significant numbers of people migrate to other countries in search of better work and better lives.

10 Goods and services are increasingly culturally homogenized around the globe, symbolized most powerfully by the spread of global brands such as McDonald’s restaurants, Starbucks coffee shops and Nike shoes.

Debating globalization

Having outlined the broad parameters of recent developments in globalization, we can discern different positions and arguments concerning the depth and breadth of these trends. One position is what might be called the ‘strong globalization thesis’, which posits the notion of a rapid and recent process of change towards a truly global economy, in which distinct national economies, and therefore strategies of national economic management, are increasingly irrelevant. Here, the world economy is seen as dominated by uncontrollable market forces, with the principal economic actors and major agents of change being truly transnational corporations (TNCs) that owe allegiance to no nation state and locate wherever on the globe market advantage dictates. Social theorists commonly talk of a ‘new global order’, one facet of which is the claim that companies have become increasingly ‘de-nationalized’ from their local origins (Sklair 2002; Wolf 2004; Castells 2009). Relatedly, the greater part of social life is seen as determined by global processes in which national cultures, national economies and national borders are rapidly dissolving. This group are variously referred to as ‘strong globalists’ or ‘hyper-globalists’, and would include, for example, Bhagwati (2007), Giddens (2002), Ohmae (2005) and Wolf (2004). Likewise many advertisers, journalists, politicians and what Scholte calls ‘others prone to hyperbole’ (2005: 17) have celebrated the present as a thoroughly globalized world.

Certainly, there are many developments in the global economy that are commensurate with this picture of rapid and significant change. The last half century or so has witnessed a period of uninterrupted growth in global trade, with the total volume of goods exported increasing at an average annual rate of 6 per cent since 1950. Moreover, the last three decades have witnessed a sharp growth in investments by MNCs, captured in levels of foreign direct investment (FDI). This refers to cross-border investments by governments and especially MNCs, for example, through opening new production sites in other countries, or – as is becoming more significant – by merging with or acquiring businesses in foreign locations. The levels of FDI have grown sharply over recent decades (see Figure 1.2). As Peston (2013: 96–9) explains, well over half of the world’s FDI goes to the rich industrialized nations, with the United Kingdom having been a particularly large recipient. That said, an increasing proportion is now going to developing economies, particularly the fast-growing ones in Asia. China, for example, received about 7 per cent of all FDI over the past decade. MNCs use FDI to organize the production of goods and services through

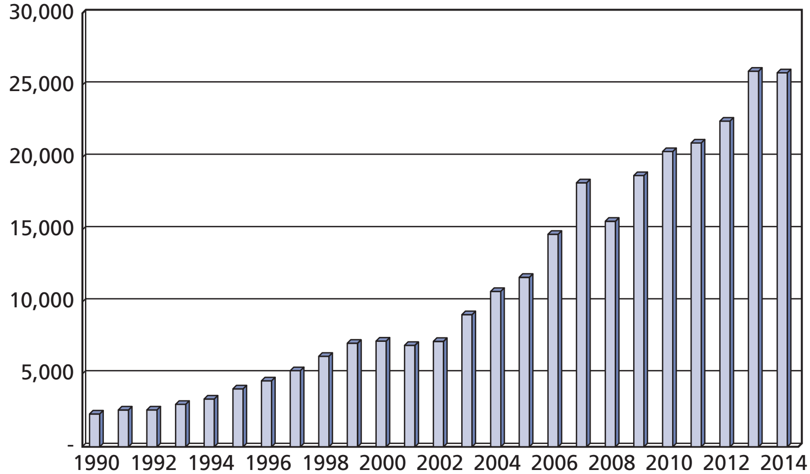

Figure 1.2 The growth in stock of foreign direct investment ($ billions)
Source: UNCTAD (2015).

supply chains and production networks which operate on an increasingly sophisticated transnational basis. These have been substantial changes, which are reshaping the social and economic landscape, and generally it is agreed that 'the volume and intensity of international exchanges are much greater, indicating that there has been a real qualitative shift' (Erickson *et al.* 2009: 54).

However, the strong globalization thesis, as outlined above, has attracted a range of critics, and it is claimed that many aspects of the populist globalization argument are either exaggerated or not unprecedented. Writers such as Hirst *et al.* (2009), Huntingdon (2002), MacGillivray (2006) and Stiglitz (2010) have made a series of points which throw a quite different light on the nature of the international economy. First, it is argued that the newness of the current situation has been exaggerated. The world economy was actually more open and integrated in the half century prior to the First World War (1870–1913) than it is today, when 'trade, investment and, especially, population migration flowed in increasingly large volumes between countries' (Dicken 2007: 7). In proportional terms, levels of trade, permanent migration and investment between countries were as high as, if not higher, in the late nineteenth century than they have been in recent decades (Hirst *et al.* 2009). The capital mobility which is occurring in the current period is also yet to produce a massive shift of investment and employment from the advanced to the developing countries. As Scholte observes, while many imply that globalization is a recent development, it is in fact 'a recurrent trend that has appeared at several previous junctures in the history of the modern states-system' (2005: 19). These arguments are consistent with a more general critique of how the notion of 'change' is commonly evoked. As Grey observes:

> There is no reason to think that the present time is one of greater change than in the past, or that we are the first people to experience change as being unprecedented . . . Even the jewel in the crown of the change fetish – increased globalization – is by no means as clear-cut an issue as is commonly supposed. (2013: 91–2)

The argument here, then, is that the world economy is in fact far from being truly 'global'. In terms of the expansion of global trade, we now see the greater participation of countries from the Global South, such as China, in the global trading system. The growing trading presence of these countries is predicated on the comparative advantage they have as sources of low-cost production, particularly through their relatively cheap and abundant labour force. However, it remains the case that core economic flows and activity tend to follow a traditional pattern which privileges specific dominant and developed parts of the globe. Production and distribution remain unequally distributed and shared, with FDI flows largely occurring between economies in the Global North such as the United States, Europe and Japan. Large parts of the world, notably Africa, still tend to be excluded (Doogan 2009). That said, an increasing proportion of FDI is now being generated by, and directed at, economies in the Global South (UNCTAD 2011), and, in 2010, China attracted record levels of FDI, with a value of $106 billion. Chinese firms themselves have also made substantial investments. The role of India and China has increased within this global space of flows, and in these countries there are privileged internal political and economic hierarchies, and a new type of neo-colonial engagement is emerging, such as China's role in Africa. As Martinez-Lucio (2014: 22) concludes, globalization follows specific pathways, it does not always include all classes and nations equally, and it is not to be seen as simply a process of opening up borders, but rather as 'made and constructed in political, organizational and cultural terms – and therefore with all the tensions these imply'.

As well as debating the spread and reach of globalization, some also question whether the autonomy and distinctiveness of the nation state is really being undermined (as we discuss later in the chapter). Globalization may be a strong phenomenon but we are very far from an 'end state' in which nations are fused into a single economy. Languages, cultures and nationalist values stand in the way. Giddens (1990) is one of many who have noted that global pushes can in fact strengthen nationalist fervour and attachment to locality and local customs. As Child explains:

> Paradoxically, at the same time as transactional boundaries weaken, there is an increased awareness of cultural differences and a growing celebration of cultural diversity . . . Globalization may therefore be stimulating divergent as well as convergent developments . . . On the one hand it facilitates a centralized standardization of organizational practices and products; on the other it promotes local identities which encourage decentralized organizational responses. (2002: 46–7)

A final argument against the 'strong globalization thesis' is that genuinely 'transnational' companies in fact appear to be relatively rare, and we need to treat the claim that MNCs have become 'placeless' entities with caution. Most leading MNCs are far from being 'footloose' global players, in the sense of operating beyond the influence of nation states. Most companies are based nationally and trade multi-nationally on the strength of national location of assets, production and sales, and many have strong connections to their home country base (Almond and Ferner 2006; Geppert and Mayer 2006; Doogan 2009). The United Nations (UN) conducts an analysis of this group of firms, looking at the proportion of their assets, sales and employment that is located abroad. The 'Transnationality Index', which is an average of these three ratios, shows that while this is steadily increasing (see

Chapter 5), most of these firms still have strong links to their original home country. We know, for example, that most MNCs retain very strong linkages with the financial system in their country of origin and fill most senior managerial positions from the home base (Almond and Ferner 2006; Boxall and Purcell 2008).

So, we need to take a balanced approach to assessing globalization (Martell 2010). As Scholte (2005: 18–19) puts it, ‘Globalization is indeed a distinctive and important development in contemporary world history. However, its scale and consequences need to be carefully measured and qualified.’ A more nuanced analysis would distinguish between the quantitative linkages between countries – and the growth of these linkages – on the one hand, and the qualitative nature of these linkages, on the other. In relation to the former, a common view is that the last quarter of the twentieth century witnessed a step change in the pace of growth in the linkages between countries: trade and foreign direct investment increased sharply, financial markets were deregulated and subsequently became highly internationalized, information exchange across borders became dramatically quicker and cheaper, and so on. It is this definition which underpins much of the ‘strong globalization thesis’. In relation to the latter, globalization has been perceived as a process in which there is a growth in the functional integration of national economies. Those who define globalization in this way commonly argue that the ties between countries are becoming stronger. For instance, whereas simple trading linkages often unravel in the event of a war or trade dispute, and hence can be seen as shallow linkages, the growth of FDI and international subcontracting has produced global production chains that are deeply embedded in the workings of the international economy. Dicken sees this as an important distinction in identifying what is novel in the contemporary period:

> Most important have been the changes in both the where and the how of the material production, distribution and consumption of goods and services (including, in particular, finance) . . . There has been a huge transformation in the nature and the degree of interconnection in the world economy and, especially, in the speed with which such connectivity occurs, involving both a stretching and an intensification of economic relationships . . . We live in a world in which deep integration, organised primarily within and between geographically extensive and complex transnational production networks, and through a diversity of mechanisms, is increasingly the norm. (2007: 7)

There is no doubt the new world economy is qualitatively different from the past, and yet few multinational enterprises are truly global, and most trade, investment and networks take place within and between well-established trading blocs. At a macro-level some economists, notably Rugman (2005), have convincingly demonstrated that most economic flows are in fact regional. He also notes the success of regional and bilateral trade agreements, as compared to global, multilateral initiatives. We examine this regional dimension to globalization in Chapter 3. Moreover, even in those aspects of economic activity where globalization is most prevalent, it should not be assumed that this only leads to greater homogeneity, convergence and uniformity across countries. Idealized ‘global strategies’ and ‘best practices’ are usually transformed considerably when they are introduced into domestic economies (Ferner *et al.* 2006; Smith *et al.* 2008), something we explore in more detail in Chapter 6. As such, convergence is always tempered by divergence.

Globalization and MNCs

Without doubt, one of the most notable features of the international economy is the growing spread and influence of MNCs. Together with the expansion of international trade and growth of international capital markets, the increasing power of MNCs has been linked to the emergence of a so-called 'borderless world' in which national boundaries, and the states controlling them, have less economic significance than the decisions of transnational business elites and financial markets (Giddens 2002; Bhagwati 2007). This process is in turn seen as diminishing the significance of national and regional forms of economic organization, in favour of a new cross-national form of capitalism that is in the process of replacing them through superior efficiency. While this latter claim is often exaggerated, there is no doubt that, more than any other single institution, the MNC is seen as the primary driver of the global economy. As Dicken notes:

> The global economy is shaped by the TNC through its decisions to invest, or not to invest, in particular geographical locations. It is shaped, too, by the resulting flows – of materials, components, finished products, technological and organizational expertise, finance – between its geographically dispersed operations. (2007: 107)

The activities of MNCs have, of course, proved contentious. On the one hand, their investments have helped to generate economic growth, jobs and prosperity across the Global South, while giving consumers in the Global North access to a wider range of cheap goods (Williams *et al.* 2013). On the other hand, MNCs have often been accused of causing a range of social and environmental problems, such as the undermining of labour standards and increased pollution in their sites across the Global South, especially where effective regulation or enforcement arrangements are absent (Stiglitz 2007). It is beyond question that the scale of economic activity controlled by MNCs has grown sharply in the last 20 years or so. The United Nations Centre on Transnational Corporations estimates that there are around 61,000 multinationals in the world controlling around 900,000 subsidiaries. These firms make annual sales of $19 trillion and directly employ around 54 million people. The stock of FDI controlled by MNCs increased steeply from $560 billion in 1980 to $14.9 trillion in 2008 (UNCTAD 2009). This was driven mainly by the sharp growth in cross-border mergers and acquisitions over this period, which rapidly increased the extent to which many MNCs are spread across countries, although the rate of these deals has subsided since. We examine the human resources implications of cross-border mergers and strategic alliances in Chapter 7.

It is not simply the scale of MNCs and the resources they control that are significant. There are also important developments in the way these firms structure themselves, and the strategies they pursue. These issues are considered in depth in Chapters 4 and 5, but it is worth noting here some of the implications of globalization for corporate structures and strategies. For instance, it has been claimed that the new economic environment is creating the need for a new type of organization – the TNC – which recognizes new resources and capabilities, captures them, and then leverages the advantages on a worldwide scale. Although the extent to which companies can be characterized as truly transnational can be disputed, many MNCs are moving towards a greater geographic dispersion of business activities. One of the implications of this trend for human resource management is the emergence of a highly flexible cadre of international managers, capable of implementing the complex strategies involved. The 'transnational solution' predicts that instead of having careers that are driven by vertical moves up the organizational hierarchy, the focus will shift to managing lateral moves aimed at broadening and sharpening experience, and the way in which managers are allocated to assignments and temporary projects will become more cross-functional, cross-business and cross-geography. We deal with the development of international managers in more detail later in the book, looking specifically at career management and internationalization in Chapter 9, and at how international managers are recruited and selected in Chapter 10.

While some of the actions of MNCs may lead to common processes across countries, in other respects they take advantage of national differences and, therefore, are actively reproducing nationally distinct practices. There remain important national differences in the attractiveness of locations for investment and other business activity, and MNCs try to reap benefits from the specific 'locational advantages' associated with each system in which they operate. These advantages are not just those associated with the cost of labour, but extend to capturing a body of knowledge and skills within a local workforce, access to markets, and the ability to tap into a cluster of successful firms in a particular industry or region (Belanger *et al.* 1999). In Chapter 2, we consider in more detail the literature on national systems of innovation, production regimes and national business systems. This points to real differences in the way countries have traditionally gone about their innovative activity and established their typical business environment, and how business is conducted therein.

Insofar as MNCs seek advantages from both their home and host locations, they can be seen as 'political actors', using power to shape the conditions under which they conduct their productive activities (Ferner *et al.* 2005; Kristensen and Zeitlin 2005; Edwards *et al.* 2006). In this process, employment arrangements are rarely transferred unaltered from the MNC home country. As Belanger and Edwards (2006) observe, all kinds of hybrid arrangements exist, reflecting differences of national regulatory regime, particular labour market circumstances, and different degrees to which head offices wish to impose standard models. We explore hybridization in Chapter 2 and the transfer of organizational practices across borders in Chapter 6.

This 'political view' of MNCs encourages us to see some of the tensions in the way that MNCs do business. They operate across many national regimes and are subject to different government policies, and they gain some power as a result, as in the capacity to threaten to shift production to other countries. But 'they also lose to the extent that they have to deal with differing regimes and absorb the transactions costs of doing so' (Belanger and Edwards 2006: 29). A similar dilemma exists in terms of their internal relations. On the one hand, MNCs can deploy influence over their subsidiaries in ways less available to domestic firms, notably through 'coercive comparisons' between sites in different countries (Coller 1996, Rohlfer 2007), and yet 'they also face particular problems of integrating operations from contrasting institutional and cultural contexts . . . [and as such] have to mobilize around political projects rather than simply having their own way' (Belanger and Edwards, 2006: 28). The nature of strategy-making in MNCs, and in particular the problems of global integration of human resource management, are explored more fully in Chapters 4 and 5.

These tensions reflect a broader paradox in the nature of human resource management, and the reality of relations of power, control and consent between managements and employees in capitalist work organizations. Firms compete with each other, and must encourage the notion of competitiveness and continuous up-grading. They must, furthermore, reward highly motivated and talented employees, and encourage internal competition between employees, if they are to enhance external competitiveness. Yet firms are complex organizations that rely, too, on employees cooperating with each other, and they need employees to work together for the overall objectives of the firm and not simply their individual objectives (which have the potential to be disruptive). There exists what has been termed a 'structured antagonism' between management and labour at the heart of the capitalist employment relationship. This antagonism cannot be 'managed away'; rather, new management initiatives will re-cast the balance between compliance and consent, but where that balance lies – that is, the 'frontier of control' – is always negotiated (Edwards 1986). As we see in Chapter 2, this balance has a crucial impact on HRM policies. So, while MNCs drive the process of globalization, we must not forget that they are also subject to the challenges that globalization brings. As Martinez-Lucio (2014) suggests, taking this political approach to IHRM highlights the broad range of actors in work and employment at the national and international levels. This includes employers, managers, workers and their representatives, and cohorts and groups within each of these, all of whom have distinct, and often conflicting, professional identities and organizational interests.

MNCs, the state and 'national effects'

So far, we have argued that, despite much evidence supporting the 'globalization thesis', the forces for convergence in national forms of economic organization in general, and the organization of firms in particular, are not as strong as is often implied. National differences remain significant. Moreover, societies with different institutional arrangements continue to develop and reproduce varied systems of economic organization, with different economic and social capabilities in particular industries and sectors (as we explore in Chapter 2). There is also plenty of evidence that nation states retain a key role in coordinating and regulating economic affairs. As Dicken observes:

> The national state, the major 'container' within which distinctive practices develop . . . helps to 'produce' particular kinds of firms . . . Links . . . exist between the ownership-specific advantages of firms and the location-specific characteristics of the firm's home country. It is this link which helps to explain the different characteristics of TNCs from different source nations. (2007: 127)

To illustrate this point, Dicken refers to the examples of the large domestic market and high level of technological sophistication of the US domestic economy, which have helped produce the distinctive characteristics of US MNCs, and also the lack of natural resources and strong role of government in technological and industrial affairs that help explain attributes of Japanese MNCs, at least in their earlier development. The state – and the different institutions that constitute it – is an especially important actor in employment relations, but it is one that is often overlooked in mainstream accounts of international HRM. While some of the state's capabilities are being reduced, and while there may be some 'hollowing out' of the state, the process is not a simple one of uniform decline on all fronts. Rather, the 'death of the nation state' has been greatly exaggerated. As Martinez-Lucio reminds us:

> MNCs continue to require a set of political and regulatory interventions and support from nations, which they themselves as private organizations cannot supply. The idea that we are seeing the emergence of omnipotent companies such as Apple or Sony ignores the complex reality of globalization and the continuing role of national systems of regulation. (2014: 18)

In general terms, MNCs need states to provide the infrastructural basis for their continued existence: both physical infrastructure in the form of the built environment and also social infrastructure in the form of legal protection of private property, institutional mechanisms to provide a continuous supply of educated workers, etc. In particular, states have the potential to determine two factors of crucial importance to MNCs: (1) the terms on which they may have access to markets and/or resources; and (2) the rules of operation with which they must comply when operating within a specific national territory. It is often said that the major difference between HRM in the USA and Europe is the degree to which it is influenced and determined by state regulations. Companies in Europe generally have a narrower scope of 'strategic choice' in this respect than those in the USA. In Europe, there is greater regulation of recruitment and dismissal, more formalization of educational certification and quasi-legal aspects to industrial relations frameworks – including legislative requirements on pay, forms of employment contract, health and safety, hours of work, as well as rights to trade union representation and requirements to operate consultation or co-determination arrangements (Gold 2009; and see Chapters 2 and 13). EU member states also seek to regulate the labour market from which organizations draw their pool of employees, for example, through various interventions in education, life-long learning and tax incentives. In this way, states shape and influence business strategy and organization, and reflect distinctive 'ways of doing things', where particular institutions and practices are 'bundled together' (Weiss 2003).

The largest MNCs are powerful organizations, but their power in relation to most governments has been exaggerated, and the size of their revenues in relation to national GDPs has often been calculated on a misleading basis. While MNCs do have specific advantages from their international operations, they also gain from locational advantages and the cooperation of national governments. It is not only the state, of course, but a combination of features of home and host environments, which shape and influence the nature of MNC operations. As Dicken suggests, MNCs and 'national effects' are thus interdependent. In his words:

> TNCs are 'produced' through an intricate process of embedding, in which the cognitive, social, political and economic characteristics of the national *home* base continue to play a dominant part . . . But . . . the very fact that TNCs are transnational – that they operate in a diversity of economic, social, cultural and political environments – means that they will, inevitably, [also] take on some of the characteristics of their *host* environments. (2007: 133)

How we understand these 'home' and 'host' effects is central to appreciating the constraints and the opportunities that managers in MNCs face in attempting to implement international HR strategies and practices across borders. There are two major analytical categories most often utilized to explain the importance of this national dimension. These are, first, cultural theories, and, second, institutional theories.

The culturalist perspective

The culturalist perspective considers 'cultural values' to be deep-seated and enduring, to vary systematically between societies, and to condition what is considered acceptable organizational practice. National culture is said to impact organizations by selecting and framing the particular sets of organizational values and norms that managers perceive as being consistent with basic assumptions developed within their countries – as a product of early childhood, formative experiences and education, language, religion and geography. These arguments continue to have a pervasive influence in management thinking and discourse. As Child observes:

> The cultural perspective has for some time provided the dominant paradigm in comparative studies of organization . . . Attention to culture has an intuitive appeal to practising managers, for whom it serves as a convenient reference for the many frustrating difficulties they can experience when working with people from other countries, the source of which they do not fully comprehend. (2002: 33)

As Thompson and McHugh similarly observe:

> [It is] not difficult to see the basis of the appeal of cultural relativism . . . [since it] trades on recognisable, if somewhat stereotypical, national characteristics . . . [and] normatively the approach has obvious and useful applications in terms of training to make managers more sensitive to trading partners and to local cultural conditions. (2009: 75)

Differences in national culture can affect organizations in many ways, and they are widely seen as central to international HRM (Schneider and Barsoux 2003). They may influence attitudes in international negotiations, which themselves may determine the outcome of investments, trade and ownership within firms. They may also create assumptions about appropriate pay systems and the importance of distributive justice, the role of centralization and hierarchies within organizational structures, the extent to which the manager-subordinate relationship facilitates effective performance management, and attitudes towards job and career mobility.

The problem of adequately defining and measuring national culture continues to be one of the key challenges confronting cross-cultural research. A great variety of different approaches have been used, and there is little agreement regarding any definitive scale suitable for measuring cultural differences among nations. However, there is fairly convincing evidence that values do differ, and a popular method for making comparisons focuses on the concept of a 'value system'. This is what Hofstede (2001) attempted. In his seminal work, culture is firmly equated with nationality, which is seen as having central symbolic value to citizens, creating shared ideas, values and meanings transmitted through family and community. National character and national culture are thus treated as indivisible. Hofstede defines culture as the 'collective programming of the mind' which distinguishes the members of one group or category of people from another. The model that he subsequently developed categorizes 40 nations into distinct 'cultural clusters' according to their rank scores on each of five dimensions (power distance, uncertainty avoidance, individualism/collectivism, masculinity/femininity and time orientation), and on this basis he draws various lessons for management theory and practice.

As Thompson and McHugh (2009) point out, in their own terms these lessons are fairly logical. Leadership in a collectivist society will indeed tend towards the group rather than the individual. If there is low 'power distance', schemes for employee participation are more likely to flourish. Self-actualization will tend to be more of a motivator in highly individualist societies than in those where 'keeping face' within group relationships is a prime social requirement. Certainly, the culturalist perspective has one immediate and important implication for our understanding of international HRM. That is, if national cultures vary across a number of important dimensions, those differences suggest that models and theories of management may have a limited applicability to countries outside of the 'culture cluster' within which they were originally developed. Thus, Thompson and McHugh (2009) give credit to the 'progressive intent' in Hofstede's work, namely, to question the transferability of textbook – read US – management models to very different circumstances.

As Sparrow and Hiltrop (1994) have observed, MNCs will vary in the extent to which they recognize national cultural diversity. If managers believe the impact of national culture to be minimal, as in the case of the 'parochial' organization, the general approach will be to ignore differences in employee values, norms and preferences. On the other hand, if managers view all other ways of doing things as inferior, as in the 'ethnocentric' organization, their policy will be to minimize the impact of cultural diversity by, for example, recruiting a homogeneous workforce. The tendency to hold one's own way as being the best is, of course, often reinforced by stereotypes of other cultures and nationalities. Finally, if managers recognize both cultural diversity as well as its potentially positive impacts, as in the case of the 'synergistic' organization, the human resource policy will tend to place greater emphasis upon the creation of a truly international workforce, using similarities and differences among the nationalities to create new forms of management and organization.

The culturalist approach has become very popular in international HRM research, representing the mainstream of the subject. Writers have used national culture as a way of explaining why MNCs of various national origins adopt different HRM practices. For example, Ngo *et al.* (1998) examined the effect of the country of origin of US, UK and Japanese MNCs in Hong Kong. On the basis of marked differences between the MNCs according to their nationality, and further marked differences within a sample of local firms, they argue that a number of aspects of the home country culture influence the nature of HR practices in the foreign MNCs. The culturalist approach has also been used extensively to explain the way in which MNCs adapt to host country cultures. An illustration of this is Tayeb's (2005) research on a US multinational in Scotland, in which she argues that the parent company's global approach had to be adapted to several aspects of the local culture.

However, despite its evident popularity, the culturalist approach has been subject to a significant amount of trenchant and compelling criticism. McSweeney (2002), for instance, argues that Hofstede's study suffers from a number of important weaknesses, such as the assumption of cultural homogeneity within a country, and the difficulty of generalizing for a national culture on the basis of sometimes quite small samples of one occupational group in one company. More broadly, fundamental problems remain with the way the concept of national culture is often conceptualized and applied within this approach. Is culture all-pervasive, as Hofstede has argued, taking primacy over other factors in terms of predictive power? If so, the comparative study of organization across cultural boundaries employing concepts derived from only one culture becomes hazardous in terms of validity criteria. As Child puts it, if meanings vary in different societies then 'this questions the equivalence between cultures of any comparative concept and its operational measurement. Universalistic concepts and their standardized measurement of the kind that cross-cultural scholars like Hofstede have employed become suspect on the basis of this argument' (2002: 33).

In addition, it is a common assumption in much of the culturalist literature that national differences can simply be expressed in cultural terms, and that the 'nation' can be used as the unit of analysis for culture, but this is highly questionable (Moore and Rees 2008). First, almost all countries, but particularly large ones, are characterized by considerable cultural diversity and heterogeneity. That is, there are wide variations within countries according to regions, social classes, ethnic groups, and so on (McSweeney 2009). The United States is a prime example, classified by Hofstede as a single cultural unit and yet clearly constituted by a hugely varied array of cultural groups. Second, as Ferner (2000) puts it, a key problem with culturalist approaches is that they actually explain relatively little, and tend to simply raise further questions: how, for example, did particular cultural values come to characterize a particular country?; and, crucially, how can we account for change over time in these values and attitudes?

By locating attitudes within a largely unvarying notion of 'national character', cultural relativists also tend to produce overly static descriptions that exaggerate the durability of values and practices. As such, many of Hofstede's pronouncements now look particularly dated. Thompson and McHugh refer to the example of the former Communist countries. Most of them indeed manifested high 'power distance', 'collectivism' and 'uncertainty avoidance', but this is 'hardly surprising given the nature of their shared command economy and centralised party-state apparatus' (2009: 75). However, Russia and other ex-Eastern bloc countries are now experiencing rampant individualism and uncertainty following the collapse of the old solidaristic social norms, but 'there is no evidence . . . that this reflects or is driven by changes in national mindsets' (2009: 75). For Thompson and McHugh 'culture is a slippery concept that can be applied with misleading results' (2009: 77). The problem is that 'such perspectives pick up on cultural differences and then believe they have explained them' (2009: 75). In fact, it is not at all clear that, say, finance-driven short-termism in a particular economy derives either from cultural/mental models in general, or Anglo-Saxon ones in particular. It is far more plausible to argue that this kind of individualism, with associated high levels of bankruptcy and takeovers, is 'an outcome, not of a mental model, but of specific historical and contemporary institutional arrangements in Anglo-American political economies' (2009: 75). This highlights how weaknesses in the culturalist approach point to the need to address more fully the crucial role of institutions in structuring economic activity.

The institutionalist perspective

The institutionalist perspective provides the means for correcting some of the problems associated with the ideas of the cultural relativists. Here the emphasis is on normative adaptation and the 'cultural rules' to which organizations conform, but these rules are now understood as 'social rules embodied in institutional processes more than mental constructs carried about in people's heads' (Thompson and McHugh 2009: 77). These perspectives emphasize that management and business have different institutional foundations across countries. Key institutions are the state, the legal system, the financial system and the family. Considered in combination, such institutions constitute the distinctive social organization of a country and its economy (Whitley 2000; Hall and Soskice 2001).

A central concept within the institutionalist approach is that of the 'business system'. This concept ties together in a coherent way the historical, cultural and institutional processes that shape national or regional economies. It enables a focus on the way in which state, financial, industrial relations and other systems combine together to influence organizational practices. This approach reflects broader institutionalist perspectives in sociology (Powell and DiMaggio 1991; Scott 2001), and in particular the 'societal effects' approach of Maurice and Sorge (2000). Their research showed that work organization patterns differ markedly due to nationally specific institutional logics that produce stable organizational and employment patterns. In particular, the national ownership of firms facilitates the absorption of practices, ideas and culture from those institutions. Such logics are particularly located in education, training, labour market and industrial relations structures. This helps to explain, for instance, why salary structures, career patterns, management and authority relations vary among closely matched French, German and British firms (Lane 1989).

We can immediately see a number of obvious ways in which national institutions might help shape and determine international HRM practices. The role of the state, financial systems, national systems of education and training and industrial relations systems combine to form a dominant 'logic of action' in each country, and these will guide management practice. The social, legislative and welfare context influences many areas, such as: recruitment and dismissal, the formalization of educational qualifications, aspects of industrial relations, pay, health and safety, the working environment, the nature of the employment contract, levels of co-determination and consultation and so on (Sparrow and Hiltrop 1994). As we have mentioned, a major difference between HRM in the United States and Europe, and indeed between European countries, is the degree to which HRM is influenced and determined by state regulations. Differential national labour legislation reflects established political traditions concerning the extent to which employee rights curtail the autonomy of managers to respond to pressures in ways they deem appropriate. Generally speaking, legislation affording employees consultation and negotiation rights is stronger in Europe than in the United States, although there is considerable variation within Europe between, for example, the relatively deregulated United Kingdom and the more regulated countries such as Germany and Sweden. The role of factors such as state direction and family ownership in East Asian economies also figures prominently in institutionalist accounts.

The institutionalist perspective also stresses the principle of 'functional equivalence', which has a direct relevance for an understanding of the transfer of HRM practices in MNCs (something we discuss in more depth in Chapter 5). This principle states that although business practices may differ from one firm to another, and from one nation to another, they are not automatically inferior or superior to each other. Firms and nations may practise what are in effect functional equivalents, which, although different, produce better results in specific strategic, market, institutional or national contexts (Kostova 1999; Gamble 2003).

In other words, the purpose and effects of similar strategies will vary according to circumstances and context, something which challenges any easy notion of universal 'best practices' in HR management.

As we noted earlier, national differences are not static characteristics that act only to constrain management action. Rather, MNCs will seek opportunities and advantages from them. They will look for particular comparative and competitive strengths in 'locational advantages' associated with national or regional production, innovation and business systems. Commonly, apparently minor advantages associated with a specific part of their overall production process are decisive in location decisions, as MNCs create complex international divisions of labour based on locational specialization, forming what Gereffi *et al.* (2005) have termed 'global commodity chains'. What the institutionalist perspective helps us to see is that the macro-structures of the global economy 'continue to be manifested in specific configurations in specific places . . . In other words, they . . . are territorially embedded. There are varieties of capitalism, not one single universal form' (Dicken 2007: 11).

As Chapter 2 examines in more detail, researchers have advanced a number of 'ideal types' of these different 'varieties' of capitalist organization. An established two-way distinction, as made, for example, by Hall and Soskice (2001), is between liberal market economies (LMEs) – such as the United States, the United Kingdom, Australia, Canada, New Zealand, and Ireland – and co-ordinated market economies (CMEs) – which include Germany, Japan, the Netherlands, Sweden, Finland and Austria. In liberal economies, the market plays the dominant role in co-ordinating economic behaviour, and the state remains an arm's-length enforcer of contracts. LMEs are thus characterized by short-term-oriented company finance, deregulated labour markets, general education and strong inter-company competition. In more co-ordinated economies, by contrast, economic behaviour is strategically co-ordinated to a larger extent through non-market mechanisms. CMEs are thus characterized by long-term industrial finance, co-operative industrial relations, high levels of vocational training, and co-operation in technology and standard setting across companies.

While this dual categorization is common, others have developed more varied typologies. Coates (2005), for example, has described three models. In market-led capitalisms (e.g. the USA, the UK), accumulation decisions are largely left to private companies in open financial markets. In contrast, state-led capitalisms (e.g. Japan, South Korea) combine the market and political dominance of private capital with state direction of growth decisions through administrative and banking structures. Finally, negotiated or consensual capitalisms (e.g. Sweden, Germany) may have less direct state regulation of capital accumulation, but management of the economy and enterprise is filtered through co-ordination arrangements in which labour as well as capital has influence and rights. Amable (2003) takes another approach, utilizing distinctive 'institutional domains' to generate his typology: product market competition, labour market institutions, finance and corporate governance, social protection and the welfare state, and the education and training system. Grouping capitalist economies based on their similarities (using cluster analysis) in these institutional domains generates five models of capitalism: (1) a market-based model; (2) a social-democratic model; (3) a continental European model; (4) a Mediterranean model; and (5) an Asian model.

The key point here is that, whatever the particular terms used to describe the main features of different 'varieties of capitalism', these arguments demonstrate that national economies are characterized by distinct institutional configurations that generate a particular systemic 'logic' of economic action. Moreover, it is argued that these logics will infer comparative institutional advantage, insofar as different institutional arrangements have distinct strengths and weaknesses for different kinds of economic activity (Deeg and Jackson 2008). These arguments emerged particularly in the 1980s when significant differences were noted between the excellent economic performance of Germany and Japan, and the (relative) industrial decline of Britain and the United States, differences which were attributed by many to the distinct institutional arrangements of German and Japanese capitalism. The remarkable competitiveness of these ostensibly more organized or 'co-ordinated' economies, where the market played a lesser role, was seen in their ability to mobilize collective inputs and long-term commitments. In sum, the institutionalist approach looks at economic activity as being socially embedded within institutional contexts, and compares these contexts across different scales, such as sectors, regions and, especially, nations (Hancke *et al.* 2007).

Conclusion

In different ways, the culturalist and institutionalist perspectives we have outlined above both stress the strength and influence of national systems. However, it has also been argued that these approaches in general may exaggerate the stability of cultural or structural conditions at the national level, and so tend to neglect the role of human agency and individual 'strategic choice' (Crouch 2005). In these approaches, national business systems are sometimes portrayed as cultural or institutional 'givens', which plays down the scope for, and importance of, internal disputes and conflicts within MNCs. In this sense, HRM and management in general might be seen as being 'over-determined' by these contextual factors, with explanations giving insufficient attention to the role of individuals in changing or amending their context. This counter-argument reminds us of the importance of bargaining, choice and agency, and of firms themselves being influential actors in the shaping of their business contexts. Firms are not passive recipients of broader economic, social or political trends, but active participants in shaping them. Even the more rigorous institutionalist perspective discussed above has frequently been based on 'comparative statics' and an emphasis on institutional stability, such that the role of power and politics has been relatively neglected. However, this deficiency is now being addressed, and 'there is a growing recognition that the institutional environment does not mechanically determine organisational forms . . . There are still choices within constraints, and embeddedness still has to be enacted' (Thompson and McHugh 2009: 79).

This draws our attention again to the fact that MNCs are not monolithic or apolitical organizations, but in reality are complex coalitions of interests, and operate as political systems with a clear focus on capital accumulation. Managers and employees at various levels and positions within the MNC are 'reflexive agents' who are able to resist, re-interpret and mediate corporate initiatives (Elger and Smith 2005). In terms of the relationship between organizations and national systems, we can therefore see MNCs as 'rule makers' as well as 'rule takers' (Streeck and Thelen 2005), and as being constituted by a series of on-going tensions between competing social forces (managers, financiers, shareholders, suppliers, labour groups, etc.).

What these kinds of arguments try to capture is the fact that neither national systems nor MNCs are static features of the global economy, but rather they have a complex and interdependent relationship with each other, and understanding this is key to understanding how and why certain management strategies (including in the area of HRM) will take different forms, and lead to varying degrees of relative corporate and national economic success. As Thompson and McHugh explain:

> Global capitalism remains a dynamic system in which different strategies are available to establishing competitive advantage for companies and countries. In that competitive struggle, forces of divergence and convergence are in continual tension. Within the new structural constraints, firms have some room to make strategic choices, selecting policies and solutions that can shape their environment. For transnational companies a key tension is reflected in the contradictory pressures to standardise their operations, products and services so as to maximise the scale and cost benefits of global integration, while at the same time attempting to serve the needs of specific markets. (2009: 86)

In light of the arguments we have advanced concerning the interconnections between the different contextual aspects of organizations, we can, in conclusion, outline four distinct levels of analysis for interpreting and understanding international HRM. Considering the impact or implications of global economic trends first, we might in broad terms call this the 'global effect'. While some strands of this argument are exaggerated or difficult to substantiate, there remains enough of substance to argue that genuinely global influences on management action are significant: unquestionably, developments in IT mean that ideas and technologies are spread around the globe more quickly than ever before; large chunks of the world that were until recently closed off from the international economy are rapidly becoming integrated into it; and many sectors that had hitherto been subject to close regulation and ownership restrictions have been liberalized and, subsequently, internationalized. Moreover, a key feature of globalization has been the growth of MNCs, and the chains of production and service provision that they control, while a set of international regulations and a nascent 'transnational elite' are emerging partly as a consequence of the activities of these firms.

While some of the growing connections and linkages between national economies warrant the term global, others should more accurately be described as regionally focused. Thus, a second level of analysis we can distinguish is a 'regional effect'. As we have noted, the dominant patterns of trade and FDI tend to be within certain key regions of the world, predominantly North America, Western Europe and Asia Pacific. The major flows of international economic activity are either between these established regions, or within one of them. There is also evidence that many MNCs operate principally at the 'sub-global' level, rather than at either a purely global or local level, both in terms of their formal structure and their strategic orientation (Arrowsmith and Marginson 2006).

Although these global and regional trends are important, we have seen that they have not eroded nationally distinct influences on MNCs. So we might call a third level of analysis the 'national effect'. This refers to cultural differences as well as to the distinctive differences between business systems and the role of national institutions (financial, educational and governmental). We know that despite pressures for change, and notwithstanding the recent global economic crisis, financial systems continue to differ markedly across countries. Some national financial systems, such as those in the United States and the United

Kingdom, are characterized by arm's-length and fluid relations between senior managers in firms and shareholders, and by an active 'market for corporate control' in the form of takeovers. In contrast, the dominant features of other financial systems, such as those in Germany and Sweden, are of close and stable relations between managers and owners, and considerable continuity in ownership patterns. While global and regional effects may challenge some aspects of national distinctiveness, and lead to changes in important respects, the national level remains highly significant.

Finally, in addition to the global, regional and national, we can distinguish the 'organization effect'. The nature of the three effects already discussed may set parameters within which organizations operate, but, as we have suggested, they do not completely determine strategies and practices at company level. There are a range of contingent factors that allow managers to devise courses of action that may differ from those of their competitors, and some of these relate to the way that MNCs are structured. For instance, MNCs that are organized around highly standardized or integrated production systems across borders are those that are most likely to be influenced by the pressures of globalization and regionalization into engaging in the transfer of practices across borders. In contrast, those that are a collection of disparate operations with little in common across countries are much less likely to do so. However, contingent factors at the company level are not simply to do with formal structures, but also include power relations between actors at different levels within the organization. That is, corporate strategies are in part the result of political activity within the MNC. Therefore, the organization effect is crucial in mediating the influences that arise from global, regional and national contexts.

One of the core themes in this book is that international HRM is best understood as reflecting the complex interaction between these four sets of effects. As we have seen in this opening chapter, much recent economic and political discourse overplays the extent and impact of global economic forces. At the same time the popular business strategy and HRM literature can likewise tend to overplay the 'organization effect', in terms of exaggerating the degree of 'strategic choice' or scope for action that individual managers have to successfully introduce their preferred strategies. We do not share this populist view of managers as all-powerful strategic 'change agents'. Rather, we encourage students to see that management always take place within a particular context, and this context will profoundly influence both the limits and the possibilities of international HRM.

Review questions

1. What is meant by economic globalization, and what has been distinctive about the role of 'neo-liberalism' and 'financialization' in the past two decades?
2. In what ways might international HRM practices in MNCs be shaped and constrained by the 'home' and 'host' countries in which companies operate?
3. To what extent can multinational companies usefully be described as 'political actors'?
4. How far do you feel it is helpful to distinguish between different 'levels of analysis' (i.e. global, regional, national and organizational) in understanding international HRM? Why might these distinctions be considered ultimately misleading?

Further reading

1 Dicken, P. (2015) *Global Shift: Mapping the Changing Contours of the World Economy* (7th edition), London: Sage.

Summarizes the various theories informing the globalization debate, and provides a comprehensive and informed discussion of the complex interrelationships between national level factors, multinational companies and changing technologies.

2 Williams, S., Bradley, H., Devadason, R. and Erickson, M. (2013) *Globalization and Work,* Cambridge: Polity.

Provides a highly readable and comprehensive set of sociological insights into the way globalization is re-shaping the world of work, covering a wide range of contemporary debates and issues.

3 Kristensen, P.H. and Zeitlin, J. (2005) *Local Players in Global Games: The Strategic Constitution of a Multinational Corporation,* Oxford: Oxford University Press.

Remains one of the most fascinating and insightful in-depth case studies of a UK MNC, illuminating processes of internal politics, negotiation and resistance at multiple levels within the company.

4 Morgan, G. and Whitley, R. (eds) (2014) *Capitalisms and Capitalism in the Twenty-First Century,* Oxford: Oxford University Press.

A more challenging and scholarly set of papers analysing key trends in the activities of companies and nation states in the contemporary period.

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Chapter 2

National employment systems and international HRM

Phil Almond

Key aims

The aims of this chapter are to:

- explain the impact of 'home' and 'host' country effects on multinational corporations' (MNCs) human resource practices;
- examine in more detail the nature of power relations within MNCs and the 'hybridization' of HRM policies in different national contexts;
- consider how national variations have changed in the recent period of global deregulation.

Introduction

This chapter has three main aims. First, it looks at ways in which employment systems shape the context of international HRM, and examines the question of whether there are distinctive types of national business and employment systems. Second, it looks at how cross-national differences might affect human resource management decision-making in MNCs. Finally, it offers some reflections on how these institutional effects might themselves be altering under the pressures of globalization (see Chapter 1), and with what impacts on international HRM.

Types and numbers of national system

According to the United Nations, there were, at the time of writing, 193 different states in the world. Evidently, some of these states, such as the large, rich countries, have much more power over how their business and employment systems are run than others. Yet this still leaves, potentially, a high number of different institutional systems for regulating business and employment. Perhaps luckily for students and researchers, however, the existence of nearly 200 states does not mean that there are nearly 200 radically different national ways of organizing employment. While, obviously, no two states are identical, cross-national patterns do exist to some extent. Without prior knowledge, for instance, it should not be particularly surprising that the way business operates in Brazil is more similar to the way it operates in Argentina than either is to the Japanese system. For students, researchers or reflective practitioners, then, rather than simply collecting facts about every individual state in which we might have an interest, it might be useful to see what we can say about what *types* of national system actually exist. It may then be possible to reach some conclusions about how these different types of system are likely to shape the HRM policies and practices of MNCs that have their *home* in each type of system, and also how MNCs from abroad may need to adapt to such *host* country systems.

Two varieties of capitalism?

Many comparative researchers have sought to compare national arrangements, or 'national business systems', affecting business, work and employment (e.g. Maurice *et al.* 1986; Lane 1989; Whitley 1992). Among such writings, one very prominent work, and in terms of its classification of countries the simplest, is that developed by Hall and Soskice in their work, *Varieties of Capitalism* (2001).

The basic argument of this comparative institutionalist research is that the ways that firms develop and exploit their core competencies are shaped by national social arrangements in a number of areas. To take Hall and Soskice, for example, the following institutional spheres are highlighted:

- National industrial relations and pay-setting arrangements – in particular, is pay determined solely within the firm, or do effective industrial relations institutions such as collective bargaining operate at levels above the firm, such as the industrial sector?
- Vocational training and education – in particular, are firms relatively passive consumers of the outputs of training and education systems, or do institutions help firms with similar human resource needs to work together in attempting to assure higher levels of relevant vocational skills are developed more widely across the economy?
- Corporate governance – particularly whether national systems lead to firms mainly obtaining capital for investment from long-termist (banks) or short-termist (the equity market) providers.
- Patterns of inter-firm relations – the extent to which relations with suppliers, or other firms in the same sector, are collaborative or competitive; do such relations follow a strict market logic, or do firms develop longer-term relations with suppliers, perhaps with greater collaboration over the organization of production, etc.?
- 'Intra-firm' relations – this concerns issues relating to achieving the cooperation of workers. This would include, among other things, prevalent patterns of worker participation in decision-making over work organization, teamworking and other similar practices.

Hall and Soskice (2001) hold that these different 'spheres' are closely inter-related, and are likely to be 'coherent' in any relatively successful national economy. So, while there are, in theory, for example, lots of different ways a national society might organize vocational training (cf. Noble 1997), only a limited number of these are likely to work well in any specific country, given the functional need for a country's vocational training and education system to 'fit' with the nature of its industrial relations system, corporate governance system, etc. To take an example commonly used by institutionalist researchers, it is more difficult for firms to try to base competitive advantage on high-trust relations with employees if the financial system they operate under pushes them towards making workers redundant in reaction to relatively small short-term fluctuations in profitability, as has increasingly been the case in countries where stock markets are an important source of corporate finance.

If we accept the broad argument that elements of national economic systems must (and do) 'cohere' with each other, this has important practical, as well as theoretical, implications: it would mean that it is often difficult, and sometimes counterproductive, for firms and states to try to copy elements of employment policy from successful cases overseas, given wider differences in national business systems. Maurice *et al.*'s (1986) illustration of the unsuccessful attempt to transpose elements of the successful German training system to France is a case in point: the German training system was dependent on the nature of German industrial relations, corporate governance and firm-level worker participation; without this supportive background, the training system itself was not likely to operate successfully.

Hall and Soskice concentrate most of their work on two ways in which the various elements of a national system of capitalism can cohere: the liberal market economy (LME) and the coordinated market economy (CME). Although they sometimes claim that these are theoretically derived ideal types, rather than being based on real economies, for the present chapter at least, it is much simpler to think of an LME as being best represented by the United States, and a CME by Germany. They do not claim that these are the *only* ways in which the different elements of national systems can cohere, but they do argue that the most successful developed economies tend to approximate to one or the other, with national economies that fall between the two poles having inferior economic performance (cf. Hall and Gingerich 2004). The basic differences between the two types, and their expected effects on human resource management, are presented, in stylized form, in Table 2.1.

The varieties of capitalism framework has several features which are useful to a discussion on international and comparative human resource management. First, in general terms, it provides an intellectual justification for the argument that there is more than one potentially successful way to run an advanced economy. There is no reason, following this argument, to expect that employment policies (or HR practices) should necessarily tend towards one dominant pattern, even under conditions of economic globalization (as has sometimes been assumed in the HRM literature on convergence). In other words, management policies that are perfectly logical in the United States may make little sense in Germany. This in itself offers a powerful corrective to some of the more naïve assumptions that HR practices throughout the world are likely to, or should, approximate to models of HRM developed in the United States, or whichever other national model is currently fashionable. Second, the general argument here indirectly offers some clues as to how MNCs from different countries might behave. In particular, MNCs from liberal market economies are likely to change the nature of their operations more rapidly – and have less employment security for their workers, within a 'market-driven' organizational approach – than is the case for MNCs originating in CMEs. How national differences shape MNC behaviour is dealt with in more detail below.

Table 2.1 Differences between national varieties of capitalism, and effects on HRM

	Liberal market economy (LME)	*Coordinated market economy (CME)*
Examples	The UK, the USA, Canada, Australia, other developed English-speaking economies.	Germany, Japan, Scandinavian economies, the Netherlands, Austria, Switzerland.
Finance system	Equity-based, large stock markets. Easy for investors to switch assets – this leads to strong pressures for short-term profitability.	Credit-based, i.e. important role for banks. These often take a direct role in corporate decision-making, through representation at board-level, etc., and take longer-term view of corporate success.
Relations between firms	Competitive and contract-based, e.g. subcontracting tends to be based on price competition and be relatively low-trust.	Collaborative, both in terms of creating institutional infrastructure (wage bargaining, training, etc.) and in terms of long-term, high-trust relations across the supply chains of large firms.
Vocational training and education	General education provided by state. Vocational training systems unstable, as large firms prefer to develop their own systems rather than contribute to sectoral/occupational systems.	Firms pool resources into highly developed vocational training systems, usually at sectoral level (not Japan).
Wage determination	Workplace or firm level.	More centralized (sectoral or national level).
Employment relationship	'Hire and fire' principles lead to low-trust relationships between employers and employees. Reliance on numerical flexibility.	Long-term, higher-trust relationships for core workers. Reliance on functional flexibility.
Union organization	Primarily occupational.	Primarily sectoral (not Japan).
Role of the state	To ensure 'free and fair' markets, but otherwise to intervene as little as possible.	To establish framework by which authority can be delegated to corporate actors, e.g. employers' organizations and trade unions.
HRM	Attempts to increase cooperation from employees historically made difficult by conflictive industrial relations, more recently by low levels of employment security creating difficulties in obtaining commitment. Individualization of HR (individualized pay and career development, decline of trade unions).	More collectively oriented HRM (higher levels of collective employee involvement, greater prevalence of autonomous teams, less individualized pay).
Areas of competitive strength	Sectors involving radical innovation (IT, science).	Sectors involving incremental innovation (engineering).

Source: Elaborated from Hall and Soskice (2001).

The varieties of capitalism thesis has been criticized on a number of grounds, however. Among other things, there are disputes on some of the evidence used (Almond and Gonzalez Menendez 2006), and arguments about how well the supporting theory deals with change or sub-national variation (cf. Crouch 2005, who argues that one of the most important recent growth poles of the American economy, Silicon Valley, does not mainly work as would be predicted by the LME model).

More importantly for the present chapter, there are marked differences *within* each of the two groups. For example, Hall and Soskice categorize both Germany and Japan as CMEs. However, while it may be the case that German employment relations have similar effects on the ways in which firms seek to build competitiveness to those of Japan, working in Germany is very different to working in Japan (Marsden 1999; Thelen and Kume 1999; Jacoby *et al.* 2005). Even more worryingly for our purposes, the LME/CME dichotomy leaves out most of the world's economies. First, Hall and Soskice, like nearly all authors in this area, specifically limit their analysis to the core developed economies. This is not without some intellectual justification, in that a conventional institutionalist analysis of national employment systems really requires both that most of the working population have employment contracts, and that the country has a relatively high degree of control over a fairly stable economic and social system. However, clearly this limits the geographical coverage of this framework.

Even within Western developed economies, though, an important group of countries – France, Greece, Italy, Portugal, Spain, and, with somewhat less certainty Turkey – is largely ignored. Hall and Soskice (2001) do raise this group as a potential third variety (named 'Mediterranean' economies), but, partly because they see this type of economy as less stable and successful than either LMEs or CMEs, do not pay all that much attention to them. For our purposes, it is important to include this group, as Mediterranean economies have employment and human resource management patterns which, again at the level of generalization, are different to those of either CMEs or LMEs (see Table 2.2). It is also worth noting that the more organized parts of many Latin American economies tend to share at least some of these features (Schneider 2009).

Geographical groupings of countries

Other groupings of countries, drawn less from theoretical premises and more from the empirical realities of geography and politics, also have some degree of validity. For example, in the 1990s, some authors (e.g. Brewster 1995; see also Gooderham and Nordhaug, 2011) posited a 'European' model of HRM. This had more influence from the state and trade unions, and was generally more social-democratic, than the then-popular HRM models derived from American business school models. This has parallels with, and to a degree was inspired by, attempts to develop and define the 'European Social Model' by political and other social actors within the EU. Even in parts of the world where such supra-national institution-building is much less prominent, there is often a temptation to assume that cultural similarities between neighbouring countries (e.g. South-East Asia, Latin America) are likely to lead to broad similarities in human resource management models.

The effects of supra-national regional structures on international HRM will be considered in more detail in Chapter 3. For this chapter's purposes, it is important to be fairly cautious about assuming similarity because of geographical proximity or cultural similarity.

Table 2.2 The 'Mediterranean' variety of capitalism

	'Mediterranean' economy
Examples	France, Spain, Portugal, Greece, Italy and Turkey.
Finance system	Traditionally credit-based, combined with important role for the state. Recent trend to increasing dependence on foreign equity investors for largest firms.
Relations between firms	Sectors coordinated around large 'national champions', with traditionally high degree of state involvement in creating sectoral strategies.
Vocational training and education	More emphasis on intellectual than vocational education. Academic qualifications very important for career development.
Wage determination	Historically sectoral in principle (except Italy), but real pay levels often determined at workplace/firm level, often informally.
Employment relationship	High degree of employment security for core workers, but low-trust relationships, partly due to reliance on Taylorism.
Union organization	Primarily ideological.
Role of the state	To ensure economic development and to govern the employment relationship.
HRM	Hierarchical management and Taylorist production organization historically attempted to reduce the need for high degrees of cooperation from employees, while strict labour law reduced differences in HR practice between firms. More recently, leading firms have increasingly borrowed elements of American-style HRM, particularly for managers and other highly qualified workers.
Areas of competitive strength	Sectors with highly rationalized production.

Source: Elaborated from Hall and Soskice (2001), in collaboration with Maria Gonzalez.

For example, even within the European Union – which has gone much further than other supra-national groupings in attempting to achieve economic and social convergence – the extent to which it makes sense to talk of a 'European model' depends on the level of detail that is required. In very broad terms, there are some features affecting employment relations in the EU which lead to commonalities. From a global perspective, these would include relatively generous welfare states, high levels of social and political acceptance of pluralism, and, on the whole, relatively high degrees of state regulation of the labour market. To some extent, the development of European-level regulation of work and employment from the 1990s (see Chapter 3) also provides for some degree of convergence between member states, through regulations on health and safety, working time, worker participation, equality, etc. It should, however, be remembered that European-level regulation does not strongly affect the core features of employment regulation in most EU countries, whose own national systems tend to offer more guarantees of worker protection than those set out in European legislation (there are partial exceptions to this in the United Kingdom, Ireland and some of the new member states in Central and Eastern Europe). Also, as we have seen when looking at varieties of capitalism, there are members of the EU in each of the three broad varieties, with effects on the application of European-level policies (Gonzalez 2010). In summary, talking about a 'European model' may make some sense at a rhetorical level to observers from outside Europe, but tells us little about how European business systems work, and the considerable differences between them. This is likely to apply all the more strongly to geographical groupings of countries elsewhere in the world, meaning that observers from Europe or North America ought to be very cautious about assuming commonalities between different countries in Asia, Africa, etc.

National business systems and HRM in MNCs

If the national business systems in which firms operate affect their business and human resource policies and practices, this still leaves open further questions as far as MNCs are concerned. MNCs, by definition, operate in more than one national business system. From a reading of national varieties of capitalism models, it is not immediately apparent whether it is likely to be business system effects from the firm's *home* country (country of origin effects) that are most important, or from the *host* country (country of operation effects). In some areas, country of origin effects are more likely to be prominent: one example here might be a general long-termist versus short-termist orientation, depending on the degree to which patient capital is available. In other areas, perhaps host country effects are more likely to be important: examples here might include areas subject to legal or collective regulation, such as minimum wages, rights to collective representation and worker participation, or maximum working hours, particularly if such regulation is tightly enforced.

To further complicate the issue, it is by no means inevitable that senior managers in MNCs necessarily want to impose a country of origin model in all cases (see, for example, Kahancová 2008; for a review, see Almond 2011), or, indeed, that host country managers and workers will always defend the host country model of management. Many of these complicating factors relate to the overall international management strategy of the firm (Fenton O'Creevy *et al.* 2008), and to issues of organizational form (e.g. Bartlett and Ghoshal 2002).The remainder of the current chapter, while accepting the insights of this literature, adopts a complementary perspective, looking at how features of the business systems under which MNCs operate translate into HR policy and practice (and sometimes, how they do not) in subsidiary operations. This requires insights into the (formal and informal) negotiation of policy and practice, as well as into more strategic decisions about standardization and segmentation.

The negotiation of policies: collaboration and contestation in the MNC

The aim of this section is to move from a general understanding of how different types of national business systems tend to affect firm behaviour to the question of how MNCs manage human resources. In order to do this, we need first to answer the question 'what does an examination of HRM in a multinational firm have to take account of that the analysis of a domestic firm does not?'

In order to answer this question, it is useful to re-visit some of the implicit assumptions of much of the general literature on HRM and employment relations. In particular, the concept of the 'effort-reward' bargain (Boxall and Purcell 2008) should be borne in mind. In part, this is the idea that the employment relationship is an unequal relationship between the sellers and buyers of labour (the employer has more power than the employee as it is easier for the employer to find another employee than it is for the employee to find an alternative way of making ends meet). More importantly for our purposes, it is also the idea that, despite this power advantage, the outcome of the relationship is still uncertain for the employer: paying someone a wage does not guarantee that enough appropriate work will be done, this is a matter of management. In order to ensure that this will happen, it is widely agreed that the employer needs a combination of control and disciplinary mechanisms, alongside means of building consent, loyalty and of using workers' initiative in ways that are useful to the employer (Friedman 1977; Legge 1995). Human resource management always requires some degree of control of employees, but also some mechanisms by which to ensure that workers' initiative can be used (to deal with unforeseen problems, etc., see Marsden 1999). Equally, no system of managerial control is perfect; workers always have at least some power to resist, to create informal strategies, and therefore to affect the outcomes of the bargain.

The dilemma between control and building commitment and initiative also applies to other sets of organizational relations. Most obviously, in organizations of any size it applies to the relations between the owners of capital and salaried managers. Again, financiers are more powerful than individual managers (they can, in the last resort, replace them), but they do not exercise full control over managers, and in any case need them to use their initiative. As the varieties of capitalism literature shows, the relations between owners and managers differ substantially across nations, with notable effects on human resource management. Finally, the management function itself is split between several levels, both in terms of hierarchy and in terms of function. Control dilemmas are clearly present here too: higher-level managers have to decide whether to set policy tightly, or loosely, giving more autonomy to junior managers and supervisors, for example. Again, it is counterproductive for senior managers to seek always to maximize control over their juniors, both because the effort involved in monitoring would be very expensive, and because of the loss of initiative from subordinates.

All these different organizational actors are involved in structured, unequal power relations, all of which can only be 'resolved' satisfactorily by combining some element of direct control with some level of autonomy. Importantly, the precise mix between the two depends, among other things, on the social environment. The nature of the national business system is an important factor here: acceptable regimes of control and collaboration between shop-floor workers, supervisors, line managers, strategic decision-makers and owners in Britain may be very abnormal, to the point of being unworkable, in Korea, and vice versa. This is partly because rules (laws, collective agreements, systems of corporate governance) are different, and partly because expectations (i.e. what each group of actors collectively sees as 'fair', 'equitable' or 'normal') may be different.

All the above sets of power relations, and their resultant control versus autonomy decisions, exist in any domestic firm of sufficient size. In an MNC, though, they are of a greater order of complexity. This is because, from the subsidiary perspective, decision-making on management practices, including HRM, is normally partly performed by managers whose understandings of employment and management come from their experience in different national regimes. To take a simplified example, in a British subsidiary of, say, a Korean firm, HR policies are likely to reflect some sort of encounter between, at minimum, Korean and British managers, and British workers.

Of course, such encounters are, once again, unequal power relations (senior HQ managers ultimately have more structural power than subsidiary level managers). But, even more so than in a domestic firm, it is not possible for HQ managers to tightly control everything that happens in foreign subsidiaries, nor, in most cases, is it likely to be desirable to try to, due both to the costs involved and the loss of subsidiary initiative.

In reality, the extent to which MNCs attempt to reflect their domestic managerial assumptions and practices abroad is highly variable. Much of this variation is due to issues of market positioning and global management structure (Dunning and Lundan 2008; see also Chapter 4). However, there is substantial empirical evidence that the degree of centralization in decision-making on personnel policies is also shaped by the nationality of the firm, with, for instance, firms from the United States generally being more centralized than those from other countries (Ferner *et al.* 2004, 2010). As Chapter 5 will examine in more detail, there is also a variety of means by which control may be exercised. These vary from the extensive expatriation of home country managers (most prevalent among Japanese MNCs, cf. Chung *et al.* 2006), through extensive bureaucratic controls. Alternatively, controls may mainly be in the form of targets: these may vary from what, from an HRM perspective, can be described as indirect (such as financial targets) to the very direct (e.g. diversity targets, see Ferner *et al.* 2005).

In spite of these variations, though, it is important always to remember that neither the choices and constraints affecting the MNC as a whole, nor those affecting the international HQ or the overseas subsidiary, can be understood adequately without bearing in mind the choices and constraints affecting multiple groups of actors at different levels of the organization, in different countries (Belizón *et al.* 2014). HR policies in a given overseas subsidiary of an MNC are likely to be shaped, to some extent, by the general characteristics of both home and host business systems, as well as by business environmental factors. But how the resulting policies play out into the reality of subsidiary HRM will always be shaped by multiple ongoing processes of 'negotiation' and interpretation by sets of *actors* at different levels of the organization, all of whom have their own ideas about appropriate means of management, which will inevitably have been formed in reaction to the social setting(s) they are used to (Lévesque *et al.* 2015).

This does not mean that subsidiary workers and managers will necessarily 'prefer' the HR regimes which predominate in their own national business system to those of the foreign MNC they may work for. In societies where relatively autocratic forms of management prevail, it is quite possible that at least some workers actively prefer the more participative management policies of some foreign MNCs (if, of course, the foreign MNC chooses to use such policies globally). Equally, it is possible that women in very patriarchal societies, who seek career advancement, may prefer to work for foreign MNCs with relatively active diversity policies. It is also possible for some larger MNCs to specifically seek to recruit workers abroad who are particularly likely to conform to values that fit within country of origin-derived corporate cultures: attempting to select workers whose attitudes and experiences are compatible with desired 'global' corporate cultures has been a major factor in recruitment in some greenfield plants, particularly in Japanese but also in some American

MNCs. To the extent that this is successful, the rationality under which workers operate becomes ‘hybridized’: it is somewhat less capable of being read off from a characterization of the host employment system, but somewhat less ‘foreign’ from an HQ perspective.

If subsidiary shop-floor workers can be made to (partially) ‘think foreign’, then there is at least the potential for actors at all levels of the firm to begin to develop rationalities that are not exclusively those of their own nationality (Frangi 2014). In the case of subsidiary *managers,* the international employment system of the MNC often encourages this. The Italian research of Delmestri (2006) is instructive here in revealing the different identities of middle managers working for Anglo-Saxon and Italian firms, with the former developing far more ‘LME’-type opinions and mentalities: significantly, these differences remained even where the Italian firms concerned were themselves MNCs.

More centralized MNCs deliberately attempt to ‘globalize’ managers through programmes of inpatriation and other forms of international mobility of managers (see Moore 2006, on the multiple identities and individual strategies of expatriates). Similarly, the creation of some form of international internal labour market at the managerial level (Butler *et al.* 2006) may be used to develop, at least at the levels to which it applies, an ‘internal institutional community’ (Elger and Smith 2006: 68), which may challenge, or attempt to bypass, the standard managerial assumptions of host-country national employment systems. More general programmes of the international management of corporate culture also attempt to change rationalities in this way: indeed, Bartlett and Ghoshal (2002) emphasize the central importance of ‘normative control’, specifically with regard to their most advanced form of international firm, the ‘transnational’.

None of these policies will entirely erase host country rationalities. Nor, in most cases, do they probably seek to. Nonetheless, the terrain on which decisions are made, and coordination dilemmas resolved, is altered, to a greater or lesser extent. The argument may also hold in reverse, albeit to a lesser extent: for example, one would expect an expatriate manager to gain at least some empathy with the common assumptions, ideas about fairness, etc., in the country to which s/he was assigned. In some cases, ‘upward’ transfer of ideas goes much further than this: the MNC as a whole may seek to learn from policies in successful subsidiaries and apply them in other countries. This process, referred to as ‘reverse diffusion’ (Edwards 1998), is dealt with in detail in Chapter 6.

To summarize, it is commonly recognized that the international encounter between business systems that occurs within MNCs causes ‘hybridization’ of HR outcomes. This hybridization of outcomes is the result both of the meeting of the effects of different objective features of national business and employment systems (rules, etc.), and of a degree of hybridization of the rationalities of workers and managers across the international firm’s employment system (i.e. how people at different levels of the organization, and in different places, think about what might be desirable and practical policies).

A schematic representation of how different business systems interact in an MNC is given in Figure 2.1. In reality, it is an over-simplification; it excludes, for example, potentially important non-national organizational levels such as product divisions and regional management structures (cf. Wachter *et al.* 2006), as well as encounters between managers and workers from different host countries (Boussebaa 2009). Equally, the relative importance and influence of the different levels are subject to the precise hierarchical structure and relations of power (Geppert and Dörrenbächer 2014) within

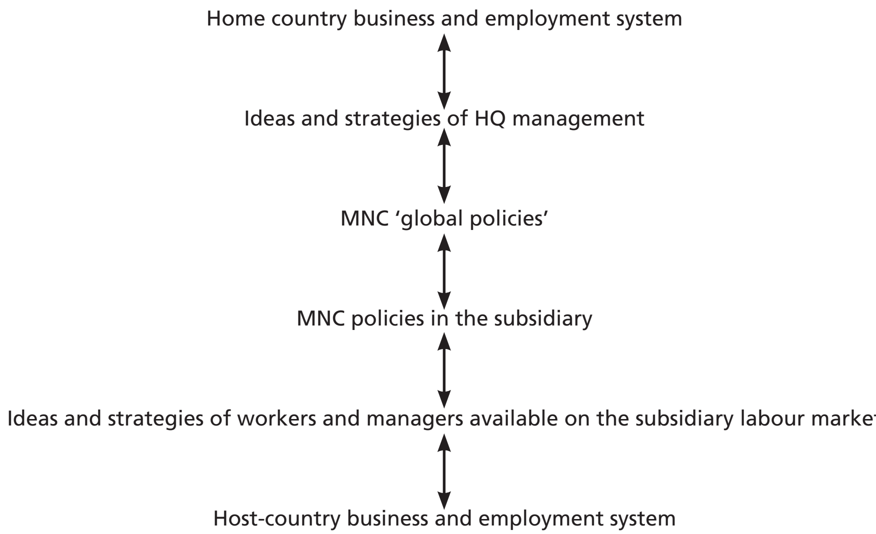

Figure 2.1 Simplified representation of how national business systems shape MNC HR

individual MNCs: in particular, some national subsidiaries (those in strategically important markets, and/or fulfilling key organizational functions) are likely to have more influence than others. Nonetheless, the double directionality of the arrows in Figure 2.1 illustrates the complex pattern of causality involved in shaping employment policies and practices within MNCs, and the multiple levels at which 'hybridization' of both ideas and policies takes place. The fact that the various arrows point in both directions does not imply equality of influence. As already pointed out, the hierarchical nature of the power structure means that the downward flow is likely to be potentially more significant than the upward flow in most cases. The next section looks at how these flows work in practice.

The MNC as an international employment system

As Ferner *et al.* point out, MNCs are far more than 'the micro-level product of competing . . . institutional influences from sector or NBS (national business system)' (2006: 6), they are 'powerful actors operating across institutional boundaries, with their own transnationally defined organizational logic, structure and strategy' (2006: 6). Their top decision-makers can decide the extent to which, and the elements of policy on which, they wish foreign subsidiaries to follow international rules and cultural tools. It is important, then, to remember that the extent to which top-level corporate decision-makers actually *want* the downward process to occur is itself variable (Edwards *et al.* 2015).

It would certainly be a mistake to think that top country of origin managers necessarily believe that the human resource management situation that pertains in their home country operations is optimal (cf. Sippola (2009) on Finnish MNCs' industrial relations approaches in the Baltic States, or Zhu *et al.* (2014) on HR policies in Chinese MNCs overseas). This applies even in dominant countries. For example, a number of large US MNCs that were forced by trade union organizing success to accept the traditionally conflictual HR model of unionized American firms remained strongly anti-union abroad (Colling *et al.* 2006).

Equally, the low-trust employment regime, deriving from Taylorism, that has dominated US manufacturing, is far from an optimal background on which to introduce new forms of work organization, such as teamworking. In reality, the managerial policies that MNCs seek to export are often not the concrete country of origin practices, but rather managerial ideas and concepts; as Elger and Smith put it, a '"model of best practice", *formed within but emancipated from* specific national and corporate contexts' (2006: 57).

Second, even if top decision-makers want to create an international system based on learned ideas about best practice, those ideas may not entirely be those of the home country. In particular, some national systems are more popular among top international managers than others. Over the last two decades, the dominant global human resource management model has essentially consisted of a 'lean' version of the American model of management, combined with some elements of work organization that are, in large part, a Western interpretation of Japanese production organization. Top managers in MNCs from other countries may well seek to create this dominant system worldwide, rather than export their own national model. This sort of selection of the policies of the most globally competitive or powerful systems is sometimes referred to as a 'dominance effect' (Smith and Meiksins 1995).

Third, top decision-makers may decide to use the existing differences between host country systems in a strategic manner. There may be good economic reasons to practise *strategic segmentation* of policies, which may involve a more or less conscious decision to stall, or at least be selective about, the downward flow in Figure 2.1. For example, firms may well choose to minimize costs by avoiding the export of some of their more sophisticated management techniques where they are not essential. Within Britain, for example, Japanese MNCs show very mixed results in terms of the extent to which they attempt to replicate elements of the Japanese employment system. This is done only partly because some of the main supporting elements of the employment system for large firms in Japan, such as high levels of employment security for core workers, are not present in the United Kingdom. Some 'Japanese' characteristics can be observed among some leading investors: the pay and grading system at Sony UK followed principles that would be recognizable in Japan; Japanese firms entering the UK from the 1980s sought to replicate the Japanese principle of company unionism by negotiating single-union deals with no-strike agreements; and considerable management effort and cost were expended on the recruitment of semi-skilled workers at firms such as Honda and Toyota (Hudson 1995). In other cases, though, particularly those researched by Elger and Smith (2005), there was very little evidence of the 'high road' elements of Japanese HRM. As these authors argue, this is not accidental, but rather represents the strategic use of elements of the HR patterns commonly used in supply chain firms in Japan (Dedoussis 1994), combined with a selective adaptation of host-country practices, particularly those involving 'harsh conditions and union exclusion' (Elger and Smith 2005: 62; see also Milkman 1991 for Japanese MNCs in the United States). What is happening in such cases does not represent an 'absence' of country-of-origin effects, but rather a strategic decision by senior actors within the MNC to segment its production and employment system, using, in this case, the light regulation of the host-country system to create a division between 'core' and 'peripheral' workers, inspired by practice in Japan.

Strategic segmentation may also occur if the institutional structures of host economies provide resources which are difficult to replicate elsewhere (Morgan and Kristensen 2006). In other words, if a subsidiary in a particular location offers something to the

MNC (unusual combinations of skills, innovation capacity, ability to network with host economy actors, which have something strategically important to offer the firm), and the preservation of this advantage is dependent on subsidiary managers having a degree of local autonomy, then headquarters managers may be less likely to insist on uniformity (Bélanger *et al.* 2013).

Management, ownership and country-of-origin effects

The varieties of capitalism literature, as introduced at the beginning of this chapter, basically explains national differences with regard to two dimensions. First, it looks at how the effects of national institutions and historically developed cultural assumptions affect both the choices available to managers, and the ways in which managers and other actors think about these choices. As we have seen, when we look at MNCs, thinking about how these various effects might play out becomes much more complicated, as actors from different national systems, with different rules and different assumptions, meet. Second, the varieties of capitalism literature looks at the effects of different forms of corporate financing. In particular, it contrasts credit-based systems such as Germany, where firms have tended to obtain finance through borrowing from banks over long time periods, with equity-based systems such as the United States, where liquid stock markets have been much more important. Typically, these differences, which have their roots in processes of state formation and patterns of industrialization, are seen as having given rise to firms in 'coordinated market economies', such as Germany or Japan, having access to 'patient' capital. In other words, those providing finance are more interested in long-term than short-term results. In return, they have an active say in how firms are run, whether through banks being represented on corporate boards, or through extensive cross-shareholdings as in Japan (Dore 1997). In 'liberal market economies', on the other hand, as shares can easily be bought and sold, investors have much shorter time horizons, and generally less interest in being actively involved in corporate decision-making. As Table 2.1 shows, this is important for human resource management as many elements of the business systems of coordinated market economies could not work if the pressure for maximizing short-term returns were as fierce as it has been in liberal economies. Equally, investors in liberal market economies would probably see the 'constraints' on rapid decision-making in coordinated economies (such as the difficulty of firing workers) as diluting firms' ability to take advantage of new opportunities.

With regard to this second dimension, the globalization of the last 30 years, particularly global financialization, has meant that we need to qualify this basic opposition in some important respects. First, liberal market economies, such as the United States and the United Kingdom became *more* short-termist in their implications for those managing firms between the mid-1970s and the global financial crisis of 2008, with little sign of any movement away from this trend since. In this period of financial deregulation, the owners of firms, particularly institutional shareholders such as pension funds, were able to increase their power over managers (O'Sullivan 2000). Many of the protections workers gained against managerial short-termism in the post-war era, through trade unions, legal regulation and an expanded welfare state, were eroded. These changes had direct impacts on the HR policies of, for example, US MNCs, with challenges to established career structures and the development and institutionalization of increasingly 'hard' forms of performance management (Almond *et al.* 2006; Butler *et al.* 2006).

These changes not only affected MNCs based in liberal economies. Globalizing firms from the more coordinated economies also needed to seek finance on international capital markets which are 'liberal' in nature. In such cases, it may have become more difficult to talk about MNCs having one simple nationality; if a German firm sought large proportions of its capital from American financial markets, the 'management' and 'ownership' parts of any country of origin effect might have begun to diverge. How much this would lead German managers to abandon 'German' ideas about management remains unclear, particularly given the current global financial and economic crisis. It clearly makes sense, though, in examining possible national effects on what decisions specific MNCs make, to look at who are their owners as well as who are their managers. This may, in the longer term, also apply to American firms if these become financially dependent on the sovereign wealth funds of Chinese or Middle Eastern states. Equally, the proliferation in recent years of cross-border mergers and joint-ventures (Rees and Edwards 2009) also sometimes makes talking in terms of a home-host dichotomy more difficult.

Conclusion

In this chapter, we have examined national differences in how capitalism, and therefore human resource management, are organized, and the effects this has on HRM within MNCs. We have seen that there are a number of different ways in which countries have been grouped together, following similarities in how they organize business and employment relations. In particular, the chapter examined the differences between the two main models under which the main developed economies have been portrayed: (1) the long-termist, high-trust model of the coordinated market economy, followed in different ways by Germany, Japan and a number of smaller European economies; and (2) the more market-based model of the liberal market economy, followed by English-speaking developed economies. We also looked at a third, 'Mediterranean' model, as well as more briefly looking at other possible groupings of countries.

In order to apply these models of national types of organization to MNCs, we have argued that it is necessary to look not only at national differences in rules, but also at how owners, managers and workers at different levels and places within the MNC get their ideas about what are appropriate forms of management, and how these are affected by differences in power. We also looked at why top decision-makers in the home country of MNCs may choose (or not choose) to apply elements of their 'home' business system abroad.

Finally, returning to the varieties of capitalism literature, we looked at how national differences may have changed in the recent period of globalized deregulation, and how changes, particularly to the ownership of MNCs, may have affected the choices made by their top managers.

Review questions

1. At a general level, how would you expect patterns of HRM to differ between liberal market economies (LMEs) and coordinated market economies (CMEs)?
2. What is meant by the phrase 'country-of-origin effects' when discussing HRM in MNCs? Can you identify any ways in which international HRM might differ between US and Japanese-owned MNCs?
3. It is often assumed that MNCs seek to have uniform HRM policies across their global operations. Under what circumstances might senior executives in MNCs prefer *not* to pursue uniformity?
4. How might locations with high labour costs and employee-friendly legislation compete for investment from MNCs?

Further reading

1 Hall, P. and Soskice, D. (eds) (2001) *Varieties of Capitalism,* Oxford: Oxford University Press.

The introductory chapter to this book provides the theoretical framework behind much of the recent debate on cross-national differences in economic organization and employment, and the division into two broad 'varieties' discussed in this chapter.

2 Morgan, G. and Kristensen, P. (2006) 'The contested space of multinationals: varieties of institutionalism, varieties of capitalism', *Human Relations,* 59(11), 1467–90.

A considered debate about how location in countries operating under different systems affects organizational 'micro-politics', and therefore the sorts of subsidiary policies pursued.

3 Edwards, T. and Kuruvilla, S. (2006) 'International HRM: national business systems, organizational politics and the international division of labour in MNCs', *International Journal of Human Resource Management,* 16(1), 1–21.

An alternative overview of many of the issues in the second part of this chapter, based on a critique of much research into international human resource management.

4 Jacoby, S., Nason, E. and Saguchi, K. (2005) 'The role of the senior HR executive in Japan and the United States: employment relations, corporate governance, and values', *Industrial Relations,* 44(2), 207–41.

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Chapter 3

The European Union: a case of advanced regional integration

Michael Gold

Key aims

The aims of this chapter are to:

- introduce and analyse the characteristics of regional integration agreements;
- examine the European Union (EU) as one of the most well-established regional integration agreements in the world;
- evaluate the role of employment policy in the evolution of the EU;
- assess the role of theoretical perspectives in explaining potential convergence of employment policies across the EU;
- evaluate future challenges to EU employment policy in the context of enlargement.

Introduction

Much discussion has focused in recent years on the impact of two principal forces on the practice of international human resource management (IHRM): globalization (see Chapter 1) and national employment systems (see Chapter 2). Globalization involves the geographical integration of production, consumption and communications as well as standardizing influences on patterns of consumption and mass culture, not to mention management systems. By contrast, constraints on global integration are created through the countervailing pressures of national employment systems. Cultures, institutions and legal frameworks that mould such national systems place a powerful restraint on the globalization of IHRM within individual countries, with the result that domestic arrangements governing issues like pay and conditions, vocational training and corporate governance generally remain distinct and robust.

Sandwiched between these global and national levels of analysis, however, we find a regional level of analysis. This level is significant because most international trade takes place between three principal global regions, Asia, Europe and North America (Dicken 2015), and because the overwhelming majority of multinational companies (MNCs) originate from these same three regions. Indeed, a list of the 100 largest MNCs in the world reveals that 56 have their headquarters in Western Europe (of which 16 are in the UK, 11 in France and 10 in Germany), 23 in the United States of America and 10 in Japan – 89 in total, with a further four in the People's Republic of China (see Table 4.1). In the light of this kind of evidence, some commentators have argued that MNCs remain firmly embedded in their home country (Hirst *et al.* 2009), while others refer to the 'myth' of the global firm, arguing that the 'vast majority' are 'home-region-based', with over half their sales in only one of three regions (Rugman 2005: 3).

However, the term 'regional' is itself ambiguous and must be used carefully. Asia, Europe and North America – not to mention Africa, Australasia and South America – may certainly be identified as 'regions', with further sub-regions within each. For example, Chapter 2, which focuses on the 'varieties of capitalism' literature, points out that the 'European social model' contains variants based on liberal market economies (e.g. the UK), coordinated market economies (e.g. Germany) and Mediterranean economies (e.g. France and Italy), not to mention Central and Eastern European variants as well. In these cases, theorists may attempt to group national employment systems together on the basis of their similarities, which may or may not cohere on a regional basis. For example, the 'Nordic model', comprising countries like Denmark, Norway and Sweden, is clearly regional in geographical terms, but liberal market economies, such as Australia, the UK and the USA, though sharing a common language, are anything but regional. The varieties of capitalism literature, therefore, may sometimes appear to have a regional focus but is actually based on an analysis of loosely grouped *national* employment systems.

This chapter therefore focuses on a very specific meaning of 'regional': the emergence since 1945 of numerous regional integration agreements (RIAs) that have increasingly dominated world trading patterns. Regional economic integration – 'the process of reducing the economic significance of national political boundaries within a geographic area' (Anderson and Blackhurst 1993: 1) – generally results from the realization by certain countries that they share strong trading partners as *neighbours* and hope to increase welfare benefits through both reducing barriers to trade and improving political links among themselves. While the reasons for the popularity of RIAs have been analysed elsewhere (Moser 1997), this chapter looks at their effects on human resource policy and practice. For example, what different types of regionalization might exist, and why might they be significant for HR managers? How might HR policies and practices be influenced by the depth of regionalization, that is, by the depth of economic integration among member states? And how does the example of the European Union help us to understand these processes?

These questions are crucially important for IHR managers. The 'varieties of capitalism' literature clearly provides a valuable framework within which to discuss the influence of regional comparisons and contrasts in their broader sense, which will help IHR managers to make informed decisions about whether, for example, certain policies and practices are likely to transfer across borders (Chapter 6). However, RIAs – in our narrower sense of 'regionalization' – are also significant from the IHRM perspective. RIAs differ greatly in the extent to which they attempt to regulate labour markets and employment conditions as well as how successfully they do so. An HR manager in Canada, Mexico or the United States, for example, may barely notice the influence of NAFTA on employment practice in their MNC, while their counterpart in an EU member state will need to monitor closely a range of EU employment policies as well as that state's compliance with the relevant legislation. Indeed, adoption of EU legislation by each member state not only in theory creates a common floor of rights across all the member states but also, over time, affects the very nature of the regulatory regime in each member state. A liberal market economy, such as the United Kingdom, will be more averse to labour market regulation than one of its coordinated market economy partners, such as Germany, the Netherlands or Sweden. Even so, the EU has created its own 'distinct economic space' (Marginson and Sisson 2006: 34) which, as this chapter aims to show, affects the practice of IHRM in a variety of ways.

The chapter begins by outlining the nature of RIAs, their number and scope. It sketches the key distinctions between them, particularly in relation to depth of economic integration, and focuses on the European Union (EU) as the most well-established RIA in the world. It examines the effects of the EU on employment policy and the practice of HRM across its member states, with particular reference to theories of convergence.[1] The chapter concludes by exploring some of the challenges most likely to confront the development of EU employment policy in the future.

Regional integration agreements

A regional integration agreement is an agreement among a group of (nearly always) neighbouring countries designed to deepen their trading relationships by means of reducing or eliminating tariff barriers and quotas. It may go further by providing for a common market in capital, labour, goods and services, and even monetary union. RIAs also generally establish joint procedures and institutions for managing integration that may well have political and social consequences. Table 3.1 lists some of the more significant RIAs by name, date of foundation, number of member states, location of headquarters and estimated population size.

RIAs detail aims and purposes of the association, its membership and organizational structures, and generally provide for specialist agencies that focus on specific areas of cooperation, such as energy supply, health, disputes settlement and, in particular, labour and social affairs. They are continually evolving, as members join or leave, and levels of integration sometimes deepen and sometimes atrophy.

Table 3.1 reveals that RIAs vary greatly by date of foundation, with several that have been amended or revitalized. The EU, for example, evolved out of the 1951 European Coal and Steel Community (ECSC), while NAFTA was formed only in 1991. The Commonwealth of Independent States arose in 1991 from the ashes of the former USSR, while the SADC reestablished itself in 1992 following the collapse of apartheid in South Africa. RIAs also vary greatly in membership: while NAFTA has only three members, the EU has now risen from six in 1951 to the current 28. The largest in terms of population is SAARC, with over 1.4 billion; ASEAN has 625 million, and the EU just over 500 million. Relationships may also be complicated by overlapping memberships, such as the Andean Community, Mercosur and USAN in South America.

The most significant point in understanding the role of RIAs, however, is that they vary greatly in depth of economic integration and in aspiration (Duina 2006). We need to distinguish, broadly speaking, between five levels of integration (see Box 3.1). Since the end of the Second World War, barriers to trade (that is, measures to protect domestic industries and services) have been gradually reduced if not dismantled under the General Agreement

Table 3.1 Principal RIAs: origins and size

RIA	*Foundation*	*Current number of member states*	*Headquarters*	*Approximate population (excluding associates)*
Andean Community	1969, 1979	4 (5 more associates)	Lima, Peru	97 million
Arab Maghreb Union	1989	5	Rabat, Morocco	90 million
Association of Southeast Asian Nations (ASEAN)	1967	10	Jakarta, Indonesia	625 million
Caribbean Community and Common Market (CARICOM)	1962	15 (5 more associates)	Georgetown, Guyana	3.75 million
Central African Economic and Monetary Community (CEMAC)	1994	6	Bangui, Central African Republic	44 million
Commonwealth of Independent States	1991	11	Moscow, Russia	282 million
Economic Community of Central African States (ECCAS)	1983	10	Libreville, Gabon	140 million
Economic Community of West African States (ECOWAS)	1975	15	Abuja, Nigeria	300 million
Eurasian Economic Union	2000, 2014	5	Moscow, Russia	175 million
European Union	1951, 1957, numerous amendments since	28	Brussels, Belgium	505 million
Gulf Cooperation Council (GCC)	1981, 2004	6	Riyadh, Saudi Arabia	50 million
Mercosur	1991	5 (6 more associates)	Montevideo, Uruguay	270 million
North American Free Trade Association (NAFTA)	1992	3	Mexico City, Mexico; Ottawa, Canada; Washington, DC, USA	444 million
Pacific Islands Forum	1971	16	Suva, Fiji	21 million
South Asian Association for Regional Cooperation (SAARC)	1985	8	Kathmandu, Nepal	1,467 million
South African Development Community (SADC)	1980, 1992	15	Gaborone, Botswana	277 million
Union of South American Nations (USAN)	2008	12 (based on membership of the Andean Community, CARICOM and Mercosur)	Quito, Ecuador	390 million

Sources: Official websites.

BOX 3.1

Deepening stages of RIAs

- A *free trade area* is an association of countries that has agreed to reduce or abolish internal tariffs and quotas among themselves.
- A *customs union* involves a free trade area that has decided also to create a common external tariff around its members.
- A *common market* is a customs union that, moving beyond a common external tariff, actively promotes the free movement of capital, labour, goods and services within its borders.
- A *single market* focuses on the removal of further non-tariff barriers to trade, such as customs posts, differential tax rates and incompatible technical and product standards.
- An *economic/monetary union* introduces measures across its member states to converge key indicators like inflation, interest rates and limits on government debt and deficit, prior to the coordination of economic and fiscal policies, a common monetary policy and common currency regulated by a central bank.
- Pressures for *political union* may result from requirements to coordinate the economies of the member states and to ensure democratic accountability.
- Special measures may be introduced to promote *labour mobility* in the context of creating a common market, such as those to ensure transferability of unemployment and maternity benefits, mutual recognition of qualifications and access to healthcare. There will be little incentive for workers to take jobs abroad unless impediments are removed.
- Note that these stages are not necessarily sequential. For example, the Central African CFA Franc circulates throughout the members of CEMAC even though tariffs have not yet been fully abolished on internal trade.

on Tariffs and Trade (GATT) and its successor, the World Trade Organization (WTO). This process has taken place in stages both globally and regionally. The regional process has involved the progressive spread and deepening of RIAs, beginning with free trade areas and often evolving through customs unions, common markets, economic/monetary unions and even full or partial political union (El-Agraa 2011).

Some RIAs have focused on the creation of free trade areas. The South Asian Free Trade Area agreement was signed in 2004 under the auspices of SAARC, while SADC also created a free trade area among 12 of its 15 members by 2008, and aspired to create a customs union, common market and single currency by 2018, although this objective has been delayed. However, it has adopted a code of practice governing child labour and a Charter of Fundamental Social Rights. NAFTA too aims to eliminate barriers to trade and has set up a Commission for Labor Cooperation – through a supplementary North American Agreement on Labor Cooperation – to seek to improve working conditions and promote workers' rights (Teague 2002). ASEAN has established a free trade area and aims to promote free movement of skilled labour through mutual recognition of professional qualifications and the streamlined issue of work permits and visas for professional and skilled workers (Chavez 2007). Table 3.2 summarizes the progress of regional integration in six major RIAs.

Table 3.2 reveals the significance of the EU in terms of its *depth* of integration. Not only had it achieved its status as a common market by 1970 but, by 2015, 18 of its 28 member states had joined the Eurozone and it had achieved virtually unrestricted labour mobility within its borders. No other RIA has managed to achieve anything like the economic and

Table 3.2 **Progress of regional integration**

	Free trade area	*Customs union*	*Common market*	*Economic/ monetary union*	*Political union*	*Labour mobility*
EU	Yes	Yes	Yes	Partial	Partial	Unrestricted
ECOWAS	Yes	Yes	Aspiration	Aspiration	No	Partial
SADC	Yes	Partial	Partial	Aspiration	No	Aspiration
Mercosur	Yes	Partial	Partial	No	No	Residence
ASEAN	Yes	No	No	No	No	Skilled only
NAFTA	Yes	No	No	No	No	Temporary mobility

Source: Kaminska and Visser (2011).

political integration of the EU across such a wide geographical area (Cameron 2015). The two largest RIAs in the world by population, ASEAN and SAARC, remain strictly intergovernmental when it comes to decision-making and do not aspire to share sovereignty. By contrast, the EU has made steady progress towards integration since 1951 despite failures and setbacks (Threlfall 2007). Indeed, the European Economic Area (EEA) Agreement, which came into force in January 1994, extends the guiding principles of the EU to Iceland, Liechtenstein and Norway as well. New EU legislation is incorporated into the EEA Agreement in line with the procedures established. The rest of this chapter therefore focuses principally on the evolution and operation of the EU, as an advanced RIA.

Evolution of the European Union and its employment policy

The origins of the EU lie in the ruins of Europe at the end of the Second World War. Far-sighted politicians from Belgium, France, Germany, Italy, Luxembourg and the Netherlands (the 'Six') understood that the best way to prevent another European civil war was to merge the iron, coal and steel industries of their respective countries. For this reason, the EU has never been simply a free trade area, but has always sought 'ever closer union'. The argument was that, with joint supra-national control over these industries, Germany would be prevented from remilitarizing, while free trade across them would help to rebuild and rationalize shattered economies. The 1951 Treaty of Paris accordingly established the European Coal and Steel Community (ECSC); its success was such that its principles were subsequently extended to all economic sectors of the 'Six' through the Treaty of Rome, which created the European Economic Community (EEC) in 1957. The EEC had gradually grown to 15 member states by 1995 (known as the 'EU-15'), when it covered most countries of western Europe, which were all at a broadly similar level of economic, political and social development. It later assimilated 13 more countries, mainly from central and eastern Europe following the collapse of the Berlin Wall, to reach its current 28 member states. All members participate to a significant degree in political union, not least through the influence of the directly elected European Parliament. Box 3.2 summarizes the chief functions of the EU's principal institutions.

BOX 3.2

Principal institutions of the EU

The *Commission* is responsible for introducing and monitoring supra-national policies for agriculture, competition, research and development, environment, trade and the labour market, to mention just a few.

The directly elected *European Parliament* plays a key role in this process, while judgements from the *European Court of Justice* are binding and take precedence over domestic legal regimes.

The *Council of the European Union,* which brings together governments of each member state, takes decisions increasingly by qualified majority vote, thereby preventing individual states from exercising a veto over particular decisions.

For greater detail, see Bomberg *et al.* (2012).

While the objectives of the EU are primarily economic, the 'Six' understood from the outset that employment policy was required for a variety of reasons to support closer integration:

- Labour mobility required the transferability of rights to social security, unemployment benefit, pension entitlements and other welfare benefits across member states, as well as the mutual recognition of qualifications.
- Failure to harmonize workers' rights could lead to 'social dumping', that is, to employers transferring production to countries with poorer rights and lower labour costs, hence provoking a 'race to the bottom' in employment standards.
- The removal of tariff barriers and other impediments to trade would induce structural change and economic rationalization that could destroy jobs and raise unemployment.
- Workers and their unions had to be convinced that progressive economic integration was in their interests and not just a project to create 'business Europe'.
- Economic imbalances between EU regions required the creation of a number of structural funds, such as the European Social Fund, to help align living standards.
- Later, the Maastricht convergence criteria that underpinned the Eurozone caused pressures on public expenditure that affected levels of social security, pensions and spending on other forms on welfare.

Controversies over the development of EU employment policy have tended to focus on the necessary degree of interventionism (Gold 2009). The traditional control by member states of their welfare systems has been eroded by the EU as it has extended the principle of equal treatment to social security schemes, while the European Court of Justice (ECJ) has ruled in principle that lawful residence by a European citizen in a member state creates entitlement to its social and economic benefits (Watson 2009). With respect to workers' rights, it was agreed that the principle of equal pay for work of equal value should be enshrined in Article 119 (now Article 157)[2] of the Treaty to reassure France, whose Labour Code already protected women workers in this way, and which feared competitive disadvantage in relation to other member states without such provision. The progressive deepening of economic integration, which has led to large-scale corporate rationalization and restructuring across

Europe, has been accompanied by measures designed to mitigate its effects on workers, with directives covering equal opportunities, health and safety, employment protection, employee participation and posted workers, among many others (Gold 2009).

In this way, the EU has historically aimed to reassure workers and their unions that its development leads not just to greater prosperity but in particular to improved terms and conditions across the member states: 'The Union and the Member States . . . shall have as their objectives the promotion of employment, improved living and working conditions, so as to make possible their harmonization while the improvement is being maintained' (Article 151 of the Treaty).

More recently, in the context of rising unemployment in the 1990s and the deflationary consequences of the economic convergence criteria leading to the launch of the Eurozone in 2002, the EU adopted its European Employment Strategy (EES), which attempted to boost employment rates across member states, particularly among marginalized groups such as women and young and older workers.

EU employment policy in these ways reflects the dominant regulatory labour market principles of its member states, particularly France and Germany, and so we now turn to explore the notion of the 'European social model' – that is, the common features of industrial relations and human resource practices shared by European countries that serve as the basis for common EU regulation – before considering the foundations of EU employment policy itself and how far it has led to convergence of employment relations across member states.

The European social model

'Perhaps surprisingly, there is no official definition of the European Social Model', notes Vaughan-Whitehead (2015: 3). However, maybe the lack of an official definition should not surprise us unduly. The term remains contested because it assumes, controversially, that European societies share common features that set them apart from, for example, the United States (Alber 2006). Of course, European countries reflect widely different cultures, institutions and legal systems, which cover such features as corporate governance, industrial relations and HRM systems, labour market regulations, management styles and philosophies, education/training systems, welfare systems and health provisions. Within such a wide range of variation, the challenge is to identify common features.

On the basis of patterns that may be identified among the relationships between these features, theorists have devised a variety of national business system typologies, such as liberal market economies (LMEs), coordinated market economies (CMEs) and Mediterranean economies (see Chapter 2). This approach, though itself open to criticism (Hancké *et al.* 2007), provides some insight into the nature of the European social model, which is normally divided into several sub-regional variants, including – though the terms vary – Central/Germanic, Nordic, Southern/Mediterranean and Anglo-Saxon (Ebbinghaus and Visser 2000). To these we must now add Central and Eastern European variants (Bohle and Greskovits 2012). The key question is whether these sub-regional variants share a sufficient number of properties that are identifiably 'European' (Barnard 2014). While the

Anglo-Saxon and Central and Eastern European variants arguably remain outliers, commentators such as Hyman (2005) and Vaughan-Whitehead (2015) have attempted to highlight those family resemblances among its most prominent members that make its retention worthwhile. Following Vaughan-Whitehead (2015: 3–12), these resemblances (which he calls 'pillars') include:

- increased rights at work and improved working conditions, such as equal opportunities, health and safety at work, and measures to combat the effects of distorted competition;
- universal and sustainable social protection systems, including social security, health and pensions;
- inclusive labour markets, including active labour market policies designed to increase employment rates and promote fair pay and decent working conditions;
- strong and well-functioning social dialogue, involving employers and unions in the regulation of HRM and working conditions;
- public services and services of general interest, ensuring equal access to public services and a framework of users' rights;
- social inclusion and cohesion, designed to combat social exclusion and marginalization, based on the principle of social solidarity.

Not everyone has, of course, accepted the validity of these pillars as central to the European social model, and they have come under increasing pressure in recent years from neo-liberal politicians and commentators. Furthermore, some of them, such as universal and sustainable social protection systems, are less significant from the HRM perspective. Nevertheless, they serve as a suitably robust point of departure to analyse developments in the EU up to 2004, and for the purposes of contrast with developments since then. Broadly speaking, these pillars are aligned with the CME model characteristic of northern continental Europe, which explains why the United Kingdom, as an LME, and more recently the new transition economies of Central and Eastern Europe, have experienced the greatest difficulties with it.

Bases of EU employment policy

Out of these broadly common features, the EU has contrived to develop its own supranational employment policy. However, the Treaty of Rome itself, and its many subsequent amendments, do not dwell on employment policy, which it generally leaves to the competence of member states. It had been assumed that 'the functioning of the internal market', assisted by the provisions of the Treaty and other forms of EU regulation, would 'favour the harmonization of social systems' (Article 151). The Treaty covers employment policy insofar as it affects its economic objectives and focuses on: free movement of workers; right of establishment (particularly in relation to the self-employed); freedom to provide services; and the free movement of capital. Together these constitute the 'four freedoms' that laid the foundation of the 'common market'. The most significant Articles are 151 and 157, referred to above, and Article 153 which requires member states to cooperate closely across a variety of social 'fields', including health and safety, working conditions, social security and social protection, information and consultation, codetermination and integration of people excluded from the labour market. Numerous amendments have since been made, which we examine further below.

The Social Charter, a non-binding 'Solemn Declaration' adopted in 1989 by all member states except the United Kingdom, was designed to establish a floor of common employment rights across the member states. Its aim was to preempt the effects of the Single European Market – and the economic restructuring that it was likely to bring about – introduced by the Single European Act in 1986. Its most significant aspect was the accompanying Social Action Programme that contained almost 50 measures to strengthen workers' rights in areas like working time, maternity provisions, health and safety, and European works councils.

When developing employment policy, the EU has relied principally on the adoption of Directives and Regulations. Both forms of legislation are binding on member states, but Regulations – which have covered principally a range of social security measures – are binding as they stand, while Directives leave the form and method to the national authorities in each member state. This means that employment Directives are particularly significant from an HRM perspective: the 70+ Directives in the employment field cover an extensive range of rights designed to create a uniform floor of workers' rights across the EU member states and to prevent 'social dumping' (Bernaciak 2014).

A great deal hinges, then, on how effectively EU Directives are implemented (Cremona 2012). Failure to do so risks fragmentation and incoherence in this 'floor of rights', and hence failure to achieve its objectives. In fact, once adopted by the EU, a Directive requires three steps for implementation, each of which necessitates careful monitoring by the European Court of Justice and other interested parties, particularly HR managers and trade unions: transposition, enforcement and application:

Transposition. In most cases, each member state must draft the terms of the Directive as legislation that is then adopted through its national legislature. Member states normally have between one and three years to comply, and if they fail to do so, or fail to do so adequately, the Commission will prosecute them through the ECJ. At this stage, there may be a risk of fragmentation in interpretation of the Directive as it passes through 28 different national legislative procedures (Falkner *et al.* 2005).

Enforcement. By the end of the compliance period, all member states should have enacted the Directive into national legislation and it becomes binding on all parties involved, with sanctions specified for infringements. It can then be enforced through normal domestic channels, but there may be a risk of unevenness as enforcement regimes vary greatly from one member state to another and even across regions in a single member state (Gold and Matthews 1998).

Application. The third step is to ensure that the legislation is interpreted and applied correctly at the level of the MNC itself, which requires HR managers and trade unions to be well informed about the new measures. Studies of member state transposition of Directives reveal widespread failures to comply (misfits), depending on the amount of effort required to comply, the level of domestic political hostility to the measure (hence delaying tactics) and its potential economic costs. For example, the 'degree of total misfit' in transposing the Working Time Directive (1993) in the EU-15 ranged from low in France and Germany, to medium in Italy and high in the UK, where the measure proved extremely controversial (Falkner *et al.* 2005: 100). That said, it is generally fair to argue that a major body of employment rights had indeed been created across the EU-15 (Pierson 1998), though further analysis of the new accession states since 2004 reveals even wider discrepancies in transposition, enforcement and application of Directives as many of them lack capacity to implement them (Falkner *et al.* 2008).

Meanwhile, rulings from the European Court of Justice (also binding on all member states) have built up a body of case law interpreting EU employment legislation particularly in areas such as equal pay, sexual discrimination and employment protection and so have also acted to consolidate employment policy. In recent years there has been a shift away from the ECJ's traditional role of protecting and promoting workers' rights towards one that favours deregulated free market principles (see case study below).

However, EU employment policy is not based only on the Treaty, directives, regulations and ECJ rulings (all of which are binding). The tripartite European Economic and Social Committee (EESC) and the process of 'social dialogue' also play a role in its formulation. The Commission is required to consult the EESC when developing employment initiatives, while social dialogue – a process of consultation and exchange of views that has taken place between EU-level employers, unions and the Commission – has become increasingly significant (Carley 2009). Though social dialogue has long played its part in the EU at both sectoral and intersectoral level, its relaunch in 1985 was intended to help improve harmonization of employment standards by involving employers and unions more efficiently and by streamlining EU decision-making processes (with an emphasis on 'bottom-up' processes rather than 'top-down' processes from the Commission). Later, the Maastricht Treaty gave social dialogue an enhanced role in devising employment policy, a point we return to below.

More recently, in the context of rising unemployment in the 1990s, the EU has shifted its attention from improving and extending workers' rights to promoting employment and participation rates across the member states (Van Rie and Marx 2012). Following the conclusion of the Amsterdam Treaty, the Luxembourg 'jobs summit' in November 1997 considered the issue of employment promotion before the EU adopted its European Employment Strategy (EES) the following year. The EES at that time required each member state to submit an annual National Action Plan on employment (NAP) outlining its active labour market policies, which have been expanded since 2005 to integrate economic and financial goals into annual National Reform Programmes. This new EU surveillance structure, known as the European Semester, therefore brings together reporting on employment, fiscal and structural policies. It forms part of 'Europe 2020', the EU's 10 year growth and jobs strategy launched in 2010, covering employment, research and development, secondary and tertiary education, poverty reduction, and energy and climate change. These developments reveal how far EU policy has evolved in recent years away from its traditional focus on workers' rights towards broader labour market concerns, particularly employability and flexibility.

Finally, EU employment policy also involves a variety of further measures, such as the structural funds, the Charter for Fundamental Social Rights and a battery of exchange programmes designed to promote initial training for university students, young workers and educational professionals. It is reinforced through increasingly Eurocentric practices within companies and elsewhere resulting from the process of economic integration, such as the internationalization of recruitment and selection, the growth of European career patterns, greater awareness of pay and conditions abroad, training and so on (Edwards *et al.* 2012). Indeed, some have argued that a distinct type of company has now evolved, the 'Eurocompany', based on the interplay of EU regulation and Eurocentric corporate practices (Marginson 2000).

Three key 'moments' in the development of EU employment policy

The previous section outlined the bases of EU employment policy in all its complex variety and proliferation. It might therefore seem astonishing that the member states have ever managed to agree on any employment measures at all, so we need now to examine three recent key 'moments' or points at which the EU achieved the institutional reform required to make the necessary progress.

As we have emphasized, each stage of economic integration involves a degree of economic restructuring (Box 3.1), which in turn requires appropriate social support for its human consequences. The EU has accordingly had to adapt its internal rules and institutions to accommodate the HR consequences at each stage of deepening. The latest two stages of economic integration, the creation of the Single European Market in 1992 and the introduction of the Eurozone in 2002, were set against rising levels of unemployment. Until then, unanimity within the EU-15 had been required to adopt Directives. So the challenge was how to ensure that the will of the majority favouring measures to protect employment rights was not blocked by a hostile minority. Broadly speaking, three changes took place that dealt with the potential deadlock, each of which is explored below: (1) the *extension of qualified majority voting* on Council; (2) the *enhancement of social dialogue;* and (3) the development of the *European Employment Strategy*.

Qualified majority voting

The Single European Market (SEM) programme, based on the Single European Act (1986), was largely completed by the end of 1992 and tackled some of the remaining barriers to trade across the EU, including frontier formalities, tax harmonization and non-tariff barriers (NTBs), such as incompatible technical and product standards.

To streamline the decision-making procedures necessary to implement such a far-reaching programme, the Single European Act extended the use of qualified majority voting (QMV) in the Council of Ministers. This prevented a single member state from being able to veto a decision supported by a majority of the others and applied for the first time to an employment area, health and safety at work. The Maastricht Treaty, which introduced economic and monetary union, subsequently extended QMV to an even wider range of social policy areas, known as the 'social chapter', including free movement of labour, working conditions, information and consultation, equality at work and social integration. This extension of QMV led to the unblocking of a wide range of employment Directives, particularly those contained in the 1989 Social Charter.

BOX 3.3

Principal social partners in the EU

- Business Europe (formerly UNICE): Confederation of European Business represents employers' associations across Europe, not just the EU.
- CEEP: European Centre for Enterprises with Public Participation and Services of General Interest represents mainly public sector organizations.
- UEAPYME: European Association of Craft, Small and Medium-sized Enterprises.
- ETUC: European Trade Union Confederation.
- Eurocadres and CEC (the European Confederation of Executives and Managerial Staff) represent managerial, technical and white-collar staff.

Social dialogue

We noted above that in 1985 the Commission had launched the social dialogue process, an ambitious move that involved EU-level employers and unions directly in formulating employment policy. Social dialogue thereby helped to extend the regulatory principle outside the Commission itself to include, at the earliest stages of policy development, the 'social partners' (Box 3.3), notably the European Trade Union Confederation (ETUC) and BusinessEurope (formerly UNICE) and CEEP, for private and public sector employers, respectively.

In 1991, these social partners concluded an agreement giving them an enhanced role in creating EU social and employment policy, which was subsequently enshrined in the Maastricht Treaty. The Commission is required to consult on the 'direction' of EU social and employment policy before submitting proposals and if, after consultation, it believes that EU action is advisable, it may consult social partners on the 'content' of such policy and the social partners may agree to open negotiations on it. In addition, 'should management and labour so desire', their EU-level dialogue may lead to 'contractual relations, including agreements'. Though there have been some failures, the Directives on parental leave (1995), part-time work (1997) and fixed-term contracts (1999) were all adopted based on EU-level employer/union agreement.

European Employment Strategy

The 1992 Maastricht Treaty, including its social chapter on QMV and social dialogue, was to mark the high point of the interventionist approach to employment policy, though a shift in orientation was already underway as a result of concerns over rising unemployment (Commission 1993). These concerns subsequently fed into the employment chapter of the Treaty of Amsterdam, which required member states to promote 'a high level of employment' as a matter of common interest. In particular, specific procedures were laid down for monitoring employment and job creation, which have since evolved into the system of National Reform Programmes noted above. The introduction of the euro forms the background to this shift in policy. The euro deprived member states of monetary policy as an instrument of economic management – accompanied by the Stability Pact (1996) that also constrained their use of fiscal measures – making labour market flexibility one of the principal means of securing and maintaining competitiveness (Tsoukalis 1997).

There remains deep controversy over the degree of social intervention that was either necessary or desirable to guarantee workers' rights, which has duplicated at EU level the debates held in individual member states. The interventionist tendencies of the Commission, supported by Christian Democrat and Social Democrat traditions in certain member states, have been pitted largely against the deregulatory, neo-liberal policies of certain UK governments. However, such deregulatory policies have also been generally supported by employers' interests and by governments of other member states at various stages (Lange 1992).

The emergence of 'soft' law and the Open Method of Coordination

The bases of EU employment policy, then, are many and varied, and involve what are known as both 'hard' and 'soft' law (Terpan 2015). Hard law is binding and enforceable through the European Court of Justice, and includes Articles in the Treaties, Directives, Regulations and ECJ judgments. Soft law, by contrast, relies on benchmarking, monitoring and peer review and includes social dialogue and labour market surveillance through National Reform Programmes. However, the relationship between hard and soft law is complex. It became relatively easier to adopt hard law when QMV on the Council was extended to a wider range of employment issues, and hard and soft law sometimes merge, for example, when EU-level agreements are adopted as Directives through social dialogue. In recent years, soft law has become more predominant as employment policy has come to focus on more 'delicate' issues, such as unemployment, participation rates, pensions and social inclusion, which are less easy to influence through hard law (Jacobsson 2004).

In this form, soft law is known as the Open Method of Coordination (OMC), which involves a 'light touch' form of regulation, in an attempt to foster a common perception of the relevant EU-wide issues based on broad consensus (Trubek and Trubek 2005). The National Reform Programmes are an example of this use of the OMC. Since 2007, they have enshrined 'flexicurity' as the dominant EU employment policy (Büttgen 2013). Flexicurity – defined as 'an integrated strategy to enhance, at the same time, flexibility and security in the labour market' (Commission 2007: 10) – comprises flexible and reliable contractual arrangements, comprehensive lifelong learning strategies, effective active labour market policies and sustainable social security systems (Commission 2007: 12). Such policies can be diffused more appropriately throughout the EU, it is argued, through persuasion, peer review and monitoring than through binding legislation.

The effectiveness of such soft law matters to HR managers because it establishes the framework for employment policy across the EU. However, assessments of its effectiveness vary. Some observers have argued that the impact of EU policy on flexicurity can be seen in terms of a 'continuum of influence', from inspiring innovation in debate (Austria, Estonia, France and Poland) to more limited impact, but still fostering debate (Italy and Spain), and very limited influence (Denmark, Hungary, Romania and the UK)

(ICF GHK 2012: 56). The EU has hence produced a 'reference framework' to mould and develop policy at national level, for example, in Poland, where 'flexicurity' is credited with producing a set of anti-crisis measures through tripartite dialogue (ibid).

Other observers, however, have pointed out the numerous obstacles that hinder transfer of employment policy across borders, including administrative, cultural, financial and institutional constraints. In a study of 'beacon' programmes – where EU member states could nominate their self-nominated 'best practices' for emulation by others (such as Finland's programmes to integrate older workers or France's personalized action programme for new businesses) – it was found that outcomes were fragmented and complex and that policies were most likely to transfer if they 'fitted' into another appropriate institutional setting (such as Ireland/the UK, Scandinavia, Belgium/France). Because there was no single powerful agency of diffusion driving these beacon programmes, like a multinational company or dominant economy, they tended to serve the host country more as a public relations exercise than as a model for transfer (Casey and Gold 2005).

In the light of these developments, some observers have emphasized the need to revitalize an approach to EU employment policy based on hard law, on the grounds that it is necessary to provide a framework of workers' rights, even if combined with soft law (Weiss 2011). Indeed, others insist that a floor of hard law is required 'to renew the institutional architecture which has successfully supported the evolution of European labour law to this point' (Deakin and Rogowski 2011: 250). However, since 2004, with the enlargement of the EU and the appointment of the largely neo-liberal Commission under José Manuel Barroso (whose term ended in 2014), a deregulatory consensus has settled over the current development of EU employment policy, underpinned by the widening use of soft law and recent ECJ rulings discussed below. It is nevertheless possible that the new Commission appointed in 2014 under Jean-Claude Juncker may prove more open to further intervention.

Theorizing convergence of HR practice across the EU

We need to examine at this point the role that possible theoretical perspectives can play in helping to understand the pressures that EU-level employment policy has exerted on HR policies and practices at both national and corporate levels (see also Chapter 6). A helpful framework for analysing such processes of convergence is the theory of 'isomorphism', a term meaning 'the tendency to become similar', which was initially developed to explain the development of business policy within organizations (DiMaggio and Powell 1991). Three kinds of isomorphism – coercive, mimetic and normative – may, however, also be applied to member state behaviour when analysing pressures towards convergence across various policy areas (Radaelli 2000).

Coercive isomorphism refers to external forces that require change, such as legislation. In the case of the EU, this includes 'hard law', such as Treaty obligations, Directives, Regulations and ECJ judgments. However, though the ECJ has traditionally ensured that member states comply with implementing Directives, their effectiveness is a rather more open question. The drafting of national legislation to comply with the Directive may vary from state to state, leading to fragmentation in provision, and enforcement regimes may vary between member states so application may be patchy. Enlargement of the EU has also exacerbated these challenges.

Mimetic isomorphism refers to pressures that encourage imitation. For example, in an uncertain business environment, parties may be tempted to imitate the behaviour of successful rivals, whether organizations or countries (sometimes called 'dominance effects': Smith and Meiksins 1995). In the case of the EU, soft law has actively encouraged member states to emulate the policies and practices of successful partners through the use of peer review, benchmarking and monitoring. In these cases, we need to specify exactly what it is that is being emulated: this might include policy goals; policy content; instruments and/or programmes; institutions; ideologies; ideas/attitudes; and negative lessons, or what to avoid (Dolowitz and Marsh 2000).

Normative isomorphism refers to pressures to conform brought about by education, professionalization and inter-organizational mobility: 'Professionals, their associations and the mechanisms of formal education, socialization and recruitment produce a common cognitive base and a shared legitimization of occupational autonomy which make organizational structures similar one to another' (Radaelli 2000: 28). In the case of the EU, the shift of policy focus towards the EES away from workers' rights, accompanied by an increasing emphasis on soft law, reflects a form of normative isomorphism as neo-liberal economic assumptions about employment and social issues came to predominate among EU policy-makers throughout the 1990s. These guidelines enshrined in the EES reveal a broad consensus among economists and experts, and particularly among governments, on the best ways to combat unemployment across the very varied economies of the EU member states (Dyson 1994: Chapter 7).

This discussion of isomorphism may help us to understand some of the recent trends in EU employment policy, with the shift in emphasis from hard to soft law explicable in terms of: concerns over rising levels of unemployment across the member states (which cannot be remedied by legislation); consolidation of a broad consensus among economists and policy-makers, in the context of the Eurozone, that flexible labour market policies are the most appropriate way to deal with unemployment (confirmed in 2004 by the appointment of the Barroso Commission); and expansion of EU membership to 28, with most of the new accession countries from Central and Eastern Europe reflecting very different institutional and legal frameworks from those of the EU-15. However, readers are encouraged to explore other approaches to EU convergence, which may help in understanding the complexity of the processes involved (Rosamond 2000).

Future challenges for EU employment policy

Since 2004, 13 new countries have joined the EU, principally from Central and Eastern Europe. Average per capita GDP in these accession states is well below that of the EU-15, agricultural employment remains relatively high, appropriate skill levels are lower and their economic, judicial and political infrastructure is generally not comparable with that of the EU-15 (Grabbe 2004). These developments have arguably led to the 'quasi-collapse' of social Europe in terms of its foundations in hard law: 'The EU law has not had visible effects on the new member states with regard to employment conditions' (Meardi 2012: 37). Meardi argues that a sense of betrayal towards the EU has led to exit – around 10 per cent of the working population of the Baltic States and Romania have left since 2004, and almost as many from Poland and Slovakia. Meanwhile, new member states have tended to elect right/centre-right governments, which has consolidated neo-liberal economic and employment policies across the EU (for example, for the Baltic States, see Masso *et al.* 2015; for Hungary, see Scharle and Szikra 2015).

Four recent ECJ cases have highlighted the tensions that have increasingly confronted EU employment policy in this new, enlarged order: Viking (2007), Laval (2007), Rüffert (2008) and Luxembourg (2008) have all demonstrated one, clear basic principle in the eyes of the ECJ, namely that employers' rights to conduct their business outweighs unions' rights to protect their members' interests through strike action.

It is worth examining one of these cases in some detail in order to underscore the issues raised. In the light of these developments, Dølvik and Visser (2009) refer to a 'trilemma of EU rights', namely a clash between three principles enshrined in various parts of EU Treaties insofar as they affect posted workers (workers from an EU member state who are sent by their employers on a temporary basis to work in another member state, see Box 3.5):

- Free movement of labour
- Non-discrimination and equal treatment;
- Rights of association and industrial action (enshrined in Article 28 of the Charter of Fundamental Rights of the European Union).

The authors argue that these aims cannot be balanced in equal measure while EU integration remains 'dual track', that is, while the EU pursues economic integration but leaves employment and social policy predominantly to the national level (in their view, equal treatment should be prioritized). Following enlargement, this 'trilemma' has become more acute in view of migration trends from Central and Eastern Europe into Western Europe. Attempts to apply the 1996 Posted Workers' Directive to ensure that host-country conditions apply to core employment and working conditions have been undermined by the ECJ in the cases noted above. Solutions arguably require the bridging of rights, labour conditions and social security provisions for workers on different contracts, and the creation of minimum wage-setting mechanisms covering the EU (Dølvik and Visser 2009).

BOX 3.4

ECJ cases cited

- Case C-438/05 *International Transport Workers' Federation and Finnish Seamen's Union v Viking Line* (Judgment 11 December 2007)
- Case C-341/05 *Laval v Svenska Byggnadsarbetareförbundet* (Judgement 18 December 2007)
- Case C-346/06 *Dirk Rüffert v Land Niedersachsen* (Judgment 3 April 2008)
- Case C-319/06 *Commission v Luxembourg* (Judgment 19 June 2008).

BOX 3.5

Posted workers

> A posted worker is a person who, on behalf of his or her employer, is sent for a limited period of time to carry out his or her work in the territory of an EU Member State other than the State in which he or she normally works. This sending of a worker takes place as a result of the employer exercising the freedom to provide cross-border services foreseen [by the Treaty]. The number of posted workers in the EU is estimated to be 1.2 million (less than 1% of the EU working age population). The sector that most commonly uses posted workers is construction (25%), in particular small and medium businesses. Other sectors include services, financial and business sectors, transport and communication and agriculture. (Commission 2014: 1)

Case study

Laval, a Latvian company, won the contract to build a school in Vaxholm in Sweden and so posted Latvian construction workers to Sweden for that purpose. The Swedish construction unions tried to persuade Laval to sign up to collective agreements in the construction sector covering pay and other terms and conditions, but the company refused. The Swedish construction unions then 'blockaded' Laval's sites in Sweden, with further sympathy action being called by the Swedish electricians' union. The Swedish arm of Laval was eventually declared bankrupt. Laval brought proceedings in the Swedish courts arguing that its freedom to provide services had been infringed and that it had been discriminated against because of the failure of Swedish national provisions to take into account collective agreements that it had entered into with unions in Latvia. The company submitted that the right to take industrial action is subservient to its rights to establishment and provide services (Articles 49 and 56) and that any industrial action that impedes these fundamental rights be prohibited.

In response, the trade unions submitted that the right to take collective industrial action may fall outside the scope of these Articles, even where the impact of such industrial action is to hinder or prevent their exercise. Should that position not be upheld by the court, the unions also claimed that even if Article 56 does confer rights to provide services, nevertheless industrial action which restricts such freedom can be objectively justified and is thus not completely prohibited. The ECJ ruled that – while there is a positive right to strike – the right must be exercised proportionately, and in particular it was subject to justification where it could infringe the right to freedom to provide services. It held that, in line with the Viking case, the 'right to take collective action for the protection of the workers of the host state against possible social dumping may constitute an overriding reason of public interest' which could justify an infringement of free movement of services. However, in this case, it did not, because the framework for Sweden's collective bargaining was not precise enough for the company to know its obligations in advance. Unions may defend themselves against these claims by asserting a right to strike (which the ECJ recognized as a fundamental right within Community law) but only where they are acting proportionately in the exercise of that right.

In Sweden, the Labour Court sentenced the two trade unions to pay heavy damages and legal costs to Laval's bankruptcy estate. The case was subsequently condemned by labour and human rights lawyers throughout the EU and elsewhere. The International Labour Organization criticized the changes as a severe breach of the freedom of association.

Similar issues are raised in the Viking case (the right of a Finnish shipping company to rehire its employees on Estonian terms and conditions); Rüffert (limiting the right to contract to those undertakings prepared to pay the wages laid down in the relevant sectoral collective agreement); and Luxembourg (restrictions on member states' rights to regulate free provision of cross-border services).

Review questions

1. To what extent should EU legislation restrict or prohibit trade unions from taking industrial action?
2. Should the application of collective agreements in a host member state be restricted by EU legislation?
3. What are the main issues here, in practical terms, for human resource managers?

Since then, in May 2014, the EU Council of Ministers has adopted a new Posting of Workers Enforcement Directive designed to protect posted workers' rights and strengthen the legal framework for service providers. Member states have until June 2016 to transpose it into national legislation. The new Directive aims to strengthen the 1996 Directive, particularly in construction and road haulage, where so-called 'letter box' companies (shell companies with no genuine economic activity in their country of registration) have been using false postings to undermine domestic regulations on social security and labour conditions. However, the ETUC does not believe the new Directive goes far enough: '[It] still doesn't guarantee that posted workers will have the same salary as local workers when doing the same job, and the problem of underpaid positions remains in countries where there is no set minimum wage' (Euranet 2014).

Conclusion

Regional integration agreements vary greatly in a number of respects, most significantly, the degree of economic integration to which they aspire. However, the deeper the integration, the greater the degree of economic rationalization that will take place and so the more extensive the employment measures required to protect workers and ensure the mobility of labour. In the case of the EU, a wide variety of labour market areas have been regulated for this purpose, including mutual recognition of qualifications, safeguarding social security rights, a floor of minimum workers' rights and measures to promote employment rates. The means to achieve these objectives has evolved with the accession of more member states and shifts in economic policy towards neo-liberal, market-led approaches. Various forms of soft law coexist alongside hard law, including social dialogue and the OMC. Employers and unions continue to play an important part in the development of employment policy, though in recent years unions have become increasingly uneasy at what they see as the employer bias in certain recent judgments by the ECJ. Mass migration is likely to continue, with strains on the EU-15, which has tended to receive most of the migration from the accession states. Overall, there is little evidence of institutional convergence across the EU, despite adaptation of EU institutions to allow for the greater use of QMV in the adoption of hard law, and limited policy transfer in areas of soft law, like active labour market policies.

Notes

1. Note that, in this chapter, the term 'European Union' is used to refer to the regional integration agreement known as such today even though it has undergone a series of name changes since its foundation as the European Economic Community in 1958.
2. The Article numbers used in this chapter refer to the *Consolidated Version of the Treaty on the Functioning of the European Union,* published in the *Official Journal of the European Union,* C326, 26 October 2012, available from EUR-Lex (see reference under Further Reading).

Review questions

1. Why might regional integration agreements (RIAs) require the coordination of employment and social policies? Why might these requirements become more urgent as economic integration deepens between the member states of an RIA?
2. Is it possible to identify a coherent 'European social model'? If so, how would you characterize its features?
3. To what extent has the EU succeeded in establishing a common floor of workers' rights across its member states? Examine the obstacles that stand in the way of achieving this objective.
4. To what extent has the EU had to amend its institutional framework to accommodate growing membership? Do you believe that these amendments were 'inevitable'? Do you believe they are likely to lead to further political integration of the member states, if not to a federal Europe?
5. What do you understand by the terms 'hard' and 'soft' law in the context of the EU? Examine the relationship between them during the evolution of employment policy in the EU. What are the implications for human resource managers?

Further reading

1 EUR-Lex: available on line: http://eur-lex.europa.eu/en/index.htm.

Direct free access to EU legislation in all official EU languages: treaties, legislation, case law and legislative proposals, as well as extensive search facilities.

2 Dølvik, J.E. and Visser, J. (2009) 'Free movement, equal treatment and workers' rights: can the European Union solve its trilemma of fundamental principles?' *Industrial Relations Journal,* 40(6), 491–509.

An exploration of the complex relationship between three principles that underpin economic and social integration across the member states of the EU (free movement of labour, non-discrimination and rights of association and industrial action).

3 Gold M. (2009) 'Overview of EU employment policy', in Gold, M. (ed.) *Employment Policy in the European Union: Origins, Themes and Prospects,* Basingstoke: Palgrave Macmillan, pp. 1–26.

A historical overview of EU employment policy that examines the relationship between the various stages of EU economic integration and employment policy outcomes.

4 Kaminska, M.E. and Visser, J. (2011) 'The emergence of industrial relations in regional trade blocks: a comparative analysis', *British Journal of Industrial Relations,* 49(2), 256–81.

An examination of the factors that influence emerging patterns of industrial relations and HRM in a variety of regional integration agreements across the world.

5 Radaelli, C. (2000) 'Policy transfer in the European Union: institutional isomorphism as a source of legitimacy', *Governance,* 13(1), 25–43.

Analysis of 'isomorphism' as a conceptual framework for examining processes of convergence in a variety of EU policy areas.

6 Vaughan-Whitehead, D. (ed.) (2015) *The European Social Model in Crisis: Is Europe Losing its Soul?* Cheltenham: Edward Elgar.

A topical book that attempts to explain the nature of the 'European social model', taking into account both EU enlargement and the effects of the global economic crisis since 2008.

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Part 2

MNCs AND INTERNATIONAL HRM

Chapter 4

International structure and strategy

Tony Edwards and Chris Rees

Key aims

The aims of this chapter are to:

- consider alternative definitions of MNCs;
- familiarize the reader with the main explanations for why firms expand into other countries;
- examine the extent to which firms have become globally dispersed;
- become familiar with the main influences on international strategy and some of the key work on various strategies that MNCs follow.

Introduction

The growth of multinational corporations (MNCs) is without doubt one of the driving forces of the process of internationalization. For Dicken (2015), they are the primary 'movers and shapers' of the contemporary global economy. MNCs dominate many industrial sectors, such as automotive, electronics and oil, while they are increasingly coming to dominate parts of the service sector as well, especially finance and telecommunications. The sheer scale of the operations of the largest multinationals gives them considerable influence over nation-states. Comparisons of the gross domestic product of countries, on the one hand, and the 'value added' created by MNCs (a better measure than sales which is more widely used), on the other, show that 37 of the largest economic entities in the world are MNCs (Legrain 2002: 140). MNCs account for around two-thirds of international trade, and the stock of their foreign investments in 2013 was more than 12 times its value in 1990 (United Nations 2014).

This chapter considers four issues. It begins by tackling the question of how to define a multinational company. At first sight this may seem to be a straightforward task, and indeed it is one that is often taken for granted in much academic work. However, as we will see, there are alternative definitions that one can use, with varying implications for how we view the impact of MNCs. The second part of the chapter explores the various factors that may motivate senior managers to expand the firm across national borders. Why would they seek to operate in more than one country? We will briefly consider the strengths and weaknesses of some of the explanations that have been advanced to explain this phenomenon. We will see that most of these take as their starting point the idea that there are inherent disadvantages in operating across countries and that, consequently, managers of a firm contemplating setting up foreign subsidiaries need something to enable them to overcome these difficulties. We contrast this conventional view with an examination of an alternative way of looking at the issue, namely, that operating internationally has significant advantages stemming from the power relations between such firms and nationally organized governments, institutions and associations. Building on this, the third issue we briefly consider is the extent to which MNCs have become 'global' in nature. If there are power advantages to be gained from a high geographical spread of activities, then might we expect MNCs to seek to become widely dispersed across countries, reducing their dependence on any one country? Competing perspectives on the globalization of the firm are reviewed and an assessment is made of the empirical underpinning of each. The final part of the chapter examines the nature of strategy and structure in MNCs. We review some of the best-known typologies in this field, spelling out the varying strategies that firms pursue, the strengths and weaknesses of these and their implications for IHRM. We go on to investigate power relations between different groups of organizational actors within MNCs and the implications of the embeddedness of MNCs in their country of origin for strategy.

Defining a multinational company

What is a multinational company? Answering this question requires a consideration of the definition of a firm. The pioneering work here is that of Coase (1937), later developed by Williamson (1975), who argued that firms exist in order to avoid the 'transactions costs' involved in market exchange. These costs have a number of sources: the uncertainty associated with market transactions; the costs of acquiring knowledge from other agents; and the difficulty in devising complex contracts that cover every eventuality. Where these costs are significant, there will be an incentive for an economic agent to avoid them through setting up a firm to co-ordinate production, thereby substituting the hierarchy of the firm for the market. This line of analysis, therefore, defines a firm as 'the means of co-ordinating production without using market exchange'. In other words, firms are defined in terms of the ownership of productive operations.

From this definition of the firm flows the most widely used definition of a multinational firm. The significance of transactions costs is likely to be even greater at the international than at the national level since firms will be faced with more uncertainty and higher search costs in obtaining information. Thus, many economists have adopted the Coasian approach in defining a multinational as a firm in which the co-ordination of production without using market exchange takes the firm across national boundaries through foreign direct investment (FDI). The focus here is on legal ownership of operations in at least two countries as the defining feature of what constitutes a multinational (e.g. Buckley and Casson 1976). We term this the 'narrow' definition of a multinational.

A key aspect of the approach taken by Coase, Williamson and Buckley and Casson is the distinction between market and non-market transactions. However, some authors have questioned the significance of this distinction. For example, Cowling and Sugden (1987) have argued that this approach pays insufficient attention to the power relationship between one unit and another within a production chain, whether they are part of the same organization or connected through a market relation. They contend that in most production chains there is a 'centre of strategic decision making' that is able to exert a significant degree of control throughout the chain, regardless of whether units are legally owned or formally independent. What the Coasian definition misses, therefore, is the way in which a multinational can exert control over operations outside its formal, legal boundaries. For this reason, Cowling and Sugden define a multinational as 'the means of co-ordinating production from one centre of strategic decision making where this co-ordination takes a firm across national boundaries' (1987: 12). The focus here is on the *control* of productive operations in at least two countries rather than the legal *ownership* of them. We call this the 'broad' definition.

The broad definition has the conceptual advantage over the narrow definition of capturing the wider impact that a multinational has throughout the production chain. Some multinationals rely extensively on subcontracting and franchising to suppliers or retailers. Nike is an excellent example. In some ways, Nike is a very large firm, with enormous sales of $24.1 billion in 2012, yet it only employs around 44,000 people. This very low level of employment is due to the fact that Nike subcontracts all of its manufacturing to formally independent suppliers, mainly in Asia, where it is estimated that around half a million people depend on Nike for their employment. These subcontractors are only nominally independent: they produce to Nike specifications; they sell at prices determined by Nike; and in many cases they only produce for Nike. In addition, some HR practices within the subcontracted firms are determined by Nike, both directly through the firm's Code of Conduct that covers such issues as maximum working hours and conventions on overtime and indirectly through the cost constraints that Nike imposes on its subcontractors. Other firms in the textile sector use the practice of franchising to retail outlets, of which Benetton is a prime example. The company does not own any of its stores, but nonetheless exerts a high degree of control over them, determining the nature of the clothes they sell, the prices they charge and their layout. The narrow definition does not provide a conceptual tool for analysing the control that MNCs such as these exert throughout the production chain.

However, the broad definition is not so useful in assessing the legal obligations of MNCs. For instance, MNCs are generally not liable in law for environmental damage arising from the operations of subcontractors, nor are they responsible for cases of discrimination in employment that occur in their subcontractors. In analysing the responsibilities of firms in these respects, therefore, the narrow definition is the more appropriate. In addition, while MNCs exert some influence over HR matters in their subcontractors, as we saw above, the degree of control is not as great as in the operations owned by multinationals. For instance, it is unheard of for MNCs to demand that their subcontractors establish performance management systems, but this is a common requirement that the HQs of MNCs impose on their own operations. A further reason to use the narrow definition in assessing the impact of MNCs is that it is much easier to operationalize. Generally, companies do not provide information on the numbers of people employed in subcontracted or franchised operations, nor is it easy to obtain information on their turnover or assets, making it difficult to use the broad definition to assess the scale of the operations that MNCs control. Consequently, most of the agencies that collect data on MNCs, such as the United Nations, use the narrow definition. Overall, then, the broad definition usefully highlights the importance of control of processes of production and service provision across borders, an issue that we return to at a number of points in the book, but in this chapter and in most of the rest of the book we are constrained into using the narrow definition. This is what we do unless we state otherwise.

The motivations for internationalization

We now turn to consider the various explanations that have been advanced to account for why firms internationalize, or, in other words, why MNCs exist. We start with explanations that have been advanced to explain the emergence of the first multinationals.

For many writers, the emergence of MNCs has been an entirely logical step in the development of international capitalism. The internationalization of capitalist economies is commonly seen as having progressed in three stages: from the circuit of commodity capital through trade; to the circuit of money capital through 'portfolio' investments; to the circuit of productive capital in the form of MNCs (see Dicken 2015). While international trade has a long history dating back several centuries, the other two circuits began to internationalize in the nineteenth century. Much of the investment by foreigners in productive activities abroad in the 1800s took the form of portfolio investment. This involved financial investors holding a stake in an enterprise but not assuming any responsibility for the management or operation of the company. In the case of the UK, much of this portfolio-type foreign investment was in infrastructure projects in parts of the British Empire (John *et al.* 1997: 18–19). A growing tendency during the nineteenth century, however, was for firms to be owned directly by foreign investors. Many of these were what has been termed 'free-standing companies' in that they were owned by individuals or institutions in one country but operated solely in another. This type of firm was not multinational in the sense that they did not own or control productive activities in more then one country. Corley (1994, cited in John *et al.* 1997) estimates that at the beginning of the First World War, 55 per cent of Britain's outward investments were of the portfolio type and a further 35 per cent were in the form of free-standing companies. The remaining 10 per cent were accounted for by foreign direct investment by the fledging group of MNCs.

One motivation for these firms to internationalize was the desire to secure a stable source of raw materials. Some firms sought to take direct control over the production of these raw materials in order to absorb the profit margin that would otherwise accrue to an independent producer and, perhaps more importantly, to prevent a rival cornering the market. This explanation helps to account for the emergence of some of the earliest British multinationals, such as Cadbury and Dunlop. In some cases, this type of foreign direct investment led to workers in the developing countries being highly dependent on MNCs, particularly where the foreign firm has control of a number of plantations, farms or mines. In this type of multinational there was relatively little central influence on employment practice in the subsidiaries; the firms tended to install an expatriate to run the subsidiary but the international HR department that is found in many MNCs today was almost entirely absent.

In the post-war period, many argued that the motivation for a firm to become multinational was not so much access to raw materials as access to a different factor of production, labour. In 1980, Frobel and his colleagues published a book entitled *The New International Division of Labour* that was concerned with developments in the manufacturing sector that were leading firms based in the 'core' economies of the advanced industrial states in Europe and North America to locate an increasing amount of production on the 'periphery' of the developing economies. In explaining the attractiveness to domestic firms in becoming multinationals, their focus was clearly on cost minimization. They argued that three developments in the post-war period were making it easier and more attractive for firms to shift production away from the core to the periphery. First, improvements in transportation and communication made it cheaper and quicker to transport manufactured goods across the world. Second, changes in technology made it possible to de-link the production process so that it took place in disparate sites and could be performed by largely unskilled workers. Third, the growing pool of cheap and unprotected labour in urban areas in the developing countries provided a cheap and disposable workforce.

Taken together, these developments provided a strong incentive for firms in the core to become multinational. Frobel *et al.* (1980) predicted that FDI would increasingly flow to the periphery as firms took advantage of the wide differences in wages across countries. They argued that this gave rise to a 'new international division of labour' (NIDL) in which the routinized, low-skill operations of a firm, such as assembly, were located in the developing countries, while the more specialized, high-skill operations, such as design, administration and marketing, were retained in developed nations. Frobel *et al.* argued that the development of the NIDL resulted in the greater exploitation of labour. Manual workers in the core economies faced the threat of job loss as production was shifted abroad, leading to higher levels of unemployment and/or less favourable terms and conditions. The prospects of workers in the developing countries were also bleak as the jobs brought to these areas were characterized by low pay and long hours. Moreover, the NIDL thesis predicted that the inflows of FDI would contribute little to the development of human capital in the developing countries since the jobs were largely low-skill in nature.

The NIDL concept has been severely criticized, however. In its simplest form, it does not take account of productivity differences between countries, which partially offset wage differentials. This is particularly important for MNCs in which the production process requires skilled workers. Moreover, in many industries, labour costs are a small and declining proportion of total costs. Oman (1994, cited in Ferner 1997a) estimates that only 3 per cent of the costs of firms manufacturing semi-conductors are comprised of pay. The incentive to expand into areas of cheap labour is minimal for such firms. Perhaps the biggest failing of the NIDL is that it takes a one-dimensional approach to why firms invest abroad, focusing solely on cost minimization. Consequently, it pays no attention to other factors besides cheap labour which are key determinants of MNCs' location decisions, such as access to markets. Because of these theoretical weaknesses, the NIDL could not explain the patterns of FDI in the post-war period; in contrast to the NIDL's prediction that FDI would be drawn to the developing nations exhibiting low wages, the dominant pattern is one of FDI being concentrated within the 'Triad' of major developed economies, primarily those in Europe and North America.

More recently, a similar but more sophisticated explanation for how companies internationalize has centred on the notion of 'chains' of operating units across countries. From this perspective, Gereffi *et al.* (2005) uses the term 'global value chains' to describe the way in which production processes are co-ordinated by one key player, which then structures the process that a product goes through from conception to consumption. For example, the production of Slazenger tennis balls is co-ordinated across nine different countries with firms in each country having a distinct role: the balls are designed by academics at Loughborough University in the UK; the clay is mined and transported from South Carolina in the USA; the tins that contain the balls are manufactured in Indonesia; the balls themselves are produced in Bataan, a special economic zone in the Philippines; and so on (*The Guardian* 2002). In this way, the various parts of the production process are 'delocated' from each other and, while these are carried out by nominally independent firms, they are actually closely controlled by the lead agent, Slazenger.

Where MNCs have grown in this way, HR matters tend to be seen as primarily local rather than global issues. For those operations that are subcontracted, this is primarily because the MNC tends to set only broad parameters for employment practice within which the suppliers must operate, as argued above. For those operations carried out within the confines of the multinational, HR matters are also decentralized because the operations carry out quite distinct functions, meaning that such issues as the skill and education levels of the workforce, the level of autonomy with which employees tend to work and the degree to which they are irreplaceable or substitutable all vary markedly. Thus, the 'delocation' of the production process is accompanied by a decentralization of the HR function.

By focusing on the interaction between geographical dispersion of operations, on the one hand, and the relative incentives of retaining work in-house or outsourcing it, on the other, the notion of international chains of production represents an advance on the NIDL. In particular, it provides an explanation for why FDI remains concentrated in developed economies, with the growing international links with developing economies coming principally through arm's-length trading relations. Arguably, however, even this more sophisticated approach pays insufficient attention to factors other than the costs or quality of labour in particular and production more generally. This points to the need to turn to explanations that focus on product market considerations.

In many cases it may be very difficult, sometimes impossible, for a firm to serve a market in one country through locating its operations in a different country. Firms serving a national market through exports may be at a disadvantage compared with local producers, in that they are seen as foreign by consumers. This is particularly likely to be the case where consumers are patriotic in their preferences, seeking to buy from firms which employ workers in the country concerned and which contribute to the national economy. Governments, too, may be keen to buy products and services from firms which operate in their country in order to promote employment and growth. Thus, firms may expand into a country to overcome this disadvantage. As well as it being advantageous to have a local presence for this reason, firms may also benefit from having a local presence because this gives them employees in the local environment who are well placed to understand the market concerned. Thus, the local presence helps the firm generate expertise in the product market that would be difficult to obtain through exporting. Having a local presence can also help firms to avoid tariffs or quotas which sometimes firms that rely on exports have to face. This has been a particular motivation for Japanese firms setting up in the EU. In some industries, moreover, it may be imperative that firms have a local presence. This is the case where the immediacy of consumption demands that firms locate their production or service provision operations in the market, as is the case in hotels and catering, for instance.

Where access to markets is the motivation for a firm to become a multinational, the implication for their role as employers is that the jobs they bring to a host nation will not be as insecure as proponents of the NIDL predict. The ability of a multinational to relocate in search of cheaper labour will be constrained by the need to maintain an operating presence in the market. Indeed, such MNCs might seek to adapt to local employment practices and to 'be viewed as "good employers" locally, leading them to provide better pay and conditions than the local average' (Marginson 1994: 70). In this scenario, the HR function will have an active role in ensuring that the package of terms and conditions, and the quality of working life more generally, are seen as favourable, at least compared with local norms.

It is clear, therefore, that 'market-seeking' investments will be a major motivation for firms to become multinationals. This factor helps generate a better understanding of the dominant pattern of foreign direct investment which demonstrates that it is the major developed market economies which are the main recipients of FDI. While there are clear incentives for firms to internationalize for this reason, the question that remains is how they will be able to compete effectively alongside national firms in these markets. If they start from a disadvantaged position, how will firms be able to overcome this?

The conventional answer to this question is that firms must have some source of competitive advantage which those in other countries do not have. The pioneering work on this issue was that of Stephen Hymer (1976), who argued that firms wishing to operate in foreign markets started at a disadvantage compared with domestic firms. This disadvantage stems from the greater expertise that domestic firms enjoy within the country in question: their familiarity with the language and business traditions; their expertise in the market; and their established links with key institutions such as government bodies. In order to undertake foreign direct investment, Hymer argued that firms must possess a 'firm-specific advantage' (also referred to as an ownership-specific advantage) that would enable them to overcome the disadvantages of being foreign-owned.

This advantage could take a number of forms. In some cases it will stem from features of the domestic business system in which the firm originated. One example is where the financial system affords firms a stable source of finance, as has historically been the case in Swedish firms. Alternatively, the firm-specific advantage may be something that the firm has developed itself. The patents that pharmaceutical firms have over drugs they have developed are prime examples, as are the brand names possessed by soft drink manufacturers and hotel chains. A further area in which firms may enjoy a firm-specific advantage is expertise in the management of people. Where this is the case, there are important implications for HRM. As Japanese MNCs expanded into Europe and North America in the 1980s and 1990s, for instance, they brought with them many practices developed in their home base. Many of these firms made concerted attempts to minimize waste and inventory through techniques such as 'just-in-time' production. The adjunct to the 'hard' aspects of Japanese-style production is a set of employment practices designed to minimize disruption and secure a degree of commitment to product quality. Thus, Japanese firms in the UK have exhibited a preference for a range of employee involvement practices and for either not recognizing a union at all or for dealing with a single union very much on their own terms (e.g. Oliver and Wilkinson 1992). A different example is in the fast food sector. McDonald's has expanded internationally on the basis that it has developed a winning formula in the United States that it seeks to replicate in other countries. This involves very tight control over the operation of its restaurants, highly standardized supplies and a concerted attempt to avoid unions wherever they operate (Royle 2000). Marginson (1994: 70) argues that where this is the motivation for firms to become multinational, they are likely to be 'innovators' in labour practices; the transfer of the firm-specific advantage involves the adoption of practices that may be unusual in the host environment. In this context, a key role for the HR function is to aid in the transfer of the innovations, an issue we consider in more depth in Chapter 6.

While the existence of firm-specific advantages helps to explain why foreign firms may be able to compete effectively in the 'backyard' of their competitors, it does not explain why they need to set up wholly-owned subsidiaries in other countries. Given the complexities in co-ordinating production or service provision over great geographical distances and across a range of diverse business environments, why don't firms with a firm-specific advantage simply license or franchise to a different firm? As we saw earlier, many firms such as Nike and Benetton do just this, so why not all?

Many have argued that the answer lies in market failure. Many mainstream economists assume that markets will always operate efficiently and will spring up where there are economic agents who are interested in exchanging something. However, there are not well-developed markets in many of the factors which constitute a firm-specific advantage and, therefore, they cannot easily be traded. While a firm may be able to license a tangible asset like its brand name, it will be much more difficult for it to license an intangible asset. How can a firm accurately value something like expertise in work organization, for instance? If a firm's advantage lies in the trust relations it has developed with a key financier, how can this be traded or licensed? How can a firm guarantee through complex and contingent contracts that a brand name will be used in ways that do not rebound on it?

Where the advantage that a firm enjoys cannot be traded in the market, there is an incentive for the firm to use it themselves in other business systems. This approach to why firms internationalize is known as 'internalization' because the firm is deploying the assets it has within the legal boundaries of the firm. In other words, the hierarchy of the firm is used in preference to market exchange. Theoretically, the approach draws on the work of Williamson (1975) and others on transactions costs which we encountered earlier in the chapter, and has been developed by a number of writers (e.g. Buckley and Casson 1976; Rugman 1981; Dunning 1993). Where firms expand across borders in order to internalize an intangible asset, this requires the existence of structures which are capable of sharing knowledge and expertise across borders. There are a variety of structures which firms may use in order to facilitate such knowledge exchange, something that is discussed in more detail in Chapters 5 and 6. A number of MNCs have developed a cadre of managers and senior professional employees who roam across the organization, taking with them knowledge of organizational innovations developed in one part of the group. The ways in which

MNCs develop such a group are discussed in Chapters 9 and 10. A parallel development is for MNCs to instigate other structures which bring together key employees from different parts of the organization, such as international committees and meetings.

One problem with this focus on ownership-specific advantages is that it starts with a questionable assumption. The rationale for the condition that firms must possess an ownership-specific advantage if they are to become a multinational is that there are inherent disadvantages from operating internationally, such as linguistic and cultural differences between countries. Hence, the starting point is: why internationalize? Yet there are also inherent *advantages*. The principal advantage stems from the geographical scope of a multinational's operations which accords it a powerful position in its dealings with nationally based institutions and associations. Thus, in negotiating tax breaks and aid packages with governments, MNCs may be able to extract concessions on the basis of their (perceived) 'footlooseness'. Similarly, in negotiating with trade unions, MNCs may seek to use the threat of relocation to gain acceptance of new working practices or changes to terms and conditions. Thus, for writers such as Dicken (2015), the correct question should be: why *not* internationalize? If there are inherent advantages from a high geographical scope, then it is pertinent to examine the extent to which MNCs have become widely spread internationally. To what extent have MNCs transcended their dependence on their home base? Should we see MNCs as being 'global' in nature, detached from their country of origin?

The arrival of the 'global' firm

Over the last two decades it has become commonplace for senior managers of MNCs to describe their organizations as 'global' firms. For example, a recent statement on Glaxosmithkline's website read:

> A number of critical forces are affecting the pharmaceutical industry. Rapid globalization of markets, the ease of global communications and the existence of an increasingly international and mobile pool of scientific and commercial talent mean that firms can serve more markets from fewer locations, while at the same time they have greater choice than ever before of location to consider when deciding where to locate new investments. (www.gsk.com)

Similarly, Ernst and Young claim: 'We are the first major professional services organization to bring a borderless approach to the emerging markets of CIS, India, the Middle East, Africa and the established markets of Europe' (www.ey.com). Yet such claims must be met with some scepticism. For example, Philip Condit, who became Boeing's chairman in February 1997, outlined his vision for the future of the company on taking up his position. Boeing, he said, would become less US-focused and instead would be transformed into a 'global enterprise' by 2016, its centenary year: 'I believe we are moving towards an era of global markets and global companies. I think it is advantageous that your workforce, your executive corps, reflect that' (Condit, quoted in the *Financial Times,* 1997). Yet, by 2015, only 27,000 out of the 163,000 of the employees of Boeing were working outside the USA (www.boeing.com). While it may be global in some ways, such as sales, in others it seems to be rooted firmly in its original home base. What does academic research tell us about this issue?

In the late 1980s and early 1990s, it became commonplace for managers and observers to talk about the 'globalization' of the firm. It was often asserted that many large MNCs were no longer dependent on their original home base; rather, they were positioned to serve a global market, they responded to the pressures and demands of the global economy, and they drew on knowledge and expertise from across the globe. Many MNCs, some argued, had become so internationalized that they had detached themselves from their home business system. The best-known exponent of this line of argument was Ohmae (1990, 1995) in his work concerning the 'borderless world'; he argued that the ability of the nation-state to regulate and control economic activity has been dramatically reduced by globalization. At the core of this process, according to Ohmae, were 'global' corporations that were 'nationalityless' and were able to shift to whichever part of the world promises the highest returns. Robert Reich wrote in a similar vein. In a famous article in the *Harvard Business Review,* Reich addressed debates about national competitiveness by posing the question: 'Who is us?'. Reich (1991) argued that a country's competitive position was not primarily determined by 'national' firms but rather by 'global' ones. The performance of the American economy, for instance, was shaped as much by foreign multinationals such as Thomson and Honda, as by American firms like General Motors and IBM. In essence, Reich argued that nationality was no longer an important or meaningful concept in large MNCs. One interpretation of this apparent development is to see it as the logical consequence of the advantages that a firm accrues from becoming international. The more international the firm becomes, the more powerful it is in relation to domestically based actors such as governments and trade unions. Thus, there are strong incentives for firms to become increasingly spread across countries and to sever their ties with their original home base.

However, in the late 1990s other observers questioned the extent to which MNCs were global in nature. Reacting to some of the claims which were reviewed above, a counter-literature emerged. Many writers argued that, far from being detached from their home base, MNCs remained firmly rooted in, and influenced by, their country of origin. Ruigrok and van Tulder (1995), for instance, challenged the 'myth' of the global firm. Based on an examination of the largest 100 MNCs in the world, they concluded that 'not one of these can be dubbed truly global, footloose or borderless. The argument of the globalization of the firm is unfounded and untenable' (1995: 168). LeGrain (2002) has argued that firms which are supposedly global or stateless are in fact firmly rooted in their home base. Doremus *et al.* (1998: 3) argued that MNCs 'are not converging toward global behavioral norms' but rather were deeply influenced by their country of origin. Perhaps the best-known exponents of this view were Hirst and Thompson (1999: 95), who also referred to the myth of the global firm, arguing that the 'home oriented nature of multinational activity across all dimensions seems overwhelming'.

This counter-argument was made on a number of grounds. Principally, statistics concerning the geographical breakdown of the sales, assets and employment of MNCs demonstrated that most MNCs remained heavily concentrated in their home country and in the countries neighbouring it. The way in which MNCs were embedded in their home country showed up in a number of other ways: MNCs were owned largely by shareholders of the country of origin and raised finance predominantly at home; the key strategic functions in MNCs, such as the HQ and R&D facilities, were generally in the home country; and the senior managerial boards of MNCs were still dominated by home country nationals.

This alternative view throws doubt on the extent to which firms will automatically realize benefits by spreading their wings further and further afield. Indeed, it suggests that MNCs tend to retain strong links with their country of origin and, therefore, continue to be influenced by the business system in this country to a greater extent than any other system. Moreover, it also suggests that, when making foreign investments, multinationals favour locations which are near to their home country and only gradually reach out to countries further afield. Indeed, more recent evidence testifies to this regional dimension. Alan Rugman's conclusion of his analysis of the largest MNCs, for example, was that the vast majority are 'home region-based', defined as having less than 50 per cent of their sales in the other two regions of the Triad. As he put it: 'Globalization, as commonly understood, is a myth. Far from taking place in a single global market, business activity by most large multinationals takes place within any one of the world's three great trading blocks' (Rugman 2005: 6).

One explanation for this is offered by the 'Uppsala' model. Developed by academics at the University of Uppsala, the basic idea behind the model is that the internationalization of the firm is a gradual process that arises from a series of incremental decisions rather than a few grand leaps forward. This is because firms lack the knowledge and resources about operating in other business systems due to the 'psychic distance' between countries, which is defined as the 'factors preventing or disturbing the flows of information between firms and markets' (Johanson and Wiedersheim-Paul 1975). As firms gradually acquire knowledge about other systems, they begin to enter new markets, initially through exporting via an independent representative, then through a sales subsidiary and finally through a full production facility. Crucially, psychic distance is highly correlated with geographical distance; while there are exceptions, generally speaking, the business systems that are close to one another tend to have stronger commonalities in terms of the nature of the dominant institutions than those that are far apart. Thus, this provides an explanation for why MNCs tend to hold the majority of their foreign investments in countries that neighbour their original base.

This picture of gradual internationalization fits the evidence. The United Nations has for many years published data on the extent to which the largest 100 MNCs in the world are internationalized. Combining the ratios of foreign sales to total sales, foreign assets to total assets and foreign employment to total employment, a Transnationality Index (TNI) is constructed in an attempt to measure the degree to which this group of firms are concentrated in their home country. During just over two decades following 1990, the United Nations estimated that the TNI rose slowly but steadily, from 51 in 1990 to 64 by 2013 (United Nations 2014) (Table 4.1).

An overall assessment might be that MNCs are gradually increasing the extent to which they are spread across countries, with this spread having a strong regional dimension. This raises a further question: given the diversity of business systems in which MNCs operate, how do they organize themselves to manage units across these systems and what strategies do they pursue?

Table 4.1 The world's top 100 non-financial TNCs, ranked by foreign assets, 2013[a]

(Millions of dollars and number of employees)

Ranking by:					*Assets*		*Sales*		*Employment*		
Foreign assets	*TNI[b]*	*Corporation*	*Home economy*	*Industry[c]*	*Foreign*	*Total*	*Foreign*	*Total*	*Foreign[d]*	*Total*	*TNI[b] (Per cent)*
1	81	General Electric Co	United States	Electrical & electronic equipment	331 160	656 560	74 382	142 937	135 000	307 000	48.8
2	34	Royal Dutch Shell Plc	United Kingdom	Petroleum expl./ref./distr.	301 898	357 512	275 651	451 235	67 000	92 000	72.8
3	67	Toyota Motor Corporation	Japan	Motor vehicles	274 380	403 088	171 231	256 381	137 000	333 498[e]	58.6
4	56	Exxon Mobil Corporation	United States	Petroleum expl./ref./distr.	231 033	346 808	237 438	390 247	45 216	75 000	62.6
5	21	Total SA	France	Petroleum expl./ref./distr.	226 717	238 870	175 703	227 901	65 602	98 799	79.5
6	38	BP Plc	United Kingdom	Petroleum expl./ref./distr.	202 899	305 690	250 372	379 136	64 300	83 900	69.7
7	9	Vodafone Group Plc	United Kingdom	Telecommunications	182 837	202 763	59 059	69 276	83 422	91 272[e]	88.9
8	68	Volkswagen Group	Germany	Motor vehicles	176 656	446 555	211 488	261 560	317 800	572 800	58.6
9	66	Chevron Corporation	United States	Petroleum expl./ref./distr.	175 736	253 753	122 982	211 664	32 600	64 600	59.3
10	36	Eni SpA	Italy	Petroleum expl./ref./distr.	141 021	190 125	109 886	152 313	56 509	83 887	71.2
11	73	Enel SpA	Italy	Electricity, gas and water	140 396	226 006	61 867	106 924	37 125	71 394	57.3
12	17	Glencore Xstrata Plc	Switzerland	Mining & quarrying	135 080	154 932	153 912	232 694	180 527	190 000	82.8
13	3	Anheuser-Busch InBev NV	Belgium	Food, beverages and tobacco	134 549	141 666	39 414	43 195	144 887	154 587	93.3
14	97	EDF SA	France	Utilities (Electricity, gas and water)	130 161	353 574	46 978	100 364	28 975	158 467	34.0

15	1	Nestlé SA	Switzerland	Food, beverages and tobacco	124 730	129 969	98 034	99 669	322 996	333 000	97.1
16	33	E.ON AG	Germany	Utilities (Electricity, gas and water)	124 429	179 988	115 072	162 573	49 809	62 239	73.3
17	75	GDF Suez	France	Utilities (Electricity, gas and water)	121 402	219 759	72 133	118 561	73 000	147 199	55.2
18	59	Deutsche Telekom AG	Germany	Telecommunications	120 350	162 671	50 049	79 835	111 953	228 596	61.9
19	64	Apple Computer Inc	United States	Electrical & electronic equipment	119 918	207 000	104 713	170 910	50 322	84 400	59.6
20	31	Honda Motor Co Ltd	Japan	Motor vehicles	118 476	151 965	96 055	118 176	120 985	190 338[e]	74.3
21	88	Mitsubishi Corporation	Japan	Wholesale trade	112 762	148 752	17 645	75 734	19 790	65 975[e]	43.0
22	25	Siemens AG	Germany	Electrical & electronic equipment	110 462	137 863	85 441	99 543	244 000	362 000	77.8
23	8	ArcelorMittal	Luxembourg	Metal and metal products	109 602	112 308	74 369	79 440	175 565	232 000	89.0
24	46	Iberdrola SA	Spain	Utilities (Electricity, gas and water)	108 679	127 235	23 534	44 106	18 702	30 680	66.6
25	58	Johnson & Johnson	United States	Pharmaceuticals	96 803	132 683	39 402	71 312	75 220	128 100	62.3
26	44	Nissan Motor Co Ltd	Japan	Motor vehicles	95 228	143 029	81 172	104 606	93 240	160 530[e]	67.4
27	16	Hutchison Whampoa Limited	Hong Kong, China	Diversified	91 436	105 169	26 133	33 035	215 265	260 000	82.9
28	19	Fiat S.p.A.	Italy	Motor vehicles	90 985	119 474	106 053	115 263	163 082	225 587	80.2
29	69	Pfizer Inc	United States	Pharmaceuticals	90 403	172 101	31 310	51 584	48 268	77 700	58.4
30	41	BMW AG	Germany	Motor vehicles	88 370	190 511	85 319	100 980	80 667	110 351	68.0
31	96	Wal-Mart Stores Inc	United States	Retail & Trade	88 206	204 751	137 613	476 294	800 000	2 200 000	36.1
32	78	Daimler AG	Germany	Motor vehicles	87 257	232 023	116 526	156 641	107 101	274 616	50.3

(Continued)

Table 4.1 **The world's top 100 non-financial TNCs, ranked by foreign assets, 2013[a] (continued)**

(Millions of dollars and number of employees)

Ranking by:					*Assets*		*Sales*		*Employment*		
Foreign assets	*TNI[b]*	*Corporation*	*Home economy*	*Industry[c]*	*Foreign*	*Total*	*Foreign*	*Total*	*Foreign[d]*	*Total*	*TNI[b] (Per cent)*
33	53	Telefonica SA	Spain	Telecommunications	87 156	163 654	58 237	75 758	76 969	126 730	63.6
34	48	Mitsui & Co Ltd	Japan	Wholesale trade	86 023	107 016	22 208	57 286	36 291	45 148[e]	66.5
35	87	Ford Motor Company	United States	Motor vehicles	79 092	203 752	61 458	146 917	97 000	181 000	44.7
36	100	CITIC Group	China	Diversified	78 602	565 884[f]	9 561	55 487	25 285	125 215	17.1
37	98	Statoil ASA	Norway	Petroleum expl./ref./distr.	78 185	144 741	23 953	105 446	3 077	23 413	30.0
38	35	Airbus Group NV	France	Aircraft	77 614	128 474	72 525	78 672	89 551	144 061	71.6
39	37	Novartis AG	Switzerland	Pharmaceuticals	71 941	126 254	57 185	57 920	73 081	135 696	69.9
40	60	Procter & Gamble Co	United States	Diversified	70 981	139 263	51 342	84 167	88 751	121 000	61.8
41	13	Hon Hai Precision Industries	Taiwan Province of China	Electrical & electronic equipment	70 659	77 089	131 557	133 362	810 993	1 290 000	84.4
42	91	General Motors Co	United States	Motor vehicles	70 074	166 344	56 900	155 427	104 000	219 000	42.1
43	2	Anglo American Plc	United Kingdom	Mining & quarrying	68 955	71 165	27 266	29 342	95 900	98 000	95.9
44	50	BHP Billiton Group Ltd	Australia	Mining & quarrying	67 649	139 178	61 371	65 953	27 543	49 496	65.8
45	51	Repsol YPF SA	Spain	Petroleum expl./ref./distr.	66 011	89 613	35 019	74 012	21 510	30 296	64.0
46	62	International Business Machines Corporation	United States	Electrical & electronic equipment	60 841	126 223	64 942	99 751	306 758	431 212	61.5
47	49	BASF SE	Germany	Chemicals	58 323	88 644	79 032	98 212	59 683	112 206	66.5
48	45	Rio Tinto Plc	United Kingdom	Mining & quarrying	58 059	111 025	49 440	51 171	34 383	66 331	66.9
49	89	Microsoft Corporation	United States	Prepackaged software	57 087	142 431	36 505	77 849	41 000	99 000	42.8

50	18	Unilever Plc	United Kingdom	Diversified	55 769	62 664	48 182	66 114	140 000	174 000	80.8
51	20	BG Group Plc	United Kingdom	Oil and gas field exploration	55 026	65 974	15 922	19 192	4 048	5 536	79.8
52	63	Hewlett-Packard Co	United States	Electrical & electronic equipment	54 548	105 676	72 014	112 298	207 421	317 500	60.4
53	94	ConocoPhillips	United States	Petroleum expl./ref./distr.	54 430	118 057	26 459	54 413	5 266	18 400	41.1
54	26	Compagnie de Saint-Gobain SA	France	Non-metallic mineral products	53 704	62 957	40 204	55 795	140 794	187 726	77.5
55	7	SABMiller Plc	United Kingdom	Food, beverages and tobacco	53 332	53 751	18 492	22 311	59 997	70 486[e]	89.1
56	84	Orange	France	Telecommunications	52 362	118 178	23 238	54 409	85 472	165 488	46.2
57	85	RWE AG	Germany	Utilities (Electricity, gas and water)	52 336	111 688	30 905	68 233	28 287	66 341	44.9
58	27	Roche Group	Switzerland	Pharmaceuticals	50 837	67 084	49 907	50 475	47 562	85 080	76.9
59	32	Mondelez International, Inc.	United States	Food, beverages and tobacco	50 834	72 557	28 308	35 299	76 428	107 000	73.9
60	55	Sumitomo Corporation	Japan	Wholesale trade	49 662	84 326	17 396	33 105	56 867	73 953[e]	62.8
61	30	GlaxoSmithKline Plc	United Kingdom	Pharmaceuticals	49 460	69 403	37 684	41 440	61 084	99 451	74.5
62	95	Petronas–Petroliam Nasional Bhd	Malaysia	Petroleum expl./ref./distr.	49 072	163 275[f]	71 939	94 543	5 244	46 145	39.2
63	52	AP Moller–Maersk A/S	Denmark	Transport and storage	48 730	74 451	43 931	47 397	29 701	88 909	63.8
64	65	Sanofi	France	Pharmaceuticals	48 403	132 266	40 199	43 748	55 786	112 128	59.4
65	42	Vattenfall AB	Sweden	Electricity, gas and water	47 667	75 105	18 491	26 363	22 301	31 819	67.9
66	83	Vale SA	Brazil	Mining and quarrying	47 247	124 289	38 734	47 130	15 894	83 286	46.4
67	70	Samsung Electronics Co., Ltd.	Korea, Republic of	Electrical and electronic equipment	46 425	203 671	188 833	209 727	149 298	240 000	58.3

(Continued)

Table 4.1 The world's top 100 non-financial TNCs, ranked by foreign assets, 2013[a] (continued)

(Millions of dollars and number of employees)

Ranking by:					Assets		Sales		Employment		
Foreign assets	TNI[b]	Corporation	Home economy	Industry[c]	Foreign	Total	Foreign	Total	Foreign[d]	Total	TNI[b] (Per cent)
68	47	Schlumberger Ltd	United States	Other consumer services	45 507	67 100	31 369	45 266	76 857	123 000	66.5
69	24	Imperial Tobacco Group Plc	United Kingdom	Tobacco	45 444	45 872	36 301	44 115	19 200	35 300	78.6
70	90	United Technolo-gies Corporation	United States	Aircraft	44 786	90 594	26 632	62 626	76 320	212 000	42.7
71	28	Christian Dior SA	France	Textiles	43 908	71 981	34 235	38 511	86 102	108 546	76.4
72	92	Tesco Plc	United Kingdom	Retail & Trade	43 488	83 565	32 127	99 604	223 899	537 784[e]	42.0
73	80	China Ocean Shipping (Group) Company	China	Transport and storage	43 452	56 126[f]	19 139	29 101	4 400	130 000	48.9
74	5	Linde AG	Germany	Chemicals	43 048	45 090	20 357	22 112	54 218	63 487	91.0
75	76	Sony Corporation	Japan	Electrical & electronic equipment	42 239	149 161	55 565	77 510	94 071	146 300[e]	54.8
76	4	British American Tobacco Plc	United Kingdom	Food, beverages and tobacco	41 940	44 329	23 616	23 859	45 906	57 730	91.0
77	74	Caterpillar Inc	United States	Construction	41 526	84 896	33 894	55 656	68 073	118 501	55.8
78	23	Lafarge SA	France	Non-metallic mineral products	41 484	51 046	15 787	20 178	49 256	63 687	78.9
79	15	Volvo AB	Sweden	Motor vehicles	41 185	53 242	40 477	41 862	72 945	95 533	83.5
80	93	Google Inc.	United States	Software	40 916	110 920	33 057	59 825	16 080	47 756	41.9
81	72	Renault SA	France	Motor vehicles	40 866	103 252	41 062	54 344	70 814	121 807	57.8
82	57	Marubeni Corporation	Japan	Wholesale trade	40 677	70 578	45 041	70 409	22 031	33 566[e]	62.4
83	40	ABB Ltd.	Switzerland	Engineerig services	39 893	48 064	27 463	41 848	82 700	147 700	68.2

84	14	AstraZeneca Plc	United Kingdom	Pharmaceuticals	39 700	55 899	23 892	25 711	44 892	51 600	83.6
85	39	Liberty Global Plc	United Kingdom	Telecommunications	38 129	67 714	10 821	14 474	26 250	35 000	68.7
86	54	Carrefour SA	France	Retail & Trade	37 913	59 981	51 594	98 644	267 590	364 795	63.0
87	29	OMV AG	Austria	Petroleum expl./ref./ distr.	37 282	43 765	36 754	56 313	20 878	27 344	75.6
88	82	ITOCHU Corporation	Japan	Wholesale trade	37 075	76 347	17 502	55 193	47 269	77 513[e]	47.1
89	6	Barrick Gold Corporation	Canada	Gold mining	36 911	37 448	12 233	12 511	17 383	24 360	89.2
90	79	The Coca-Cola Company	United States	Food, beverages and tobacco	36 860	90 055	27 576	46 854	63 800	130 600	49.5
91	61	Cargill	United States	Food	35 928	59 880	86 092	136 654	87 000	140 000	61.7
92	86	Pepsico Inc	United States	Food, beverages and tobacco	35 863	77 478	32 789	66 415	106 000	274 000	44.8
93	10	WPP Plc	United Kingdom	Business services	35 649	41 236	15 018	17 229	105 190	117 115	87.8
94	43	Deutsche Post AG	Germany	Transport and storage	35 489	48 848	50 466	73 135	266 360	435 285	67.6
95	77	Merck & Co	United States	Pharmaceuticals	34 552	105 645	25 787	44 033	46 900	76 000	51.0
96	11	Diageo Plc	United Kingdom	Food, beverages and tobacco	34 431	38 157	14 424	17 928	15 222	17 545	85.8
97	22	Teva Pharmaceu-tical Industries Limited	Israel	Pharmaceuticals	34 376	47 508	16 449	20 314	37 782	44 945	79.1
98	99	China National Offshore Oil Corp	China	Petroleum expl./ref./ distr.	34 276	129 834[f]	21 887	83 537	3 387	102 562	18.6
99	71	Japan Tobacco Inc	Japan	Food, beverages and tobacco	34 054	44 858	11 640	23 948	24 397	49 507[e]	57.9
100	12	Koninklijke Philips Electronics NV	Netherlands	Electrical & electronic equipment	33 901	36 568	30 102	30 973	74 852	116 681	84.7

(Continued)

Table 4.1 The world's top 100 non-financial TNCs, ranked by foreign assets, 2013[a] (continued)

(Millions of dollars and number of employees)

Ranking by:					*Assets*		*Sales*		*Employment*		
Foreign assets	*TNI[b]*	*Corporation*	*Home economy*	*Industry[c]*	*Foreign*	*Total*	*Foreign*	*Total*	*Foreign[d]*	*Total*	*TNI[b] (Per cent)*

Source: UNCTAD.

a Preliminary results based on data from the companies' financial reporting; corresponds to the financial year from 1 April 2013 to 31 March 2014.

b TNI, the Transnationality Index, is calculated as the average of the following three ratios: foreign assets to total assets, foreign sales to total sales and foreign employment to total employment.

c Industry classification for companies follows the United States Standard Industrial Classification as used by the United States Securities and Exchange Commission (SEC).

d In a number of cases foreign employment data were calculated by applying the share of foreign employment in total employment of the previous year to total employment of 2013.

e Employment data refers to revised 2012 figures, as data were not yet available.

f Data refers to 2012.

Key influences on strategy and structure in MNCs

> The world's largest companies are in flux. New pressures have transformed the global competitive game, forcing these companies to rethink their traditional worldwide strategic approaches. (Ghoshal and Bartlett 1998: 3)

So begins perhaps the best-known book on 'strategy' in MNCs. Ghoshal and Bartlett identified three key forces on managers in international firms. First, by definition, multinationals operate in a variety of national 'cultures'; values, attitudes and tastes that people hold continue to differ across countries. This 'multiculturalism' that MNCs confront can be seen as a force for 'local differentiation', defined as the need to be responsive to the local environment. Second, in many industries, firms have come under great pressure to achieve economies of scale at the international level. Ghoshal and Bartlett argue that technological developments in the production of consumer goods such as radios, televisions and watches have meant that scale is a key factor in shaping competitive success. Many firms have responded through developing internationally integrated production processes. Thus, a second identifiable pressure on international strategy is the force of 'global integration'. Third, international firms are under pressure to respond to rapidly evolving markets, with products and technologies having shorter life cycles. One way of responding to this is through seeking to link their international operations and transfer expertise across them. Consequently, a further pressure is for 'world-wide innovation'.

These competing pressures on international strategy are evident in differing mixes from one sector to another and from one period to another. Ghoshal and Bartlett identify different organizational forms that are more or less suited to meeting these competing demands. Over the course of the twentieth century, the nature of these pressures has evolved, and the authors identify periods in which particular organizational forms were in evidence. (The issue of terminology can be confusing here; some use the term multinational or global firms in a generic sense while others attribute particular connotations to each. To avoid confusion, we use the terms in italics when there is a particular connotation.)

The multinational firm

The period from 1920 to 1950 is what Ghoshal and Bartlett call the 'multi-domestic' era. In these decades the basis on which competition took place differed significantly from one country to another; consumer tastes varied and protectionism by governments was rife, resulting in pressures for local differentiation being dominant. The strategy and associated structure best suited to these conditions are what Ghoshal and Bartlett term the *multinational* which they define as a collection of national companies which manage their local businesses with minimal direction from HQ (Figure 4.1). This approach is very good at achieving national responsiveness and has much in common with Perlmutter's (1969) *polycentric* firm and Porter's (1986) *multi-domestic* approach.

What are the HR implications of this organizational form? A key implication is that there is likely to be very little influence on HR policy and practice in operating units from the corporate HQ; decision-making on issues to do with employment practice is highly decentralized in this type of firm. Accordingly, there is unlikely to be a significant

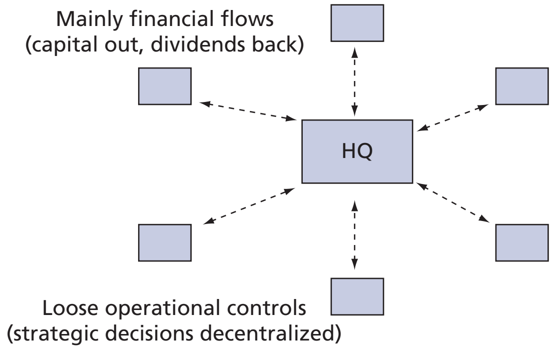

Figure 4.1 The multinational firm: a decentralized federation

number of expatriate managers, as decisions will be left to local managers. A further implication is that there will be little requirement for knowledge and expertise to be diffused across borders as all parts of the production or service provision process are carried out in one location.

The global firm

The period from 1950 to 1980 was characterized by a number of developments: transport and communication costs began to fall in real terms; the minimum efficient scale fell, making economies of scale more important; and trade became less regulated. During these decades American firms expanded their international operations, particularly into Europe. One important motivation for this growth in foreign direct investment was to take advantage of the opportunity of realizing economies of scale through the creation of 'mini-replicas' of home country operations. Thus foreign units are closely modelled on domestic ones. Ghoshal and Bartlett (1998) identify this as the *global* approach, arguing that it produces standardized products in a highly cost-efficient way and is therefore good at achieving efficiency through global integration (Figure 4.2). There are similarities here with Perlmutter's *ethnocentric* style in which home country values predominate and foreign subsidiaries are managed as a cultural extension of the parent.

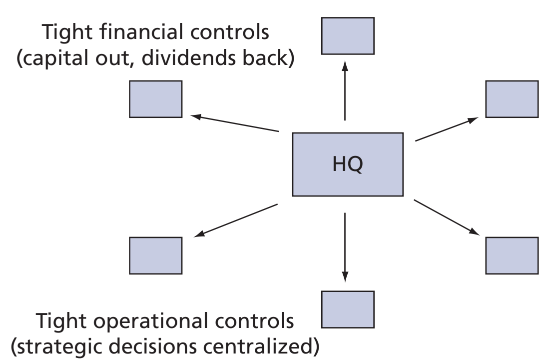

Figure 4.2 The global firm: a centralized hub

In terms of HR, the replication of the home country approach means that there is some implementation of home country practices in foreign subsidiaries, particularly in relation to work organization. Thus there will be a distinctive parent company approach to HRM. One way in which this occurs is through the use of expatriates as ‘enforcers’ of HQ policy and, consequently, firms with the global strategy use a number of people on international assignments. One concern that some observers in host countries have expressed about this sort of multinational is that the replication of home country operations means foreign plants will tend towards being ‘screwdriver’ operations; that is, the high-tech operations such as research and development are retained in the country of origin and the subsidiaries are characterized by routine assembly work with a high proportion of jobs being low skill in nature.

The international firm

The period from the 1950s to the 1980s was also characterized by a further pressure on MNCs, namely, the importance of spreading innovations across the firm. Ghoshal and Bartlett describe the way in which many international organizations responded to this pressure: ‘The strategy of a third group of companies is based primarily on transferring and adapting the parent company’s knowledge or expertise to foreign markets’ (1998: 17). These firms, termed *international,* are less centralized than the *global* firms since local management are able to vary the nature of the products or services to the national market, but are much more centralized than the *multinational* firms (Figure 4.3). This type of firm does not correspond directly to any of Perlmutter’s types of multinational, but can be seen as a hybrid of the *polycentric* and *ethnocentric* firms.

The implementation of centrally developed innovations has implications for HR in foreign subsidiaries. Managers at local level are responsible for implementing such innovations and, more generally, for ensuring that the expertise and knowledge transferred from the centre are harnessed and deployed. Thus, while they are unlikely to be subject to the same degree of control that subsidiaries of *global* firms are subject to, there will certainly be requirements from the HQ with which they must comply. Relatedly, the role of managers on international assignments differs from those in *global* firms; they are less likely to be ‘enforcers’ of corporate policy, and more likely to be key points of contact

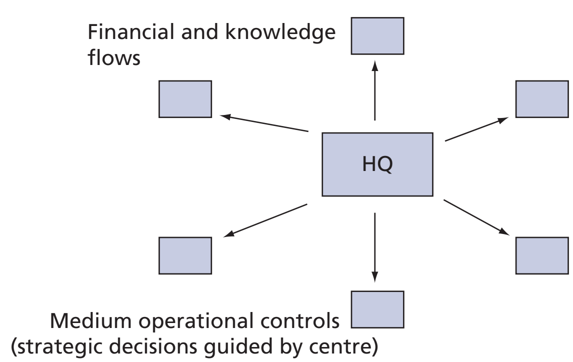

Figure 4.3 The international firm: a co-ordinated federation

between HQ and subsidiaries and facilitators of the transfer of expertise and knowledge from the centre. Finally, concerns over the limited contribution of foreign-owned firms to the local economy are likely to be less acute in relation to *international* firms. Indeed, this group of firms may be seen as a mechanism through which new technologies and practices can be spread across borders, although some may harbour concerns that these innovations are developed abroad.

The transnational firm

Over the last two decades or so, Ghoshal and Bartlett argue that developments in technology and markets have meant that more and more industries are characterized by the simultaneous pressures to be locally responsive, achieve efficiency through global scale and to diffuse innovations across their sites. Thus, while each of the three types of firm identified above may be adept at responding to one of these pressures, none of them allow a firm to respond to all of them. The authors present a fourth type of firm, the *transnational,* as offering the 'solution' to these competing pressures (Figure 4.4). There is a clear prescriptive element in this respect; they see the *transnational* form as 'necessary for every company that operates in an international environment' (1998: 20).

The *transnational* involves the creation of an integrated network of sites, each of which possesses a distinct role. The plants within the network have differentiated roles in that their brief is to specialize in a particular part of the production or service provision process. As a result of this differentiation, the plants have some freedom to respond to local factors and so meet the pressure for local differentiation. The integration of international operations through the network also provides for scale efficiencies to be realized at the global level, thereby achieving a degree of global integration. And the diffusion of knowledge and expertise within the interdependent network affords scope for world-wide learning. In this way, Ghoshal and Bartlett argue that the *transnational* can respond to all three of the key pressures on firms operating across borders. This organizational form has much in common with Perlmutter's (1969) *geocentric* firm, while the idea of an integrated network also features strongly in Hedlund's (1986) notion of the *heterarchical* firm.

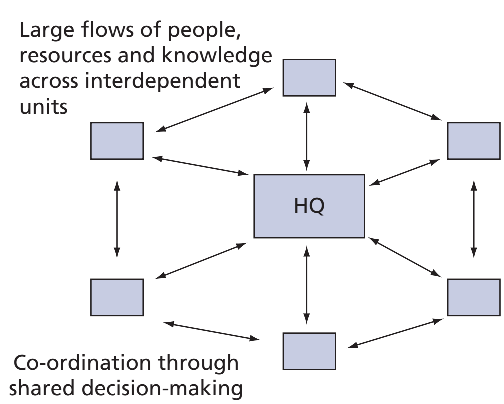

Figure 4.4 The transnational firm: an integrated network

The *transnational* has a number of important implications for HR. The practices in place at plant level will in part reflect innovations in other parts of the network, not just those in the home country as in *global* and *international* firms. Moreover, a key part of the facilitation of the network is a cadre of managers roaming from site to site, serving as the 'glue' holding the firm together and bringing about the exchange of knowledge and expertise. What distinguishes a *transnational* in this respect is that the international assignees will not only originate in the parent company. For those concerned about the role of a subsidiary in contributing to the development of a host country, the *transnational* promises much, since each plant will be accorded a specialist role.

The idea of the *transnational* organizational form is a very important one for international HRM. Indeed, the concept of an integrated network is central to much recent writing in this field. Dowling *et al.* (1999) noted that a number of authors have advocated the network form and claimed that a growing number of MNCs are moving towards it. The networked multinational, they argue, is characterized by five dimensions: 'delegation of decision making authority to appropriate units and levels; geographical dispersion of key functions across units in different countries; de-layering of organizational levels; de-bureaucratization of formal procedures; and differentiation of work, responsibility, and authority across the networked subsidiaries' (1999: 50). The idea of a network features strongly, if implicitly, in the 'integrative framework of strategic international human resource management' proposed by Schuler *et al.* (1993). They assert that MNCs 'are realising that every possible source of competitive advantage must be identified and utilized. And as they are searching, particularly firms pursuing total quality management, they are realising that a systematic approach to developing human resource policies and practices may, in fact, give competitive advantage' (ibid.: 427). They go on, 'a major goal of MNEs is facilitating learning and the transfer of this learning across units' (ibid.: 427). Later in the article they argue that HR policies can assist in the integration of the business: 'In doing so they must be consistent with the needs of the business to achieve competitiveness, be flexible and facilitate the transfer of learning across units' (ibid.: 431).

In empirical studies of MNCs, moreover, there is some support for the notion that some MNCs are characterized by inter-dependent networks involving flows of knowledge across the firm in many directions (e.g. Persson 2006; Johnson and Medcof 2007; Noorderhaven and Harzing 2009; Edwards and Tempel 2010).

How useful is the concept of an integrated network in general and Ghoshal and Bartlett's *transnational* solution in particular? Are MNCs all finding it a 'necessary' element to operating internationally as the authors claim? And is it a key part of the 'solution' to managing across borders? We consider in turn the two main objections to this view, first, that it sees strategy-making as a deliberate, rational process, and, second, that it pays too little attention to the 'embeddedness' of strategy in its social context.

The importance of organizational politics in MNCs

Many writers on strategy stress the importance of the micro-politics of organizations in the development of strategies. Firms are comprised of a range of groups, each with their own goals and priorities. Moreover, each of these groups, to a greater or lesser extent, possesses some resource of value to others in the organization which they can use to advance their own agenda. In this way, strategies emerge as a result of bargaining and compromise between groups of organizational actors and, consequently, strategies tend to evolve slowly. Ghoshal and Bartlett's approach plays down the role of organizational politics; there is relatively little attention devoted to how different groups may have different aims and seek to advance them. Yet, much research into the internal workings of multinational companies and the development of 'strategies' in IHRM has revealed the importance of micro-political processes (Ferner *et al.* 2012).

One obvious source of tension within MNCs is between managers at the corporate HQ and those in a subsidiary in a different country. The former group may seek to advance their own position by developing global policies, while the latter may strive to maximize their autonomy. As an example, Edwards *et al.* (1993) provide evidence that the French subsidiary of a British multinational was able to resist orders from the centre concerning the timing of a redundancy programme. In doing so, managers at the profitable French plant knew that the French market was important to the wider company and that corporate managers were dependent on them to serve this market. They knew that the HQ could not sack them and send expatriates to take over; few of the British senior managers spoke French and their understanding of the French legal and institutional context was poor. A related source of tension between groups of managers within MNCs is between expatriate and indigenous managers. The former may seek to establish themselves as key players in the operation to which they have been sent, while the latter may resent their presence. Broad's (1994) study of a Japanese MNC in Britain revealed the way in which British managers formed informal networks that Japanese expatriates were excluded from. These networks served to share information from rumours and gossip in the plant and this information was kept from the Japanese, whose limitations in English meant they could not access the information directly.

While the managers of units within a multinational possess some sources of power, those at the HQ do so too, of course. The most obvious resource that the HQ controls is the funds for new investment. Research in the car industry has revealed the way in which corporate managers systematically compare the performance of their sites in different countries, and use these comparisons to exert pressure on actors at plant level to improve quality and costs. Commonly, these comparisons are tied to investment decisions so that, in effect, the plants compete against one another for the allocation of investment. In this way, the centre is able to exert growing influence over working practices at plant level (Mueller and Purcell 1992; Martinez and Weston 1994). Sisson *et al.* (2003) review evidence from a range of sources to show that such 'benchmarking' among MNCs is widespread, particularly within regions such as Europe.

Managers at the corporate HQ also have the ability to use the promotion of unit managers to senior positions within the company as a source of power. The pay and promotion prospects of unit managers can be tied in part to their willingness to be active participants in the network, both through inputting practices into it and through adopting practices that originated elsewhere. Once again, case study evidence has revealed the importance of this source of power in facilitating the multilateral diffusion of practices across borders; those managers promoted or given international assignments take with them knowledge of practices that have operated successfully in one part of the organization and spread this to other operations (Coller and Marginson 1998; Edwards 1998).

BOX 4.1

ABB: a test case of the transnational strategy

Perhaps the most widely cited example of a transnational company is ABB. This firm was formed through a merger between ASEA of Sweden and Brown Boveri of Switzerland and operates in a range of sectors, from industrial power to transport equipment. In the late 1980s and 1990s, the firm engaged in a string of acquisitions across the world so that it had a significant presence in the Americas and Asia as well as Europe. The former CEO, Percy Barnevik, was renowned for supposedly creating a radically new approach to managing international operations. In his own words, ABB is simultaneously 'global and local, big and small, radically decentralized but with central control'.

Ghoshal and Bartlett themselves described ABB as a 'classic transnational organisation' (1998: 259). A key element of this orientation, they argued, was the devolution of responsibility for operating performance to the managers of the 1,300 business units; accompanying this was the creation of a very small corporate HQ employing just 150 people. This was a key part of Barnevik's stated aim of putting 'individual initiative and personal responsibility . . . at the heart of the company's philosophy' (Ghoshal and Bartlett 1997: 30–1). When there was a problem in one of the units, senior management of the company would 'reach down to the front lines', but their objective was to 'help rather than interfere' (op cit., 189).

Coupled with devolution to operating units was an attempt to 'encourage global teamwork and cooperation between companies and countries' (Ghoshal and Bartlett 1998: 265); the creation of the network which is central to the transnational form. Ghoshal and Bartlett ascribed the firm's success in doing so to two key aspects of the firm's approach. The first was creating 'stretch', defined as the setting of ambitious goals which are to be achieved through a set of common values. In ABB, a 'policy bible' containing the firm's key principles was distributed across the organization with the intention that this would appeal to individuals' own values and induce them to channel their creative capabilities for the good of the organization. The second was to establish trust, which the authors argue is 'vital to the development and nurturing of the collaborative behaviour that drives effective revitalisation' (ibid.: 268–9). Apparently, an emphasis on employee involvement in decision-making, and a structure comprising numerous cross-national boards and teams, allowed a sense of 'organizational fairness and equity' to develop.

But is the process of managing international operations as straightforward as this? The interpretation that Ghoshal and Bartlett put on the workings of ABB has been challenged by Belanger *et al.* (1999). On the basis of a detailed case study of the firm across several countries, Belanger and his colleagues argue that Ghoshal and Bartlett too readily accepted top managers' views of how ABB operates and, consequently, downplayed the tensions and contradictions which are a key feature of organizational life in multinational companies.

In particular, the way in which 'learning' takes place was highly politicized, resting on competitive relations between plants which created pressure on local actors to adopt practices from other plants. Senior managers possessed a number of sources of power that enabled them to pressurize local management into adopting practices from other parts of the group. Perhaps most obvious among these was the management of the career patterns of managers in the company; those who were seen as obstructive to the working of the network faced the prospect of not progressing to more senior posts or, in some cases, being sacked. Further, business area management controlled capital investment decisions, and in some divisions also allocated orders from customers. Those plants which had been good 'corporate citizens' could be rewarded with new investment and orders, while those seen as problematic could be punished. These resources, Belanger *et al.* argue, enabled the centre to exert a growing influence over the plants.

Equally, however, local actors could draw on their embeddedness in local environments to shape the extent of corporate influence and the way it took place. One instance is the performance of the plants.

A system known as the 'ABB Olympics' sought to assess and rank each plant in terms of a range of aspects of performance, such as costs, quality and throughput times. Those plants which performed well in these league tables were able to use this to increase their autonomy from business area and corporate management; the profits that their plant contributed to the group could be seen as a source of power. A further illustration of the political activity in which local actors can engage is the creation of an uneasy alliance of some local managers and the union in the Hull plant in Canada in response to the parent company's plans for restructuring.

The evidence presented by Belanger and his colleagues illustrates the important of political activity within MNCs. The establishment of an integrated network of plants collaborating with one another as envisaged by Ghoshal and Bartlett is likely to be a contested, rather than a straightforward, process. Indeed, the resources controlled by actors at plant level may be used to block the operation of a network as local actors seek to preserve their own autonomy. In sum, where a multinational seeks to integrate its operations into a network, the way this operates is likely to be governed more by power relations between different groups than by values and trust.

For further details on contrasting perspectives on ABB: Ghoshal and Bartlett (1998); Belanger *et al.* (1999); Belanger *et al.* (2003).

Question: What does the case of ABB tell us about the ease with which MNCs can establish collaborative networking between their sites?

The case of ABB together with wider research evidence, some of which was cited above, demonstrates the importance of micro-political processes in MNCs. This has implications for the 'integrated network' that appears to be favoured by many writers on international HRM. Such networks do not always operate in a harmonious, coherent way; rather they are political constellations of groups of organizational actors whose aims and priorities are often divergent. The extent to which organizational actors are able to achieve their aims when they diverge from those of other groups is determined in part by the resources they have at their disposal. As Kristensen and Zeitlin (2005) put it, the multinational is a 'battleground' in which subsidiaries represent and mobilize their own capabilities and national expertise. Hence, divergences of interest within a multinational are worked out through the exercising of power relations.

The implications of recognizing the contested nature of international networks are significant. In particular, some groups of actors or units within a multinational may be able to block the diffusion of practices; they may seek to resist pressure to adopt a practice which originated elsewhere and may also be reluctant to input information on new practices into the network for fear of it undermining their competitive position. This is not to deny that a multi-lateral sharing of information can and does occur through 'networking' within MNCs, but it is to emphasize that senior managers will often need to overcome resistance to this process and will use the resources at their disposal to bring this about. Edwards *et al.* (1999: 290) argue that in many MNCs diffusion occurs through networking between plants, with this being underpinned by HQ control over investment decisions and the prospects of plant managers. They used the term 'networking within hierarchy' to describe this process.

As we have implied, the way that micro-political processes within international networks of managers operate is shaped in part by the linkages between organizational actors and their environment. The sources of power that actors possess are in many cases a product of their environment, as demonstrated by the example of the French subsidiary of the British MNC described above. Thus, these actors are not detached, calculating individuals but rather are embedded in their environment, which we now explore in more depth.

The 'embeddedness' of strategy

To some extent, Ghoshal and Bartlett are sensitive to the notion that a firm's strategy is firmly embedded in its particular economic and social context. In particular, they identify a firm's 'administrative heritage', which they define as a company's 'existing organizational capabilities being shaped by various historical and structural factors' (1998: 39). This administrative heritage, which the authors argue makes firms to some extent 'captives of their past', stems from some factors internal to the organization, such as the role of the founders and leaders and the influence of the history of the firm. It also stems from the impact of national culture which gives a firm 'a way of doing things' and shapes the values and behaviour of senior management.

Arguably, however, we need a fuller appreciation of the way a multinational's 'country of origin' is important in shaping the way it operates at the international level; as we have argued earlier in the book, there is much more to a national influence than simply 'culture'. The role of the family can be a crucial factor in creating variations between countries in the way firms operate. For instance, Whitley (1991) has described the importance of the family unit in Taiwan in creating a set of entrepreneurial small-and medium-sized firms, many of which are linked together through wider family networks. The role of the state, too, varies significantly from country to country. In relation to France, Whittington and Meyer (2000: 95) show how 'the state, elitist educational institutions, and the great financial and industrial enterprises have long been closely interlinked'. The nature of financial institutions also varies from country to country, with the bank-centred system of industrial finance in Germany in which investment banks hold significant stakes in firms and have close relationships with their managements contrasting with the market-centred system in the UK and the USA where shareholdings are dispersed across a range of institutions and individuals and relationships between these and senior managers are distant. The notion of culture is clearly inadequate to capture these national differences as it neglects important institutional factors, leading many to prefer the term 'national business system'.

The distinctiveness of national business systems, despite current talk of globalization, matters because most MNCs remain firmly rooted in their original country. As we have seen in earlier chapters, most MNCs remain disproportionately focused on the home country across a number of dimensions. Even those MNCs that are highly internationalized in terms of sales are concentrated in their home country in others. In Ericsson, for example, the ownership structure at the end of 2014 meant that nearly half of the voting rights were controlled by two Swedish institutional investors, Investor AB and AB Industrivarden (www.ericsson.com). This concentration of ownership and key activities in the home base means that the centre has a disproportionate influence on strategy formulation. Hence, international strategies continue to reflect a significant 'country-of-origin' effect.

For instance, a considerable body of evidence concerned with employment practice in the foreign subsidiaries of American MNCs indicates that they have been particularly hostile to trade unions and systems of collective representation, and have sought to implement HRM practices such as performance-related pay and employee involvement programmes (Almond and Ferner 2006). Japanese MNCs are also influenced by their domestic business system when they operate outside Japan, one aspect of which is the use of a high number of expatriates to oversee the adoption in their subsidiaries of some Japanese-style forms of work organization, such as team-based working and just-in-time production (Whitley *et al.* 2003). While there is less evidence for MNCs of other nationalities, the embeddedness of MNCs appears to create a detectable influence from the country of origin (see Ferner 1997b, for a review).

Crucially, MNCs may not be able to easily shed this effect; whether they like it or not, they may find that they cannot leave their 'national baggage', as Ferner and Quintanilla (1998) put it, at home. In this respect, Ghoshal and Bartlett (1998), in arguing that MNCs will move towards a transnational orientation over time, appear to overestimate the ease with which MNCs can shed their 'administrative heritage'.

BOX 4.2

AutoPower: shaking off its American origins?

The way in which MNCs are embedded in their country of origin, and the way that this continues to shape the way they operate, are clearly illustrated by the case of AutoPower. This firm originated in the Mid-West of the USA in the early part of the last century and rapidly became the major employer in a relatively small town. The founding family of the company took an active part in the management process, playing a key role in setting the style and values that characterized the organization. AutoPower is now a multinational employing approximately 30,000 people in 12 different countries.

The influence of the founding family has been significant. Management style in the firm's original location in the Mid-West has been paternalistic: pay and conditions have tended to be favourable compared with other firms; job security has been high (until recently anyway); and employees have been provided with a range of fringe benefits. To some extent, this paternalism has been carried over into the firm's international operations, particularly those in Britain. The influence of the founding family can also be discerned in relation to its dealings with trade unions. Unlike many American firms that grew in the first half of the twentieth century, AutoPower did not experience bitter disputes with trade unions. The attitude of the founding family was to allow employees to decide whether to join a union and, if sufficient numbers did so, management would recognize and negotiate with them. This relatively relaxed, constructive approach to dealing with unions also appears at the international level. A third area where the original owners were influential was in relation to 'diversity'. As long ago as the 1960s, senior managers were emphasizing the importance of having the composition of the workforce in all their locations reflect the ethnic composition of the community. Latterly, the firm has introduced a global policy stipulating that the benefits accruing to the wives and husbands of employees should also accrue to unmarried and same-sex partners.

As well as the style and values which were strongly influenced by the founding family, there have also been a number of global policies which were devised in the company's HQ. One particular example is the system of team-working. This was the product of a team of engineers and managers and involved the creation of teams of operators working flexibly within a cell. This model of organizing production was gradually diffused to all of the firm's operations internationally. All in all, it is clear that the nature of IHRM in AutoPower strongly reflects its American roots.

This 'ethnocentric' approach has been challenged by those in AutoPower's international operations. At a meeting of HR managers from across the company, the presentation of a new corporate initiative for a global policy on the repatriation of employees who have been on international assignments provoked a mini-rebellion from HR managers outside the USA. Many complained that the development of the firm's international policies did not reflect the diversity of the company's operations, and that if it claimed to be a genuinely internationalized firm with international markets as its main growth area, then its policies should reflect this.

This protest was acted upon by senior HR managers who appeared to recognize the legitimacy of the concerns. One response was to commission the HR managers from India and the UK to devise a 'template' outlining the way in which international HR policies would be devised in the future, allowing substantial input from HR people in the subsidiaries. Another indication that the firm was striving to be less US-focused was the appointment of a Chinese-American, who had been Head of HR in China, as Head of International HR. And perhaps most significantly, responsibility for the development of a new performance management system has been given to a British HR manager who is on an assignment in the corporate HQ and is leading an international team of eight, only two of whom are American. This is seen by many in the company as a marked departure from the way HR policies had been developed in the past, and a pointer to how they will be developed in the future.

However, the legacy of the firm's embeddedness in the USA has not proven so easy to shake off. Over the last few years the company has become more subject to pressures from outside financial institutions. A consequence has been that senior managers have begun to attach more importance to quarterly budgets and financial targets, since this is how they are assessed by the institutions. When a downturn hit the product market, the immediate response was to slash costs, an element of which was to greatly reduce the travel budget. This meant that convening meetings of the team members was impossible and the leader of the initiative has worked from the corporate HQ. Moreover, the interest in the experiment by senior HR people has waned as they have become focused on managing the redundancies which accompanied the downturn.

The upshot has been that the much-celebrated shift towards subsidiary input into decision-making has had much less impact than had been envisaged. Some time after their creation, the 'templates' guiding the development of international HR policies are not in evidence, and policies appear to be created and rolled out from the HQ in the same old way that they had previously. International networking in AutoPower proved to be quite difficult to realize.

For more details, see Edwards *et al.* (2007).

Question: Is it inevitable that MNCs will encounter difficulties in trying to make their approach less ethnocentric?

While the country-of-origin effect is an important influence on HRM in MNCs, which it is not always easy to shed, neither is it set in stone. As multinationals mature and become more internationalized, the influence of the country of origin may diminish. Indeed, evidence from studies of German, French and Swedish MNCs indicates that many have adopted structures and practices traditionally associated with Anglo-Saxon MNCs, such as international product divisions with devolved responsibilities, share options and performance-related pay (e.g. Ferner and Quintanilla 1998; Hayden and Edwards 2001; Mtar 2001). These developments have eroded the influence of the country of origin, but they have not eradicated it; the MNCs in these studies still reflect their national origins in significant ways.

Conclusion

This chapter has considered how to define a multinational, contrasted various explanations for why firms internationalize and investigated the extent to which MNCs are global in orientation. It then examined how the changing nature of the external environment within which MNCs operate has had important implications for the internal organization of multinationals: differences persist in the nature of the national systems in which MNCs are located; globalization has presented opportunities for firms to realize more fully economies of scale at the international level; and rapidly evolving technologies and shorter product life cycles have created pressures on firms to engage in innovation and learning across their operations. As we have seen, many studies of strategic IHRM urge firms to create a flexible network in which units have differentiated roles, share expertise with one another and in which responsibility and authority are diffused. Indeed, there is some evidence that many firms are clearly seeking to instigate networks which have the capability to transfer knowledge and expertise across the firm.

However, in two important respects the popular vision of networks appears to be flawed. First, as is the case for all organizations, MNCs are political animals in which there are multiple interest groups, each of which will seek to use the resources at their disposal to advance their own interests. This does not mean that networking will not occur but it does imply that senior management merely establishing the formal architecture of a network will not be sufficient on its own. Rather, the precise nature of networking will depend on the exercising of power. Second, networks transcend a range of distinctive business systems and are disproportionately influenced by the original home base of the multinational. In this way, even MNCs that are characterized by a highly internationalized network of operations continue to exhibit a 'country-of-origin effect'.

Despite these qualifications, it is evident that an increasingly important element of the way that MNCs operate is with a common element across borders. Thus in Chapter 5 we consider in more detail the rationale for such a global element and the ways in which they can achieve this in the HR function.

Review questions

1. What are the relative strengths and weaknesses of the narrow and broad definitions of MNCs?
2. Why do firms 'internalize' a competitive advantage and what are the implications of doing so for their role as employers?
3. Why do Bartlett and Ghoshal see the 'transnational' as the 'solution' to managing across borders?
4. What sources of power do managers in the operating units of MNCs commonly hold?
5. What are the sources of the 'country-of-origin' effect in MNCs?

Further reading

1 Adenfelt, M. and Lagerstrom, K. (2006) 'Knowledge development and sharing in multinational corporations: the case of a centre of excellence and a transnational team', *International Business Review,* 15(4), 381–400.

This is an example of the range of studies that examine the ways in which MNCs exhibit a degree of networking across their operations in different countries.

2 Almond, P. and Ferner, A. (eds) (2006) *American Multinationals in Europe: Managing Employment Relations Across National Borders,* Oxford: Oxford University Press.

The book presents the results of a large study of American MNCs in a range of countries, providing both conceptual and empirical material.

3 Dicken, P. (2015) *Global Shift: Mapping the Changing Contours of the World Economy,* London: Sage, Chapter 5.

The chapter contains a concise summary of many theories of internationalization and ways in which MNCs organize themselves.

4 Marginson, P. (1994) 'Multinational Britain: employment and work in an internationalised economy', *Human Resource Management Journal,* 4(4): 63–80.

The article explores the various motivations for firms to expand overseas and links each of these to the implications for their approach as employers. The analysis is located in a discussion of the British context.

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Chapter 5

Global integration

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Key aims

The aims of this chapter are to:

- outline the key drivers of global HRM integration in multinational corporations and present arguments why multinational corporations might pursue more extensive integration in the future;
- identify the tools multinational corporations can use to facilitate global HRM integration, and review how they are used;
- critically discuss when the global integration of HRM can be regarded as having been effective.

Introduction

In the previous chapters we have seen how the dilemma between globalization and differences embedded in national business systems lead to different strategic and structural responses by multinational corporations (MNCs). This chapter presents the arguments why MNC strategies and structures that support global integration, including the global integration of HRM practices, are becoming increasingly popular. In reference to the integration-differentiation dilemma, while this chapter presents the case for global HRM integration, Chapter 7 focuses on the arguments for differentiation by highlighting the limits of global integration, questioning the 'diffusability' of HRM practices into different national contexts, and taking into consideration the role of internal politics within MNCs.

The basic premise of this chapter is that the global integration of HRM in MNCs is becoming a more attractive proposition (Taylor 2006; Morris *et al.* 2009). The chapter will therefore first of all outline the key drivers behind this suggested move towards greater global integration (the 'why'), both in general and in relation to HRM specifically. Second, the chapter will look at the ways in which MNCs try to facilitate tighter global HRM integration (the 'how'), by identifying the range of integration tools they use, and how they are used. Finally, the chapter engages in a critical discussion of when we can say that an MNC has accomplished global HRM integration effectively.

The case for global HRM integration

Prior to embarking on a discussion about global integration in MNCs, it is first necessary to define what is meant by global integration, especially since it comprises two fairly abstract terms. In essence, global integration can be said to be about the achievement of at least one of three key objectives: (1) the *control* of foreign subsidiaries; (2) the *transfer* of practices to those subsidiaries; and (3) the appropriate *adaptation* of activities that requires both an understanding of parent practices and local conditions.

In terms of subsidiary control, the international management literature depicts integration as comprising both a formal, direct, control-based dimension and a more informal, indirect, coordination-based dimension. Control has been defined as any process in which a person, group or organization determines or intentionally affects what another person, group or organization will do (Baliga and Jaeger 1984: 26), whereas coordination is referred to as a means through which the different parts of an organization (e.g. foreign subsidiaries) are integrated or linked together to accomplish a collective goal (Van de Ven *et al.* 1976). Global integration from a control perspective is thus both about control and coordination with these being used in combination to achieve consistency of international business activities across borders (Kim *et al.* 2003).

Since global integration requires activities in foreign subsidiaries to be centrally managed and/or made interdependent, those activities need to be transferred to the subsidiaries. The transfer of firm-specific practices (e.g. HRM) for the purposes of achieving consistency and alignment among foreign subsidiaries also addresses the need to integrate dispersed knowledge and practices, which is argued to be an important basis for competitive advantage in firms (Grant 1996).

Finally, the third objective of making appropriate adaptations to activities makes the distinction that global integration does not imply total standardization; although we might expect a high degree of standardization of key operational procedures. In the same way that global strategy is argued not to mean doing everything the same way everywhere (e.g. Kanter and Dretler 1998), for global integration to be truly effective some degree of adaptation to account for national contextual differences is needed to move beyond the simple imitation of HRM practices towards a deeper belief in their value (discussed later in this chapter). In reference to institutional theory, 'appropriate' adaptations to transferred practices do not denote a substantial shift away from global integration, but are intended to result in greater host legitimacy amongst regulatory, normative and cognitive institutions rendering the practice easier to comprehend and put into practice (Jensen and Szulanski 2004).

These three objectives of global integration, which could also be seen as 'lenses', are now used as a reference point for the issues covered in this chapter, starting with the discussion of forces that are seen to be driving the global integration of HRM.

Drivers of global integration

Before presenting arguments concerning why the global integration of HRM is becoming more desirable, it is worth re-visiting some of the reasons why global integration in general is becoming more attractive for MNCs. To do this, the arguments are grouped into three categories of global integration 'drivers': (1) environmental drivers; (2) strategic drivers; and (3) structural drivers. You will note that these tie in with the discussion of strategy, structure and the international business environment in Chapter 4. There are strong inter-relationships among these categories; some drivers of global integration are going to be related to drivers in the other categories. Nevertheless, the classification assists us in acknowledging the source of the driver, whether it is within or outside of the MNC's direct control, and provides us with a clearer picture of the direction these different, mutually reinforcing drivers of global integration might take over time.

Environmental drivers

Environmental drivers have already been discussed at length in Chapter 2 in connection with the forces of globalization. The novelty and limits of globalization notwithstanding, there are many features of globalization that are making global integration more feasible, more desirable and even more necessary. To name but a few – the diminishing significance of national borders, supra-national integration, the dismantling of trade and investment barriers, the far-reaching deregulation of markets, the emergence of global customers, rapid developments in the capabilities and spread of new information- and web-based technologies, and the opening-up of large developing economies such as the BRIC nations of Brazil, Russia, India and China – all have contributed to the intensification of competition. One could argue they have also promoted the attractiveness of global integration to MNCs. Although the majority of the world's largest 100 MNCs are headquartered in one of the Triad regions (North America, Europe and Japan), on average, 65 per cent of their sales are generated outside of their home country and 57 per cent of their total workforce are employed abroad (UN 2014). The growing levels of complexity that have arisen from operating in a large number of foreign locations comprising very different national business systems have increased the need for MNCs to foster some degree of control over foreign subsidiaries and to transfer common practices. However, this complexity also inhibits the MNCs' ability to do so. Put another way, the differences in how organizational practices are carried out in different parts of the MNC are both a driver and a constraint for the transfer of practices. While this chapter makes arguments for differences being a driver, Chapter 7 will present the case for them representing constraints.

Strategic drivers

Environmental drivers of global integration put pressure on MNCs to take a course of action regarding their international strategy and structure. *Strategic drivers* capture the business advantages that are realizable by pursuing global integration. Evans *et al.* (2011: 126) list a number of such strategic drivers that they see as supporting the adoption of a globally integrated approach to managing the MNC. Achieving *economies of scale* can help a firm to lower its unit costs by centralizing core value chain activities. This might take the form, for example, of creating a network of specialized operations, which are then tightly controlled by a central hub. Establishing *value chain linkages* between, for example, R&D and manufacturing allows the firm to exploit its position as a leader in innovation and to be at the forefront of any technological and competitive changes. *Serving global customers* refers to the need for suppliers of products or services to become as globally integrated as their clients who determine things such as price, quality and delivery on an increasingly global basis.

Global integration can also facilitate *global branding* insofar as it allows an MNC to promote a consistent brand image around the world and to benefit from an efficient application of marketing tools, such as advertising and merchandising. *Leveraging capabilities* involves the transfer of valuable capabilities developed in a firm's competitive domestic market to its international operations. *World-class quality assurance,* on the other hand, refers to standardization and central control over complex core processes, which can help to ensure high quality and a competitive edge. The strategic driver of *competitive platforms* is based on the idea that if the HQ tightly controls subsidiaries, it can allow them to respond quickly to shifts in the competitive landscape and also facilitates a more rapid global expansion of operations via the redeployment of resources.

One could also add *business process outsourcing* to the list of strategic drivers, especially when it involves contracting out an activity to an offshore provider or to a shared service centre (see Chapter 8). The outsourcing industry has grown rapidly in recent years with most of the world's leading MNCs now outsourcing at least one of its core business processes. However, for outsourcing to an offshore service provider to work more effectively, the activity to be outsourced ideally needs to be carried out in the same way, or at least similar, in each location, otherwise the service provider would need to get up to speed on all the different ways that the activity is performed. In this sense, the global integration of a set of activities (e.g. HRM) is seen as a necessary step prior to reaping the benefits of outsourcing.

Structural drivers

Beyond the strategic drivers that confer certain competitive advantages to MNCs, there are characteristics of the MNC itself that lend themselves to global integration and thus the transfer of organizational practices. These are referred to here as *structural drivers*. Unlike strategic drivers, these characteristics can act as either facilitators or inhibitors of global integration. For instance, the first structural driver is the MNC's *country of origin,* and the corresponding 'country-of-origin effect' (discussed in Chapter 4) that this has on an MNC's tendencies, among other things, to transfer its HRM practices (see Almond 2011, for a review). The evidence suggests that the way an MNC manages its international workforce, including the degree of global integration it seeks over its foreign subsidiaries, is disproportionately influenced by its roots in the domestic business system. More specifically, MNCs from countries that have been economically successful have an incentive to integrate those practices into their foreign subsidiaries that are seen as having contributed to this success. For instance, many US MNCs transferred 'Taylorist' forms of work organization and formalized payment systems to their European subsidiaries in the post-war period (e.g. Kogut 1991). More recent evidence reveals that several US MNCs transfer practices designed to increase the 'diversity' of their workforces, such as quotas on women in management positions and equal treatment for homosexual employees, in the belief that such diversity policies form a part of the firm's competitive advantage (Ferner *et al.* 2004). Similarly, in the 1980s, many Japanese MNCs sought to integrate 'lean production' and its associated HRM practices, such as teamworking and employee involvement in maintaining quality standards, into their European and North American subsidiaries. For emerging country MNCs, the pattern is more complex with evidence suggesting that hybrid HRM systems are being used around a global 'best practice' template (e.g. Chang *et al.* 2009; Chung *et al.* 2014).

Indeed, Pudelko and Harzing (2007) remind us that in the global integration-local differentiation dilemma, global integration does not necessarily involve the integration of practices found at MNC headquarters, but around a national management model perceived as representing global best practice. In their study of HRM practices in the foreign subsidiaries of US, German and Japanese MNCs, they found that the '*dominance effect*' of the US model of HRM was more important than country-of-origin and localization effects in explaining the HRM practices found in the foreign subsidiaries. In support of the argument in this chapter that global HRM integration is becoming more desirable, Pudelko and Harzing conclude that there does appear to be convergence towards a worldwide best practices model of HRM. As an extension of the discussion about home-country and dominance effects, another source of global HRM integration could be foreign subsidiaries themselves. From this perspective, 'reverse' HRM transfer has also attracted growing attention, looking at conditions under which foreign subsidiaries, albeit quite often from institutionally strong host-country settings, are capable of transferring HRM practices to headquarters (Thory 2008; Edwards and Tempel 2010), as well as laterally to other MNC subsidiaries (Edwards *et al.* 2015).

A second structural driver of global integration is the nature of an MNC's *international management structures.* In particular, a structure that is based on national units, which Porter (1986) calls 'multi-domestic', limits the contact between actors in different countries, thereby constraining the scope for integration. In contrast, a structure that is based on international product divisions, which Porter terms 'global', deepens the linkages across borders within the firm. With respect to the HR function, Marginson *et al.* (1995) have shown that MNCs with a global structure are more likely to have regular meetings of HR managers across their sites, to have an international HR policy committee and to promote the mobility of staff through international assignments. All of these structures have the potential to act as mechanisms through which global integration occurs. Thus, while a multi-domestic structure limits the scope for global integration, a global structure promotes it. Many MNCs have moved towards adopting a matrix structure in which international divisions coexist with regional aspects to the structure, normally based on continents (see e.g. Farndale *et al.* 2010). This type of matrix deepens international management structures along two dimensions, providing significant scope for integration and the transfer of practices.

The third structural driver is a characteristic of foreign subsidiaries, namely their *mode of establishment.* In general, the constraints facing management at HQ in integrating foreign subsidiaries are greater when the subsidiaries have been acquired. This is because the firm inherits a pre-existing set of practices that may prove difficult to change, and also because the act of acquisition itself may create suspicion and resistance among employees in the acquired units (see Chapter 7). In foreign subsidiaries established as 'greenfield sites', on the other hand, HQ management has greater freedom to introduce their own practices. Research suggests that MNCs that seek to implement practices that diverge from the 'norm' in a particular country grow mainly via greenfield investments. Indeed, we find more expatriates from HQ in greenfield sites (e.g. Harzing 1999) as well as HRM practices that more closely resemble those of the parent (Rosenzweig and Nohria 1994; Björkman and Lu 2001).

While the country of origin shapes the inclination of MNCs to achieve global integration and the firm's structure and method of growth affect the constraints that they face in so doing, the last structural driver is arguably even more important in shaping whether MNCs want to globally integrate and transfer organizational practices in the first place: the extent to which processes of production and service provision are integrated on an international basis, and where they are, how this occurs. This is referred to here as the *extent and nature of the integration of subsidiary operations*. You will notice from the explanations below that this structural driver might also be classified as an 'industry effect' since certain structural configurations are more commonly found in specific industries (Ghoshal and Nohria 1993). Edwards *et al.* (2013) argue that while there may be tensions between global integration and local adaptation pressures, they are not always opposites. Instead, they view global integration occurring across multiple levels within the MNC. The first-order level (or 'upstream' level) comprises firm strategy and how business activities are interlinked, the second-order level includes issues relating to internal operating structures, and the third-order level (or 'downstream' level) concerns how functions such as HR are organized internationally. While interdependent, greater global integration at one level does not necessarily mean greater integration at another.

For MNCs pursuing the international integration of subsidiary operations, this can take two primary forms, each of which has quite different implications for the extent of overall global integration. One of these is 'replicated production' in which units in different countries perform very similar operations. Examples of this are the large consultancy firms such as Accenture and IT service providers such as IBM, which are increasingly offering standardized services in different countries. In this case, the similarity in the nature of the operating units means that the HQ has a clear incentive to spread practices throughout its operations in order to apply lessons learned in one unit to other units in the MNC and to develop common policies to encourage the mobility of staff across their operations.

The other variant of integrated subsidiary operations is 'segmented production', which involves units in different countries performing distinct functions within a corporate production process. Gereffi (1999) uses the term 'global commodity chains' (GCCs) to describe the way in which segmented production can occur. Gereffi distinguishes between two types of GCC. First, 'producer-driven commodity chains' are 'those in which large, usually transnational, manufacturers play the central roles in coordinating production networks' (see Figure 5.1). These are characteristic of capital- and technology-intensive industries such as cars and computers. The way in which the Japanese motor firms have broken up the production of a car so that different parts of the process take place in different Asian countries is an example of this. Second, 'buyer-driven commodity chains' are 'those industries in which

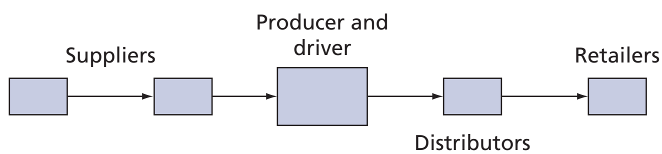

Figure 5.1 Producer-driven chains

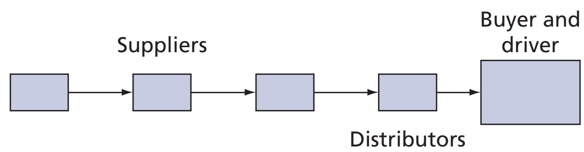

Figure 5.2 Buyer-driven chains

large retailers, designers and trading companies play the pivotal role in setting up decentralized production networks in a variety of exporting countries' (see Figure 5.2). This type of chain is found in labour-intensive consumer goods sectors such as clothing, household goods and consumer electronics. Firms like Nike and Gap, for example, have established this type of chain. In both these types of 'segmented production' chains, the incentive to integrate practices is significant also, but different in nature from those associated with replicated production. Some coordination between these links in the chain is necessary, meaning that management has an incentive to ensure that there are cross-national teams of key staff, such as those in logistics and R&D, for example. However, since the functions performed in different countries are quite distinct from one another, there is very little incentive to harmonize the firm's approach to managing most occupational groups (Edwards *et al.,* 2013). One of the limits to the standardization of HR policies across borders has been the acceleration in the distribution of MNCs' operational responsibilities to various third parties, leaving MNC structures to become more accurately described as 'differentiated networks' (Nohria and Ghoshal 1997). In many industries like automobile manufacturing and pharmaceuticals, MNCs in a relatively short period of time have gone from being 'doers' to 'integrators' in a value net. The rise of multi-employer networks and the blurring of organizational boundaries raise several important questions, and potential obstacles, for HRM integration (e.g. Marchington *et al.* 2011). Unfortunately, HRM issues associated with international subcontracting and outsourcing are not well understood (Welch and Björkman 2015).

Having identified a comprehensive list of environmental, strategic and structural drivers of global integration, it is worth noting that there is a weakness in this approach of implying that outcomes (i.e. global integration) follow unproblematically from these drivers. This is picked up in the next chapter and is based on arguments presented in Chapter 4 that there are various organizational actors involved in the integration (or 'diffusion') process, who will draw on their sources of power to further their own interests and thus encourage or obstruct integration efforts.

Drivers of global HRM integration

The drivers discussed so far could apply to a wide range of MNC activities or business functions. The purpose of this section is to highlight additional drivers of global integration that are more HRM-specific. It is worth pointing out here that some argue that integration (and its associated drivers) really have their roots at the business function level (Kim *et al.* 2003). Thus, we equally need to look at how the HR function itself *contributes* to the process of globalization, and therefore global integration, in addition to how it might be affected by it. However, the HR function is not one we would typically consider as being very globalized.

In their survey of HR professionals, Sparrow *et al.* (2004: 59–60) identified five 'organizational drivers' behind the globalization and functional re-alignment of HRM. Touching on some drivers already mentioned elsewhere, they comprised efficiency orientation (centralization and outsourcing of business processes), the creation of core business processes, building a rapid global presence (including the e-enablement of management), information exchange, organizational learning and partnership (including knowledge management), and the localization of decision-making.

A further driver of global HRM integration relates to the belief by top management that HRM is a key source of competitive advantage. Studies show, for example, that when an MNC's top management places significant value on their HRM practices as part of their achieving superior performance, the integration of those HRM practices into their foreign subsidiaries is much more extensive than in the subsidiaries of MNCs which do not (Beechler and Yang 1994; Bae *et al.* 1998).

Another HRM-specific driver concerns perceptions of internal equity. The argument here is that if HRM policies and practices are carried out in much the same way in all MNC locations, subject to some minor local adjustments, then MNC employees will feel as though they are being treated equally and thus fairly (Rosenzweig and Nohria 1994). Of course, one can think of several cases where being treated the same is not likely to result in perceptions of fairness (e.g. individual, performance-related pay in a collectivist culture or conducting all managerial appraisals in English), but global HRM processes and policy frameworks are nevertheless argued to be more equitable than adhering to a multitude of different criteria or processes, and can serve as a form of horizontal coordination (or 'organizational glue') that makes it easier to reinforce common standards, behaviours and values (Evans *et al.,* 2011).

From an evolutionary perspective, the required organizational levels of integration now necessary to execute global strategies have led to calls for a strategic global HRM agenda (Kiessling and Harvey 2005). That is to say, the HR function is being pressured to become more globally integrated in order to support corporate MNC strategies and follow suit with the activities of other business functions that have already become more globalized (e.g. manufacturing and procurement). Supporting this evolutionary view, Sparrow *et al.* (2004: 62) assert that the global HR function 'is both dependent upon and will be shaped by the globalising activity of two contiguous functions' – information systems, and marketing and corporate communications.

Taylor (2006), on the other hand, argues that global HRM integration is becoming more desirable due to a greater focus on the leverage of knowledge and organizational learning (or social capital) within the MNC's internal network, together with increasing pressures on MNCs to address the 'sustainability' agenda, which will require the international HR function to integrate economic, social and environmental criteria (the so-called 'triple bottom line') into subsidiary HRM practices.

With regards to the impact of technology on global HRM, the introduction of electronic-HRM (e-HRM), together with the associated standardized HRM processes supported by integrative IT systems (e.g. SAP and Oracle's PeopleSoft) and 'pushed' by IT and HR consultants, has for some time been declared to be transforming the role of the HR function (Bondarouk and Ruël 2009; Stone and Dulebohn 2013). For some MNCs such as Shell, the global integration of HRM, partly facilitated by integrative technology and the creation of one global HRM system, has been a necessary step prior to the transfer of certain HRM processes to shared service centres (see Chapter 8 for a discussion of HR outsourcing). Three of the most commonly cited 'business case' drivers of these globally integrated e-HRM systems are, first, the reduction of HR transaction costs and headcount; second, the substitution of physical capability by leveraging digital assets in the sense that HR information can be used flexibly on an infinite number of occasions at little or no marginal cost; and third, the transformation of the HR 'business model' by e-enabling the HR function to provide strategic value to the business that it previously could not do, thus facilitating a movement away from transactional tasks to more strategic, business-driven roles (Martin *et al.* 2008). While the process standardization and cost-cutting objectives of many typical e-HRM initiatives tend to be achieved, the evidence for increases in HRM effectiveness and HR's involvement in more strategic roles is much less convincing (e.g. Ruël *et al.* 2004; Parry and Tyson 2011).

In reference to the 'control' objective of global HRM integration, three 'control-based' benefits of globally integrated e-HRM systems are: first, bureaucratic control by establishing procedural standards about how the system is used and thus how core HRM processes should be carried out; second, output control by communicating goals and monitoring them through an array of sophisticated management reporting tools; and third, control via centralization by restricting access rights and introducing layers of electronic transaction authorization (Smale, 2008).

It is unclear from existing research which drivers are having the most impact in pushing the global HRM integration agenda. However, an equally, if not more important, question is how MNCs should best go about achieving global HRM integration, a subject to which we now turn.

Tools of global HRM integration

The question of how management at HQ can influence a unit's or individual's behaviour to make it consistent with the overall goals of the firm is not a new one. However, it has certainly taken on added significance in the context of geographically dispersed MNC operations where the dilemma of simultaneously achieving suitable levels of global integration and local responsiveness renders it much more complex. It is not surprising then that studies on the tools (or mechanisms) of integration have a long history.

Research on global integration shows that the number of integration mechanisms used by MNCs and their degree of subtlety have both increased over time (Martinez and Jarillo 1989). In addition to the bureaucratic and personal mechanisms of control, MNCs have been actively using other forms of lateral or 'unobtrusive' (Edwards 1998) types of integration mechanisms, such as cultural control (Baliga and Jaeger 1984) and normative integration (Ghoshal and Nohria 1989) in order to harmonize cultural differences between foreign affiliates. Over time, we have witnessed MNCs becoming more adept at deploying complementary mechanisms that draw upon, for example, organizational context (Prahalad and Doz 1981), socialization and networks (Harzing 1999), and even emotional integration (Ghoshal and Gratton 2002).

In view of the extensive portfolio of integration tools that MNCs can now deploy, several attempts have been made to categorize these tools using different criteria. This has led to discussions about the relative merits of different types of integration mechanism. We concentrate here on classifications rooted in the control and coordination literature, which has represented the theoretical foundation of most studies conducted on global integration.

Types of global integration tool

Much of the early research on integration tools in MNCs approaches the issue from a control perspective and the ways in which an MNC can be managed so that it achieves its objectives (Ouchi 1979). The control-based classifications of integration mechanisms that have followed generally acknowledge there are two fundamental targets of control – output or behaviour – and two different means of controlling them – directly or indirectly. Harzing and Sorge (2003) present four major types of corporate control mechanisms based on combinations of whether the mechanism is direct/explicit or indirect/implicit, and personal/cultural or impersonal/bureaucratic/technocratic (see Table 5.1). Kim *et al.* (2003), on the other hand, present four 'global integration modes' – centralization-, formalization-, information- and people-based modes – which we will discuss in more detail in connection with the research on their usage in integrating HRM.

Centralization-based integration mechanisms (cf. Harzing and Sorge's centralization and direct supervision) refer to where decision-making authority resides at MNC headquarters and are argued to be particularly effective in producing global scale, scope and learning efficiencies. As a means to integrate HRM specifically, empirical studies have shown HQ authority to be most frequently exercised in determining senior management pay, recruitment and development (Edwards *et al.* 1996) as well as in making decisions on financially sensitive HRM issues like headcount and salary expenditure (Martin and Beaumont 1999). In general, however, studies have found centralization-based tools of HRM integration to be uncommon when compared to other more 'unobtrusive' tools (Edwards 1998). It has also been noted that the source of centralization in large MNCs can in fact lie at the regional, not global level (Ferner *et al.* 2004).

Formalization-based integration mechanisms (cf. Harzing and Sorge's standardization and formalization) refer to the codification and standardization of work procedures and policies on a global basis. The creation of global HRM policy frameworks by MNCs is increasingly commonplace (e.g. Morris *et al.* 2009). However, while some studies describe

Table 5.1 Classification of control mechanisms

	Personal/cultural (founded on social interaction)	***Impersonal/bureaucratic/technocratic (founded on instrumental artefacts)***
Direct/explicit	Centralization, Direct Supervision, Expatriate control	Standardization, Formalization
Indirect/implicit	Socialization, Informal Communication, Management Training	Output Control, Planning

Source: Harzing and Sorge (2003).

global HRM policies as a means of creating a common language across foreign subsidiaries (Hetrick 2002), others argue that formalization efforts are dependent on other less formal 'social' control mechanisms for their overall effectiveness (Ferner 2000).

Information-based mechanisms (cf. Harzing and Sorge's output control and planning) include those tools which facilitate the international flow of information, whether it is via simple databases or via more complex electronic data interchanges. In essence, information-based integration is intended to be a means for HQ to communicate and regulate information that is central to strategic decision-making and thereby influencing the choices made by subsidiary managers. This tool of integration is likely to be most effective when the parent has to transmit information in large quantities, in a short period of time or when the information can be easily interpreted. As mentioned above, MNCs have been shown to use e-HRM systems to establish procedural standards about how HRM processes are carried out, to communicate HR goals and monitor them, and to introduce different levels of access rights and transaction authorization. Several other studies indicate that MNCs are rolling out e-HRM systems with similar integrative roles in mind (see e.g. Ruta 2009; Heikkilä and Smale 2011).

Lastly, *people*-based integration (cf. Harzing and Sorge's expatriate control and informal communication) involves person-to-person interaction facilitated through meetings, teams, committees, the use of integrators, and the transfer of people across units. People-based integration is considered most effective when involving tacit forms of knowledge that are best conveyed face-to-face. In terms of people-based integration of HRM, while some studies reveal the significance of expatriate presence in establishing subsidiary HRM practices that closely resemble the parent's (Rosenzweig and Nohria 1994; Björkman and Lu 2001), others describe the multifaceted integrative roles that expatriates play, including that of 'role model', 'coach' (Hetrick 2002), 'boundary spanner' (Johnson and Duxbury 2012), transferor of HRM-related knowledge (Chang and Smale 2013), and how different forms of mobility can help in the creation of cross-unit social ties (Bozkurt and Mohr 2011). In addition to expatriation, HRM practices are integrated through the global or regional networking activities of HR professionals who come together to share ideas and best practices (Sumelius *et al.* 2008). The integration of HRM in this group format has been on the increase in connection with the rise of less rigid networking and knowledge transfer 'spaces' such as HR Communities of Practice and Centres of Expertise (Ulrich *et al.* 2008).

One type of integration mechanism that appears in Harzing and Sorge's (2003) classification but not in Kim *et al.*'s (2003) is that of socialization. Socialization, or corporate socialization, refers to the establishment of a strong corporate culture around a shared set of values, objectives and beliefs across MNC units (Nohria and Ghoshal 1994). The use of organizational culture by MNCs as a mechanism of control to change the work values of host-country employees has also been referred to as organizational acculturation (Selmer and de Leon 2002). This form of integration shares many similarities with the construction of a shared organizational identity that attempts to foster a shared sense of 'who we are' (e.g. Pratt and Foreman 2000), which in MNCs may mean strengthening both corporate and local subsidiary values, i.e. dual identification (Smale *et al.* 2015). While some are questioning the viability of this type of soft, informal mechanism of control (e.g. Welch and Welch 2006), recent case study evidence shows that many leading European, North American and Asian MNCs have to some extent attempted to integrate corporate culture or values into their HRM tools and processes (Stahl *et al.* 2012). In other words, MNCs are using HRM practices as a means through which to integrate corporate values throughout their foreign subsidiaries (e.g. by including the values in recruitment and appraisal criteria) (Evans *et al.* 2011). However, few MNCs seem to succeed at building an organizational culture that is globally integrated yet flexible enough to accommodate local variations (Levy *et al.* 2010).

Patterns of HRM integration

While classifications like the above make us aware of the range of integration mechanisms at the MNC's disposal, they do not provide us with answers to the questions of: (1) how they are used collectively (i.e. are they complementary or substitutes?); (2) which ones are most important in the integration of HRM (e.g. compared to the integration of marketing or manufacturing); and (3) why MNCs are likely to place different emphasis on their use. This section summarizes what research to date has to say on these issues.

First, considering how integration mechanisms are used collectively, it is the general consensus that MNCs use multiple mechanisms in combination at different levels of intensity, otherwise referred to as a 'systems' approach (Kim *et al.* 2003). Also in the HRM literature, we see MNCs using a diverse array of direct and indirect mechanisms in combination and at varying strengths (Smale 2008; Morris *et al.* 2009), suggesting that HRM integration mechanisms too are used as complements, not substitutes. In addition, there is intra-MNC variance in the usage and emphasis placed on certain mechanisms, indicating that the uniqueness of HQ-subsidiary relations requires HRM to be integrated in a number of different ways (Edwards *et al.* 1996). Patterns of mechanism usage are also found to differ between MNCs of the same nationality (Wolf 1997).

In terms of which mechanisms are more important in the integration of HRM, we have already pointed out above that centralization-based methods are relatively uncommon and are generally reserved for a few selected areas of HRM. We are also aware that information-based mechanisms in the shape of 'integrative' e-HRM technologies are on the rise. In addition, the role of expatriates as a people-based mechanism has been shown to be pivotal, and potentially problematic, in their role of HRM knowledge and practice transfer (Chang and Smale 2012). Subsidiary HR departments and managers also shape how integration mechanisms are used, determined by their level of HR competence and what Morris *et al.* (2009) refer to as a subsidiary's 'replication capability', their relationships with subsidiary top management and corporate HR, and their networking activities with other local HR professionals working in other MNCs (Sumelius *et al.* 2008). Answering the question about which mechanisms are more important, however, may also require us to distinguish between individual HRM practices. Based on the assumption that some HRM practices are easier to integrate than others (Lu and Björkman 1997; Myloni *et al.* 2007), MNCs are shown to use integration mechanisms to different extents across individual HRM practices (Smale *et al.* 2013).

The answer to the third question of why MNCs are likely to place different degrees of emphasis on their usage of different mechanisms is much less clear. Despite a wealth of research on control in MNCs, attempts to explain or predict patterns of mechanism usage remain largely inconclusive. Although there is evidence of some country-of-origin effect (Harzing and Sorge 2003), we are not sure of the selection criteria MNCs use when configuring their tools of integration. One potential reason for this is the arguably false assumption that management at HQ alone decide how integration will take place. In reality, integration is argued to be a highly contested and political process, characterized by the use of power resources by both HQ and subsidiary management (Martin and Beaumont 1999; Ferner *et al.* 2005). For example, Ferner *et al.* (2004) show that subsidiary management's ability to leverage their role as 'interpreters' of the local context can act as a powerful means of resisting centralization- or formalization-based attempts at HRM integration. The 'political' nature of HRM integration (or 'diffusion') is discussed in more detail in Chapter 6.

Achieving global HRM integration

So far in this chapter we have discussed the key aims behind global HRM integration, the reasons why global HRM integration is becoming more desirable, and the different tools through which integration can be facilitated. One important issue that remains, however, is how we assess the effectiveness of global HRM integration in MNCs.

Common to most studies of HRM in MNCs are attempts to explain variations in the extent to which HRM practices found in subsidiaries resemble those of the parent (denoting integration) as opposed to those of local firms (denoting differentiation) (see e.g. Rosenzweig and Nohria 1994; Björkman and Lu 2001). Indeed, the majority of the empirical literature is set against the associated global-local dilemma (for reviews, see Edwards and Kuruvilla 2005, and Festing and Eidems 2011). It has not been until recently that the weaknesses of assessing the degree of global HRM integration in this way have been highlighted. This section discusses these weaknesses under the headings of conceptual weaknesses and methodological weaknesses.

Turning to the *conceptual* weaknesses, reliance on the degree of resemblance to parent practices as an indicator of integration is problematic for a couple of reasons. The first is to do with the term 'resemblance'. Resemblance implies, and often entails in empirical work, an analysis of statements concerning whether the HRM practices that exist in the subsidiary are similar or dissimilar to those found in the parent. The conceptual bone of contention here is whether we (or HQ management) are satisfied that global integration has taken place when a similar HRM practice 'exists' in the subsidiary. Even if a practice exists, this tells us nothing about the extent to which subsidiary personnel value the practice or even use it. Kostova (1999) argues that the successful transfer of an organizational practice should instead be defined in terms of its institutionalization, that is, the extent to which recipient employees have both implemented *and* internalized the practice. Whereas 'implementing' refers to the adoption of formal rules, 'internalizing' means attaching symbolic meaning and value to the practice (Björkman *et al.* 2011). This stricter conceptual definition of transfer is argued to be necessary given a subsidiary's scope to respond to the transfer in the form of different patterns of adoption ranging from 'active' to 'ceremonial' (Kostova and Roth 2002). Björkman and Lervik (2007) expand on this definition of transfer success to include the 'integration' of the practice in the recipient unit. In addition to implementation and internalization above, they define integration to mean the degree to which 'a transferred practice is connected and linked up with existing routines and practices' (ibid.: 322). Ahlvik and Björkman's (2015) study attests to the importance of these distinctions, since they find that formal control, HQ-subsidiary relations and subsidiary HR capabilities varied in their effectiveness in achieving HRM implementation, integration and internalization.

The second conceptual weakness concerns the term 'parent'. Although when talking about global integration and the mechanisms of integration it is common for us to refer to the parent as the source of HRM practices and the instigator of integration efforts, we could question whether global integration cannot originate from elsewhere. For instance, the study by Pudelko and Harzing (2007) reveals that some foreign MNC subsidiaries are just as likely, if not more, to integrate HRM practices from a 'global' best practices model (the dominance effect) rather than the parent's. Furthermore, an exclusive focus on parent resemblance is going to obscure the identification of global integration that may have taken place via 'reverse diffusion', that is, the integration of subsidiary HRM practices into the parent and other foreign units (e.g. Edwards 1998). This is discussed further in Chapter 6. One final criticism of the 'parent' vs. 'local' resemblance indicator, is the misleading assumption that it is always an either/or question, when in fact it is not. In a longitudinal study of HRM practices found in MNC subsidiaries in China over a ten-year period from 1996–2006 (Björkman *et al.* 2008), the HRM practices in MNC units located in China had come to increasingly resemble both the practices found in local firms *as well as* the practices found at MNC headquarters. This can be interpreted as MNCs having been successful in integrating some of their parent HRM practices into their Chinese subsidiaries, whilst during the same time period those Chinese subsidiaries have modelled their HRM practices on other local firms, 'local' firms crucially including the Chinese subsidiaries of other MNCs. In this sense, pressures for the global integration (parent resemblance) and local differentiation (local resemblance) of HRM are not always in conflict.

In terms of *methodological* weaknesses one could argue that many of the existing studies on HRM in foreign subsidiaries have not asked the right people the right questions. For example, when asking subsidiary top managers to comment on the resemblance between subsidiary and parent HRM practices, we are making the assumption that these respondents have in-depth knowledge of both. If those who are asked are expatriates, then we might expect this to be the case, although this is of course no guarantee, especially if they have no background or interest in HR (Chang and Smale 2013). If those who are asked are host-country nationals, including those who have never visited HQ, then basing the measure of integration on their responses may also prove to be misleading. Asking respondents to comment on the resemblance between subsidiary and 'local' HRM practices is more problematic still, since we often lack sufficient information on the kinds of 'local firms' on which the respondents are basing their comparisons (e.g. leading MNCs, state-owned enterprises, or small entrepreneurial firms).

In terms of asking the right people, many of the survey-based studies on HRM in MNCs have suffered from single-respondent bias in the sense that findings are based on the sole responses of either corporate *or* subsidiary representatives (cf. Ahlvik *et al.* 2015). More specifically, the exclusive use of HR policy-makers such as HR professionals and top management as key informants have not allowed us to draw accurate distinctions between what is 'intended' by HQ versus what is actually 'implemented' lower down in foreign subsidiaries (Khilji and Wang 2006). Together with conceptual ambiguity regarding whether HRM practices are implemented, internalized or integrated, we may not know as much as we think about HRM practices in foreign subsidiaries, and thus the true extent of global HRM integration in MNCs.

Recent suggestions to address these conceptual and methodological weaknesses have included a focus on the perceptions of different HRM stakeholders. By studying differences in perceptions of HRM practices and differences in their perceived effectiveness (see e.g. Mitsuhashi *et al.* 2000; Farndale and Paauwe 2007; Zhu *et al.* 2013), it is hoped that we can avoid the 'intended' versus 'implemented' dilemma and move towards a deeper understanding of what is 'espoused' versus 'experienced' (Wright and Nishii, 2013) that includes the reactions of subsidiary employees to the global integration of HRM.

BOX 5.1

Globally integrating diversity management at Transco

An underlying assumption in the field of international HRM is that unlike the practices attached to other business functions, HRM practices are among the most culturally and institutionally embedded in national contexts and are thus the most difficult to integrate globally, typically requiring high levels of local adaptation (Morris *et al.* 2009). This would especially seem to be the case for the HRM practice of diversity management, the global integration of which has been shown to be problematic even between the US and the UK (Ferner *et al.* 2005), which we are led to believe have broadly similar institutional arrangements.

In the mid-1990s, Transco, a well-known European MNC operating in over 100 countries and employing more than 100,000 people, underwent significant organizational restructuring that saw the launch of its new 'Global Organization'. This represented a distinctive move away from its previous diversified strategy and multi-domestic orientation. This new 'global' approach included the streamlining of its core businesses, a matrix structure organizational design, and far-reaching efforts at process standardization. In terms of global HR strategy, this has translated into aims of greater standardization of HRM processes and the creation of a globally integrated HRM system.

Commencing in 1997, Transco introduced a global workforce diversity management (DM) drive as an extension of their global business principles and a reinforcement of their existing core values. The 10-year global integration plan sought to integrate diversity and inclusiveness into key business and HRM practices throughout their worldwide operations. In doing so, Transco aimed to attract and retain key global talent, allow for a clearer focus on diverse customers and markets, to increase productivity through improved employee engagement, and to strengthen their reputation within the global community.

Representing one of the smallest foreign units, Transco Finland was established nearly 100 years ago and employed over 1,700 people. Along with several other select European operations, Transco Finland was included in the first European wave of DM integration which began in early 2003. In terms of the Finnish national context for workforce diversity, Finland could be characterized as somewhat bipolar. On the one hand, the appreciation of individual differences, such as ethnicity, cultural background and sexual orientation, remained relatively under-developed, in part, due to Finland's relative cultural, racial, religious and linguistic homogeneity in the past. On the other hand, Finland was also representative of a Nordic welfare state that emphasized an inclusive political ideology, which has served to promote with good effect certain aspects of diversity. Perhaps the best example of this is gender equality where Finland earned third position in the most recent Global Gender Gap Report published by the World Economic Forum.

Since Transco's global DM policies and practices were largely based on the 'successful' US subsidiary's model, Transco's global DM integration was perhaps better described as involving, first, 'reverse diffusion' from the US subsidiary to Transco headquarters, and then 'forward diffusion' throughout the rest of the MNC. From the outset, the global integration of Transco's global DM practices to the rest of the MNC involved a significant investment in infrastructure and resources, reflected in the vast array of integration mechanisms used.

In terms of *people*-based mechanisms, Diversity Coordinators were deployed who had full working responsibility for the integration of DM into the Finnish subsidiary. In addition, 'Diversity Auditors' were dispatched to monitor DM integration progress and all local line managers were brought to the European headquarters for centrally delivered diversity training. Regarding *information*-based mechanisms, the Internet was used to publish Transco's global values and commitment to managing diversity, and included its progress for the benefit of diverse stakeholder groups. The corporate intranet was extensively used in storing large volumes of diversity-related information, training material, organizational surveys and leadership self-assessment tools. *Formalization*-based mechanisms were the most extensively used, appearing to indicate that this was being treated as somewhat of an assurance process. Indeed, the local CEO had to sign an annual Diversity Assurance Letter, confirming how far the subsidiary had come in working towards agreed targets. Other formalization-based mechanisms included the integration of corporate diversity values (evidence of socialization) and global DM policy frameworks into regional diversity plans. Based on these plans, diversity and inclusiveness performance criteria were then formally integrated into unit- and individual-level balanced scorecards. Lastly, *centralization* was not used to a great extent but did take the form of target setting and plans that were centrally determined by the corporate-level Diversity Council and Diversity 'Steering Group'. While these bodies were strict about the standardization of Transco's DM values and global policy framework, they allowed room for local decision-making in how the values, policies and plans were to be implemented.

Subsidiary employee reactions to global DM integration were mixed. The polarized nature of the Finnish context for workforce diversity meant that while the integration of values and practices concerning gender equality was considered to be 'like cracking a nut with a sledgehammer', the integration (and open discussion) of diversity issues such as sexual orientation, religion and ethnicity were slow and, at times, painful processes. Since DM is arguably one of the most contextually embedded practices that an MNC can seek to transfer and integrate across borders, and since meaningful DM diversity interventions require changes in both individual and organizational attitudes and behaviours, we might have expected people-based tools of integration to be the most widely used. However, this form of global integration was not as common as the various forms of DM formalization. While we might question the ability of formalization-based tools to bring organizational and individual DM practices in line with the rest of the MNC, it was these tools that appeared to be the most effective in forcing Transco employees and managers to think about everyday diversity issues when self-initiative was not forthcoming.

On the whole, it seemed that Transco Finland had been fairly successful in the routine 'implementation' of DM policies and practices and their 'integration' with other HRM practices, but it had made much less progress in their 'internalization' to the extent that subsidiary managers and employees all believed in their value and application.

For further details, see:

Sippola, A. and Smale, A. (2007) 'The global integration of diversity management: a longitudinal case study', *International Journal of Human Resource Management,* 18(11), 1895–916.

Smale, A., Björkman, I., Säntti, R. and Sivasubramanian, N.B. (2016) 'Implementing a global diversity management initiative in Finland', in L.C. Christiansen, E. Farndale, B. Kuvaas and M. Biron (eds) *Global Human Resource Management Casebook* (2nd edition), London: Routledge.

Review Questions

1. Based on what we know about (a) the relative strengths and weaknesses of different integration tools, and (b) the aspects of individual HRM practices that make them more or less susceptible to global integration, how would you evaluate Transco's efforts at integrating diversity management into the Finnish subsidiary?
2. How would you have done it differently?

Conclusion

This chapter has presented the key arguments for the global integration of HRM (the 'why'), outlined the ways in which MNCs try to and can facilitate global HRM integration (the 'how'), and critically discussed how we can assess the effectiveness of global HRM integration in MNC subsidiaries.

All this has pointed to several interesting questions. First, while we are led to believe that the forces of globalization are turning MNCs' attention towards the integration side of the integration-differentiation dilemma (Ghoshal and Gratton 2002), it is unclear how far this will extend to the most contextually embedded set of business practices – HRM. The existing drivers connected to globalization, sustainability and organizational learning will further promote the attractiveness of global HRM integration, but there does not exist much large-scale empirical research on whether MNCs are following this path. Studies on HRM in MNC subsidiaries have traditionally focused on 'structural' explanations that include a range of home country, host country, MNC, and subsidiary factors. An often neglected factor is the mechanisms through which HRM practices are integrated throughout the MNC. This chapter has highlighted that we know much more about the types of mechanisms used, compared to the questions of how they are used and why. Perhaps more importantly, we have a limited understanding about the impact of integration mechanism usage on HRM integration, organizational and individual outcomes.

Some tools of integration have been in use for decades, while others have only recently gained in popularity. Two of these that are likely to shape HRM integration in the future are e-HRM and its associated 'integrative' technologies, and the use of corporate values (i.e. socialization). Sitting at opposite ends of the spectrum in terms of their directness of approach, rigid integrative HRM systems continue to represent an interesting test of the limits of global HRM integration, whereas the fostering of cultural integration via the use of values-based HRM practices (Smale *et al.* 2015) is likely to provoke a certain amount of scepticism or cynicism from subsidiary personnel.

As in any field of study, there is always scope for more improvement, whether it is in the form of greater accuracy in what we are measuring or a more nuanced perspective from which to try and understand something. In studies of global HRM integration, this chapter has highlighted a need for stricter definitions of 'global integration' that include the notions of 'internalization' and 'integration', as well as for methodological considerations into what we ask from whom. To assist in making this happen, future research needs to make use of more multilevel IHRM research (Björkman and Welch 2015), more sophisticated modelling techniques (Wright and Nishii 2013), 'richer' qualitative case study methods (Martin and Beaumont 1999), and more cross-cultural researcher collaboration (Edwards and Kuruvilla 2005). It is possible that when subjected to this level of scrutiny, we find that the global integration of HRM and the associated transfer of HRM practices is not quite as straightforward as presented here, as we discover in Chapter 6.

Review questions

1 (a) What are the key drivers of global HRM integration? (b) Which drivers do you think are currently the most influential and which drivers do you think will be the most influential in the future, and why?

2 What tools of global integration can MNCs use to achieve tighter HRM integration among their foreign subsidiaries, and what kinds of things are likely to determine their effectiveness?

3 What conceptual and methodological issues need to be taken into account when studying HRM integration (or transfer) in foreign MNC subsidiaries?

Further reading

1 Evans, P., Pucik, V. and Björkman, I. (2011) *The Global Challenge: International Human Resource Management* (2nd edition). Boston: McGraw-Hill, Chapter 4, 'Achieving Global Integration', pp. 123–69.

Presents the business advantages of global integration, the tools of global integration and how to implement globally integrated strategies. Places particular emphasis on the roles of expatriates and includes interesting cases and several references to further reading.

2 Festing, M. and Eidems, J. (2011) 'A process perspective on transnational HRM systems: a dynamic capability-based analysis', *Human Resource Management Review,* 21(3), 162–73.

Good review of the global standardization-local adaptation dilemma in HRM with an emphasis on the strategic processes involved in balancing capabilities. Includes a presentation of global integration tools ('IHRM balancing process devices') classified by social presence and their emphasis on information versus communication.

3 Ahlvik, C. and Björkman, I. (2015) 'Towards explaining subsidiary implementation, integration, and internalization of MNC headquarters HRM practices', *International Business Review,* 24(3), 497–505.

Discusses the different dimensions of practice transfer – implementation, integration and internalization – and studies the effects of different organizational factors (formal control, HQ-subsidiary relations and subsidiary HR capabilities) in achieving them.

4 Zhu, C.J., Cooper, B.K., Fan, D. and De Cieri, H. (2013) 'HR practices from the perspective of managers and employees in multinational enterprises in China: alignment issues and implications', *Journal of World Business,* 48(2), 241–50.

Picking up on the issue of integration effectiveness, this study examines the degree of alignment between managers and employees in MNC subsidiaries regarding their knowledge of HRM practices, their experience of these practices, and their perceived effectiveness.

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Chapter 6

The transfer of HR practices in MNCs

Tony Edwards, Chris Rees and Miao Zhang

Key aims

The aims of this chapter are to:

- examine the features of the host environment that inhibit diffusion, or require that practices be altered to fit local conditions;
- consider the possible directions in which practices flow across a multinational;
- investigate the organizational characteristics of MNCs that promote or hinder diffusion, particularly the nature of integration;
- examine the processes of diffusion, focusing on the relationships between actors at different levels of the organization.

A central theme so far in this book has been the opportunities and challenges that differences between national business systems pose for MNCs. For instance, in Chapter 4, we saw how these differences have led to a number of organizational forms being adopted by MNCs, none of which provide a completely satisfactory structure with which to deal with the various pressures that they face. One key element of many of these organizational forms, particularly the much-vaunted 'transnational' structure, is the emphasis placed on the diffusion of practices across a firm's international operations. Similarly, in Chapter 5, we examined the motivations for global integration and how this may be achieved; in doing so, we noted that there are clear implications of greater integration for the transfer of HR practices.

In this chapter, we consider four specific aspects of the diffusion of practices. First, are some employment practices more readily diffused than others? And in what ways are practices amended to fit a new environment? Second, from which national business systems are practices likely to emerge? And, relatedly, which units are likely to be the recipients of diffusion? Third, are some MNCs more likely to transfer practices across their operations than others? What are the characteristics of integration in particular that predispose MNCs towards engaging in the transfer of practices? Fourth, through what mechanisms and channels are practices transferred? How do various organizational groups persuade and cajole others into accepting the transfer of practices?

In addressing these questions, we view differences in national business systems as at the same time enabling and constraining the transfer of practices. These differences are a prerequisite for transfer since without the diversity of practices that result from distinct national systems, there would be little incentive to look to diffuse practices across sites in different countries. There is a parallel here with Gray's (2002) argument that globalization is brought about by variations in national forms of organizing economic activity; if it was not for these variations, Gray argues, there would be little incentive for economic activity to cross borders. Differences between national systems also constrain the scope for diffusion, however, since they act as a force for MNCs to adapt to local conditions. In this way, 'varieties of capitalism' simultaneously create and close off scope for diffusion (Clark and Lengnick-Hall 2012; Edwards *et al.* 2013). Moreover, diffusion within MNCs can be one force for change in national business systems themselves since the introduction of new practices can be subsequently diffused throughout a host economy. These themes run throughout the chapter.

The 'diffusability' of employment practices

Throughout this book we emphasize the 'embeddedness' of employment practices in particular national contexts. That is, practices originate and become established in a given legal, institutional, political and cultural context. To some extent, they are dependent on this context and cannot operate in a different environment. The extent of this dependence varies from one area of HRM to another; in other words, the 'diffusability' of some practices is higher than that of others.

The ease with which a practice can be diffused across a multinational is shaped partly by its dependence on 'supportive and distinctive extra-firm structures' (Hayden and Edwards 2001). These extra-firm structures can underpin the operation of a practice that would not function in their absence, and include such things as legal obligations on firms, institutions in the labour market, and the values, expectations and assumptions that characterize employment relations in a particular country. All employment practices, of course, are to some extent dependent on these legal, institutional and cultural 'props'. The ease with which a practice can operate outside its original home environment – in other words, the extent to which a practice is 'diffusable' – is determined in part by its dependence on these props.

One area of HR in which these props are central is training. Some aspects of a firm's approach to training are dependent on supportive institutions, an example of which is the 'dual' system of training in Germany. The role of the colleges, training bodies, employers associations and trade unions in administering, monitoring and certifying the system provides crucial support for firm-level practices; without these supports, firms are unlikely to find it feasible to operate such practices. Consistent with this, Dickmann's (1999, 2003) study of German multinationals showed that they have been constrained in their attempts to introduce German-style vocational training into their UK subsidiaries because the British economy lacks the 'broader business institutions necessary to underpin particular practices' (Edwards and Ferner 2004). Of course, some training practices, particularly those that are employer-led, are more diffusable in that they are less dependent on a set of supportive institutions.

The distinctive characteristics of the national contexts in which MNCs operate can also limit the diffusion of practices in a further way. Managers at the HQ of a multinational may seek to operate a practice in a number of countries but might be prevented from doing so by the legal, institutional or cultural ‘constraints’ of the country to which the practice is directed. Organizational actors in the recipient unit may try to resist its introduction and may use their legal powers, rights provided by institutions, or appeals to the importance of local ‘custom and practice’ in order to thwart the HQ’s plans (Almond and Ferner 2006). In this sense, some practices may not be ‘diffusable’ because of the constraints posed by the nature of the host business system.

One area where such constraints are notable is in relation to practices designed to secure greater numerical flexibility, which may have to be adapted to fit the prevailing labour market traditions in each country. For instance, the tendency to use part-time workers is dependent on there being a pool of workers willing to accept such jobs. Other forms of numerical flexibility, such as annualized hours, temporary contracts and changes in shift patterns, have to be negotiated with employee representatives, and a multinational’s ability to transfer them across its sites is clearly influenced by the attitudes and strength of organized labour in the countries in which it operates. However, these constraints clearly do not close off scope for diffusion altogether, particularly to those countries which are relatively deregulated and where unions are weak, and some evidence points towards MNCs being able to use their power to lever change in shift patterns (Martinez and Weston 1994).

In many instances, therefore, these constraints are partial rather than absolute: that is, managers at the HQ may be able to diffuse a practice, but it may need to be altered so that it can be implemented in the new business system. As Edwards and Ferner (2004) put it, a ‘practice may not operate in the same fashion in the recipient as in the donor unit but, rather, may undergo *transmutation* as actors in the recipient seek to adapt it to pre-existing models of behaviour, assumptions and power relations’. Thus, the formal substance of a practice may be diffused but the operation of this practice may differ between countries.

One illustration of this process is the adoption by many US-based automotive firms of Japanese forms of work organization over the last decade or so. Maccoby (1997) argues that, in implementing these practices, American companies have tended to attach less emphasis on the devolution of responsibility to teams of operators which characterizes the nature of teams in Japan, and instead have retained the distinctive supervisory relationships characteristic of their US-based operations. In a similar vein, Broad (1994) has shown how the British managers in a UK transplant of a Japanese multinational resisted moves by the parent firm to shift responsibility for quality to teams of operators, preferring to retain the right to take decisions in this area themselves. Broad (ibid.: 58) argued that this reflects the ‘traditional obsession of British managers with prerogative and secrecy’. A further example in Edwards and Zhang’s (2008) study of an American multinational showed how practices in the field of performance management were diffused to the Chinese operations but were adapted by local actors in ways that the parent company were not aware of. In all three cases, practices were diffused, but took on a different form in the new environment.

In a slightly different vein, practices that are transferred into a new environment may be adapted as different groups of employees perceive them differently. For instance, Zhu *et al.* (2013) examined MNCs operating in China and explored the degree of alignment between managers and employees with respect to their knowledge of HR practices, their experience of these practices, and their perceptions concerning the effectiveness of HR practices. Their findings uncovered a lack of alignment between managers and employees in how they viewed the operation and effectiveness of practices in the areas of performance assessment, recruitment and selection and career development.

Differences between national business systems, therefore, limit the diffusability of employment practices. This is partly because practices are dependent on the 'props' present in the system in which they originate, and partly because their introduction to other countries is subject to the 'constraints' posed by the recipient systems. We have also seen how practices can be modified, or 'transmuted', to fit the new environment. However, it is the differences between national business systems that also create the potential for cross-border diffusion in the first instance, as MNCs seek to gain a competitive advantage through transferring practices perceived as delivering improved performance across their operations. Are the practices that they seek to diffuse drawn from a wide range of countries, or are some countries likely to be the main 'suppliers' of such practices?

The hierarchy of economies and the diffusion of practices

In Chapter 4, we reviewed the evidence concerned with the influence of a multinational's original home base, arguing that there is a detectable 'country-of-origin effect'. That is, the ways that MNCs manage their international workforces are disproportionately influenced by their roots in the domestic business system. However, we also noted that this effect is not set in stone but rather evolves over time; in other words, it provides a strong influence on the decisions of actors in key positions, but leaves open the scope to draw on elements of other business systems in which the multinational operates. The way in which they seek to do so is shaped in part by the relative strength of these various national economies. A strongly performing economy is likely to attract attention from actors in senior positions in firms in other countries, creating a dynamic of emulation at the international level. This idea has been developed by Smith and Meiksins (1995), who argue that the international economy contains a hierarchy of national economies. Those countries whose economies have performed strongly are at or near the top of this hierarchy, and this 'dominant' position creates interest among actors in other countries in emulating the practices associated with these 'dominant' economies. A part of this interest can be in HRM, such as methods of work organization, systems of pay and appraisal, or practices in relation to employee development.

One example of these 'dominance effects' is the role of the American economy in the period after the Second World War. The USA emerged from the war with its military and political position enhanced, and its economy relatively unscathed. Thus American firms were in a strong position to grow in international markets, and did so partly through exporting and partly through engaging in foreign direct investment. The consistent growth in the American economy and the strength of many big American firms during the 1950s and 1960s led many to refer to the 'Pax Americana'. During this time, elements of the American business system were diffused – albeit often in amended form – to other countries. Hence, US MNCs were active in diffusing practices such as 'Fordist' forms of work organization, approaches to negotiating such as productivity bargaining, and formalized and standardized procedures in many areas of HRM (see Edwards and Ferner (2002), for a review). During this time, therefore, the USA served as a key source from which practices could be diffused.

During the 1980s, however, the performance of the US economy began to falter, and the perception that the American economy was dominant began to evaporate. Indeed, a whole raft of books, articles and reports were concerned with 'American economic decline'. The Japanese economy at this time was enjoying a sustained boom and large Japanese firms came to dominate many sectors. In automotive, for instance, firms such as Nissan, Honda and Toyota set up production sites in Europe and North America and increased their market share in these areas at the expense of indigenous firms. In electronics and financial services, similarly, Japanese firms grew in international markets. The strength of the Japanese economy led to great interest in 'lean production' – a set of practices including worker involvement in teams or groups which had responsibility for product quality and were designed to minimize waste and throughput time. The way in which these practices were implemented in the foreign subsidiaries of Japanese MNCs, and their adoption by western firms, became the subject of much attention (e.g. Oliver and Wilkinson 1992). Similarly, the German economy had recovered from post-war devastation to a status of one of the world's leading economies. German firms made great strides into international markets, particularly in sectors such as chemicals and engineering. Their success was widely ascribed to the operation of 'diversified quality production', a strategy of serving niche markets with high quality, customized products involving highly skilled workers (Streeck 1992). Towards the end of the twentieth century and in the first few years of the twenty-first, the situation has changed once again, with the new conventional wisdom perceiving the Japanese and German economies to be 'sclerotic' and unable to deal with the challenges of globalization while the American economy regained its hegemony, owing in part to its flexibility and apparent dynamism.

The idea of the 'dominance' of particular economies shaping the direction in which practices flow across borders has much intuitive appeal. However, in its simplest form, the dominance effects argument is open to two main criticisms. The first is that it rests on an assumption that rates of economic growth differ markedly between the major developed countries and that these differences reflect divergences in forms of economic organization. In fact, when growth rates from the beginning to the end of each economic cycle are compared (Table 6.1), the differences in rates of economic growth are not as great as is often assumed. For instance, while the 1970s and 1980s was seen as a period of economic

Table 6.1 Real GDP growth 1961–2013 (average annual percentage change)

	1961–73	*1974–84*	*1985–98*	*1999–2008*	*2009–2013*
US	4	2.2	2.9	2.6	2.33
UK	3.1	1.3	2.4	2.6	2.63
Germany	4.3	1.8	2.2	1.5	2.54
Sweden	4.2	1.8	1.5	2.8	2.83
Japan	9.7	3.3	2.6	1.4	1.23

Source: Hall and Soskice 2001:20; updated from US government statistics (www.ers.usda.gov).

decline by many in the USA, the growth rate of the American economy was actually higher than that in Germany, Sweden and the UK. Only compared with the Japanese economy was there a marked difference and even this was less significant than is often supposed. Similarly, while the popular perception in recent years of 'coordinated market economies' (CMEs) such as Germany and Japan has been that they are saddled with rigidities that harm economic performance, their growth rates in the last two economic cycles have not been too far behind the 'Anglo-Saxon' economies of the USA and the UK, while Sweden, another CME, has outperformed these countries.

The second criticism is that the notion of dominance risks reifying a national economy. That is, the incentive to emulate elements of a particular national business system creates a danger of implying that a country is characterized by a homogeneous set of structures and practices that operate across firms, and that companies in other countries can identify and seek to emulate these. This is, of course, not the case (Almond 2011). We saw in earlier chapters how national business systems contain important intra-national variations. In the USA, for instance, managerial style in HRM differs markedly across the economy: between those developed in the 'sun-belt' states, such as Texas, and those in the 'rust-belt' cities, such as Detroit; between 'welfare capitalist' and 'New Deal unionist' firms; between 'high-tech' firms embedded in areas such as the Research Triangle in North Carolina and the 'low-road' firms that compete on the basis of cost minimization. Thus two sets of managers in, say, the UK which both seek to emulate 'American' practice may have in mind quite different things.

These two points question the usefulness of the dominance effects approach. However, despite these criticisms, it retains some utility. We see dominance effects as a way of categorizing commonly held views by managers – as a management ideology, in other words. Viewed in this light, the notion of dominance captures the interest that exists among organizational actors, particularly senior managers, in emulating practices which originate in other countries. One particularly useful aspect to the concept is in helping to distinguish different forms of diffusion. In MNCs from 'dominant' or 'hegemonic' countries, this effect is likely to reinforce the country-of-origin effect, giving rise to 'forward' diffusion in which practices are diffused from home to host countries. Thus, as we have seen, during the 1980s and 1990s, much attention centred on the way in which Japanese MNCs exported some practices characteristic of the Japanese business system, notably 'lean production' and its associated employment practices, and the subsequent adoption by local firms of such practices (e.g. Whitley *et al.* 2003; Elger and Smith 2005).

However, in MNCs, which are not from 'dominant' or 'hegemonic' countries, diffusion can occur in the opposite direction; this has been termed 'reverse diffusion' and involves practices originating in foreign subsidiaries and subsequently being adopted in the domestic operations. This is particularly likely in MNCs in which key actors perceive their country of origin to exhibit weaknesses and other countries in which the firm has subsidiaries to have 'solutions' to these weaknesses. Where this is the case, these actors can use their foreign subsidiaries in 'dominant' systems, such as the USA. Alternatively, in other countries that have been open to the influence of these dominant systems through high levels of foreign direct investment, such as the UK, to learn about new practices (Edwards *et al.* 2015).

The shift in the conventional wisdom during the 1980s and 1990s towards a view that the deregulated, market-based Anglo-Saxon economies have provided a stronger platform for growth than the institutionalized economies of continental Europe and Japan is associated with a growing body of evidence that demonstrates that many continental European firms adopted structures and practices characteristic of the USA and the UK. For instance, many German MNCs used their British subsidiaries as sources of new practices, moving towards adopting performance-related bonuses for managers, identifying and developing 'high potentials' as a way of creating a cadre of 'international' managers, issuing an explicit set of values often referring to the importance of 'shareholder value', and implementing 'business re-engineering' programmes (Ferner and Quintanilla 1998; Ferner and Varul 2000; Tempel 2001). Similar moves towards the adoption of 'Anglo-Saxon' practices appeared to be evident in French MNCs (Mtar 2001; Thory 2008) and in a case study of a Swedish multinational (Hayden and Edwards 2001). The financial crisis of 2007–8 and the subsequent global recession took the shine off a model based on deregulated free markets somewhat, and it will be interesting to observe over the next decade or so how key actors in MNCs view the merits or otherwise of different national systems.

At a more fundamental level, the notion of dominance effects can be used to analyse the way that MNCs from developing nations operate. There is some evidence of Chinese MNCs looking to their subsidiaries in the UK for new practices that they absorb and transfer back to China as part of a process of catching up with the practices of the developed market economies (Zhang and Edwards 2007, and see the case study in Box 6.1).

BOX 6.1

CFS: adaptation, absorption or retention

CFS is a state-owned financial enterprise with over 1,000 domestic branches and 500 foreign subsidiaries and branches. There are two subsidiaries operating in the UK, one of which, Old-CB, has a long history in the country, while the other, New-CB, has only two years operating experience in Britain.

Old-CB was established in the 1940s. Until the1980s, it was a representative agent of the government and carried out financial services for Chinese exporting and importing businesses. It was strongly controlled by the government and had little link with the UK market. As a result, most staff in this branch were Chinese expatriates and very few were recruited locally. Most management practices were modelled on practices in China rather than those in the UK. For example, the staff in this subsidiary were employed with the 'job for life' status that was enjoyed by most professional employees in China. Moreover, the salary rose in line with age and tenure rather than performance, and there was only a modest gap in salary between top managers and the most junior staff.

The parent company, CFS, began to lose its monopoly position in China during the 1980s as the government gradually opened up the domestic market. Simultaneously, the firm began to expand internationally. As the oldest overseas branch, Old-CB was accorded a key role in extending the company's business into international markets from the early 1990s, losing its 'agent' status and becoming more autonomous. Its main task became to learn how to do business in a competitive environment, and a key part of this involved greater use of local managers and the adoption of local management practices in some areas. One such area is in the pay structure, with pay being linked to individual performance and the gap in pay between the highest and lowest earners rising significantly. Crucially, this subsidiary took on the role of training managers from the home country and other subsidiaries, setting up a training centre to run courses on a range of aspects of doing business in market environments. So far, the subsidiary has trained more than a thousand Chinese managers, including most top-level managers and heads of departments.

In relation to the important issue of training, therefore, the subsidiary has taken on a 'vanguard' status within the wider company, and it is evident that practices in this area are being 'reverse diffused'. However, the subsidiary does not have complete autonomy, and is still strongly controlled by the parent firm. Many top managers and over half the staff are Chinese or with a Chinese background, and a Chinese management style is still evident. British management practices have been applied mainly in the areas which are strongly shaped by the demands of the local labour market and regulations, such as the recruitment process and pay for non-managerial staff, but a Chinese influence was detectable on other types of HR practice. For example, the importance of harmony in work relations is still stressed, and the selection and pay packages of senior managerial positions remain controlled by the parent company.

New-CB's establishment was a key part of the global strategy of the parent company. At the beginning of its establishment, this subsidiary was intended to become the headquarters in Europe, in charge of the business of all other related subsidiaries and branches. According to the description of one of founders of this subsidiary, the UK was perceived as advanced in HR terms, making it an ideal base for this plant. CFS invested significantly in the subsidiary in the hope that it would serve as the basis for learning for the wider firm, and whether it made a profit or not was seen as secondary to its key task of absorbing local management practices.

In the first two years of its existence, this subsidiary used a strategy of 'localization' in HRM. That is, most top managers and all middle managers were British and HRM policies and practice were based on those of local companies. For example, recruitment, remuneration and appraisal systems were all modelled on those in place in similar organizations in the UK. Moreover, practices operating in this subsidiary were subsequently diffused to the HQ and to other sites. One example is that of an appraisal system that had been implemented in the site after senior staff learned about it in operation in a similar local UK company. Knowledge of this practice was passed to the HQ and given the status of 'best practice', with other subsidiaries expected to implement it. Thus this subsidiary also has a 'vanguard' role in transferring practices within the company.

From these two cases, it is clear that this Chinese multinational attempted to use a strategy of 'localization' to absorb UK management practice. However, the extent to which this process of 'reverse diffusion' occurred was constrained by various factors. For example, following the Asian financial crisis in 1997, the subsidiaries business was severely impacted and the parent company changed its previous plans, reducing the size and security of New-CB, and the HQ moved to establish greater control over staff remuneration, reducing the autonomy it previously enjoyed. Currently, this subsidiary is focusing on its own survival and cost reduction programme, rather than serving as a site for others to learn from. In this respect, the case study has much in common with that of AutoPower, considered in Chapter 4 ,as well as this one, in which attempts to establish a network of HR managers working collaboratively across borders was derailed by adverse trading conditions.

See Zhang (2001).

Question: Why might the internationalization process of Chinese companies such as CFS differ from those of other nationalities?

The evidence on the diffusion of practices, whether forward or reverse, raises again the issue of how practices operate differently in the recipient unit. We saw above how the transfer of Japanese-style practices led to changes in the way they operated as they were assimilated into a different institutional context and were interpreted differently by organizational actors at plant level. Similarly, the evidence concerning the reverse diffusion of Anglo-Saxon practices in German MNCs demonstrated that they were 'being assimilated in such a way as to change their significance' (Ferner and Varul 2000: 137). For example, the Anglo-Saxon emphasis on 'shareholder value' takes on a quite different meaning where shareholders are 'insiders' such as investment banks and families that have had close ties to the firm for a long period. Consequently, the authors argue that 'international "borrowings" from different business systems do not necessarily prefigure homogenization and convergence among national models' (ibid.: 137).

Thus, the hierarchy of economies creates a dynamic that shapes the direction and form of cross-national diffusion within MNCs, and this has the potential to lead to significant changes in the nature of HRM in subsidiary units. Given this, it is pertinent to ask whether all MNCs will engage in cross-national diffusion, or whether it is likely to be found in certain types of MNCs. Do the characteristics of MNCs, such as the way they are integrated, affect the incidence of diffusion?

Corporate characteristics promoting and hindering diffusion

The literature on the diffusion of practices within MNCs has produced some mixed, even contradictory, findings. For instance, some studies have shown broad similarities between the employment practices of foreign and local firms in a given national economy, while others have revealed marked differences which are attributed to diffusion from the centre of MNCs. One illustration of this is in Ireland where the work of Turner and his colleagues (2001), suggesting that foreign-owned firms have adapted their approach to fit in with the Irish system of industrial relations, contrasts sharply with other research (Geary and Roche 2001), claiming that the employment practices in foreign firms differ significantly from those in Irish firms. How can we make sense of such contrasting findings? One approach is to recognize that not all MNCs will look to diffuse practices across borders but that some key organizational features make it more or less likely to happen. We adopt this approach, focusing on the nature of integration that we came across in Chapter 5 and expanding on this.

Examining the extent and nature of integration provides grounds for understanding why some MNCs have little incentive to transfer practices across borders. One motivation for a firm to expand into other countries is to seek to achieve *financial economies* from autonomous sets of operating units. Hill and Hoskisson (1987) argue that an explanation for why firms derive financial economic benefits from diversifying into unrelated areas with little in the way of linkages between operating units or divisions can be found in the 'markets and hierarchies' paradigm developed by Williamson (1975) and others. From this perspective, the limitations of information flows in capital markets mean that the hierarchy of the firm may be a relatively efficient mechanism for managing business units that have little in common with one another. As Hill and Hoskisson put it (1987: 332–3), 'Firms pursuing a strategy of unrelated diversification can achieve a more nearly optimal allocation of resources, and "police" the divisions more effectively than the external capital market could if each division were an independent enterprise.' Thus, the attraction of growing internationally in this way is that the multinational firm acts as an 'internal capital market' (Marginson 1992; Edwards *et al.* 2013). MNCs pursuing financial economies operate as a series of 'stand-alone' sites that have responsibility for a particular product or service and have no operational linkages with other parts of the multinational. Consequently, they have considerable autonomy on employment practices; the HQ role is confined to pressurizing the managers of business units to produce good financial returns but it lacks either the inclination or the mechanisms to exert central influence on functions such as HR, leaving operating units to their own devices. Thus, in this type of MNC, which we might term *non-integrated,* there is little incentive to transfer practices across borders.

The purest form of non-integration appears to be relatively rare, and many high-profile diversified conglomerates, such as Hanson Trust, have been broken up into more focused businesses. Accompanying this, it seems there has been a growth of integrated MNCs which look to realize synergies across borders. Yet as we saw in Chapter 5, integration can take different forms, notably *segmentation* or *replication,* with each having rather different implications for the transfer of practices. Segmentation involves each operating unit performing a distinct part of the production or service provision process in a vertically integrated chain. In this scenario, each site supplies components or services to others, receives components or services from others, or both. The advantages of achieving vertical integration internationally arise in part from the opportunities it presents to concentrate distinct operating functions in the national context with the most conducive conditions (Berger 2005), thereby exploiting locational specialization. As noted in Chapter 5, a stream of research analysing 'global value chains' has analysed the segmentation of production between and within firms across borders (e.g. Gereffi *et al.* 2005) while a growing body of research has charted the way in which subsidiaries of MNCs have taken on distinct roles within inter-dependent network structures (e.g. Bouquet and Birkinshaw 2008).

The implications for the transfer of HR practices of this form of integration vary from one area of HR to another. The distinct role for the sites means that they differ from each other in the occupational mix of staff, while the tasks that employees are required to perform and the technologies they operate also differ. Therefore, there is relatively little incentive to apply common forms of work organization, for example, across these quite different operating units. Indeed, it is this argument that has sometimes been used to argue that MNCs tend to make a virtue out of differentiating their approach to each country (e.g. Kahancova and van der Meer 2006; Wilkinson *et al.* 2001). In other areas of HR, however, segmented production generates strong incentives to develop international policies. First, where there are vertical linkages between sites, there is an incentive for the HQ to ensure that flows of components and services between the operating units occur smoothly and they might seek to do this by developing the mobility of key groups of staff across their international operations. Moreover, MNCs that are segmented have been those that are often criticized for exploiting vulnerable workforces. One response has been to establish minimum employment standards that apply across sites through a CSR code.

The option of pursuing segmentation is only open to those firms that can separate the stages in a production process and place them in different locations. As we saw in Chapter 5, this is clearly feasible in sectors such as clothing and electronics and is increasingly used in parts of the service sector, such as finance where face-to-face customer contact has been replaced to a large extent by international call centres (Dicken 2015). However, the option of segmenting operations across borders is not so easy in other sectors, particularly those in which MNCs face a requirement to have a local presence if they are to serve the national market. In some sectors there is an immediacy between firm and consumer that results in strong pressures towards establishing facilities in each national market the firm wishes to serve, as in fast food and newspaper printing (Bair and Ramsay 2003), and high transport costs make a local presence attractive in sectors such as the production of 'white goods' (Nichols and Cam 2005). In these sectors, functions cannot easily be concentrated in one location and many MNCs respond by replicating their functions across countries.

Replication involves the creation of similar operating units performing essentially the same roles as their counterparts in other countries, with sites employing a similar profile of workers who perform comparable tasks and use the same technologies. MNCs may adopt this approach because of the economies to be derived both from developing 'tangible inter-relationships' through jointly developing new technologies and shared inputs and from encouraging the instigation of 'intangible inter-relationships' through the diffusion of expertise across borders (Hill and Hoskisson 1987; Edwards *et al.* 2013). As Hill and Hoskisson argue, the realization of these benefits requires 'a corporate system for identifying such opportunities' (1987: 334). It is evident that in replicated MNCs the context of the employment relationship is similar across sites, suggesting that there is considerable scope for an international dimension to HR in general and the transfer of practices in particular.

An important source of synergies in this scenario is the adoption of international management structures that facilitate the development of a standardized approach across sites; realizing the benefits to be gained from both tangible and intangible inter-relationships requires a corporate system to identify what form these may take (Hill and Hoskisson 1987; Taylor *et al.* 1996). Such structures create a locus of authority on strategic issues that have knock-on effects on the HR function. More specifically, a company way concerning a single model of production or service provision of the sort we might expect in standardized MNCs has implications for global HR policies and the transfer of practices across sites. This global dimension to HR is feasible and attractive because the sites not only share many features with their counterparts in other countries in terms of their occupational mix and the basic technologies employed but also because the standardized nature of the product means that the work process is very similar across sites. Thus, MNCs that adopt a replicated approach have strong incentives to develop key staff for international assignments since such mobility is a primary mechanism through which inter-relationships between sites are realized, and to operate common patterns of work organization, which can mesh with a standard product.

This approach to identifying the factors that promote or hinder the transfer of practices has been 'structural' in that it has focused on key organizational characteristics and highlighted the way in which the cross-border transfer of practices is more likely to occur in some MNCs than in others. In particular, while many MNCs are moving towards network forms of organization, these take many different forms. Hence, this approach is potentially more productive than those which group all MNCs together and compare them with local firms. However, one weakness in the approach is that it risks implying that outcomes, in this case, the diffusion of practices, follow unproblematically from environmental and organizational factors. As argued in previous chapters, we should not assume that actors in the HQ can exert control over their international operations; rather, the authority of the HQ is commonly contested and challenged. Thus, the structural approach should be complemented with attention to the way in which organizational actors at a variety of levels exercise choices, which may either encourage or obstruct diffusion. This 'political approach' highlights the ways in which organizational actors can draw on their sources of power in order to further their own interest, and is revealing about the processes through which diffusion takes place.

The process of diffusion

Management at the HQ of a multinational may see clear benefits in transferring practices across their international operations. In order to facilitate the transfer of knowledge and expertise across its sites, the HQ may establish a range of formal mechanisms that bring together actors from different parts of the multinational. These formal mechanisms can take the form of regular meetings and conferences of managers whose coverage is wide-ranging, or working parties and task forces with more particular remits.

However, as we saw in Chapter 4, transferring expertise through the formal architecture of a network may not be straightforward since management at subsidiary level may seek to maximize their independence and look to block diffusion as a part of this, and use the sources of power they possess in their dealings with HQ. It may be imperative, for example, that the firm has an operating plant in the market it wishes to serve; this is a requirement in many service industries, of course. Generally, a local operating presence will require expertise concerning the local environment and market and the dependence of the HQ on local managers is a source of power for the latter group. Furthermore, within a foreign subsidiary of an MNC, 'domestic' managers may be able to lessen the influence of expatriates through their greater familiarity with the language and culture of the host country, as was illuminated by Broad's (1994) study of a Japanese transplant in Wales. The ability of managers at unit level to form alliances with other local stakeholders can also be a source of power for this group in dealing with higher-level managers (Almond and Ferner 2006). Belanger *et al.* (2003) found that managers in one of the Canadian sites of ABB formed an uneasy alliance with the union in order to shape the sites response to the corporate restructuring programme.

Of course, managers at HQ level also possess sources of power which can be used to overcome resistance at local level and ensure that plants engage in diffusion (Ferner *et al.* 2012). One of these is the formal authority that comes from their position in the managerial hierarchy, which can lead to formal directives or edicts on practices to be adopted at plant level. There are numerous examples of this in the literature; perhaps most famously, IBM's 'Blue Book' was used to stipulate policy in a number of areas of HR, such as single status and employee representation. More generally, most MNCs have formal policies and guidelines on issues such as the deployment of staff on international assignments. However, there are significant constraints on the extent to which MNCs issue formal policies and guidelines on employment practice. Coller (1996) argues that this is because such 'direct control' involves the costs of, first, restricting the ability of plant managers to respond flexibly to the local environment and, second, de-motivating them through constraining their involvement in policy making. In a similar vein, Ferner (2000: 521) argues that 'formal "bureaucratic" controls depend for their effective operation on informal systems and the power relations they embody'.

Indeed, the literature suggests that many MNCs seek to rely on a range of more informal ways of influencing employment practices at plant level. These include forms of personal control such as developing the mobility of key staff across the company. Employees on international assignments fulfil a range of roles, but one of these is to take with them experience and knowledge of particular organizational practices. In some cases, international assignees are given a specific brief to oversee the implementation of a particular practice or system. Bureaucratic forms of control can also be underpinned by 'social' control, such as attempts by senior managers to forge a distinctive 'corporate culture' which shapes the operation of the mechanisms identified above. One aspect of this is moves by the corporate HQ to ensure that there are common 'rules of the game' across the firm, such as shared understandings over the importance of sticking to formal budgetary targets (Ferner 2000).

This more 'unobtrusive' forms of control, as Coller (1996) terms it, has much in common with the 'transnational' strategy and structure outlined by Ghoshal and Bartlett (1998). This involved the creation of a network of actors from different countries, with each node of the network performing a distinct function and sharing expertise with other parts of the network. As we argued in Chapter 4, however, this vision of a network underplays the potential resistance to diffusion across the firm and the role of the centre in breaking down this resistance. Accordingly, the formal mechanisms that are established in order to facilitate transfer may also be complemented by the HQ threatening formal sanctions for those actors at unit level not engaging in transfer. The generation of internal competition between plants for new investment and new orders is a key way in which this can take place. This internal competition creates pressure on managers and worker representatives at plant level to adopt practices favoured by the HQ. The HQs of such firms can also reduce their dependence on any one plant through sourcing the same product or component from more than one location, reducing the uniqueness of any one plant. In this way the HQ can reduce the degree to which it is dependent on a particular plant and use internal competition for investment and orders in order to pressurize actors at plant level into adopting practices that operate successfully elsewhere within the group. More generally, the dependence of some host countries on FDI enables some MNCs to engage in transfer. For example, Aguzzoli and Geary (2014) studied the transfer of employment practices of a Brazilian MNC to its Canadian subsidiaries and found that, contrary to their expectations that the MNC would have had to adapt its policies to the 'Canadian way', the Brazilian MNC managed to determine the 'rules' of how it would manage its workforce. Their argument was that it was able to do so because of the dependence of the Canadian economy on FDI and the dependencies that this created.

In many cases, these kinds of 'coercive comparisons' are not possible, however. The principal reason for this is that the market in one country cannot be served from another location. As noted above, this is the case in many service industries, such as retail and catering, which require a physical presence in the market. Where coercive comparisons are not feasible, managers at the HQ may seek to use an alternative sanction, namely, control over managerial careers. There is some evidence that the pay and promotion prospects of plant managers are influenced in part by their willingness to engage in the sharing of best practice across sites (see case study in Box 6.2). Thus, the HQ ensures that a network of managers moving around the organization takes with them knowledge of practices which have operated successfully in one part of the organization and disseminates this information to other plants.

BOX 6.2

Engineering products: networking . . . but with the centre in charge

How does diffusion across a multinational occur? In particular, in what circumstances will subsidiary managers be inclined to both share innovations they have developed with other plants and adopt practices pioneered by others? As we have seen, many writers on international HRM argue that the diffusion of practices can and should occur through the operation of a network of plants across countries. The workings of such a network in facilitating diffusion were the subject of a recent case study of a British multinational in the engineering sector that we call 'Engineering Products'. The firm is nearly 100 years old and has had international operations for several decades. In recent years it has reduced the number of product lines it offers and now operates three primary divisions, the largest of which, automotive components, was the area studied. This division is a first-supplier to the large car assemblers, and is both highly integrated in the sense that it produces standardized products and highly internationalized in that it is spread across a number of countries. Indeed, only 15 per cent of the division's employees are based in the UK.

The division has a number of structures capable of transferring expertise and knowledge across borders, many of which the HR function has played a key role in creating. One key aspect of this is the management of overseas assignments. At any one time the division has around 60 people from various functions on long-term assignments of over a year in countries which are not their own. Spending time on an international assignment has become a key criterion in deciding whom to promote to senior positions within the firm. In addition to these long-term assignments, there are a number of other individuals on short-term visits of a few weeks or months, some of whom travel to learn about a practice operating elsewhere and others who travel to 'spread the word' about something developed in their unit. The division also has a number of mechanisms designed to bring together specialists from different functions: the 'Manufacturing Councils' facilitate exchange of information between manufacturing managers and engineers; the 'International College of Engineering' runs training courses on practices and technologies favoured by the HQ; while the HR function convenes regular meetings (at least twice a year) to discuss developments in HR practice and the scope to harmonize these across countries.

There was little evidence that the centre had used these mechanisms to exercise 'direct' control: there are few formal guidelines on HR practice across their international assignments and respondents at both plant and HQ level were keen to emphasize that the degree of central intervention in decision-making was limited. However, there was compelling evidence that the mechanisms identified above were used by those at the centre of the division to exercise unobtrusive control in order to bring about the flow of practices across the firm's plants. There were a number of instances of this diffusion. First, the American operations have been pioneering a set of 'key competencies' that engineers across the firm should possess. Managers in the USA were given the task of devising a training programme that would deliver these competencies, to be implemented by the International College of Engineering. Second, the French plant had developed a form of organizing the factory floor which involved dividing it into a series of small production units, each with their own support services. The aim was to develop a stronger focus among the workforce on serving an 'internal customer', the next unit in the production process. This practice was diffused through the Chief Executive of the French plant being accorded the status of 'internal consultant', roaming from one subsidiary to another advising plant managers on the implementation of this system. Third, a form of cellular assembly had been developed in the Spanish plant involving the reorganization of the assembly line into a series of U-shaped cells. Within these cells, workers are required to perform a range of tasks and responsibility for quality and output levels is shared among team members. A team of Spanish engineers who had developed this practice were sent on a string of short-term assignments to the other plants, while the Spanish plant built and installed the U-shaped cells.

What tactics was the centre able to use to ensure that the sites engaged in the cross-national transfer of practices? A two-pronged approach was evident. The primary way in which the HQ created an imperative on actors at plant level to adopt practices favoured by the centre was to exercise 'coercive comparisons'. In recent years, the firm's customers had moved away from their own plants commissioning components from suppliers in their own country, towards the HQ placing orders with the HQs of a select band of suppliers who are themselves multinationals. In effect, this strengthened the hand of senior managers in their dealings with the plants since they were able to allocate production to those sites that produce the best quality products at the lowest cost. This source of power created an imperative on plants whose performance was poor to adopt practices favoured by the centre. One respondent at the divisional HQ described the way in which this pressure had led to the 'greater co-ordination of manufacturing processes to make sure that the world's best practices are shared and adopted across the organization'. He went on to state that if, in a hypothetical case, one of the subsidiaries refused to accept that a practice favoured by the HQ should be implemented, the centre would initially try to 'persuade them and then instruct them and eventually fire the Chief Executive'.

However, while this pressure may be effective in ensuring that plants adopt practices diffused from elsewhere, it might make actors at plant level reluctant to share innovations with those in other plants for fear of undermining their own competitive position. Thus, the second element of central influence was to give individuals at plant level an incentive to provide practices for the rest of the group by making it clear that doing so would enhance their own prospects for pay rises and promotion. Instances of this are the French and Spanish managers who had identified the improvements in work organization; not only were they given short-term international assignments as a 'reward' but it was also evident that this would count in their favour if they were to apply for positions outside their own plant.

For more details, see Edwards (1998).

Question 2: Why do you think that the HQ relied primarily on competition between sites and control over managerial careers as opposed to more direct forms of control?

It appears that in many MNCs diffusion occurs through networking between plants, underpinned by the HQ retaining control over investment decisions and the prospects of plant managers. This is the process that has referred to as 'networking within hierarchy' (Edwards *et al.* 1999).

Conclusion

The chapter has considered several issues relating to the transfer of practices across borders: the extent to which practices can be transferred and operate in a new environment; the key patterns in terms of the direction of transfer; the type of MNCs most likely to engage in diffusion; and the processes through which diffusion takes place. In dealing with these questions, we have integrated into the analysis the role of both nationally distinct business systems and the internal politics of multinationals. Indeed, the inter-dependence between these two sets of factors has been, and will continue to be, a theme of the book; groups of actors within MNCs derive some of their power and influence from their familiarity with their local or national context, while the actions of large MNCs have the potential to shape the evolution of national systems. This approach is even more to the fore in our analysis of cross-border mergers and acquisitions in Chapter 7.

Review questions

1. Why are some HR practices more diffusible than others?
2. What are the limitations to the concept of 'dominance' effects in shaping the transfer of practices across borders?
3. What are the different ways in which production or service provision can be integrated in MNCs and what are the implications for the transfer of practices?
4. Do you think that MNCs will look to engage in transfer of practices to an ever increasing extent in the future?

Further reading

1 Edwards, T., Rees, C. and Coller, X. (1999) 'Structure, politics and the diffusion of practices in multinational companies', *European Journal of Industrial Relations,* 5(3), 286–306.

The article discusses 'structural' and 'political' approaches to the diffusion of employment practices across borders within MNCs and argues that the two approaches can be integrated.

2 Ferner, A., Edwards, T. and Tempel, A. (2012) 'Power, institutions and the cross-national transfer of employment practices in multinationals', *Human Relations,* 65(2), 163–87.

The article explores the classic work of Lukes on power and argues that the transfer of practices in MNCs involves the exercise of different kinds of power, with actors in MNCs capable of influencing both the institutions in the 'macro-level' (at the host country level) and the 'micro-level' (the MNC itself).

3 Edwards, T. and Zhang, M. (2008) 'Multinationals and national systems of employment relations: innovators or adapters', *Advances in International Management,* 21, 33–58.

The article is based on a case study of an American multinational in China and explores the ways in which practices are transferred across borders but also adapted to the national context.

4 Wilkinson, B., Gamble, J., Humphrey, J., Morris, J. and Anthony, D. (2001) 'The new international division of labour in Asian electronics: work organization and human resources in Japan and Malaysia', *Journal of Management Studies,* 38(5), 675–95.

The way in which Japanese MNCs 'segment' their international operations so that the various parts to the production process take place in different countries is elaborated upon. The authors argue that this segmentation (though they do not use that term) is a key driver of the nature of HR practices in place at each site.

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Chapter 7

Cross-border mergers and acquisitions

Tony Edwards and Chris Rees

Key aims

The aims of this chapter are to:

- examine the pressures on firms to integrate HR policies in the two parties to the merger, focusing on the role of the nationality of the parent firm in shaping this process;
- consider the features of host countries which influence the nature of restructuring in the post-merger period;
- highlight the 'political' dimension to cross-border M&As, including the role of a range of groups within a firm who will seek to influence the character of the new firm;
- establish the challenges that firms face in learning from acquired operations.

Introduction

Cross-border mergers and acquisitions (M&As) are of particular concern to those interested in IHRM. The process of merging two firms, whether they be from different countries or not, raises a number of HR issues: the details of the merger and its likely implications for employees must be communicated; management must decide on the extent to which they will seek to integrate pay and benefit policies; and the employment consequences of the restructuring that follows most mergers must be confronted (e.g. Teerikangas *et al.* 2014). The way in which these issues are handled, and the quality of leadership in particular, are important in shaping the fortunes of firms that have gone through international M&As (Gill 2012). The impact of a merger or acquisition, particularly the nature of restructuring, depends in large part on the rationale for it and the context in which it takes place. For example, a merger based on adverse trading conditions, over-capacity and the desire to cut costs is much more likely to lead to large-scale redundancies than one based on an expansion into new markets (Aguilera and Dencker 2004). The impact of cross-border M&As is also likely to be strongly shaped by national effects. These national effects show up in two ways; first, in terms of the orientation of the parent or larger firm in the merger, something we have termed the 'country-of-origin' effect in earlier chapters; and, second, the way that HR issues are handled differently at national level, or 'host-country effects'. We consider both aspects of these national effects in this chapter.

The 1990s witnessed a boom in cross-border M&As, with their value increasing from $150 billion in 1990 to more than $1,000 billion in 2007. Rather than being a steady rise, the value of cross-border M&As has been highly cyclical with sharp rises in the late 1990s of very nearly 50 per cent per annum, a subsequent fall in the first few years of the millennium, sharp rises again between 2004 and 2007, before a subsequent fall in the years that followed to $348 billion in 2013 (United Nations 2015) (Figure 7.1). The peak prior to the financial crisis of 2008 was a period in which there were a string of very large deals, including the famous – or notorious perhaps, given subsequent events – acquisition of ABN-AMRO by a consortium led by the Royal Bank of Scotland (RBS). In the year 2007 alone, there were 96 cross-border mergers which were valued at more than $3 billion. Thus cross-border M&As have been one of the principal ways in which firms have reorganized themselves internationally.

Cross-border M&As can transform companies in terms of their scale, structure and geographical orientation. A prime example is RBS, mentioned above, which acquired either partial stakes in, or full ownership of, banks in a number of countries in the 10 years or so prior to the 'credit crunch' of 2007–8. The aggressive expansion, particularly the purchases of companies near the peak of the stock market boom in 2007, was one factor in the company's huge debts, leading to the UK government taking a majority stake to keep the company afloat. RBS is not an isolated case in terms of the problems it encountered following overseas acquisitions. Many sources of evidence testify to the poor financial performance that is experienced by firms that have engaged in a series of cross-border M&As (Habelian *et al.* 2009). Moreover, a report by KPMG into cross-border M&As in Europe found that the majority of deals had failed to improve financial performance. The report argued that 'the process of entering into M&A transactions is often less than perfect, with key elements left too late and post-completion integration tackled haphazardly' (KPMG 1999: 23). The greater likelihood of cultural differences between parties to a cross-border merger when compared with domestic mergers may bring more acute challenges that help explain this disappointing performance. However, differences

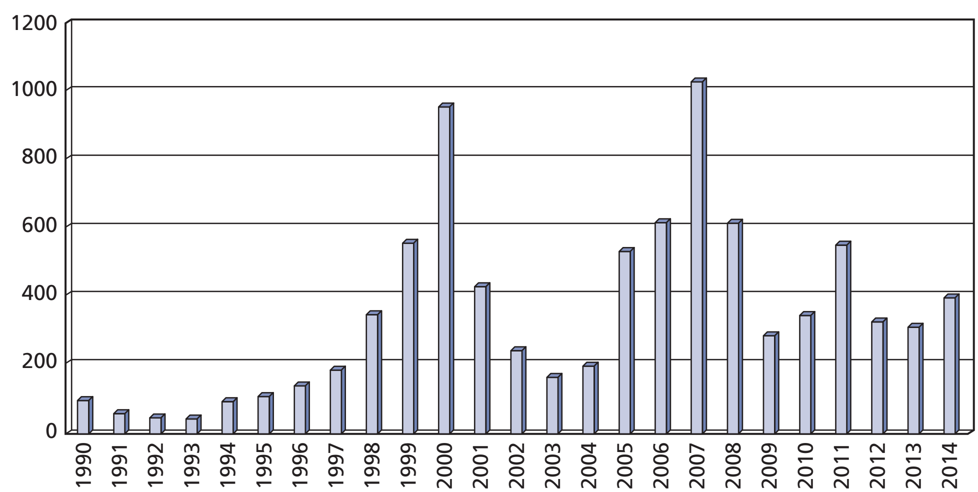

Figure 7.1 The growth in cross-border mergers and acquisitions ($ billions)
Source: UN (2015) World Investment Report.

between the parties may also bring greater potential for learning. Stahl *et al.* (2004: 90–2) argue that this may explain why, while cross-border M&As are associated with poor performance, they actually compare favourably with domestic M&As (see also Vaara *et al.* 2012).

The importance of cross-border M&As as drivers of corporate restructuring demands a close inspection of the processes involved. Throughout we make use of our own empirical research into cross-border M&As to illustrate the points (Rees and Edwards 2003; Edwards *et al.* 2008; Edwards and Edwards 2015). This has taken the form of a series of case studies looking at the handling of HR issues in the British arm of firms formed through a cross-border merger. For reasons of confidentiality, the companies are often referred to with pseudonyms.

The national orientation of the parent in cross-border M&As

One of the key issues facing a firm that has been created through a cross-border merger is the extent and process of integration between the two firms. One pressure to integrate comes from the incentive to present a uniform face to global clients. In some service industries, such as management consultancy, and in some manufacturing industries, such as automotive components, firms are selling principally to other MNCs that are requesting a service or product which has few differences across countries. This necessitates the firm standardizing many aspects of its own operations, including HR issues such as work organization, training and service delivery. In other cases, cross-border M&As are justified to shareholders on the basis that they will allow significant cost-cutting to take place. This requires the merged firm to remove duplicate functions and shed excess capacity, another force towards integration. A further reason why merged firms will look to integrate their HR policies across borders is that it will promote the mobility of staff across the company. Standard pay scales and benefits policies, at least for managerial and professional workers, are one way of facilitating such mobility.

However, in earlier chapters we have noted a number of significant differences in the framework of employment relations across countries. The distinctiveness of 'national business systems' shows up in a number of respects. One aspect of this is in relation to managerial backgrounds. In France and Germany, it is common for senior managers to have technical backgrounds, whereas in Britain and the USA, finance and accounting backgrounds dominate. This has implications for the sort of control mechanisms adopted at firm level. Historically, many large French and German firms have favoured a 'functional' corporate structure in which senior managers are involved in a range of technical and operational matters in the various units. In contrast, most British and American firms have strongly favoured a 'multi-divisional' structure in which the HQ merely exercises financial controls over divisions which operate with devolved responsibilities (Mayer and Whittington 2002). A further difference between countries concerns the use by firms of 'internal labour markets' in which recruitment is to junior positions with more senior positions being largely filled from internal promotions: while this has been a common practice in Japan, in other countries, such as the UK, there is much greater recourse to the external labour market and, consequently, much greater inter-firm mobility of labour. The laws and institutions that afford employees the right to be consulted about, and influence, decisions which affect their job security, pay prospects and the nature of their day-to-day work also differ markedly from country to country, with one contrast being between the highly regulated and codified system of employee representation in Germany and the more deregulated American system. One illustration of how national differences are evident in a firm formed through a cross-border merger is provided by Vaara *et al.* (2003) in their study of the Scandinavian financial services group, Nordea. The authors cite the views of managers within the organization and show how 'national stereotypes' were constructed and endured. While these did not represent an 'absolute truth' concerning how people behaved, they did help those within the organization to make sense of why others behaved as they did. Thus 'according to these "strong" stereotypes, Swedes were frequently seen as consensus-driven, Finns as action-oriented, Danes as negotiating merchants and Norwegians as people who go straight to the point in decision-making' (2003: 62).

These national differences are central to understanding the competing pressures on firms as they acquire or merge with those in other countries. The differences create pressure for national 'differentiation' of HR policies, for a company's approach to be responsive to the peculiarities of national systems. This is developed in the next sub-section. National differences are also significant, however, for the way they shape the extent and nature of integration. As we saw in Chapters 4, 5 and 6, most international firms are embedded in their original country in a range of ways: finance is raised and ownership is concentrated predominantly at home; senior managerial positions are filled largely by nationals of the home country; the government in the country of origin often has close ties with, and influence over, large MNCs; and so on. This embeddedness gives rise to a 'country-of-origin effect' in the way they manage their workforces. Thus, we might expect this effect to inform the way that the dominant firm in a cross-border merger seeks to integrate its acquisition into the wider firm.

Indeed, the available evidence suggests that MNCs are significantly influenced by their original nationality in this respect. One illustration is a study by Faulkner *et al.* (2002) which examined acquisitions of British firms by foreign MNCs. Over the period from 1985 to 1994, the researchers examined through a postal survey the nature of post-acquisition change in 201 cases, with the parent firms being American, Japanese, French and German. While they found that there were some changes that appeared to occur whatever the nationality of the parent firm – most firms had sought to establish a clear link between pay and performance, for example – their findings also revealed significant differences by nationality in the handling of HR issues in the post-acquisition period, particularly in relation to recruitment, development and termination practice. One of the clearest findings was the preference among American firms for formal and regular appraisals, with these being used to ensure good performance; consistently sub-standard performance could easily lead to 'separations' under such systems. More generally, American firms exhibited a centralized, forceful and hands-on approach to integration, including an emphasis on trying to shape the culture of the acquired unit. Japanese firms also exhibited some distinctive ways of integrating acquired firms: they were less likely to rotate managers between different tasks; they favoured seniority as an important criterion for promotion; and they took a slower, more considered approach to change than the Americans. French acquirers also appeared to introduce some nationally specific practices in the post-acquisition period, such as emphasizing formal qualifications as criteria for promotion. The authors also argued that there was a 'glass ceiling' for promotion for non-French managers. German acquirers tended to emphasize technical expertise in recruiting, but generally they adopted a highly decentralized approach to decision-making on HR issues and, relatedly, attached less emphasis on using HRM in an integrative way.

Where the acquiring firm is clearly bigger than the acquired unit, this 'country-of-origin effect' seems to show through clearly. However, what happens where the two parties to a merger are of a comparable size? In such cases, the orientation of the merged firm is less clear-cut. This is a significant issue because in the last two decades a number of cross-border mergers have involved broadly similar-sized firms, creating what has been termed 'bi-national' firms. Bi-nationals are so called because the merger results in them having strong roots in two rather than one business system. This shows up in a number of ways. In terms of the ownership of merged firms, the overwhelming focus on one financial system that is characteristic of most MNCs is strongly eroded. The roots that bi-national firms have in two systems also show up in the cosmopolitan nature of the management board. It is common for a board in a firm formed through an agreed merger to be comprised of proportionate numbers of managers from each party to the merger. For example, with the creation of Astra-Zeneca, the top four managerial positions were divided up between two Britons and two Swedes. The international expansion of formerly state-owned companies has reduced a further source of national influence from the parent, namely, that of the state. France Telecom, for example, has undertaken a string of acquisitions overseas, funded by raising finance on the financial markets in France and elsewhere, thereby reducing its ties with the French state; in 2013, this led to a formal re-branding of the whole group with the firm taking the name Orange, which was the name of the mobile operator it had acquired in 2000 (*Financial Times* 2013). More generally, the wave of cross-border M&As in the late 1990s was one force towards the increased international spread of MNCs, something that is picked up in the growth of the UN 'Transnationality Index' (see Chapter 4).

In the case of bi-nationals which are created through cross-border M&As, is it possible to predict how the management of people will be handled? In particular, are there likely to be discernible national effects? Three possibilities exist. First, two national management styles may continue to be evident some time after the merger with full integration between the two parties to the merger being weak. If quite different styles do exist, there may be tensions between the two. Second, an integrated style may emerge following the merger which is a hybrid of the two styles. Third, an integrated style may also emerge based on one of the styles characteristic of one of the two firms. The case study of HealthCo in Box 7.1 shows how all three of these possible scenarios can be evident in a bi-national firm.

BOX 7.1

Case study: HealthCo

The pharmaceuticals and health-care sector witnessed a number of mergers in the late 1990s. One of these brought together a British company with one which was predominantly American, forming a new group that has very strong bases in the UK and in the USA, as well as a notable presence in a number of others. The firm is officially registered as a British company, but has a split stock market listing in the UK and America, an HQ that is split across the two countries, and has a mix of nationalities on the company's management board – Americans and Britons comprise almost equal numbers, while other nationalities are represented too. The firm is therefore an excellent one in which to investigate the way in which a company formed through a cross-border merger has a detectable country of origin effect. Is it possible to detect particular national influences over the management style of HealthCo or is this a cosmopolitan, globally influenced firm? If the former, does the British or American influence show up more strongly?

The evidence from nearly 40 interviews in HealthCo suggests that it has been strongly influenced by the American system, something that shows up in a number of respects. First, the firm has a number of global HR policies on issues such as performance-related pay. The influence of the centre was much more marked in the predominantly American party to the merger than in its British counterpart, which was described as being like an 'absentee parent' by a number of Americans. A relatively centralized approach to decision-making on HR issues is a characteristic feature of American MNCs more generally (see Ferner *et al.* 2004). Second, in the manufacturing side of the business, all of the sites were required to introduce a process known as 'Lean Sigma', which is a way of identifying waste and potential economies in the organization of production. An American firm of consultants led the introduction of this. Third, since the merger, the firm has introduced a new policy on the length of time that 'contingent', or temporary, workers can be employed continuously. Responding to a legal ruling in America, the firm imposed an 18-month maximum time limit on the use of such workers in America and Britain, even though the law in the United Kingfom is different. Fourth, in relation to 'diversity', the American operations are clearly perceived as being more advanced than those in other countries and have served as the model on which practices in other countries have been developed, such as 'diverse marketing teams'.

In short, the merger has created a firm with no clear-cut national 'centre of gravity', but one that is shifting towards America. The interviews demonstrate that this shift appears to be partly explained by the attractions of the United States to senior managers, such as the widespread perception of it as a fast-moving, dynamic system and one that is 'more advanced' in some areas such as diversity. One manager summed up this influence: 'All our competitors, or the majority of our competitors, are in the States. So, you know, 70% of our competition is in the United States, so role models of how people behave in our industry almost seem very influenced by the US.'

However, the influence of the HQ, which we have argued is distinctively American, is of course mediated by the dominant features of the various host country systems that the firm operates within. For example, the pace at which restructuring has taken place has been swifter with less consultation in the United Kingdom than in Germany, partly reflecting the legal requirements for negotiation with employee representatives. The central influence was also constrained by country-level managers who were reluctant to give up their autonomy, something that was particularly marked in countries with operations belonging to the British party to the merger.

Source: Edwards *et al.* (2006).

Question: To what extent can the concept of 'dominance' effects help explain the direction the company took following the merger?

The case study of HealthCo has demonstrated not only the influence of the business systems of the main parties to a cross-border merger but also the influence of host country systems in shaping the effects of a merger. It is to this that we now turn.

Restructuring at national level and the legacy of distinctive national systems

The regulation of M&As has some common aspects across countries. This is particularly so within the EU where there is a common legal framework setting out a minimum set of employee rights during M&As. This framework stems from the EU Acquired Rights Directive

(77/187/EEC), which was subsequently revised, concerning the safeguarding of employees' rights in the event of a transfer of ownership of companies. In essence, the acquiring firm must respect most of the obligations that the acquired firm had towards its employees. In particular, the Directive states that:

- terms and conditions existing in a collective agreement must be observed until such an agreement expires or is replaced with a new one;
- a transfer of ownership does not of itself constitute a justifiable reason for dismissals (though that does not mean that none will occur – they can take place for 'economic, technical or organisational reasons');
- the status of employee representatives should be preserved following a merger or acquisition;
- these representatives are entitled to be consulted as to the likely or planned economic and social implications of the transfer, with this consultation occurring 'in good time' before the transfer is carried out.

The Directive has been implemented into national law in all EU member states, with only limited variation at national level, and is a requirement for new 'accession' countries. Thus, where M&As bring together firms from different EU countries, there is to some extent a common legal framework governing the process.

Despite this EU-wide framework, there are marked differences in the extent of regulation across EU countries since some have additional provisions concerning employee participation in M&As (see EIRO 2001). In the Netherlands, for example, there are a number of institutional means through which employees' rights are protected, notably through the 'Merger Code' and the Works Council legislation. These require that management in the companies involved in a merger inform both sets of works council representatives and also inform union representatives. Management must provide the works council with information concerning the likely impact of the merger, provide a justification of its decision, and show that it has taken account of workers' interests. Crucially, works councils have the right to seek external expert assistance and can challenge management's proposals; if they do so, then the proposals must be postponed for a month, during which time the works council can go to a Labour Court to challenge the decision. If this court feels that management have not done enough to safeguard employees' interests, it can prevent management's plans being implemented. In addition, a merged firm wishing to make redundancies must get the approval of a 'District Employment Services Authority', and the firm's Supervisory Board must approve any major changes involved in post-merger restructuring. Even after the recent revisions to the 'Merger Code', which have marginally weakened the position of unions and works councils in the target company and made hostile takeovers slightly easier, it is clear that Dutch workers enjoy significant legal and institutional protection during M&As.

In Spain, there are also national-level provisions safeguarding employees' rights, though these are not as strong as those in the Netherlands. Spanish firms are obliged to consult with both works councils and trade unionists. In particular, the 'Workers' Statute' gives employee representatives the right to be consulted on the same basis as shareholders; since shareholders must be informed in writing at least one month before a general shareholders meeting at which the merger proposals are to be discussed, so workers must be informed at the same time.

Moreover, where a merger or acquisition involves 'any incidence that affects the volume of employment', worker representatives must be given at least 15 days to issue a report containing their views, and this must be received and considered by management before a merger is consummated, though they are not obliged to implement its proposals. However, while worker representatives do not have the power to block or even delay job losses involved in a merger, where collective redundancies of roughly 10 per cent of the workforce are not agreed by worker representatives and management, the plans must go for approval to a 'labour authority' at either local, regional or national level, whichever is most appropriate.

In the United Kingdom, by contrast, the ability of employees to influence the merger process is weaker and the framework protecting employees' rights is more minimalist. The European Directives were transposed into UK law through the Transfer of Undertakings (Protection of Employment) Regulations (1981), known as TUPE. This Act, which has been subsequently amended to comply with the new European Directive, gives employees the basic rights of consultation that exist across the EU. In addition, legislation on collective redundancies also gives employees the right to be consulted 90 days before any such redundancies are made. However, beyond these provisions, any influence that employees possess stems from their bargaining power in relation to their employer, either in an organized way through the influence of unions or through their possession of skills which mean they are of value to their employer. In essence, therefore, managers have a freer hand in the United Kingdom to make changes following a merger than they do in most European countries.

Differences in the regulation of M&As within the EU are even greater when compared with other countries, such as those in North America and Asia. Variations in legal frameworks are only one element, of course, of wider differences in systems of employment relations. These differences encourage the decentralization of decision-making on HR issues in firms formed through a cross-border merger. In other words, 'host-country effects' significantly shape the handling of HR issues.

The importance of these national-level institutions and regulations shows up in a recent study of Franco-German mergers. Corteel and Le Blanc (2001) argued that 'social issues' – by which they mean pay, working time, holidays, pensions and so on – are governed by a national logic, and that these are 'lastingly rooted at national level'. Thus, in the companies they examined, the differences between the French and German operations in terms of pay, benefits and working time arrangements that existed prior to the merger continued to exist following the merger. Managers had not sought to integrate practices in this area, principally because they recognized the importance of national-level regulations and the strength of the 'social partners' in the two countries.

Our own research confirms this picture (Rees and Edwards 2003). Interviews with HR managers in the British arm of 12 firms which were involved in a cross-border merger or acquisition (of which HealthCo was one) highlighted how remuneration was strongly conditioned by national-level factors. Pay and benefits were clearly one of the areas where differences in practices become immediately apparent following a merger. The MNCs had a strong incentive to integrate these policies, particularly where they wanted employees to be geographically mobile. However, a key constraint on managers was that integration would only be readily accepted by employees if it took the form of 'upward harmonization'. Thus, host-country effects led to the creation of a 'patchwork quilt' of various sets of pay and conditions across borders (ibid.).

The difficulties in integrating remuneration policies across sites in different countries also exist, albeit to a lesser degree, between sites within countries. The TUPE regulations in the UK, and the role of unions in securing collective agreements in many organizations, mean that levels of pay and benefits continue to differ across sites that formerly belonged to different firms. An IT services company in our research, which had taken on groups of workers gradually from a range of other firms through the subcontracting of their IT functions, had 27 sets of terms and conditions in its British operations at the time of our research. In a French industrial firm, managers were quite clear that, while they would like pay levels to be similar across their operations in France, there was little prospect of employee representatives agreeing to this. Thus, the 'patchwork quilt' existed within as well as between countries.

The way in which cost savings are made is also something which is strongly shaped by host-country effects. As we indicated above, many cross-border mergers are motivated by a desire to reduce costs through removing duplicate functions and concentrating activities in particular locations. However, the ease with which plants can be closed and employees made redundant differs across countries. Corteel and Le Blanc (2001) present a fascinating case which demonstrates this, namely the merger between the German-owned *Quante* and the French firm *Pouyet*. Following this merger, the IG Metall union in Germany and the unions in France were successful in preventing any cutbacks leading to compulsory lay-offs in France or Germany. However, the firm did close a plant in the UK, where workers did not have the same legal protection. For Corteel and Le Blanc, 'It is reasonable to argue that . . . a logic aiming at preserving national employment levels to the detriment of employees located on other territories prevailed.'

National logics not only constrain how management carry out restructuring following international M&As; they also shape the way that employees perceive this restructuring. This was the focus of Edwards and Edwards' (2015) study of two US MNCs merging with one another in which employees in Sweden, the Netherlands and the United Kingdom were surveyed. The focus of the analysis was on employee perceptions of voice and representation, for which there are marked institutional differences across the countries, as we have seen. Employees in Sweden perceived voice and representation to be weaker and less effective than did their counterparts in the Netherlands and the UK, a finding which held across time. Interestingly, therefore, the country with the strongest traditions concerning employee voice and representation was the one with the most negative employee perceptions. This apparent paradox was explained as a result of the norms concerning employee influence differing across the three countries and the practice of a centralized US MNC not allowing very much employee influence over the key elements of restructuring; in other words, it was the result of the greater gap in Sweden compared with the other two countries between the institutionally conditioned expectations on these issues and the reality.

The implication of this body of work concerning the restructuring across national distinct systems is that groups of employees will perceive things differently and that a variety of actors are able to shape the restructuring process which follows a cross-border merger. It is not simply the product of systematic planning by senior management, nor is restructuring simply the result of a rational trade-off between the advantages of integrating policies across borders, on the one hand, versus differentiating policies to national level, on the other. Rather, it is a highly political process in which a variety of groups look to defend or advance their own interests and use whatever sources of power they control to do so. We now consider this political dimension in more detail.

The political dimension to cross-border M&As

Much of the writing on M&As, in general, and cross-border M&As, in particular, stresses the importance of managers following plans, guidelines and checklists if they are to make a merger a success. For instance, Schuler *et al.* (2003) provide a series of guidelines for HR practitioners to follow, such as 'state-of-the-art HR policies and practices should be used' (2003: 70). Similarly, Stahl *et al.* (2004) identify a number of HR issues that have to be confronted in a cross-border merger, such as assessing culture in the due diligence phase' and 'undertaking a human capital audit'. While such guidelines may to some extent be useful to practitioners, we feel that it is crucial that the potential for conflict is more fully recognized than is often the case. In this section we emphasize the internal disputes that arise within MNCs concerning the nature of integration and restructuring in the post-merger period.

Mergers and acquisitions, whether domestic or cross-border, are a time when organizational structures and styles are 'unfrozen' and new ones are created. As Meyer and Lieb-Doczy (2003: 479) put it, 'managers ought to be aware of the evolutionary processes within the firm' following a cross-border M&A. During this process, there are many individuals and groups within the organizations concerned, who will look to defend or advance their own interests. A merger is a time when a lot is 'up for grabs': the structure of the merged firm must be determined; key positions need to be filled; the units that are to close or suffer the deepest cuts have to be identified; and so on. While the forces of competition and the demands of the financial markets mean that there are external demands that pressurize companies into prioritizing certain outcomes, the process of reaching the eventual course of action is a highly political one. There is a range of organizational actors who possess some scope to influence the overall direction of the firm and, hence, this direction is not solely the product of a rational process of planning by senior managers responding to external pressures; it is also the product of a series of internal negotiations and compromises.

This perspective on organizations generally is well developed in the academic literature on strategy-making and organizational change. What is sometimes referred to as the Processual approach to strategy (Whittington 2001) emphasizes the range of sources of power within organizations that exist, with these not solely residing with those actors at high points in the formal hierarchy. Thus, writers such as Mintzberg are sceptical about the mainstream view that strategy-making is a rational and objective process. Instead, they see strategies as emerging from a series of negotiations, compromises and 'bodges'. As a consequence, the outcomes of strategy can include goals other than just the maximization of profits for the organization as a whole and can reflect such considerations as the desire of a powerful group to safeguard the future of the unit in which they work. This political perspective helps us understand organizations of any sort, but seems essential to incorporate into an analysis of cross-border M&As. This is partly because mergers are times when a range of issues will need to be resolved, as argued above, but also because cross-border M&As involve new operations in different business systems and the divergence of interests within such operations is likely to create fertile ground for political activity.

This perspective is also evident in the literature on MNCs, which are seen by some as 'loosely coupled political systems' (Forsgren 1990). The detailed case study work of Belanger *et al.* (1999) into ABB is testament to the resources controlled by those in operating units of a large multinational. On occasions, these resources can be used to obstruct policies issued by the corporate centre. These political processes should be seen as central to the way that the firms as a whole react to developments and challenges from the context in which they operate. As Edwards *et al.* (1993: 3) put it: 'Political processes are not separate from structural forces, but represent the working out of responses to them.'

Our own case study work highlights a number of ways in which the process of merging firms across borders is highly political. Where international mergers bring together firms of roughly equal sizes, perhaps the most obvious example is the composition of the senior managerial positions. If a merger is billed as a 'merger of equals', it is important symbolically for the top management team to be comprised of equal numbers from both firms. For example, in the UK arm of the large French industrial firm referred to above, the issue of proportionate 'balance' in choosing people for senior positions was seen as crucial. This was influenced by the French parent company, where balance between the three companies that had merged was highlighted explicitly by the CEO as central to its success. In a different company, one manager argued that this process of dividing up the positions according to the proportionate size of the companies could mean that the most able and best qualified people were not always selected – or as he put it, 'You can end up with a complete dingbat in a senior position.' Despite this, even this manager saw achieving balance as necessary for the merger process to be seen as fair by employees of both 'legacy' companies. In other words, achieving balance may mean that the firm does not appoint the best person for the job, but this is often deemed a price worth paying in order to create an impression of fairness.

The way in which senior managerial posts are distributed was identified by Vaara and Tienari (2003) in their discussion of the creation of Nordea. Because of the sensitivity of the mergers being seen as one party being dominant, both to those in the organizations and to those outside, particularly the national governments, it was seen as essential that they were portrayed as 'mergers of equals'. For this impression to be created, it was agreed that there should be 'an even distribution of positions in board and executive management' (ibid.: 95). While this was largely seen as legitimate in the immediate post-merger period, it soon became evident that maintaining this balance was creating tensions with other priorities that the firm had developed, such as stressing the importance of competencies in selecting managers for key positions and increasing the proportion of women in senior levels of management.

The political dimension to cross-border mergers also shows up in the struggle for influence by organizational actors from different functions. Of great relevance here is the role of those in the HR function; a perennial concern for HR practitioners in the United Kingdom and in many other countries is their relatively low status within organizations, leading to the danger from their perspective of being marginalized during major organizational changes such as international M&As. In one of the IT companies in our study, the HR Director indicated that the function had not been involved in key strategic decisions during an acquisition, such as the choice of partner and the speed with which it would be integrated, nor had they even had much influence over many of the HR issues thrown up by the acquisition, such as the consultation process and recruitment to key positions within the acquired unit. However, in other cases, it was evident that HR practitioners have used the merger or acquisition as an opportunity to raise the profile of HR within the organization. One example was the persistent efforts by an 'HR Partner' at an American financial services group to convince other managers, particularly those with an accountancy background, of the benefits of involving her in the setting up of joint ventures in various European countries. These efforts took the form of stressing the impact on the bottom-line of mishandling HR issues, such as the legal penalties of contravening the Acquired Rights Directive and supplementary national regulations.

A further question that is an aspect of many cross-border M&As, and is highly political, is that of where the main brunt of cost cutting is to be felt. Based on their study of Franco-German mergers, Corteel and Le Blanc (2001) argue that a company's overall work load is governed by a 'national fair balance rule'. This rule means that orders from customers are distributed among the firm's sites not only according to the costs and performance of these sites, but also according to what is seen as just. In other words, these decisions are governed partly by 'rationality', but also by 'fairness'. The impetus for this often stemmed from informal deals that were struck during the merger negotiations; these were not binding following the merger, but breaching them would risk creating serious grievances in the units which came off worse. As one of their respondents put it: 'If we were willing to work, politically, we had to distribute the load in a fair way.' However, their data also point to the limits of the 'national fair balance rule', particularly the way it is limited to certain territories. As discussed in the previous sub-section, the British plant of the firm formed through the merger of *Quante* and *Pouyet* was closed, partly in order to preserve employment levels at the French and German operations. Moreover, the authors also stress that the rule can become strained over time, leading to its renegotiation.

Overall, this line of analysis indicates that it is the diffusion of control of resources across a range of groups within a merged organization that results in the process being so highly political. One of the resources that is controlled by staff at unit level within MNCs is knowledge of, and expertise in, local institutions and regulations. This knowledge and expertise can be used to advance or protect their own interests. The Corus case study considered in Box 7.2 illustrates the interdependence between local institutions and regulations, on the one hand, and the influence of different groups within merged firms, on the other.

BOX 7.2

Case study: Corus

The merger of British Steel with Hoogovens in June 1999, forming the Anglo-Dutch group known as Corus, provides an interesting example of what can happen when firms from two quite different business systems join together. One key difference between the two countries concerns the nature of employee relations; as we have seen, the Dutch system affords employees more scope than their British counterparts to influence the restructuring that follows a merger. This has had significant implications for relations between different units of the firm in general, and for the form that cost cutting has taken in particular.

The merger took place in the context of over-capacity in the sector. Other mergers between steel firms have occurred, notably that between Usinor of France, Arbed of Luxembourg and Aceralia of Spain, with the prime motive being the opportunity to realize cost savings through removing duplicate functions. At the time of the Corus merger, managers promised shareholders that savings of £194 million a year would result. It was evident that this would mean large-scale redundancies.

By early 2001, with the market for steel turning markedly down, it was apparent that Corus would be suffering very large financial losses. In February of that year, management announced that 6,000 employees in the British operations would be losing their jobs. The union representing most of the British workforce, the Iron and Steel Trade Confederation (ISTC), pressurized the company to amend its plans, advancing counter-proposals which included buying a plant from the company and short-time working to tide the company over until the market picked up. However, the legal framework in the UK meant that these proposals would have to find support from managers if they were to have any impact, and the company was adamant that they should press on with their original plans. Meanwhile, in the Netherlands, redundancies were also taking place. Only six months after the merger, there had been a 'wildcat' (unofficial) strike at the huge and profitable Ijmuden plant following the announcement that the steel manufacturing department would be shut with the loss of 590 jobs. In 2001, it was announced that 1,100 further jobs would be cut as the company's losses became apparent.

During the first two years or so of the post-merger period it appeared that employee representatives were liasing more closely across the two countries. When the axe fell on 6,000 British workers in early 2001, the Dutch Trade Union Federation (Federatie Nederlandse Vakbeweging, FNV) wrote to the ISTC, pledging support for their campaign of opposition to the cuts. Moreover, the Dutch union hinted that it might support a boycott at the Ijmuden plant of any work that was to be transferred from the UK to the Netherlands.

Even after the large-scale cuts of 2001, the company's troubles continued. The share price at the end of 2002 stood at less than half of its value at the time of the merger. This added to the pressure on senior managers, and in response the company signalled a move away from its 'multi-metal' strategy by proposing to sell its aluminium business to Pechiney of France. This met strong resistance from employee representatives, and also revealed tensions between the different parts of the business across the two countries. According to press reports, many in the Dutch part of the firm had come to resent the merger, seeing it as a take-over of a profitable Dutch business by an ailing British one. In late 2002, it became evident that the Dutch supervisory board, which is made up of a mixture of managers and employee representatives, was threatening to use its power to veto the proposed sale of the aluminium business. Members of the board were concerned that the proceeds from the sale of this part of the business, which stemmed mainly from Hoogovens, were to be used to pay off group debt rather than re-invested in the Dutch part of the business. The implication was that further cuts would have to occur in the UK if the supervisory board was to approve the sale. Indeed, the chair of the board, Leo Berndsen, is reported to have said that if senior managers 'don't tackle structurally the problems in the UK, Hoogovens will become Corus's cash cow'. The supervisory board did indeed use its power to block the sale, throwing the company's future into doubt for a while. Management's response was to seek further rationalizations in the British part of the business, involving yet more redundancies. Between 2004 and 2007 the company's fortunes turned upwards, mainly off the back of steep rises in the steel price, and its share price rose steeply. The booming steel sector more generally led to fresh merger interest and in 2007 the company was taken over by Tata, an Indian conglomerate. This acquisition was quickly followed by the recession of 2008 onwards, leading to fresh bouts of cost cutting.

The case of Corus, in general, and the dispute over the sale of the aluminium business, in particular, demonstrate the way in which actors at local level within MNCs can draw on their embeddedness in the local institutional framework and use it as a source of power within the company. As we have already seen in this chapter, the ability of British workers to shape management's plans during and after a merger is much more limited than that of their Dutch counterparts. The significance of the role of the Dutch supervisory board in particular, and the institutions and regulations in the Netherlands more generally, is evident not only in the way that they have limited the restructuring in the Netherlands itself, but also in the knock-on effects on restructuring in other countries.

Question: Why will the concerns of employee representatives be different in other types of cross-border mergers?

Cross-border M&As and organizational learning

This section addresses a key question about cross-border M&As, namely, to what extent do organizations engaged in international M&As learn from their experiences? In particular, it investigates the extent to which expertise and practices in the operations that are acquired are transferred to the parent company. Growing by acquisition automatically increases the diversity of expertise and practice in the wider firm; no two firms will have identical practices, nor will the body of expertise be the same. Thus, in contrast to firms that do not grow at all, firms growing through M&As receive fresh input in terms of technologies and practices. Moreover, in comparison with firms that grow through 'greenfield' investments, there is also more of an external input into companies growing through M&As as they inherit a set of pre-established practices and a body of expertise, giving them great potential to engage in knowledge transfer from their acquired operations (Vaara *et al.* 2012). This is especially so for international M&As and making use of this diversity is a key aspect of the integration process (Bjorkman *et al.* 2007; Stahl and Voigt 2008). Schuler *et al.* (2003: 114) argued that 'capturing and consolidating the learning and knowledge that has been generated throughout the IM&A process is perhaps the most important activity' during the full integration stage. Despite this, there is rather little empirical evidence on this phenomenon in practice (Habelian *et al.* 2009). Some studies look at how international acquisitions provide firms with the knowledge to operate in the market in which they have made the acquisition (e.g. Zou and Ghauri 2008), but there are few that look at ways in which knowledge and expertise are spread to the rest of the firm. In one study, Bresman concluded that while 'the immediate post-acquisition period is characterised by imposed one-way transfers of knowledge from the acquirer to the acquired, . . . over time this gives way to high quality reciprocal knowledge transfer'. However, they were not writing about HR specifically and we need to know more about the extent and nature of transfer from the acquired operations back into the rest of the multinational. In doing so, we draw on a recent study of this issue (Edwards *et al.* 2008).

Edwards *et al.*'s (2008) survey analysis showed that while some firms do indeed absorb new knowledge and practices from acquired units, on average, firms growing through international M&As are no more likely to learn from their foreign units than those that have not grown in this way. They then used the case studies to explore this issue further, with variation evident in the extent to which the transfer of knowledge was a key aim of management in the post-merger period. In three of the firms, there was no evidence that the acquired units had instigated a process of corporate-wide learning. This was the case in *AmeriBank, US Industrial* and *New Finance.* In one of the others, *Euro Cure,* the acquisition was motivated by 'an acquisition of knowledge . . . an acquisition of their potential and their future' but this had not been completely successful. At the time of their research, however, this had not fed through into concrete instances of transfer from the acquired operations.

In two of the other case studies it was possible to identify practices and expertise that had been absorbed into the parent company. One of these was *InterServ,* which was bought partly for its management style. According to the respondents in the acquired company, the acquiring firm was deliberately purchasing another whose ethos and approach differed markedly from its own yet which it very much admired, describing the acquired firm as 'fast moving' and 'vibrant'. This had opened the door for those in the UK operations that had been acquired to push a number of their ideas and practices onto the parent firm, enabling them to raise their own profile within the much larger company of which they had become a part. There were three examples of new company-wide initiatives that had been developed by those in the UK, including a share plan, an employee survey and a new talent management system. The other case study firm in which the acquired units had exerted influence on the rest of the firm was *Global Drug.* Acquisitions in this sector in recent years have been characterized by big pharmaceuticals firms purchasing much smaller bio-techs, which often lack the financial backing and expertise necessary for long-term success. Since most bio-techs do not have the resources or experience to take a drug beyond research and development, through several phases of clinical trials and on to end-stage marketing and sales, they are an attractive source of knowledge to large pharmaceuticals firms looking to enhance their pipeline or to fill a gap in a particular drug category. The acquisition in question in *Global Drug* was of a very small bio-technology company in the United States that had very particular expertise in a specific technology that was of great interest to the acquiring firm. Clearly, what were being absorbed in this case were not innovative HR practices, but the absorption of the technical expertise had clear HR consequences. As one manager put it, 'We did appreciate that it would take time to get to the point of saying we have acquired the technology transfer.'

How should the patterns in the data be viewed? Clearly, expertise is absorbed into the wider firms in some cases, but this is clearly far from a straightforward process. Edwards *et al.*'s (2008) research highlighted six factors that lead some acquiring firms to engage in transfer across the firm while others did not.

The motivations for the acquisition and the assumptions held about the nature of the acquired units

One factor that shapes the extent to which acquiring firms learn from acquisitions is the assumptions that they have about the quality of the companies that they buy. In some cases the senior managers driving the acquisition may be motivated by a desire to tap into expertise in the company that they are purchasing but in other cases the acquired firm is perceived in a less positive light, particularly when the national system in which it is located is viewed negatively. Thus, the acquiring firm is unlikely to learn from its new operations, an example of which was *AmeriBank*'s acquisition of a Polish bank. This acquisition was motivated by a desire to establish a significant presence in a new market but it was clear that they were not expecting to be able to learn from the firm that they acquired. As one respondent put it, 'what they had didn't really matter that much'. The acquired firm was viewed by the parent as having some 'irrelevant' processes, such as the manual counting of money, and some 'outdated' benefits, such as meal tickets and holiday homes. More generally, HR was seen as a low-status function that needed to be 'professionalized'. This approach to acquisitions in which the acquired firm is seen as having little to offer is likely to be common in those cases where a well-established company from a developed economy is acquiring a much smaller firm in a transition economy. Thus *AmeriBank*'s approach was certainly not illogical; those in the Polish bank had local market knowledge and contacts with key intermediaries, but were unlikely to be able to teach the parent much about how to manage its international operations. This approach of assuming that the acquired firm may have little to offer is also likely to be found in cases where a failing company is acquired; in a scenario where the parent has rescued a firm on the brink of collapse, it is unlikely to then search for distinctive practices or expertise in the acquired operations. In other contexts, however, the assumption that the parent firm has little to learn may be less justified and may represent a missed opportunity to learn. As we will see, this was evident in some of the other case study companies.

A centralized model in the acquiring firm

A second factor, and one which is related to the first, is the extent to which the parent firm has a centralized approach to managing its international workforce. An example of this is *US Industrial* and its acquisition of a much smaller British firm, a move that was part of the parent firm's emphasis on growth into new business areas. However, despite this being the motivation for the acquisition, *US Industrial* largely imposed its structure and culture on the organization it acquired. With an ethnocentric mindset, the firm's HR policy and practice emanated from Head Office with strategic decisions being made centrally. A part of this approach was to make cost savings through rationalizing the acquired units and installing 'change leaders' from *US Industrial*. There were signs that the ethnocentric perspective in *US Industrial* had led to the firms not appreciating other ways of doing things and, therefore, losing opportunities to learn from their new subsidiary. A joke in the organization concerning its approach to acquisitions was that the company's actual name stood for a phrase equivalent to 'You Must Comply', representing the heavy-handed approach to managing post-merger integration. Overall, then, while centralization can deliver many benefits to the organization, such as global consistency on a business model that may have worked well in the home country, the case indicated that where the predominant model in an acquiring firm is centralization, such an approach can lead to a blinkered perspective which in turn can impede learning from the new organization.

The lack of a strategic approach to acquisitions

A third factor, and one that is also related to the issue of how effectively an acquirer is able to see the diversity of practice and expertise that it has bought, concerns the extent to which it adopts a deliberate strategy of integrating any such practice or expertise. In some of the firms, as we have seen, the acquisitions were motivated by a desire to take advantage of what the acquired operations possessed with a view to using this in other parts of the firm. However, in one of the other companies, *New Finance,* there was no such strategic approach. This company had expanded quickly through a range of acquisitions paid for largely in shares, the value of which had risen sharply as the stock market at that time looked very favourably on firms that used the Internet as the main vehicle for accessing customers. It acquired financial service providers in a number of countries with the inflated valuation of the parent company meaning that it was possible for senior managers to buy up companies without having to build a convincing case to analysts concerning the scope for rationalizations. In describing its approach to acquisitions outside the USA, one respondent indicated that the company 'took almost a shotgun type approach, no real clue of what they were doing'. Thus, *New Finance* lacked a coherent plan to its growth that meant it never achieved the equilibrium needed to put in place the mechanisms to enable learning. With so many acquisitions in a short space of time, it was unable to stop and reflect on the potential learning opportunities in its latest purchase because it was already in the process of the next one. Thus, once in possession of the new entity, there were no plans in place to learn from acquired operations. This case study illustrates a key challenge to be overcome if international acquisitions are to result in learning, namely, the need for a deliberate approach to learning involving the establishment and maintenance of channels through which knowledge can be transferred.

Central resistance to the acquired units taking the lead in policy development

A fourth factor concerns the openness to learning from acquired units on the part of those at the centre of the company. In the case of *InterServ,* the message of valuing the British firm's dynamism and innovative approach was not matched by the attitudes of many in the HR function at the firm's HQ. The respondents in the UK described the parent firm as having an 'old fashioned HR team' that relied on a rather 'bureaucratic' approach and which had not 'even been involved in the acquisition'. This apparently had caused some resentment, particularly when the senior corporate management at the HQ were heaping praise on the approach of the acquired firm. This had led to some heated exchanges involving an HR person at the HQ saying to a British counterpart, 'If you are so good, why weren't you the acquirer?' Those in the central HR function were seen as keen on a form of integration that involved their pre-existing model being the basis for how the company should operate. As one respondent put it, 'What they would dearly like to do from a management perspective is for us to adopt their approach lock, stock and barrel.' In this context, the UK operations leading on some new policy developments had caused some tensions within the HQ, with the HR Director apparently being irritated that senior managers were looking outside the country of origin in allocating the role of leading new initiatives. Accordingly, there was an acceptance on the part of those in the British operations that to be effective in transferring expertise they had to tread carefully, not going in 'with all guns blazing'. Thus, if the organization is to use the expertise and practices of its acquired units, then there must be a commitment from those at the centre of the company to welcoming input from these operations and sensitivity on the part of those in the acquired firm concerning how their messages will be received.

The 'situated' nature of some knowledge and expertise

A further challenge to be faced in using knowledge and practices across business units in firms that have grown through acquisition is that some of this will have been developed in a distinctive context and might not easily be transferred to a different setting. This is particularly likely to be the case in international M&As due to the cultural and institutional differences across borders. The situated nature of expertise shows through strongly in the case of *Euro Cure*. The deal in question was motivated by 'an acquisition of knowledge . . . an acquisition in their potential and their future'. Yet, to a high degree the knowledge was 'situated' in that it could not easily be transferred across locations. A crucial factor in this respect was that researchers with particular expertise could not easily move to a different branch of research: 'When you get into the deep science, people can't move from one field to a completely different scientific arm.' Thus, the firm understood that there were some synergies between the two firms that could be realized but there was little attempt to embark on a challenging process of 'taking two entities and blending them into one'. The HR implications of this were that the acquiring firm adopted a largely decentralized approach to managing its acquired operations. As one put it, 'We are saying to them just keep doing what you were doing.' This limits the opportunities for 'cross-fertilization' in areas that are common to both, such as the support functions, as where the remits of the two entities are so different and there exists little overlap, this limits the scope for knowledge to be transferred across the merged organization.

Adopting an incremental approach to accessing expertise in acquired units

The case of *Euro Cure* also illustrated a further challenge in learning from international acquisitions. In considering the firm's approach to post-acquisition integration, it was acknowledged that there was a danger in accessing the knowledge and expertise of the acquired unit in an over-zealous manner, resulting in missing the opportunity altogether and rendering the acquisition futile. As one respondent put it, 'Our CEO said what is not going to happen is that everybody has jumped on this new toy, ripped it apart and we have gone and bust the damn thing.' This tension can be overcome to some extent, which shows through very clearly in the case of *Global Drug*. This company had been through a number of acquisitions and had a clear plan for how they would fit into the company's structure, in which HR seemed to be very well placed to influence the approach to acquisitions, including who was acquired. As we saw above, the key challenge in the acquisition of the small bio-tech company in the USA was to absorb the expertise they had in such a way that was sensitive to how the parent company would be perceived. In this case, it was evident that the technology being acquired was completely different to the technology that they had been using previously and to some degree this in itself was a barrier to learning. It was described as 'not going there and adding a few pieces to your existing knowledge, it is going back to the beginning and learning a different way of doing the same job'. The technology was seen as 'taking some learning' and to try and gradually absorb it, the parent company sent small 'scouting parties' which were characterized as 'Trojan horses'. This had to be handled delicately as senior HR people were anxious to avoid a perception forming in the acquired unit that the new parent was acting in a heavy-handed way in stripping away the acquired firm's distinctive capabilities. In order to reassure the acquired employees of this, certain exceptions to corporate policies were permitted, some of which, such as the free cafeteria that had taken on iconic status, were symbolic of a continuing degree of independence. This was described as 'making sure that they felt that the micro climate of their culture . . . would be retained' and by giving assurances such as 'we are acquiring you but we are not absorbing you'. Thus, the specificity of the knowledge and the way it has been situated in a particular and distinctive company presented a challenge to the acquiring company. The respondents argued that with such specialist knowledge it was hard to know when the transfer was complete and the desired knowledge had been acquired: 'We did appreciate that it would take time to get to the point of saying we have now acquired the technology transfer. There is no document that will assure that. It is a state of mind.' Thus, where gathering knowledge or expertise is central to the purpose of the acquisition or merger, an incremental approach to extracting this from the acquired unit is important.

Conclusion

The material in this chapter has both theoretical and practical implications. Theoretically, we have argued that the extent and form of integration between firms engaged in a cross-border merger will be shaped by the national business system of the dominant firm, but will also be constrained by the peculiar features of the various national systems in which the merged firm operates. We have also argued, however, that the integration process, and the restructuring and learning that are key parts of this integration in most mergers, are also highly political. In particular, we have attempted to show that the structural aspects of national systems, on the one hand, and the political processes within merged organizations, on the other, are inter-dependent. As we hope is now clear from this and earlier chapters, this approach is not only relevant to the issue of cross-border M&As, but is also integral to the way we understand the operation of multinationals more generally.

In practical terms, the preceding analysis of cross-border M&As has far-reaching implications. One of the central findings in much research on international mergers, as we have seen, has been their high failure rate. The severe problems at RBS and Corus are examples of the problems experienced by firms that have engaged in a string of acquisitions. In light of the above material concerning both the quite different regulatory contexts in which mergers and acquisitions take place across countries, and the highly politicized nature of the post-merger period, it is perhaps not surprising that such problems and difficulties are so widespread. An appreciation of the nature of these likely challenges on the part of both 'deal-makers', and those such as HR practitioners who are involved in the subsequent integration, is essential if cross-border mergers are to achieve the aims of those who initiate them.

Review questions

1. Why are cross-border mergers and acquisitions more complex than domestic ones?
2. In what ways do national effects condition the post-merger restructuring process?
3. In what ways is the process of restructuring 'political'?
4. What are the key obstacles to be overcome if a firm wants to learn from an acquisition it makes in another country?
5. If you were asked to highlight the key issues to an HR manager who is about undertake her first cross-border merger, what would you tell her?

Further reading

1 Rees, C. and Edwards, T. (2003) *The HR Implications of International Mergers and Acquisitions,* CIPD Research Report, London: CIPD, and Edwards, T., Budjanovcanin, A. and Woollard, S. (2008) *International M&As: How Can HR Play a Strategic Role?* CIPD Research Report, London: CIPD.

These two reports summarize two research projects carried out for the Chartered Institute of Personnel and Development in the UK, providing details on a series of case studies of a variety of mergers, acquisitions and joint ventures.

2 Edwards, T. and Edwards, M. R. (2015) 'Perceptions of employee voice and representation in the post-acquisition period: comparative and longitudinal evidence from an international acquisition', *Human Relations,* 68(1), 131–156.

This article reports the findings of a longitudinal and comparative study of the experience of employees in both parties to an international merger, focusing on their perceptions of voice and representation.

3 Stahl, G., Pucik, V., Evans, P. and Medenhall, M. (2004) 'Human resource management in cross-border mergers and acquisitions', in Harzing, A. and Van Ruysseveldt, J. (eds) *International Human Resource Management,* London: Sage.

The chapter provides an interesting discussion of how cross-border M&As present opportunities for firms to learn from the diversity of their operations and then provides some details on the key HR issues that firms encounter in the post-merger period.

4 Vaara, E. and Tienari, J. (2003) 'The "balance of power" principle: nationality, politics and the distribution of organizational positions', in Soderberg, A. and Vaara, E. (eds) *Merging Across Borders: People, Cultures and Politics,* Copenhagen: Copenhagen Business School Press.

A very interesting discussion of the way in which senior managerial positions were distributed in the creation of the Scandinavian financial services group Nordea.

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Part 3

THE MANAGEMENT OF INTERNATIONAL HRM

Chapter 8

Outsourcing and human resource management

Virginia Doellgast and Howard Gospel

Key aims

The aims of this chapter are to:

- provide background on outsourcing trends;
- discuss the HRM issues and choices concerning international outsourcing;
- examine the ways in which national institutions affect the costs and benefits of different strategic choices by firms;
- examine the particular challenges multinationals face as they seek to manage outsourcing contracts across national borders.

Introduction

Outsourcing of various kinds has always existed, as firms put out work to suppliers, contractors and intermediaries to organize the production of goods and services. In recent years, however, outsourcing has increased in both scale (the volume of outsourcing), scope (the number of activities outsourced) and breadth (the geographical area across which outsourcing takes place). It has also spread from the private to the public sector where it goes along with competitive tendering and privatization of services.

This growth in outsourcing has several related causes. First, new transportation systems, such as container shipping, and new information and communications technologies (ICTs), have facilitated the ordering, monitoring and delivery of products and services. Second, as markets have extended and become more competitive, firms increasingly are seeking to save costs through the possibility of paying lower wages, focusing on their core value-maximizing activities, and handing others over to contractors and suppliers. Third, management fashion has played a role in popularizing networked production models, as firms watch and imitate their competitors. Thus, managers may not always be absolutely sure that benefits will exceed costs, but they feel that, if their competitors do it, then they also should. Fourth, the relaxation of trade barriers, the emergence of new markets, and the expansion of a more highly skilled labour force in Asia have increased the ease and cost savings of outsourcing to these regions (IMF 2007; Oshri *et al.* 2011; OECD 2007a, 2007b; *The Economist* 2013).

While the volume of work outsourced has expanded in recent decades, there has also been a recent trend of ‘insourcing’, as firms have brought work back in-house. This is said to be driven by a realization that there are risks involved in outsourcing, quality may suffer, and the benefits in terms of lower costs may not always materialize, especially where outsourcing involves sending work abroad. However, up to now, taking the total activity, outsourcing has predominated over the insourcing (*Economist* 2013).

These trends have a number of implications for the management of human resources across firms' increasingly outsourced, and often international, supply and value chains. Managers face choices concerning how to help employees adjust during worker transfer or downsizing following the decision to outsource work. Networked relationships across core firms and their subcontractors introduce new demands, in terms of resources and monitoring, as firms seek to coordinate practices and incentives across organizations. In addition, aspects of the human resource management (HRM) function itself have been increasingly outsourced to specialist organizations, often involving substantial restructuring and rationalization. Insourcing can also create HRM challenges, as firms seek to expand internal staff and newly integrate or reintegrate departments or employee groups.

In this chapter, we first provide background on outsourcing trends and then discuss the associated HRM issues and choices. Throughout, we examine the ways in which national institutions affect the costs and benefits of different strategic choices by firms, as well as the particular challenges multinationals face as they seek to manage outsourcing contracts across national borders. The discussion addresses many of the themes of the book. We show that outsourcing is both driven by, and used to facilitate, globalization. However, outsourcing strategies and their impact on different stakeholder groups continue to be embedded in distinct national settings. Throughout, we refer to the firm that outsources work as the *client* or *lead* or *focal* firm and the firm that performs the outsourced work as the *subcontractor* or *supplier* or *service provider*.

Conceptualizing outsourcing

The decision to outsource work has several distinct dimensions. First, outsourcing involves the decision to carry out certain activities inside or outside the boundaries of the firm. Economists have described this in terms of the use of the 'visible hand' of management compared to the 'invisible hand' of the market or as a decision 'to make' something oneself versus 'to buy' it in from others (Coase 1937; Williamson 1975). More recently, scholars have also begun to refer to the 'vanishing hand', as once highly integrated businesses are reducing coordination via internal co-ordination mechanisms and are increasing co-ordination via the market mechanism (Langlois 2003). In practice, firms typically use a combination of internal and external arrangements, shifting the balance between in-house and out-house production over time. In addition, some activities may lie in an area between the firm and the market, for example, where a company contracts with a supplier or subcontractor which it partly owns or with an association of which it is a member. For the sake of clarity, this first aspect of outsourcing can be summarized in terms of a simple horizontal spectrum from internal to external or insourcing to outsourcing.

Second, firms face decisions concerning what to outsource. Here a distinction may be made between people and activities. The firm can outsource workers who have previously been employed within the firm, transferring them to another firm on a permanent basis. The firm can also outsource activities, which can be further categorized as primary and support activities (Porter 1985). Primary activities are those that are integral to the firm's value chain, such as components in a manufacturing company or accounts processing in

		Internal versus external	
		Internal	External
Geographical location	Domestic	In-house production	Domestic outsourcing
	Overseas	In-house off-shoring	Off-shore outsourcing

Figure 8.1 Outsourcing and offshoring

a service organization. Support activities are those processes that facilitate the firm's value chain, in terms of business supports such as IT, advertising, accounting and HRM.

Third, firms must decide on the location of outsourced operations, or to which regions, countries, or continents outsourcing will occur. Historically, because of transport and communications constraints, outsourcing was largely domestic, to other firms or organizations in the near vicinity of the outsourcing firm. However, as communications improved, transportation developed and markets expanded, the geographical scope of outsourcing extended to the national level. More recently, with further improvements in ICT, outsourcing has come to cross national boundaries and continents, with increased outsourcing by firms in developed countries to developing countries. Where transactions take place across international boundaries, the term 'offshoring' is used.

We can here also distinguish further between 'near-shoring', where work is moved to a neighbouring country (such as when a German firm shifts production to Poland) and 'far-shoring', where work is moved over a greater geographical distance (such as when a UK firm shifts manufacturing production to China or business services to India). Also, when firms bring back work from abroad, this is sometimes referred to as 're-shoring'.

The main distinctions made so far are shown in Figure 8.1. The two boxes on the right-hand side cover outsourcing. The bottom top boxes cover offshoring. In this chapter, we are primarily concerned with the two boxes to the right, or outsourcing domestically and internationally.

Below we examine particular implications of outsourcing for the management of human resources. We focus on three themes: employment restructuring associated with outsourcing, especially where this involves transfers and/or redundancy of workers; the challenges of coordinating HRM across organizational boundaries after outsourcing has occurred; and the particular case of the outsourcing of the HRM function itself.

Employment restructuring and the outsourcing decision

One set of HRM challenges associated with outsourcing concerns the transfer or dismissal of current employees following the decision to move the activities that they perform out of the core organization. Companies typically choose among several organizational forms for a new outsourced operation, including:

- establishing a subsidiary that remains under their direct control;

- shifting work to a third-party subcontractor;
- initiating a joint venture with a third-party subcontractor.

As part of this, managers then face the decision to either:

- dismiss the workforce performing the outsourced functions, or
- transfer all or a portion of workers to the new organization.

The decision to adopt a particular organizational and staffing strategy has important HRM implications. The retention of staff during outsourcing may be useful in transferring firm-specific knowledge, particularly for more complex business processes such as IT or research and development. It also avoids costs associated with layoffs and new recruitment. However, the transfer of existing workers may also conflict with plans to implement new working practices or reduce direct labour costs and is usually impractical when outsourcing is undertaken with the intention of shifting work to another country or region.

From an employee's perspective, the opportunity to transfer to a new employer is generally preferable to layoffs. There may be additional positive aspects of moving to a more specialist organization, such as new opportunities for career development (Kessler *et al.* 1999). However, employees also often experience disruption associated with broken career ladders and changes in management practices and style, which may negatively affect motivation and commitment. Employees remaining in workplaces where outsourcing has occurred may also experience reduced morale or job satisfaction (Böckerman and Maliranta 2013; Vrangbæk *et al.* 2013; McCann 2014). In the terms used in this book, outsourcing is often a contested process. The decision to adopt a more intermediate organizational form such as a wholly-owned subsidiary or joint venture can create more continuity in management and reduce disruption to employees, while allowing the core firm to retain additional control during the outsourcing process.

While employers face similar challenges in managing employee transfer or downsizing regardless of location, national context will influence the costs and benefits of different strategic choices. Two institutions at the national level are particularly important in this respect: (1) transfer of undertakings legislation and (2) industrial relations systems.

Transfer of undertakings

Laws concerning employee rights during the transfer of undertakings affect the ease with which management can downsize the workforce or alter employment contracts when outsourcing work (see Chapter 7 on M&As). The strength and substance of transfer of undertakings legislation differ markedly across countries. For example, in the United States, the employer or employee can terminate an employment contract at any time without giving cause, unless otherwise agreed through individual contracts or collective bargaining agreements. There is thus no legal protection of employment following the transfer of work through outsourcing, either to a third party or a subsidiary. In Japan, the *Labour Contract Succession Law* was passed in 2000, giving the lead parent company the right to transfer its existing workforce employed in a line of business to a separate company (Sako 2006). Existing employment contracts and collective agreements are automatically transferred to a spin-off. However, this does not apply to transfer of undertakings associated with outsourcing to a third party (Araki 2005).

In the EU, transfer of undertakings laws are among the strongest world-wide, and thus it is an interesting case to examine in more detail. The EU *Acquired Rights Directive* seeks to safeguard employees' rights in the transfer of ownership of a business or part of a business, defined to include the transfer of employees between organizations. The Directive specifies that the terms and conditions in a collective agreement must be observed until the agreement expires; the transfer of ownership does not constitute justifiable reason for dismissals; and the status of existing employee representatives should be preserved (i.e. the new employer must continue to recognize and negotiate with existing unions or works councils).

In addition, employee representatives are entitled to be consulted as to the 'likely or planned economic and social implications of the transfer', and this should be 'in good time' before the transfer (Eurofound 2007). The European Court of Justice has broadly interpreted this to apply to the transfer of work associated with outsourcing, even when a contract is shifted from one outsourced firm to another and involves no transfer of 'tangible or intangible assets' (European Court of Justice 2002). Thus, the Directive covers cases where services are outsourced, insourced or assigned to a new contractor.

However, there is also significant variation between EU member states in the terms of national regulations. In the United Kingdom, although legislation safeguards to a degree the terms and conditions of employees affected by outsourcing, some aspects of terms and conditions, such as pensions, are not fully protected in the transfer, and the consultation process does not oblige management to negotiate (see also Chapter 7). In the Netherlands, management must inform works council and union representatives of the decision to transfer part of the business; must provide information on the likely impact and justification of its decision; and show that it has taken account of workers' interests (Caprile and Llorens 2000). These different regulations affect the extent to which workers are able to have a say in the restructuring process, as well as the cost advantages of different organizational forms to employers (see, e.g. Bach and Stroleny 2013; Grimshaw *et al.* 2015).

Industrial relations

A second set of national-level institutions that can influence outsourcing decisions is the national industrial relations system. First, as already suggested, negotiation and consultation rights affect employees' ability to participate substantively in restructuring decisions – and thus may shape both the form that outsourcing takes as well as outcomes for employees. These rights can be important for the implementation of transfer of undertakings rules. In some continental European countries, employees have additional representation rights on corporate boards which allow them to have prior knowledge and to be consulted on restructuring decisions. These rights are strongest in Germany, Austria and the Nordic countries.

Second, the bargaining power of trade unions can influence their ability to negotiate job security provisions, which make it difficult or costly to lay off workers, in countries where unions are weak, with lower bargaining coverage, membership density, and participation rights, such as the USA and the UK, workers are less likely to have these forms of leverage. For example, under the UK's TUPE regulations, an employer can dismiss workers if it can be demonstrated that they were undertaken for economic, technical or organizational reasons; and employment contracts can be changed with the approval of individual employees. These conditions can be easy to meet, in the absence of strong unions or works councils to inform workers of their legal rights or to contest decisions. A study by Cooke *et al.* (2004), based on a series of UK case studies, showed that employers had broad discretion in reducing staff numbers and altering working practices following the transfer of workers, for example, through dismissing employees for economic reasons and then re-hiring them under less favourable contracts.

Third, variation in the coverage of collective bargaining or other labour market institutions may influence employers' ability to use outsourcing to reduce labour costs. In the USA where bargaining coverage is among the lowest of OECD countries, subcontractors have been found to lower costs through reducing wages relative to their clients, and in some cases failing to comply with basic employment regulations (Dube and Kaplan 2010; Weil 2014). In developing countries, bargaining coverage is often particularly low (or non-existent) in offshore subcontractor sectors, further depressing the cost to firms of using offshored services. The size of these cost differences can increase the economic incentives to outsource and offshore work.

In Europe, where bargaining coverage and labour market protections are still among the strongest in the world, differences in institutional coverage can affect the 'wage premium' associated with in-house as compared to outsourced arrangements. For example, in Austria, employers are required to be members in the employer's association for their industry, and thus all subcontractors are bound by a sectoral agreement setting minimum pay and conditions (Holst 2008; Shire *et al.* 2009). In Germany, employers must agree to an extension of a sectoral agreement (though this rarely occurs), and many subcontractors do not have agreements. This has led to often large inequality in pay and working conditions in many sectors between in-house workers covered by collective agreements and subcontracted workers who lack these protections (Doellgast and Greer 2007; Greer *et al.* 2013). Recent comparative research on public sector outsourcing in France, Germany, Hungary, Sweden and the UK by Grimshaw *et al.* (2015) finds that in countries where there were larger gaps in pay and collective representation between the public and private sector, management faced larger incentives to outsource, and unions more strongly resisted outsourcing.

Finally, differences in union strategies may also affect outsourcing decisions. Worker representatives have distinct interests in keeping work in-house or maintaining a coherent framework of collective bargaining. Sako (2006: 4) argues that Japanese unions themselves choose to extend or contract their boundaries, and these decisions then can affect management's choice of a corporate structure. As representation rights regarding outsourcing are often weak, unions may draw on distinct forms of bargaining power in other areas to try to influence employment restructuring decisions. For example, in a comparison of call centre outsourcing strategies, Doellgast (2008) finds that US unions used strategic campaigns and strike tactics to extend agreements to new organizations and protect the working conditions of members, while German unions relied more on the co-determination rights of works councillors. In the UK, unions have organized successful campaigns against the offshoring of work, using a variety of organizing tactics (Taylor and Bain 2008).

In some cases, unions have tried to organize subcontractors and extend legal regulations to these workplaces in countries or sectors where they are more poorly regulated – which may in turn affect the cost and/or skill differential between the in-house and out-house workforce. For example, in India, a union was formed in India's call centre and business process outsourcing sector (Taylor *et al.* 2009). Italian and Austrian unions have successfully campaigned for legal changes limiting the use of more poorly regulated freelance contracts, which were widely used by call centre subcontractors in both countries (Doellgast *et al.* 2013). However, these efforts are often limited by the mobility of much subcontracted work and employer resistance where there is a perceived need to keep labour costs low as a source of competitive advantage (Holtgrewe and Doellgast 2012).

International outsourcing within the EU – or near-shoring between EU countries – has created particular challenges for labour unions in recent years. Increasingly, transnational subcontractors in project-based industries employ 'posted workers' on a short-term basis, many of whom are migrants from Eastern European countries with weaker labour market regulations. Following the terms of the *Posted Workers Directive,* posted workers are entitled to the statutory minimum conditions of their host state or sending state, whichever is better from the worker's perspective. However, a series of legal decisions by the European Court of Justice have added that governments and unions cannot enforce standards that are not laid out explicitly in the Directive and covered by national law. This means that where minimum pay and working conditions are typically set by collective agreement in a host country, these standards cannot legally be enforced – leading to the opening up of 'spaces of exception' within industries and countries characterized by weaker institutional regulation of employment (Wagner and Lillie 2013; Wagner 2014). Lillie (2011, 2012) has argued that the result is a trend towards increasingly segmented labour markets in industries like construction, where there is heavy use of posted workers. This suggests that opportunities to 'escape' national regulations and industrial relations institutions through subcontracting can also be shaped by supra-national forms of regulation.

Institutions and strategic choice

A key question the above discussion raises is to what extent these national differences in institutions influence the strategic choices of firms concerning staff transfer and layoffs, as well as the organizational form adopted. A survey by Kakabadse and Kakabadse (2002) found broad similarities between the United States and Europe in a range of areas, including extent of staff transfer, post-transfer redundancies, and adoption of new employment terms for redeployed workers. Other studies find more substantial differences in outsourcing decisions in Europe. In two studies of firms undertaking IT outsourcing, Barthelemy and Geyer (2001) found higher rates of employee transfers and layoffs in France compared to Germany, while Grimshaw and Miozzo (2006) found more extensive employee consultation, negotiation and labour influence in the management of employee transfer in Germany compared to the UK. Both argue that Germany's stronger unions and consultation rights help to explain these differences.

Together, this research shows that institutional factors that vary across countries, especially legal systems and industrial relations arrangements, can influence employment restructuring decisions associated with outsourcing. Stronger laws protecting employee rights during the transfer of people or assets and more inclusive bargaining systems create constraints on choice, encouraging consultation and discouraging the renegotiation of employment contracts at a lower level. While these constraints may represent short-term costs for firms, they also can have long-term advantages, in terms of higher levels of employee commitment and cooperation with restructuring plans. The Grimshaw and Miozzo (2006) study cited above found that German client firms were more satisfied with HR practices and service quality of new supplier firms than those in the UK, which they attribute to the more extensive process of consultation in Germany.

Coordination of HRM across organizational boundaries

A further set of HRM challenges associated with outsourcing concerns the coordination of management decisions and processes between organizations. The following areas of HRM tend to be the focus of coordination efforts.

- *Employee selection and skill development:* Clients may seek to establish a common set of standards for employee qualifications and training across their subcontractors. This may be particularly important for higher skilled jobs or services in which the subcontractors' workers are interacting with the clients' customers.
- *Work design:* Clients may seek to encourage shared principles of work design, such as use of teams, participation initiatives, and the use of shared procedures. This may be most important where employees work with each other across organizations, or in cases where a lead firm is strongly committed to particular principles of work organization (such as lean production historically in Japan).
- *Scheduling and flexibility:* Clients often demand a certain level of flexibility from suppliers in adjusting the volume of goods or service production at short notice. This can have a direct effect on scheduling practices, with higher requirements for employees to be flexible with their own schedules, more use of part-time or temporary contracts, and lower job security.
- *Performance management:* Lead firms may seek to harmonize incentives to promote shared goals, such as meeting sales or performance targets. Monitoring practices that track individual and group performance are often important for ensuring that standards are met.

Below we consider the conditions under which client firms are more likely to seek to influence or jointly manage subcontractors' HRM practices. We then discuss the challenges of coordinating HRM across organizational boundaries. Again, we show that the national context can have an important influence on management strategy and outcomes, affecting the costs and benefits associated with coordination. In addition, the international character of many outsourcing contracts – and the internationalization of suppliers themselves – create distinct co-ordination challenges.

The decision to integrate or differentiate HRM practices

It is not obvious that a client should seek to intervene in the HRM decisions of subcontractors or to coordinate these decisions in some way. Companies often outsource certain functions to reduce costs, concentrate on their core competencies, or rely on a specialist organization's expertise – with the option of terminating the contract or switching providers if price and quality do not meet expectations. In other words, one of the attractions of outsourcing might be increasingly to differentiate or variegate HRM between occupational groups across the client–supplier interface. However, there are certain circumstances where a client may have more of an interest in its subcontractors' HRM practices, depending on the nature of the contracted product or service, the extent of joint production carried out across organizations, and the national (or international) context of the contracting relationship.

First, where the product or service is more intangible or complex, lead firms may take more interest in management practices used at the point of production or service delivery. In settings such as business services or call centres, services are simultaneously produced and consumed, and thus the client is typically unable to rely on quality control mechanisms used in manufacturing at the point of delivery to prevent 'defective' products from being produced. The reasons for outsourcing this work may also play a role: clients pursuing a business strategy focused on quality rather than cost reduction may be particularly concerned with ensuring that successful practices used in-house are extended to subcontractors, or that workers in the supplier firm develop a shared organizational identity with the client firm.

Second, where the outsourcing contract involves substantial collaboration or joint production with in-house staff, the client may encourage the coordination of practices to facilitate cooperation and harmonize incentives. Under what is called 'relational' contracting, managers seek to encourage the development of 'social capital' or 'collective goods' across organizations (Dyer and Singh 1998). However, even in more 'transactional' settings, involving more routine and standardized activities. there can be incentives for developing shared procedures and skills. For example, Rubery *et al.* (2003) show in a case study of 'multi-agency' subcontracting relationships in the airline industry that a high level of interdependence between staff from different organizations meant that employees were subject to multiple sources of control and evaluation.

Third, national context can influence strategy concerning HRM coordination. Geographical or cultural distance between the lead firm and subcontractor(s) may have contradictory influences on the extent and goals of coordination. On the one hand, a client may be more likely to allow its subcontractors to adopt HRM practices that are consistent with the local conditions and business environment. Companies may also be more likely to offshore the production of products or services that are relatively standardized or easily codifiable, allowing them to engage in more arm's-length contracting. On the other hand, cultural distance may increase uncertainty, leading clients to seek tighter coordination of HRM to forestall problems and prevent the loss of control. In addition, firms with subcontractors in developing countries are increasingly concerned with the negative effects on their image associated with labour standards violations such as the employment of child labour or injuries and deaths in supply chain companies. They may thus establish codes of conduct with monitoring mechanisms to ensure that suppliers meet minimum terms and conditions (see Chapter 13 on CSR). However, such attempts may be inadequate, requiring them to be backed up by statutory supports (Locke 2013).

National institutions such as industrial relations, corporate governance, or traditions of corporate organization may also influence the extent and nature of HRM coordination. For example, Japanese lead firms traditionally developed close, trust-based relational contracting with suppliers, based on the so-called *Keiretsu* form of business organization. Core firms sought to influence the promotion, training and work design practices of their subcontractors, even moving employees across firms to adjust to changing demand in different areas of the business and to spread good work practices and obtain better coordination. In contrast, US and UK firms have tended to pursue more 'arm's-length' contracting relationships, explained in part by weaker organization of employers, distinct traditions of law, and more decentralized or disorganized industrial relations institutions (Helper 1991; Lane and Bachmann 1997).

Challenges of HRM coordination

In cases where firms do seek to coordinate HRM across organizational boundaries, a further set of issues concerns the particular challenges clients, subcontractors and employee representatives face in managing coordination and how these may be overcome.

First, client firms face high costs of enforcement or monitoring when seeking to promote a shared set of standards or practices across subcontractors, as they do not have direct control over management. They thus often develop complex systems for ensuring compliance with contract terms; for example, through assigning special account managers to meet regularly with subcontractors or requiring detailed information on success in meeting training goals or quality targets. Third-party certification through consultants may also play an important role, with the growing popularity of both general certifications such as ISO 9000 and more targeted certification for particular industries or types of work.

A second set of challenges is faced by the subcontractors themselves, as they seek to adapt internal HRM practices to the demands of not one, but often multiple, clients. Contracts with different customers or clients may have widely varying terms concerning quality specifications and flexibility in adjusting the volume of goods or service production at short notice. This, in turn, affects the subcontractor's ability to invest in training or to offer its employees predictable schedules and long-term contracts. In addition, clients may provide different variable incentives or offer contract terms that allow suppliers to pay certain employees at a higher level. These difficulties are particularly pronounced in service settings, such as call centres or technical support, in which different groups of employees are 'dedicated' to a particular client. Under these conditions, managers face the potential problem of managing widely varying HRM practices within the firm (and often in one location), as well as dealing with possible negative effects on employee motivation of this internal variation. Grimshaw and Miozzo (2009; Miozzo and Grimshaw 2011) found that global IT services firms, such as IBM and EDS, faced the challenge of managing multiple 'employment subsystems', as clients transferred groups of dedicated workers across subcontractors; while seeking to retain partial control over staff skill and expertise (see also Rees and Edwards 2009).

Third, for their part, worker representatives such as unions and works councils face a set of challenges as they seek to coordinate collective bargaining across organizational boundaries. In many countries, HRM practices are regulated by collective agreements at the industry, firm or establishment level. However, these structures are typically organized around traditional industry or firm boundaries, which may not fit the 'networked firm' model characteristic of outsourcing relationships. Different unions may be responsible for lead and supplier firms whose workers carry out similar functions or, where, as discussed above, employees were formerly employed in the same organization. Improving bargaining coordination between these unions and works councils at different organizations can be difficult due to conflicting interests and increased variation in pay and working conditions across in-house and outsourced firms (Holtgrewe and Doellgast 2012; Holst 2014). This may be exacerbated where subcontractors rely predominantly on a migrant workforce, creating challenges associated with both language differences and uneven worker knowledge of laws and local institutions (Wagner 2014) as well as potentially divisive workforce divisions associated with racism and discrimination (Cillo and Perocco 2015).

These coordination issues usually have an important international dimension. Multinationals face particular challenges in coordinating HRM across international borders (see Chapters 4 and 5). This can be exacerbated by the fragmented ownership structures associated with subcontracting. Performance management and monitoring practices may be particularly important in helping to facilitate coordination, and thus there may be more focus on standardization in a multinational setting (Flecker and Meil 2010). For example, Indian call centres have received a lot of attention for their intensive monitoring practices, with workers' calls often listened to by both internal managers and a series of additional quality control managers from client firms seeking to harmonize standards across subcontractors (Taylor and Bain 2004; Taylor *et al.* 2013). A study by Batt *et al.* (2006) showed that subcontracted call centres in the USA were more heavily monitored than in-house centres, but that monitoring was even more intensive in offshore settings such as India. In addition, subcontractors themselves are often multinationals, possibly serving other multinational clients. This poses multiple coordination issues as firms seek to provide a standardized service across national boundaries. The case study in Box 8.1 illustrates some of the challenges faced by a multinational call centre subcontractor along these lines, and how they sought to resolve them.

BOX 8.1

'Vendotel': coordinating HRM in a multinational call centre vendor

Vendotel is a multinational call centre vendor based in the United States, with call centres in around a dozen countries across North America, Europe, and Asia. It prided itself on its ability to keep labour costs low, through locating in countries such as India and Indonesia, while adopting lean scheduling and intensive performance monitoring practices in higher wage countries. In most locations Vendotel had no collective bargaining agreements. The one exception was France, where it was obliged to follow the terms of the sectoral agreement for third-party services.

Vendotel expanded into Germany, France and the United Kingdom in the late 1990s. Managers in US headquarters had misgivings about the expense of operating call centres in Europe, where they were often forced to modify their 'best practice' HRM practices to fit local labour laws:

> *The biggest one is the employment agreement we have to enter into with employees there . . . In the US, it is employment at will, and so if an employee doesn't work out, we can fire him or her. There, we have to take on a lot of responsibility for the employee once we hire them on a permanent basis, so we need to find ways around these rules . . . Otherwise, it's like a contract for life, and you put yourself at risk, because in this business there are major fluctuations: what if you lose a client, and then you're stuck with all of those employees? (Interview, HR manager (HQ), July 2003)*

The company also faced challenges in harmonizing its practices across employee groups, as many of its European locations had been acquired and the existing workforce retained their former contracts under Transfer of Undertakings rules. For example, the previous workforce had more frequent breaks and more flexibility over when they took them, and these workers refused to negotiate new individual contracts when the new management tightened scheduling. This led to some resentment between groups of employees, and managers complained that Germany's 'rigid' regulatory environment was preventing them from implementing a more consistent policy.

However, Vendotel has had some success in diffusing a common culture throughout the organization. Several layers of management were dedicated to coordinating strategies and aligning 'metrics' across the company's European call centres. At the same time, specific incentives and training were also driven by different client demands. Most of Vendotel's clients were multinational firms that contracted with the supplier to service their customers in North America and Europe. This led to intensive benchmarking and communication across 'account groups'. More recently Vendotel had also joined a quality certification programme developed for the call centre industry, in which third-party monitors visited different locations to ensure they were meeting targets for reducing staff turnover, improving training quality, and meeting performance targets. This was driving more standardization across the European locations, and managers were convinced the certification process had contributed to improved quality.

For further details, see Doellgast (2012).

Review questions

1. How did Vendotel's relationships with its clients influence the HRM practices it adopted?
2. How did managers seek to create consistency in HRM across locations, and what challenges did they encounter?

The focus on coordination and harmonization in outsourcing relationships may be positive, in terms of ensuring a standardized product, but may also have costs as local managers are constrained from adapting flexibly to local conditions. Case study research has shown that outsourced staff often experience reduced skill and discretion as their new employers intensify monitoring (Grugulis and Vincent 2005). The study by Batt *et al.* (2006) cited above found that higher monitoring rates were associated with high employee turnover, indicating negative implications in terms of employees satisfaction and commitment. Particularly high turnover rates in offshored Indian call centres may be further explained by patterns of customer hostility and racial abuse from 'Western' customers (Deery *et al.* 2013). Yu and Levy (2010) found that radiology professionals working in the Indian offshore sector experienced a deskilling of their work, with negative effects on worker motivation. Another recent UK study found that increased internationalization of the value chain for IT services contributed to a falling domestic demand for technical IT skills, with negative effects on career development and professionalization in the sector (Donnelly *et al.* 2011). In addition, McCann (2014) found a higher incidence of employee frustration, reported errors in work processes, and a perception of declining customer service quality associated with offshoring of UK insurance and banking jobs, based on surveys of and interviews with staff in affected workplaces.

The success of companies in responding to these challenges depends on a combination of management strategy and supportive institutions. Donnelly *et al.* (2011) suggest that collective social actors in the UK largely failed in their attempt to professionalize the workforce in the IT services sector through joint investment in training, due to weak coordination among the actors and marginal support from firms. In contrast, Kuruvilla and Ranganathan (2010) found that in the Indian business process outsourcing industry, high turnover rates among an increasingly mobile, middle-class workforce led companies to experiment with a range of new HRM strategies aimed at improving recruitment, retention and training. These initiatives were complemented by those of actors outside of the firm: industry associations and the state and national governments in India adopted a range of policies aimed at overcoming persistent problems of skill shortages (Kuruvilla and Ranganathan 2008).

The outsourcing of (parts of) the HR function

The outsourcing of HR departments and HR activities is one specific form of outsourcing and off-shoring which is clearly calculated to have very direct effects on HRM. As we noted in the Introduction, firms have long outsourced support services, including HR activities such as recruitment or executive salary and benefit comparisons. In some countries, such as Germany and the Scandinavian countries, firms have also handed over aspects of their dealings with trade unions to employers' organizations, which provide services in terms of wage fixing, training, and dispute resolution. Here, however, we are primarily concerned with the relatively recent phenomenon of the outsourcing of a significant part of HR departments and HR activities.

The growth of HR outsourcing has been facilitated by the development of ICT platforms, pressures to reduce support costs, and the growth of provider companies (Huws and Podro 2012; Susomrith and Brown 2013). Adler (2003) describes several recent trends that drove this growth in the early 2000s: HR departments were the target of 'belt-tightening' as firms sought to focus on core activities; the HR legal environment became increasingly complex, requiring subject matter experts (particularly for international firms); M&As created new challenges in managing the cross-border movement of employees; and improvements in HR information systems made it easier to outsource information in areas such as payroll. More recently Susomrith and Brown (2013) have stressed the felt need to increase efficiency and quality, to acquire specialized HR capabilities, and to free resources to concentrate on the strategic role of HR.

In response to these trends, HR service providers have developed several segments. First, specialized consultants supply a particular service, such as recruitment support, pensions planning, or wage and benefit surveys and systems design. Second, technology providers supply specialist technological support services such as customized HR software. Third, a growing number of very large providers (such as IBM, Accenture, Exult and HP) provide a wide range of HR services and operate on a global scale. These often involve multi-billion pound deals lasting up to 10 years. Overall, it has been estimated that the global market for HR outsourcing is growing rapidly, reaching more than $50 billion (Sako and Tierney 2005; Gospel and Sako 2012).

The recent increase in the demand for such services started with a small number of large firms in the private sector in the US and the UK. However, in recent years demand has grown among smaller companies and public sector organizations across countries. National context again appears to have some effect on strategies: firms in countries such as Germany or Japan have preferred to keep more of their HR in-house, perhaps reflecting greater risk aversion and a willingness to continue to accept support services as a fixed cost and as a more core/high power function. However, even in these countries firms have recently shown a greater willingness to outsource support services. HR outsourcing has also spread to developing countries (Ee *et al.* 2013). Despite some reversions to in-sourcing, it is likely that the outsourcing of many aspects of HR will continue (Gospel and Sako 2012).

Firms face a number of considerations in managing the outsourcing of HR processes. First, managers must evaluate the pros and cons of moving these activities to a provider. Advantages are similar to those of other forms of outsourcing, including lower costs through the reduction of overall headcount, the payment of lower salaries, the greater division of labour, and access to better ICT systems; and higher quality work with fewer mistakes, especially in routine areas (Sako and Tierney 2005; Susomrith and Brown 2013). However, there are also disadvantages and risks, such as reduction in morale both among transferred and retained staff; the risk of losing core competencies and control over activities; and the costs of administering what are often very lengthy contracts. Because of the sensitive nature of these contracts and because they often run for between up to 10 years, there has to date been little research evaluating these costs and benefits.

Second, managers must decide which HR functions to outsource. For the most part, strategic and high value-added activities will be kept in-house. These usually include the management of senior managers and the development of HR strategy. Sensitive issues such as dealings with works councils and trade unions will also typically be kept in-house. More transactional services are more often outsourced, including the running of HR information systems (including call centres), the administration of recruitment and exits, payroll processing, compensation and benefits, pensions administration, training administration and expatriate and travel arrangements. One recent Australian study showed that the five most commonly outsourced areas were recruitment and selection, payroll and benefit administration, training and aspects of health and safety. Outsourcing the 'transactional' and retaining the 'strategic' activities has been a way in which HR professionals working in different functions have sought to improve their profile within their organizations (Reichel and Lazarova 2013).

There are a number of borderline or 'grey' areas where the advantages of outsourcing are more ambiguous. For example, an employee at a manufacturing plant might have a complaint about his or her level of pay. This may seem to be a simple individual issue, for which the facts are easily ascertained and where, if necessary, corrective action can be taken by the service provider. However, several employees may start to make similar complaints, contributing to a collective grievance and possible trade union involvement in an industrial dispute. If payroll is outsourced, it may be unclear who should spot this escalating problem and who should intervene at what stage. Such contingencies are usually set out in the service contract with procedures for resolving disputes between the user and the provider about 'who does what'. For the most part, however, the parties prefer to deal with these issues through personal contact and trust rather than on a purely contractual basis. However, this may be difficult if there is more than one service provider involved. Overall, in deciding what to keep in-house and what to outsource, firms have to think through what aspects of HR add value, based on their core competencies or strategies (Adler 2003; Gospel and Sako 2012).

Third, managers have different choices among the different routes to outsourcing. One decision concerns whether more closely to integrate, coordinate and standardize HR arrangements before handing them over to a provider or to first hand them over and then let the provider transform systems (Sako and Tierney 2005). Large multinational companies typically have different HR arrangements that cover distinct product or service areas and geographical areas, which may in part be the legacy of M&As or a decentralized organizational structure. The decision to transform and integrate these HR systems before outsourcing may allow the firm to form a better opinion about what to outsource and what to keep in-house and to retain knowledge and capability in core areas. The firm will also pay a lower price for the service contract since much of the hard work of integrating and standardizing HR will have already been done.

One strategy for transforming and integrating HR systems is to create a Shared Services Centre (SSC) that brings together business processes shared across units within a company. A survey of MNCs in the UK revealed that around one-third of the companies operated an international SSC in the HR function (Edwards *et al.* 2007). A large multinational may establish a limited number of these centres in different parts of the world covering all its global activities. A related decision is then whether to outsource HR for a particular country or region or to do this worldwide. This latter decision will depend on factors that have been discussed elsewhere in this volume, such as how centralized the company already is and whether it has gone down the shared services route (Gospel and Sako 2012).

The case study in Box 8.2 provides an example of different approaches to outsourcing of shared services taken by two multinationals, P&G and Unilever.

BOX 8.2

The outsourcing of HRM by P&G and Unilever

Procter & Gamble (P&G) and Unilever are two old, well-established companies; the former US, the latter Anglo-Dutch. Both firms grew from origins in soap and detergent manufacturing and moved into home and personal care, food processing and other areas. They are two of the world's leading companies in the fast-moving consumer goods industry and have long been rivals.

Both had expanded internationally from the interwar years onwards and now have operations in most major national markets. Unilever has always been larger, operating in more countries and producing a wider range of products and brands. In part as a result, it has also been less coordinated and centralized. The two firms expanded through internal growth and via M&As.

To manage their diverse activities, both companies developed international and product divisions and for a time managed their complexity through something like matrix structures. They gave significant autonomy to their subsidiary companies; and as a result, national, divisional and subsidiary headquarters developed extensive managerial hierarchies in areas such as marketing, finance and accounting, procurement, IT and HRM.

Through the 1990s, pressure on both companies grew, as many of their brands matured and became subject to competition from other companies and from supermarket own-label products. Increasingly, however, they came to realize that there were economies of scale and scope to be gained from focusing on a smaller number of categories and brands. Hence, the two companies began substantial programmes of closure, divestiture and reorganization, with a trend towards greater centralization.

P&G moved faster in this direction and reorganized itself in a more centralized manner, with greater oversight of activities by corporate headquarters. In parallel, it gave less emphasis to divisions and constituent companies. One aspect of this was the creation in 1999 of a world-wide shared services centre, pooling business processes across units within the company. This was called Global Business Services (GBS) and brought together support staff in various areas, including HRM, in three main centres throughout the world. In this way, the company felt it achieved better services at lower cost by leveraging economies of scale, standardizing processes, introducing the newest technology and freeing higher level staff to concentrate on less routine personnel matters.

In 2003, P&G decided that it would outsource most of its GBS activities. After a long process, it outsourced many lower-level transactional and middle-level HR services to IBM on a global basis. The resulting 10-year service contract was valued at $400 million and covered 98,000 employees in over 80 countries.

Unilever, being more complex and less centralized, moved more slowly. However, from the early 2000s onwards, it also developed shared services centres, though mainly on a regional basis. It then faced the decision either to develop shared services further or more directly to outsource certain activities. In 2006, it chose to leap-frog and outsource HR on a global basis. The resulting seven-year contract with Accenture was valued at €700 million and covered 200,000 employees in 100 countries.

In 2013, when these contracts expired, both companies decided to continue with outsourcing – judging the benefits of outsourcing to have outweighed the disadvantages. However, P&G decided to switch providers from IBM to Capita. This was said to be rather a rather 'messy' process, but P&G was able to do it because they had retained more capabilities in-house. Unilever renewed with Accenture for another five years, but strengthened the recruitment, talent and training/development aspects of the deal.

For further details, see Gospel and Sako (2012).

Review questions

1. Why did P&G and Unilever decide to outsource their HR activities?
2. How did the two companies' outsourcing strategies differ?
3. What are the advantages and disadvantages of these different approaches to outsourcing?

A fourth consideration relates to the effects of outsourcing on HR professionals. Here two main groups should be considered.

The first group are those who stay within the firm. On the one hand, these employees can be freed up from more routine matters and allowed to become 'business partners', where they may work as part of more value-adding line management teams. On the other hand, there may be a continuing need for some 'experts' who will have a more detailed knowledge of one particular area, such as the design of executive compensation plans. There will also be a need for a new class of managers whose job is to administer the contract with the service provider and deal with 'seam' issues when they arise. These include issues that are in grey areas, which may not have been sufficiently thought through when the contract was negotiated, or that are new to the contract, for example, when an acquisition is made and new employee groups have to be integrated into the contract.

The second group are the HR managers who are transferred to or hired by the service provider. On the one hand, some of these employees will have to concentrate on rather narrow areas, losing their ability to perform generalist roles. On the other hand, they move into an organization specializing in their area, rather than working in a department that is an adjunct to the primary activity of the firm. They may therefore feel that their careers have been enhanced (Ulrich 1997; Gospel and Sako 2012).

Whichever individuals and groups stay in or go out, one of the main challenges is for the different parties to manage the relationships, both via the contract and formal communication and via the development of on-going trust relations (Ee *et al.* 2013; Yan *et al.* 2013).

Conclusion

The management of outsourcing is increasingly important to the HRM strategies of both national and international firms. This chapter has presented a number of issues that managers in client or lead firms face in deciding to outsource various aspects of production or service provision and in managing contracts with subcontractors or suppliers. On the basis of this discussion, we can draw several broad conclusions concerning firm strategies and the role of national context in outsourcing decisions.

First, while management faces an increasing range of choices concerning whether to outsource and the scale, scope and breadth of outsourcing, these choices are often influenced by distinctive institutional constraints. Indeed, this is a central theme of the book. Transfer of undertakings rules, industrial relations institutions, and the strategies of trade unions and other worker representatives can affect the cost and benefits of outsourcing and its impact on employees. Continental Europe stands out as having stronger protections than most other parts of the world, including organized consultation mechanisms to ensure that employee interests are considered in outsourcing decisions.

Second, however, firms may increasingly be able to by-pass or circumvent these constraints. The challenges associated with 'standardization versus segmentation' are discussed in the Introduction as a major theme in the study of processes and outcomes in international HRM. One set of trends in outsourcing relates to their role in growing standardization in pay and conditions within and across countries. Outsourcing may weaken collective bargaining institutions, for example, by moving work outside of establishments covered by collective agreements or disrupting coordinated bargaining across a firm's production network. The threat of outsourcing or off-shoring may allow firms to gain concessions from worker representatives. Equally, bringing work back home or re-shoring or in-sourcing may also enable concessions to be won from employees in new plants. The HR function itself within large multinationals is increasingly being shifted to SSCs and then, in greater or lesser part, often transferred to service providers. This drives benchmarking of practices across countries, creating pressure to adopt a common HRM strategy across organizations or regions. At the same time, outsourcing also drives increased segmentation between internal and externalized jobs. This occurs between industry segments and countries via outsourcing from companies, sectors and countries covered by stronger collective bargaining and labour market institutions to those with weaker institutional protections.

Third, taken together, this suggests that outsourcing will remain a contentious (and contested) area of firm strategy. In line with the third theme of this book, we have discussed the different interests in or positions towards outsourcing held by diverse stakeholders, including employee representatives whose members are affected by outsourcing decisions, managers responsible for managing HRM across firm boundaries, and managers and employees within HR departments who may themselves be increasingly subject to outsourcing pressures. Outsourcing decisions are not simply driven by rational consideration of the costs associated with alternative strategies to 'make or buy' products and services, but also by political dynamics of negotiation and contestation among these stakeholders.

Consideration of outsourcing has shed further light on the extent to which firms are embedded in distinct contexts, demonstrating that they have increasing scope to globalize their operations. We have also seen that as they do so, they face competing incentives to differentiate the way that different occupational groups are managed but also to achieve a degree of integration across them. Managing the process of out-sourcing, in-sourcing, and their long-term effects on employees will be an increasingly important area for international HRM practitioners.

Review questions

1. Why do firms outsource people, primary activities and support activities? Why has the volume of work that is outsourced been growing in recent years?
2. How do legal and institutional arrangements affect the transfer of people and work and the subsequent coordination of activities across organizational boundaries?
3. What are the potential benefits and costs of outsourcing aspects of the HR function?

Further reading

1 Davis-Blake, A. and Broschak, J. (2009) 'Outsourcing and the changing nature of work', *Annual Review of Sociology,* 35, 321–40.

This paper provides a good overview of the literature on the effects of outsourcing on employees in the lead or client firm.

2 Drahokoupil, J. (ed.) (2015) *The Outsourcing Challenge: Organising Workers Across Fragmented Production Networks.* ETUI Research Volume.

This book includes chapters based on several research projects on outsourcing and offshoring in European countries. Chapters examine the impact of outsourcing on pay and conditions, as well as the strategies labour unions are adopting to organize workers across internal and subcontracted workplaces.

3 Huws, U. and Podro, S. (2012) 'Outsourcing and the fragmentation of employment relations: the challenges ahead', ACAS Future of Workplace Relations discussion paper series. Available at: www.acas.org.uk/future.

This report provides a review, for the major UK government employment agency, of the growth of outsourcing and its drivers. It draws attention to the fragmentation of the employment relationship and considers effects on job security, contractual terms and conditions, equality, skills and the experience of work, the role of trade unions and the management of HR practices.

4 Vrangbaek, K., Petersen, O.H. and Hjelmar, U. (2013) 'Is contracting out good or bad for employees?: A systematic review of international experience', *Review of Public Policy Administration,* 35(1), 3–23.

This paper provides an overview of the effect of outsourcing on public sector workers. It concludes that most studies on balance find a negative effect on jobs, working conditions, lower pay and benefits and reduced job satisfaction.

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Chapter 9

International leadership development

Nabil El Gazzar and David G. Collings

Key aims

The aims of this chapter are to:

- outline the different definitions of global leadership and their limitations;
- introduce a model of leadership development;
- outline specific mechanisms to develop global leaders;
- reflect on the future development of global leaders in companies.

Introduction

Competing effectively in the modern global economy is a key challenge for any organization operating on a global basis (Caligiuri *et al.* 2009). The increasingly global environment has changed not only the competitive landscape of business but also the skill sets and competencies required by leaders of global organizations. Indeed, the development of cross-cultural leadership competencies is identified as one of the top five practices that impact the efficiency of global organizations (Stroh and Caligiuri 1998). However, many multinational organizations (MNCs) report a lack of competent global leadership talent as a constraint on their globalization efforts (Scullion and Collings 2011). Thus, it is hardly surprising that developing leadership talent emerged as the most pressing personal priority of CEOs in a recent study (PWC 2013). Indeed, the development of global leadership talent is constrained by the fact that many MNCs fail to develop leadership talent from outside of the headquarters country effectively. It remains the case that most MNCs are led by nationals of the home country, reflecting the failure to global talent systems to operate effectively (Mellahi and Collings 2010; Ghemawat and Vantrappe 2015). This also reflects the imprinting of the home national business system on the MNC as it develops globally, which in turn privileges home country nationals in the leadership structures of the organization (Hayden and Edwards 2001). This is one of the key challenges that MNCs face in balancing the pressures for global integration and local responsiveness (Thite *et al.* 2012).

It has been argued that the challenges of developing global leaders can be traced to two key disconnects in terms of how organizations go about global leadership development and what the academic research has shown are effective practices in this regard (Mendenhall and Bird 2013). The first of these is a failure to understand what global leadership actually is and the second concerns the failure to appreciate the competencies of global leadership. We briefly consider these two dilemmas before elucidating a model of global leadership development. Following a discussion of mechanisms of global leadership development, we conclude with a case study and some consideration of key contemporary trends in the field.

What is global leadership?

In the field of management, more books and articles have been written about leadership than any other topic (e.g. Black *et al.* 1999; Dalton *et al.* 2002; McCall and Hollenbeck 2002; Mendenhall *et al.* 2008; Bird *et al.* 2010). Notwithstanding this, a key constraint on the development of global leadership capability has been a poor understanding of what global leadership is by those charged with its development (Holt and Seki 2012). Indeed, there is no common agreement on the succinct meaning of basic terms such as 'global', 'leadership', 'management' and 'competency' (Jokinen 2005). While earlier theories of leadership (Stogdill 1974) emphasized traits and attributes (Yukl 2002), more recent approaches emphasize the skills of leaders (Hollenbeck and McCall 2003; Hatch 2009). This reflects a change in emphasis and a reflection that leaders are born not made, hence, the focus was on finding good leaders instead of developing them (Hatch 2009). In contrast, McCall and Hollenbeck (2002) argue that talented leaders are made through learning and developing from international experience in order to become competent global executives.

Over the past 20 years, the notion of global leadership has gained traction as a response to the requirement for organizations operating globally to increase their international market share and participate in the global marketplace through balancing the tensions of global standardization and local responsiveness of products, services, management systems and processes (Black *et al.* 1999; Mendenhall *et al.* 2008; Mendenhall *et al.* 2012). These trends have led to the intensification and development of 'global work' where employees co-operate across national borders (Hinds *et al.* 2011). Referring to individual leaders, Steers *et al.* (2012: 479) argue that the key challenge for global leaders resulting from these trends is 'how to adapt their leadership style to fit local circumstances in order to achieve corporate objectives'. While there has been some advancement in our understanding of the aptitudes and skills that global leaders ought to master, and how these can be efficiently developed (e.g. Suutari 2002; Bird *et al.* 2010; Bücker and Poutsma 2010; Caligiuri and Dragoni 2015), conceptually global leadership lacks theoretical boundaries with definitions frequently idiosyncratic in nature and insufficiently explicit (Mendenhall *et al.* 2012). We shall now review the various definitions of global leadership, consider their limitations and then propose a working definition of global leadership.

Based on their review of the extant literature on global leadership, Mendenhall *et al.* (2012) differentiate between definitions of global leadership that emphasize state or process or a combination of both.

In considering global leadership as state (Quinn 2005), the precise tasks, actions, job range, roles and obligations that global leaders undertake are foregrounded (Mendenhall *et al.* 2012). The focus is on what global leaders do. By understanding the specific requirements of a global role, organizations can begin to develop profiles of the competencies required by global leaders which can in turn feed into the selection and development of such leaders.

Alternatively, when the process element of global leadership is emphasized, the focus is on how global leaders participate in the achievement of global objectives (Yukl 2006) and involves sense-making, the nature and quality of the bonds between the leader and their followers in a global setting, and the means that a leader will use to exert authority (Mendenhall *et al.* 2012). For instance, Osland and Bird (2005: 123) define global leadership as: 'the process of influencing the thinking, attitudes, and behaviors of a global community to work together synergistically toward a common vision and common goal'. Finally, some definitions of global leadership would include both state and process elements. So for example, Caligiuri (2006: 219) describes 'global leaders' as 'executives who are in jobs with some international scope, must effectively manage through the complex, changing, and often ambiguous global environment'.

While there is considerable ambiguity around what global leadership actually is, Mendenhall *et al.*'s (2012: 500) definition is one of the more influential and the one that we adopt for the current chapter:

> The process of influencing others to adopt a shared vision through structures and methods that facilitate positive change while fostering individual and collective growth in a context characterized by significant levels of complexity, flow and presence.

In turn, Mendenhall and his colleagues (ibid.: 500) define a global leader as one who 'inspires a group of people to willingly pursue a positive vision in an effectively organized fashion while fostering individual and collective growth in a context characterized by significant levels of complexity, flow and presence'.

The right stuff model to develop global leaders

Given the centrality of global leaders to the effectiveness of global organizations, MNCs place considerable emphasis on the development of global leaders within their organizations. The starting point for any leadership development programme should be an understanding of the competencies that are associated with high-performing global leaders within the particular organization. It is these that the intervention seeks to develop. In this regard, research evidence points to some key competencies, which are associated with higher levels of global leadership competency. Research on successful international assignees (see Thomas *et al.* 2008) and global leadership more generally (Bird *et al.* 2010; Caligiuri and Dragoni 2015) are illustrative. Synthesizing this literature, and building on Bird *et al.*'s earlier classification, Caligiuri and Dragoni (2015) identify four broad categories of cross-cultural competencies, which are fundamental to global leadership effectiveness.

The first are self-management competencies. These competencies determine one's ability to manage the emotional demands emerging from the complexity and ambiguity of cross-cultural interactions. Sample competencies include tolerance of ambiguity, cultural curiosity, humility and self-efficacy.

The second category is relationship management competencies. These are fundamental to building connections with others with different cultural backgrounds, and focus on communication and trust building in establishing credibility as a leader in the global context. Sample competencies include perspective taking, ability to form meaningful relationships and mindful communication.

Third, they identify business management competencies. At a fundamental level these include the ability to drive the business strategy and foster organizational culture in the context of the interconnected and complex environment in which the organization operates, reflecting legislative, regulative and educational differences, for example. Key illustrative competencies include receptivity to diverse ideas, the ability to foster innovation, stakeholder influence and ethical decision-making.

The fourth and final category relates to response-management competencies. This relates to the requirement for global leaders to draw on a variety of cultural responses as appropriate in different situations. Caligiuri and Dragoni (2015) liken this to cultural agility and argue that effective response-management will facilitate ensuring the required response among followers and the desired outcome in cross-cultural situations. Illustrative competencies include cultural adaptation, cultural minimization and cultural integration.

Developing these competencies requires significant exposure to culturally and institutionally different contexts of business. As Carlos Ghosn, current CEO of Nissan and Renault, argues:

> It is imperative for a company to prepare its future managers. You can't prepare them by leaving them at corporate headquarters to work in administrative functions. You prepare them by sending them to the most difficult places ...You have to take the ones with the most potential and send them where the action is ... Leaders are formed in the fire of experience. (Ghosn and Ries 2005: 152)

Turning to the development of global leadership competencies, McCall and Hollenbeck's (2002) model of global executive development provides a useful lens through which we can consider the development journey that global leaders have been through in practice. The model is developed at the interface between the global leader and the organization. While useful for considering the development of global leadership competencies within the MNC, it clearly fails to consider the emergence of such competencies initiated by individuals without organizational support, for example, self-initiated expatriates who move abroad of their own volition without corporate support (see Farndale *et al.* 2013). However, given that it is at the organizational level that any firm can have the most influence on global leadership development, it is an appropriate frame for our discussion. The model places significant emphasis on corporate initiated international assignments where employees' are temporarily relocated by their organizations to another country... to complete a specific task or accomplish an organizational goal'[1] (Shaffer *et al.* 2012: 1287). Such assignees are considered one of the most efficient means of developing global leadership competencies (Gregersen *et al.* 1998; Hall *et al.* 2001; Mendenhall *et al.* 2001; Caligiuri 2006; Caligiuri and Dragoni 2015) and are central to MNEs global talent management systems (Collings 2014; Cerdin and Brewster 2014).

The basis of McCall and Hollenbeck's 'right stuff' model is that each firm identifies the desired knowledge, skills and attitudes for its leadership pool, and then talented individuals are selected and provided with challenging international experiences and with appropriate organizational support targeted at the development of global leadership competencies (Mendenhall *et al.* 2008). Although the model was initially designed for leadership development in the domestic context, it is applicable in the global context

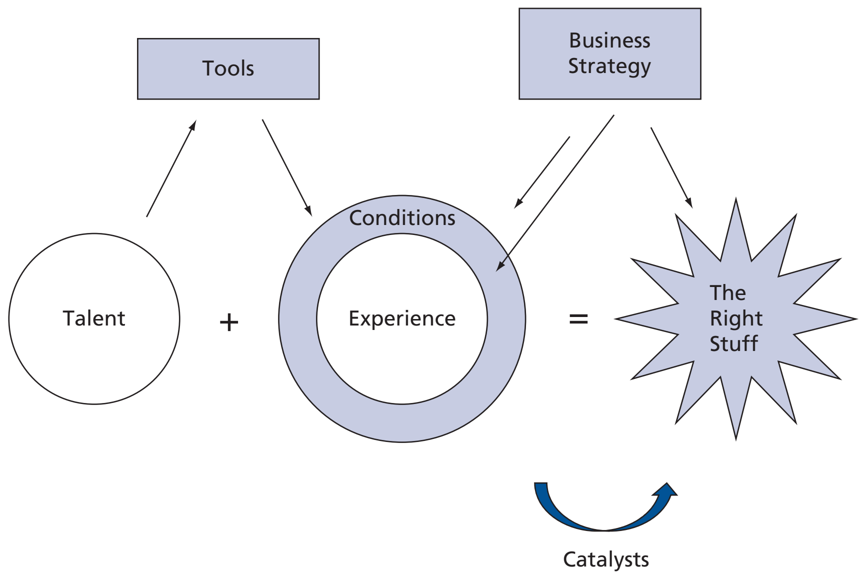

Figure 9.1 A model for developing global leaders
Source: Adapted from McCall and Hollenbeck (2002).

by adding the context factor to the experience element (see Figure 9.1), The 'right stuff' model for global leadership development has six elements: talent, experience, the right stuff, business strategy, mechanisms and catalysts.

The issue of what talent means is a contested and complex debate (see Collings and Mellahi 2009; Gallardo-Gallardo *et al.* 2013; Meyers *et al.* 2013; Nijs *et al.* 2014), While some see talent as innate and something one is born with, in an organizational context, the key is that the individual's human capital can be utilized in a way that adds value to the organization. More recent research on leadership identifies the importance of meta-competencies such as learning agility in leaders. In the right stuff model, talented individuals would be those who possess the capacity to learn from experience (McCall and Hollenbeck 2002). Thus, future leaders should be selected based on evidence of such meta-competencies and in the context of the leadership requirements of the firm (Csoka 1996). Key questions include the type of leadership competencies required in the future and where that talent is required in the multinational organization (Mellahi and Collings 2010). Each organization should have mechanisms in place for long- and short-term development (McCall and Hollenbeck 2002). The model is focused on the experiences that effectively develop an executive for future leadership role (Hollenbeck and McCall 2001). These experiences are central in forming and moulding a talented individual by developing the executive through learning from experiences (Hatch 2009). Research evidence highlights the significance of high-contact, cross-cultural leadership development experiences in combination with the leader's personality characteristics in determining global leaders' effectiveness (Caligiuri *et al.* 2009). Indeed, research highlights the impact of mastering challenging and complex issues and problems in novel and high-pressure situations, the requirement to work in complex conditions of high uncertainty (Evans *et al.* 2011; McCall and Hollenbeck 2002; Ng *et al.* 2009). Moreover, there is a need to lead and influence colleagues and other stakeholders with diverse mindsets, ambitions and

Table 9.1 Lessons of international experience

Learning to deal with cultural diversity • Learning to speak a foreign language • Learning about specific foreign cultures and contrasts between specific cultures • Learning general lessons about living and working in a foreign cultures
Learning to run a global business • Learning strategies for doing business • Learning the specifics of managing a business
Learning to lead and manage others in the global context • Learning how to establish trustworthiness • Learning to select the right people • Learning to build and maintain an efficient team • Learning to make tough decisions about people • Learning to stay focused – keeping it simple, setting clear goals • Learning to keep people motivated and dedicated, what to delegate and what not to delegate • Learning to develop people and the importance of developing people
Learning to manage complex relationships • Learning to handle immediate bosses and other superiors • Learning to manage the interface with headquarters and the larger organization • Learning to handle public appearances and the media • Learning to deal with governments and (external) politicians • Learning to deal with unions and other types of negotiations • Learning about internal politics
Learning about one's self as a leader • Learning to listen carefully, to ask questions, and to see the world through other people's eyes • Learning to be open, genuine, honest, fair; to treat other people with respect; and to trust others • Learning to be flexible, to adjust to changing situations, to take changing circumstances into account, to manage numerous priorities and complex relationships, and to think and react rapidly • Learning to evaluate risks and take them, and to act in the face of ambiguity • Learning to persist, to act with discipline, and to stay calm under tough circumstances • Learning to be optimistic, to believe in oneself, to trust one's instincts, to take a stand for what one believes is right, and to accept responsibility for the repercussions of one's actions
Learning about self and career • Learning about likes, dislikes, strengths, weaknesses, and inclinations • Learning what support is required from family or others, and how to manage the family under the pressure of foreign work • Learning to manage own career and development

Source: Adapted from McCall and Hollenbeck (2002).

goals as important drivers of on-the-job learning (ibid.). Furthermore, a firm should create the context that maximizes and accelerates the executives' learning (McCall 1998). For example, support should focus on assimilating learning opportunities from the host country and facilitating the application of this knowledge on repatriation (Shay and Baack 2004).

The right stuff element (see Figure 9.1) refers to the end result of the leaders' learning and development. This is contingent on the firm's business strategy component in determining which experiences are considered developmentally meaningful (Hollenbeck and McCall 2001). The literature on talent management increasingly recognizes that leaders are made, not born (see Collings and Mellahi 2013), thus highlighting the importance of global experience in developing global leadership competence. Table 9.1 summarizes the key themes and lessons from McCall and Hollenbeck's (2002) work on the three most crucial experiences that moulded global leaders while also highlighting the impact of these experiences. This list is not intended as extensive but illustrative of what can be learned from international experiences.

Alternative models of global leadership development include the Global Leadership Expertise Development model (GLED) and the Chattanooga model. However, these models, although developed based on solid theoretical foundations, have as yet little empirical support (Mendenhall *et al.* 2008). Hence, the advantage of the right stuff model which is based on empirical research through interviews with global executives. But the model has also drawbacks as there is a lack of reliable and valid methodologies to assess the 'right stuff' that a global executive possesses but also an absence of efficient tools to learn from failure (Nielsen and Halfhill 2006). In addition, a model such as the 'right stuff' would blur the distinction between leadership talent and leadership success which leads to a failure to explore key questions such as, for instance, how is success defined in a firm and which executive is considered successful (Ross 2013). However, it does provide a useful frame to consider the nature of global leader development and an appropriate frame for the current discussion.

Global leadership development mechanisms

Experience is a central element of McCall's model of leadership development. Indeed, there is little doubt that international experience is central to the development of the international competencies that one needs to lead effectively in the global context. However, it is also important to note that, given the importance of cultural understanding to leading in a global environment, it should be combined with the fact that such understanding is deeply rooted in knowledge which is mutable and can therefore be developed through didactic training and development (Landy and Conte 2004; Caligiuri and Dragoni 2015). Such cross-cultural knowledge is generally developed through pre-departure cross-cultural training for international assignees. In this regard, there are three primary objectives of such interventions. These are: (1) enabling international assignees (IAs) to determine appropriate cultural behaviours and ways of performing in the host country; (2) preparing IAs for unforeseen events in new cultures, owing to cultural differences; and (3) providing a realistic preview of living and working in the host economy (Caligiuri *et al.* 2001; Reiche *et al.* 2015). More recently, the importance of on-going cross-cultural support when on assignment has received increasing recognition (Mendenhall and Stahl 2000). However, it is important to note that such training does not lead to the development of global leadership competencies in isolation. Rather it has a shorter term focus on enabling performance in the global context.

Development, on the other hand, has a longer term focus and is more likely to lead to the development of global leadership capability. An international assignment has long since represented a key mechanism of global leadership development. Traditionally, one generally associated global mobility with long-term internal relocations to a different country for a period of three to five years (Scullion and Collings 2006). Such assignments offer the potential for immersion in a foreign country for an extended period of time. They are premised on the expectation that such culturally intense experiences develop individuals holistically through exposure to living and working in a foreign country (Leung *et al.* 2008). Research has demonstrated individual assignee's personality characteristics combined with high-contact, cross-cultural leadership development experiences determine global leaders' effectiveness (Caligiuri *et al.* 2009). Indeed, empirical research has confirmed that assignments premised on management development foster personal change and role innovation as the assignee adapts their frame of reference in acclimatizing to the new environment (Shay and Baack 2004). More recently, there has been recognition of the wider range of cross-cultural experiential opportunities that, owing to the requirement for the leader to transcend national borders, provide the opportunity for the development of global leaders (Caligiuri and Dragoni 2015). These include, *inter alia,* long-term and short-term international assignments, global teams and international business travel.

In evaluating the potential developmental impact of such cross-cultural experiential opportunities, Caligiuri and Dragoni differentiate between the amount of experience gained and the quality of such experience. Extant research points to the impact of the amount of international experience of organizational leaders and their firm performance (see, e.g. Carpenter *et al.* 2001). However, time spent abroad has been shown to be only an enabler of bringing about impactful development of global leaders. In this regard, the extent of cultural difference or the cultural contrasts through which such leaders develop more elaborate cognitive structures represent more advanced levels of global leadership competence (Lord and Hall 2005; Caligiuri and Dragoni 2015). Further, the qualities of the experiences gained while abroad also emerge as significant. Drawing on social learning theory, Caligiuri and Dragoni (2015) point to the importance of high-contact cross-cultural experiences in the development of global leaders. This is reflected in higher levels of peer-level interaction in the novel cultural environment and the practice of newly learned behaviours in the multicultural context, the receipt of feedback, and an emotionally and professionally safe environment where risks can be taken and mistakes can be made. Further, the more individuals engage in high-contact cross-cultural learning experiences, the greater opportunity they have to reproduce and refine the new behaviours for later application (see also Caligiuri and Tarique 2009).

In illustrating the potential impact of cross-cultural experiential opportunities, we use global mobility (short-term and long-term assignments), international business travel, global virtual teams and coaching as illustrative examples. Each of these will now be considered in turn.

Global mobility

As noted above, global mobility was traditionally seen as the primary means of developing global leadership competencies. Indeed, research confirms that international experience among senior organizational leaders appears to help in managing the tensions of globalization versus embeddedness. Upper-echelons research provides empirical support for the positive relationship between top management team (TMT) international assignment experience and indicators of firm performance (Carpenter *et al.* 2001), and levels of international diversification (Tihanyi *et al.* 2000). Similarly, the use of parent-country national (PCN) expatriates to staff subsidiary operations has been shown to improve subsidiary labour productivity, particularly in new operations in culturally distant locations (Gong 2003).

An emerging body of literature also points to the strategic benefits of employee transfers from subsidiary operations to the corporate HQ (inpatriates) through building the understanding of subsidiary operations (Reiche 2012). In this regard, the focus was very much on longer term international assignments of three to five years where the IAs' family relocated with them, generally with a lucrative financial support package. However, the long-term assignment is not the only means of gaining international experience and the landscape of global mobility has evolved significantly in recent decades. Collings *et al.* (2007) have argued that there are a number of reasons why MNCs are re-evaluating their approaches to global mobility that have, in turn, resulted in a far more complex and diverse landscape of global mobility in the contemporary MNC. Reasons for this shift include cost concerns, the increasing challenge of getting individuals to accept international assignments, the challenges of retaining assignees once they return to their home country combined with a greater appreciation of alternative forms of global mobility (Oddou *et al.* 2000; Collings *et al.* 2015).

Long-term assignments

Clearly an extended period of exposure to living and working in a foreign culture offers significant potential for the development of global leadership capabilities. Although such assignments can have a range of formal objectives ranging from succession planning and leadership development; in coordination and control; and in information exchange around the multinational network (Black *et al.* 1999). Thus, while not all long-term assignments have development as their core objective, for many assignments, it is a core priority. For example, research has demonstrated that assignments with management development as a key objective foster personal change and role innovation as the assignee adapts their frame of reference in acclimatizing to their new environment. This appears to translate into greater career-enhancing effects of developmental assignments than other forms of assignment (Stahl *et al.* 2009; Shaffer *et al.* 2012).

Short-term assignments

Short-term international assignments (generally between three and 12 months' duration) have recently emerged as an important means to develop global leaders (e.g. Lobel 1990; Gregersen *et al.* 1998; Oddou *et al.* 2000; Suutari 2002). Indeed, there is growing evidence of the increasing use of short-term international assignments, particularly in developing economies (Brookfield Global Relocation Services 2013). For organizations, short-term assignments represent a cheaper alternative to more costly longer term assignments. For individuals, they provide the opportunity to become immersed in a foreign culture for a defined period of time while being less impactful on family life. Oddou *et al.* (2000) point to the potential to develop skills regarding grasping varying opinions, handling uncertainty, being inquisitive and sensitive concerning people from a different background (Oddou *et al.* 2000).

International business travel

Although generally lacking the extended exposure to a novel culture, International Business Travel (IBT) can provide exposure to a range of different cultural and institutional context and thus can provide development opportunities for global leaders. It is likely that IBT will also provide a greater understanding of the complexities of the nuances of the different elements of the MNC's global operation. This should facilitate an increased understanding of the challenges of managing global and local tensions in the MNC. Given that it is unlikely that leadership development will be the primary objective of IBT in the majority of cases, it may be particularly important for organizations to put in place coaching and mentoring programmes to help the individuals to assimilate the learnings from such experiences. We return to this below.

Global virtual teams

A further key example of global work in the contemporary MNC is the global virtual team. They are defined as 'groups of geographically and organizationally dispersed co-workers that are assembled using a combination of telecommunications and information technologies to accomplish an organizational task' (Townsend *et al.* 1998: 18). Similar to other staffing trends, their increasing use is driven by efforts to reduce costs, while increasing global integration with the simultaneous advantages to share knowledge on large scale. It is expected that the use of global virtual teams will continue to increase in the future (Zander *et al.* 2013). Such teams are often formed to solve complex organizational issues and indeed, in industries, such as software development, they are the norm in terms of organizational collaboration, bringing together specialist expertise on a global scale without the need to travel. It has been argued that an effectively managed global team can offer an exceptional framework in order to develop and enhance the knowledge and competencies of a global leader (Maznevski and Chudoba 2000; Maznevski and DiStefano 2000). A global team offers a useful opportunity for a future global leader to develop key knowledge, skills and attitudes (Maznevski and DiStefano 2000). Global team work is intensive and consists of a wide range of knowledge regarding individuals, roles and the business (ibid.).

Executive coaching

Executive coaching is a valuable method for developing leaders owing to its distinctive position to help adjust perspectives and behaviour without sacrificing the capacity and self-esteem of the manager (Strickland 1997). Moreover, in global leadership development programmes, coaching has emerged as an increasingly important element. It provides a forum for executives to reflect on their experiences during their international assignment or their international role more widely. Hence, coaching executives is not an alternative to global mobility or global virtual teams. In line with the wider business literature, executive coaching is increasingly seen as an effective method of global leadership development (Mendenhall 2006). Coaching represents an important means of supporting international assignees in their development as they develop new skills within the challenging environment of their international role (ibid.). In addition, expatriate managers need answers promptly concerning cross-cultural ambiguities they face abroad through real-time personalized training in order to minimize negative interactions with the local workforce, clients, government officials and suppliers (Mendenhall and Stahl 2000). Otherwise these executives may rely on their local leadership skills to make sense of new experiences abroad, and thus, misinterpret the situation and behave in a culturally inappropriate way (Mendenhall 2006). In Table 9.2, the typical objectives of executive coaching are outlined.

Table 9.2 Objectives of executive coaching

1	Develop the range, adaptability and effectiveness of the executive's behavioural repertoire.
2	Develop the executive's management capability – planning, organizing, staffing, leading, controlling.
3	Enhance executive's psychological and social competencies: (a) Develop psychological and social awareness and understanding. (b) Develop tolerance of ambiguity. (c) Develop emotional intelligence. (d) Develop flexibility in and ability to develop and maintain effective motivation, learning, group dynamics, organizational behaviour and other components of the psychological and organizational domains of human behaviour. (e) Improve the executive's capacity to learn and grow. (f) Improve the executive's resilience and stress management skills.
4	Explore career objectives and facilitate career development.
5	Enhance ability to manage the work–life balance.
6	Enhance performance at individual, team and unit level.

Source: Adapted from Kilburg (1996: 140).

Conclusion

While the previous discussion has focused on the main interventions in the field of global leadership development, the area is constantly evolving and there is much potential for innovation in the future. Indeed, a decade ago, Jack Welch, former GE CEO, made the following statement:

> The Jack Welch of the Future cannot be like me. I spent my entire career in the United States. The next head of General Electric will be somebody who spent time in Bombay, in Hong Kong, in Buenos Aires. We have to send our best and brightest overseas and make sure they have training that will allow them to be the global leaders who will make GE flourish in the future. (Black *et al.* 1999: 20)

In recognizing these requirements, firms place significant emphasis on global leadership development. For example, Deloitte's latest report on global human capital (2014) reinforced the requirement to develop global leaders. Indeed, firms have spent on a global level more than US$130 billion on training and development and they predict this level of investment will be sustained.

Emerging trends in global leadership development include the emergence of innovative online learning platforms, (Wortley 2014). Indeed, on-line education is particularly well suited for the millennial generation of new global leaders as they grew up digitally and they are used from an early age to gaming and digital technologies (Wimborne 2014). Such an example of online learning facilitates multilingual education for new talented global leaders. This kind of education may be particularly relevant for talented global leaders in the United States as only 19.7 per cent speak a language other than English in comparison with Europe, where 56 per cent speak one foreign language and 28 per cent speak a second foreign language (Fryer 2012).

A second key trend relates to the emergence of company-sponsored international volunteer programmes (see Caligiuri *et al.* 2013). For example, Caligiuri and her colleagues found that such assignments were particularly valuable in developing employee engagement. Such assignments were particularly useful when they involve international projects, when those participating view their assignment as contribute meaningfully to the NGO's functioning, when volunteers have professional skills (and are able to use them) and when there are opportunities for skills to be developed that can be applied in the volunteers' regular work role. Clearly such volunteering has the potential to develop international leadership competence but also to increase the engagement of such employees and their commitment to the organizations concerned.

In conclusion, firms and business schools should seek to maximize the development of global leaders by integrating both on-line education and travel to challenging assignments in different parts of the world. Hence, the 'right stuff' in such integration from our previous example would be to better prepare such global leaders to interact with the local community and be more sensitive culturally by learning the local language before travelling abroad.

This chapter now concludes with a case study that illustrates the developing methodology pursued by a global American firm with the purpose of growing its global leaders (Box 9.1).

BOX 9.1

Case study: TRW

The formal executive development programme introduced by TRW Inc. provides an interesting example of how an international firm grow its global leaders. TRW Inc. is a US firm inaugurated in 1901 and its headquarters are in Cleveland, Ohio. This $17 billion global firm specializes in automotive, space defence and IT. Moreover, they employ 110,000 staff in 35 countries, 50 per cent of whom are non-US natives and 40 per cent of their total incomes is generated abroad. Although the company was prospering on the international level, it was diagnosed by senior management that they lacked global leaders, who would succeed in managing and organizing the business in several countries at the same time toward the shared target.

Developing leaders within the whole firm is a primary focus for the TRW human resource department. Furthermore, the programme is a blend of formal training, organized assignment management and in progress management succession and career design. At TRW, in-house organized corporate learning connects learning and development to the firm's crucial strategies. The aim is to transform the firm's experienced leaders into global leaders who would drive change. TRW leadership training programmes are based on divergent cross-business groups in order to provide senior managers with various viewpoints on their jobs. In addition, the programmes help stimulate network building and contribute to the lessons learned and best practices. Also, actions learning challenging business tasks were included with the intention of strengthening the learning activity and to connect theory with practice.

Among the TRW executive development programmes, the Business Leadership Program (BLP) is aimed at the top 1 per cent of managers who have the potential to move to the top of the firm's hierarchy. The major subjects tackled in the programme include global strategy, leadership style and behaviour, culture and organizational aptitudes. Moreover, the programme incorporates several learning procedures: lectures, discussions, breakout group assignments, individual reading and project work, 360-degree feedback, case studies, team building interaction and action learning projects. The duration of the programme is two years with a five-month interval between the meetings. The first module takes place at a conference centre in order to enable interaction between the managers from different areas within the company. The second module it is conducted in Cleveland at the firm's headquarters so that participants can meet senior management.

The Global Leadership Program (GLP) was TRW's next educational programe tailored to the needs of senior managers in order to compensate for their lack of global competencies. The human resources department had a synergy with an academic establishment that had experience of delivering global business education. The new programme was tailor-made to fit the needs of TRW managers. Eighteen vice-president-level managers participated in the 20-day GLP programme split into three modules. The participants represented operations that took place in five nations in TRW's automotive, space and defence divisions.

The first module was held on the TRW academic partner's campus and facilitated by external experts. The content incorporated case studies from various global firms to study theoretical context of global leadership. Among the specified aims of this module were detecting opportunities and identifying the necessary capacities in global business; evaluating TRW global SWOT analysis; and appraising personal consequences were some of the aims of this module. In order to link theory to practice, the second module was an action-learning project. Some 18 executives were put into three cross-business groups and sent for a week to China on a global assignment. The goal was to face a challenging strategic task using the learning from the first theoretical module. The third module was held in the firm's headquarters at Cleveland. Within three days each group had to present the lessons they had learned during their global assignment, to the other groups and the management board.

The second version of the Global Leadership Program (GLPII) included the same three modules but the emphasis was put on developing market-driven strategies. Moreover, the three groups were sent to three different nations: Poland, Brazil and China. Each action learning team had a different project to pursue. This occasion was a whole experiential learning about the local culture, themselves and to interact globally in diverse regions.

The aims of TRW training programmes in facilitating competitive advantage in the global market are threefold. First, by developing global leaders to be efficient and sensitive in various international settings. Second, by creating culturally diverse executives with a variety of experiences and backgrounds, hence, offering the firm a wide range of business solutions. Lastly, by having global leaders who do tolerate ambiguity and adapt to unfamiliar situations.

For more details, see Bradford Neary and O'Grady (2000).

Review question

1. What would you suggest, as a senior manager, to include in such a global training programme?

Note

1 Shaffer *et al.* (2012) prioritize assignments lasting several years in their definition. Given the incorporation of short-term assignments in the present discussion, we recognize the importance of such shorter duration assignments. This definition also excludes self-initiated expatriates – those individuals who relocate internationally in search of work without the support of an employer. Although these employees clearly represent an important source of global talent, they are not generally managed by the global mobility function, and hence fall beyond the scope of the current discussion. For a discussion of these and other staffing options, see Al Ariss and Crowley-Henry (2013) and Fang *et al.* (2013).

Review questions

1. What would be the difference between a domestic and global leader?
2. What tools would you consider in developing global leaders? What would be, in your view, the most effective way to develop a global leader?
3. What would be your definition of global leadership?
4. Do you think that despite the high costs related to the international assignment, firms would continue to send managers abroad? And for what purposes?

Further reading

1 Center for Creative Leadership website: www.ccl.org/Leadership/index.aspxhttp://www.ccl.org/Leadership/index.aspx

The center for Creative Leadership (CCL) is a global provider of executive education mainly in leadership education and research. In the above website can be found White Papers, assessment tools and research reports on leadership issues.

2 McCall, M.W. Jr. and Hollenbeck, G.P. (2002) *Developing Global Executives: The Lessons of International Experience,* Boston, MA: Harvard Business School Press.

This book provides outstanding insights into the 'right stuff model', discussed briefly in this chapter on how global executives learn and develop from international experience while working abroad on assignments.

3 Mendenhall, M.E., Osland, J.S., Bird, A., Oddou, G.R, Maznevski, M.L, Stevens, M.J. and Stahl, G.K. (2013) *Global Leadership: Research, Practice and Development* (2nd edition), New York: Routledge.

This book provides an excellent up-to-date source on major relevant issues to global leadership, such as, for example, the history, literature review, competencies and the development of global leadership.

4 Mendenhall, M.E., Reiche, B.S., Bird., A. and Osland, J.S (2012) 'Defining the global in global leadership', *Journal of World Business,* 47, 493–503.

This article reviews the existing definitions of global leadership and their limitations, and then discusses the conceptual framework of the global leadership construct.

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Chapter 10

Recruitment and selection of international managers

Fiona Moore

Key aims

The aims of this chapter are to:

- outline the factors that influence the recruitment and selection of international managers;
- consider how the recruitment and selection of international managers differ from that of more locally based managers;
- examine issues of gender, ethnicity, cross-cultural variation and economic development in the recruitment and selection of international managers;
- consider how the global recession has affected patterns of recruitment and selection for international managers.

Introduction

Recruitment is a significant issue in international human resource management, for the simple reason that a failed international assignment can be a serious waste of money and time for both the manager and MNC in question. Unfortunately, however, many MNCs still tend to use an informal and/or generic recruitment and selection programme when selecting their international staff, and ignore the impact which the tension between local embeddedness and the drive to global integration has on the question of who to recruit and how. This chapter builds upon the issues raised in the previous chapters to consider what is involved in the successful hiring of international managers in theory and in practice, and to discuss ways of setting up recruitment and selection programmes which enable firms to find the right people for the job, before examining broader issues of diversity in international recruitment and selection and the changing needs of businesses following the global recession.

In international management, it has been said that 'managers who are unwilling or incapable of generating global learning practices significantly reduce the effectiveness of an organisation' (Berrell *et al.* 2002: 92). In other words, selecting the wrong person for an international assignment can give the organization a bad image, or cause friction with host country employees, or reduce profits, or give a new business venture a bad start. Many writers on the subject of international managers also agree that 'expatriate failure', that is, where an international manager is unable to complete his or her assignment successfully, has a huge financial cost for the company. Gupta *et al.* (2012: 3559) estimate this at between $250,000 and $1 million per assignment), and may arguably cost the company even more in terms of reputational damage and the need to rebuild good relations between the headquarters and subsidiary (ibid.). As Berrell *et al.* (2002) note that the first step in developing a successful management and development programme is to recruit and hire the right people for the job, we shall consider how these practices can be used to bring about the most successful result for the assignment.

One of the key problems with many recruitment and selection programmes aimed at international managers is that they tend to focus on standard, traditional hiring practices, with some cosmetic alterations. However, many researchers are coming to realize that, given the differences between companies and the contested nature of globalization, this approach fails to reflect the complexity of the international management experience, and is detrimental to good performance (Brewster *et al.* 2014). Furthermore, as Berrell *et al.* note, 'There is ... a shortage of managerial talent capable of operating internationally ... the globally friendly senior manager is a scarce and, therefore, an expensive commodity' (2002: 92). International human resource managers today are thus best advised to abandon 'best practice' approaches to hiring in favour of more specialized ones.

Key concepts and definitions

Recruitment can be defined, broadly speaking, as the practice of deciding what the company needs in a candidate and instigating procedures to attract the most appropriate person for the job. In recruitment, the human resource manager will need to identify the key traits of the required individual (through working out a *job description* and *person specification*) and, through advertising and/or approaching individuals who might be suitable, finding a person with these traits. Recruitment thus involves identifying the needs of the company regarding the position to be filled, and attracting suitable candidates for the job.

Selection, by contrast, involves choosing the right candidate for the position from the ones who have been recruited. It involves testing and evaluating the skills and attributes of these individuals to determine which are the best ones for the job at hand. Selection should be, according to ACAS guidelines, 'effective, efficient and fair'—effective in picking the right person, efficient in doing it with minimal fuss and expense, and fair in that it should preclude discrimination (Beardwell *et al.* 2004). This holds true as much when selecting international managers as when selecting those who will be working closer to home.

Finally, a word on how we will define the *international manager* for the purposes of this chapter. The term refers, broadly speaking, to a manager who is sent on an international assignment; the stereotypical image most people have of such a manager is of a fairly young elite individual from the home country of the company who takes an international or 'expatriate' assignment in one of its branches, joint ventures or subsidiaries, for about three years, before returning home. Increasingly, however, writers are coming to use the term 'international manager' to mean someone with a more or less completely global orientation, who specializes in international assignments: Leonard (2002) furthermore identifies what she calls 'transpatriates', individuals who operate globally rather than in specific local cultures. Forster (2000) argues that both the stereotypical 'expatriate' and the 'transpatriate' are the exception (only about 8 per cent of any given company at any point in time), and that the concept should include other forms of international management, including permanent migrants, short-term assignments, cross-border job swaps and multicultural project teams. He further notes that many international recruitment and selection programmes make a basic *a priori* assumption that managers fit the above stereotypes of either 'expatriate' or 'transpatriate', and treat them accordingly, regardless of whether they fit the model or not, to the detriment of both individual and firm. More recent research has suggested that not only is Forster's analysis correct, but also that increasingly, more international managers are following these less traditional paths, including many who are 'self-directed expatriates', that is to say, who go abroad to seek work on their own initiative rather than pursuing in-company international assignments (Collings *et al.* 2007; Cullen 2007; Andresen *et al.* 2012). Furthermore, the fact that corporations are embedded in the global economy has meant that there has been no reduction in the demand for international managers following the 2008 recession, but instead greater creativity in developing cost-effective international assignments (Brewster *et al.* 2014). All of this means that human resource managers need to adopt more flexible mind-sets in terms of recruiting and selecting such individuals.

For the purposes of this chapter, therefore, we will define an international manager in broad terms as a manager on an assignment which requires working and/or living for a time outside of their home country, recognizing that this definition includes a good deal of variation. We shall now examine the issues involved in recruiting such individuals for an international assignment.

Criteria for recruitment

As noted above, international recruitment involves defining what the assignment entails and what sort of person is needed for it, and then considering how to attract that person. This process has, however, been given little attention, to the point where Dowling and Welch (2004) identify four myths which have grown up surrounding the recruitment of international managers, which shape managers' expectations:

1. There is a universal approach to management.
2. People can acquire multicultural behaviours without outside help.
3. There are common characteristics shared by all successful international managers.
4. There are no impediments to mobility.

In practice, however, both managers and assignments can vary widely in terms of what they need and the characteristics required. To this, we can also add a fifth myth:

5. The differences between national cultures and legal regimes are ultimately superficial and have little to no impact on international assignments.

We shall here outline the factors affecting the criteria for recruitment.

The company

Companies have different needs in the international sphere, and different relationships to the global and the local. When recruiting international managers, these considerations are arguably the first thing which should be taken into account, with particular regard to what sort of international manager would best fit with the company's strategy.

Bartlett and Ghoshal (2002) note that companies tend to take different forms when operating across national borders, depending on the degree to which the company aims for global integration versus embeddedness in various national contexts. These differences have an impact on the type of person needed for international assignments in each case. A more centralized MNC, for instance, would, generally speaking, want international managers with a strong head-office focus, who are able to transfer knowledge to, and maintain control of, subsidiaries and branches. A more decentralized company would favour managers who are flexible, entrepreneurial and capable of making crucial decisions on their own. More globally oriented companies might want a manager who can integrate and serve as a 'bridge' between different markets. There is also the question of what the company expects the subsidiary or branch to achieve over the course of the assignment, which has a bearing on the skills required of the international manager.

The selection of international managers is also affected by more nebulous factors. The company's culture, for instance, may favour a more flexible outlook or a more regimented one (certain international hotel chains, for instance, refuse to allow any deviation from a particular set of standard management procedures); a company may also favour promoting talent within the company or hiring people with relevant skills from elsewhere (also called 'growing their own' versus 'poaching'). A company's international image is also significant: certain German banks, for instance, want to be seen as 'German' wherever they are, and so favour the placing of particularly German-focused people in key international management positions, while certain German manufacturing corporations wish to cultivate a more international image, and consequently favour the hiring of third-country nationals or Germans with considerable international experience. 'Soft' qualitative factors might thus affect the question of who to hire for an international assignment.

Money is also an issue. Before deciding on who to recruit, the company must consider how much they want to spend on the assignment, how much they are willing to invest in the training and development of the manager and whether they would be willing to provide financial or other incentives to successful candidates. There is also the question of how much to spend on the manager's family. These criteria affect, for instance, whether one hires a manager with the relevant technical skills but few intercultural abilities, with the aim of training them in the latter area, or a manager with both sets of skills (who might demand a higher price). It also might raise issues of diversity management, which will be discussed in greater detail below. When recruiting international managers, therefore, the strategy, culture and financial position of the company must first be taken into account.

The nature of the assignment

Next, the nature and length of the assignment must be considered. An overseas assignment lasting only a few months, for instance, requires less preparation and less of a disruption to the lifestyle of a manager than one lasting three years. Similarly, an assignment involving travel to a variety of countries requires a different sort of preparation to one involving moving to a single other country. The circumstances of the assignment might also be significant, as one would need different skills and capabilities for each of the following common reasons for seeking an international manager:

- teaching a new process;
- helping a branch through a matrix integration;
- setting up a new branch or representative office;
- assisting with a joint venture;
- facilitating knowledge transfer between a subsidiary and its head office.

In addition, many MNCs today are developing international management 'cadres' – that is to say, a layer of management who are specifically required to take on international assignments as part of their jobs – or may require international experience as a condition of promotion to certain management grades (see Moore 2013).

When recruiting candidates, therefore, HR managers must consider the following questions: *What are the needs of head office from the manager? What sort of role does the manager need to play in the assignment? How long will they be required to play it?* Once these questions have been answered honestly, a clearer picture of the type of candidate required may emerge.

Furthermore, it is not only the needs of the head office which have to be taken into account under these circumstances. Whether or not the subsidiary's needs are being considered affects how the international manager will be treated by their new colleagues, how well they are able to carry out their duties and, ultimately, the success of the assignment. This can be seen in a study of performance management by Li and Karakowski (2001). They conducted a laboratory study of Asian-American and European-American subjects, in which individuals were shown videotapes of a group of students making a decision on an investment project, and then were required to evaluate the behaviour of particular individuals in the videotape. The results demonstrated that their standards of performance appraisal differed significantly: what one group considered appropriate behaviour for a manager, the other considered inappropriate, with, for instance, European subjects approving of behaviour which Asian subjects considered aggressive. Consequently, a person who is hired according to his or her compatibility with head office behavioural norms and practices might find their actions a severe liability in other national contexts. Berrell *et al.*, furthermore, note that involving the management of the subsidiary in the recruitment and selection of the international staff to be assigned there encourages trust between both parties (2002: 93). The nature of the assignment and the needs and wishes of the subsidiary thus should be considered when recruiting managers for international assignments.

The location of the assignment must also be taken into consideration. Managers moving from a more to a less developed country may find it particularly difficult to adjust to their new location. Furthermore, if they are being paid according to head office rates, they may incur resentment from local managers (Bhanugopan and Fish 2007; Mahajan 2011). Even between countries at a similar level of economic development, cultural differences may be hard for international managers to overcome.

The person

It is equally crucial to consider the nature and motivations of the sort of person whom the company requires for the international assignment. Managers do not always take international positions for the same reasons, but may do so from a combination of motivating factors, including:

- career advancement;
- financial incentives;
- interest in the area;
- interest in travel.

More nebulous criteria can also play a role. Behrend *et al.* (2009), for instance, note that companies which emphasized their pro-environmental credentials had greater success in recruitment than those which did not. It is worth considering all such criteria when advertising the position, as these may provide ideas as to how to attract the right person.

Furthermore, it is worth considering whether or not the international manager's interests are aligned with those of the company. While Harzing's (2001a, 2001b) studies of expatriates reveal that many are sent as a more or less formal means by which head office can maintain control over branches, a more qualitative study has suggested that expatriates tend to view the building of an international career as more important, and may become disillusioned and leave the company when this career fails to materialize (Moore 2006). Furthermore, it is possible for companies to make false assumptions about an individual's characteristics: Selmer (2002) notes that American companies frequently send Chinese-American managers on assignment to China, only to find that their beliefs that the managers' ancestry will give them a familiarity with the culture are severely mistaken. Finally, people who are interested in the assignment only for financial or career-related reasons may not actually be interested in the work to be done.

The personal qualities of the candidate should also be taken into account. Crucial to many assignments is the ability of an individual to adapt to particular circumstances. This is an essential skill for international management, which may be even more important than previous knowledge of the country or region to which the international manager is to be sent. This also affects the nature and amount of guidance from head office which will be required. The problem is that adaptability, being a psychological attribute, may be difficult to measure. It may also stem from character traits which are not highly valued in business. As Gregersen *et al.* (1996) note, often adaptability is the result of skills like empathy, ability to compromise and to get along with other people, as opposed to skills like competitiveness, aggression, and so on. Consequently, the managers with the right abilities may be ignored or passed over because the recruiters do not consider their personality appropriate for a key management position.

It is also debatable whether prior experience of working in the country of assignment is an asset or a liability. On the plus side, prior experience can save the company money, as linguistic and intercultural training may not be required; Selmer (2004) notes that many European MNCs currently establishing a presence in China are deliberately selecting managers who speak one or more Chinese languages, as these can be expensive and time-consuming for managers to learn. On the negative side, however, there is always the possibility of the manager becoming biased towards the subsidiary's culture rather than maintaining a degree of impartiality, or, when the assignment is over, deciding that they want to stay in the country.

Finally, it is worth considering the personal skills of candidates. As noted above, international managers tend to show a certain demographic similarity, which is surprising when one considers the variety of assignments currently being conducted. This suggests that there is a hidden problem, in that companies are simply hiring people who express an interest in the assignment rather than actively recruiting the best ones for the job in question. As noted below, in the section on gender and ethnicity, there are also reasons why a qualified manager might not put themselves forward for the assignment. Companies thus may need to engage in more imaginative recruitment practices, to attract candidates who might not otherwise apply for the job.

Legal issues

When outlining the recruitment criteria, managers should consider what the hiring regulations are in the home country and the host country, especially whether there exist regulations forbidding companies from hiring non-local staff unless they can prove that they are essential. It is also worth considering how long a person can legally work in the country of assignment, and whether it has any legal impediments to the immigration of certain groups. The hiring of third-country nationals and the potential development of 'transpatriates' raise particular issues in legal terms, especially when taking into account how the company can provide such individuals with social security, a pension and other essential benefits (Polak 2002). However, legal issues are subject to change over time. Since the 1950s, EU countries have moved towards making it easier for EU nationals to travel and work in the different member states; however, in recent years, there have been increasingly protectionist tendencies among EU members which threaten that freedom of movement. Similarly, since 11 September 2001, American visa requirements for foreign expatriates have become increasingly stringent.

As no two international assignments are the same, it is therefore advisable for managers not to attempt to come up with a universal formula when developing criteria for recruitment, but to consider the individual circumstances of the assignment, the ideal characteristics of the manager required, and the degree to which the organization is willing to compromise. We shall now consider issues involved in the selection of the appropriate candidate.

Selection

As with recruitment, how the selection of candidates for international positions is done varies from company to company, and situation to situation. We shall consider some of the more common methods of selecting candidates, their advantages and disadvantages, as well as some of the issues which they raise.

Informal methods

Traditionally, despite the abundance of literature on the subject, little consideration has gone into the specific requirements of an international assignment, and instead candidates have been selected informally, based on personal contacts. Harris and Brewster (1999) call this the 'coffee-machine' system of selection, describing it in these terms:

> A senior line manager is standing by the coffee machine when he (usually a man) is joined by a colleague:
>
> > 'How's it going?'
> >
> > 'Oh, you know, overworked and underpaid.'
> >
> > 'Tell me about it. As well as all the usual stuff, Jimmy in Mombai [sic] has just fallen ill and is being flown home. I've got no idea who we can get over there to pick up the pieces at such short notice. It's driving me crazy.'
> >
> > 'Have you met that Simon on the fifth floor? He's in the same line of work. Very bright and looks like going a long way. He was telling me that he and his wife had a great holiday in Goa a couple of years ago. He seems to like India. Could be worth a chat.'...
>
> What happens next is that the organization's processes are brought into play to legitimize the decision that has, in effect, already been taken. (1999: 497)

To play devil's advocate for a moment, it has been mentioned above that what often makes or breaks an international assignment is not the formal qualifications of the assignee but their ability to get by in a particular situation. Under those circumstances, a colleague's feelings about the candidate's suitability might be as reliable a guide as anything else.

Unfortunately, however, one has little way of knowing whether any given manager's judgement in this area is particularly sound. The manager suggesting Simon might be putting forward a suitable candidate, but he might equally be trying to do a friend a favour, or rid himself of a troublemaker or ambitious subordinate. It is also not a particularly fair method of selection, in that better candidates might be passed over simply because they don't happen to know the manager getting the coffee at that particular time. Similar objections exist to the common practice of using seniority as the main consideration (Berrell *et al.* 2002), as seniority does not necessarily mean capability, particularly in the international arena. Selection on the basis of connections or seniority thus has a number of problems, and is strongly discouraged as a means of selecting an international manager.

Formal methods

Formal methods, while more reliable, are not entirely problem-free. Selection on the basis of past experience, for instance, is often deemed a reliable guide to future performance. However, simply because a manager performs well in the home context, or in a particular host country environment, it does not follow that they will do well wherever they are assigned. Indeed, as countries and people change over time, it does not even necessarily mean they will do well in the country of their first assignment! As Bartlett and Ghoshal note:

> One problem is that profiles that have been generated often include an inventory of personality traits, individual beliefs, acquired skills and other personal attributes and behaviours assembled ... with little logical linkage to bind them. Furthermore, these profiles are often developed based on surveys of current managers or analysis of the most successful individual performers in the existing context. (1997: 104)

The use of such criteria, first, fits the prior needs of the corporation, not the current ones (as well as failing to take the motivations of the managers themselves into account); second, it does not consider individual variation; and, finally, it encourages people to formulate an 'ideal type' manager which actually bears little relation to the realities of individual managers.

There is also the case of selection by skill. It is unfortunately common among MNCs to treat international experience or global awareness as a kind of 'bolt-on'; if you need a manager for a car factory, for instance, you select a good engineer and give him some intercultural training. The problem is that some skills and experiences cannot be formally taught. While doing research at German MNCs, for instance, I encountered cases of German expatriates who were competent at their jobs, but whose lack of ability to communicate, on an emotional level, with the staff of the British office to which they were assigned resulted in mutual alienation (Moore 2013). While one might discover hidden intercultural capabilities in some international assignees, it is best to treat these as pre-existing skills and abilities rather than as something which can be developed in any suitable person. Formal selection methods thus may be as problematic as informal ones; while they may be used as criteria for making the initial selection, other methods will be needed subsequently to determine the best candidate.

Tests and examinations

In theory, at least, formal tests and assessments are more objective than the selection methods we have considered above, in that they are less based on advantageous friendships or on formal criteria which may or may not be good indicators of future performance (Hum 2006). As international assignments become more common, and consequently more consideration goes into the selection of candidates, more emphasis is being placed on using formal tests, examinations, and so forth.

Some of the means of selection will be familiar to most readers, such as:

Interviews – When interviewing a candidate for an international assignment, it is worth having a variety of people from different parts of the organization assess the candidate – even, perhaps, have them assessed by people both from head office and the branch or subsidiary to which they are being assigned. In this way, a balanced assessment of the candidate's skills can be formed.

References/résumés – These can provide a useful indication of a candidate's skills and background, but it is worth bearing in mind that success in one international assignment might not necessarily mean success in another (Forster 2000: 129). Also, some assignments require a global orientation rather than previous experience.

In addition, more specialized means of selection may be used:

Selection tests – These are often used for non-international assignments; however, in the case of selecting an international manager, they may also include tests for linguistic ability, inter-cultural ability, psychological fitness for expatriation, and other, assignment-specific criteria (Hum 2006).

Assessment centres – These, again, are normally used for the selection of a candidate for non-international positions. However, they can be useful in assessing abilities such as flexibility, quick thinking, coping with multi-ethnic teams and handling difficult situations. In the future, we may increasingly see assessment centres geared towards international assignments (ibid.). However, as Berrell *et al.* note, the key problem with selection is that 'it is exceedingly difficult to simulate cultural influences' (2002: 92), meaning that it is doubtful whether an assessment centre would prove to be a better guide than any other to the candidate's potential fitness for the assignment.

Specific monitoring of disadvantaged groups – This is a legal requirement in some cases, and should be practised even when it is not, for reasons discussed below. The aim is to ensure that the selection is effective, efficient and fair for all candidates.

It is worth bearing in mind, however, that tests can also show bias, as can examiners, when selecting candidates.

Third-country nationals

As some more globally integrated companies are now beginning to recruit cross-nationally rather than simply look for an applicant at the head office, more complex and specific criteria for selection are needed. Such individuals are known as third-country nationals (TCNs), as opposed to being from the home or host country of the MNC. The advantages of selecting TCNs are that one can hire the best person for the job, regardless of their head office connections or their place of origin; they are also widely believed to be more impartial than head office employees sent to branches (or vice versa), and, given that there are three rather than two cultures involved, to find it easier to cultivate a global mentality. Hiring TCNs can also form part of a human resource management strategy to develop an international management cadre, encouraging the formation of a stream of managers who see themselves as 'international' rather than allied to the home or host office. However, TCNs are also harder to recruit, and it can be harder to control for cultural differences in the selection process, and to arrange for training, compensation and so forth. It is also worth questioning whether it is really easier to develop a global mentality in this way than any other. It is thus very much down to the individual assignment and company whether to select third-country nationals or not.

Selecting for specific abilities and competencies

Finally, MNCs will want to select candidates with specific abilities and competencies which might prove useful in the assignment. However, this can be a mixed blessing: on the one hand, it saves the cost of training, but, on the other hand, it might mean that a better performer in other areas is passed over. Although Berrell *et al.* (2002) say that companies engaged in international joint ventures benefit actively from recruiting people who have lived for extended periods in the other culture, so that they can facilitate knowledge transfer, it might be less useful in other areas in which knowledge transfer is less of an issue than particular technical skills or the ability to be a negotiator. Overall, managers need to have 'effective cross-cultural communication, a capacity to be non-judgemental, empathy, flexibility and a high tolerance for ambiguity' (ibid.: 92), but quite what these entail in the particular circumstances of the assignment is less clear.

Entrepreneurial skills could also be advantageous for international managers assigned to a new branch or to oversee an organizational change, as they may find themselves developing a new venture effectively on their own, or steering an established branch on a different course. However, the importance of these skills depends on how isolated the branch is, how much of a controlling role the international manager has been given, and the company's overall strategy vis-à-vis its branches.

Selection, like recruitment, is therefore very much dependent on the particular context of the assignment: the needs of the company, the skills of the candidates and the role the manager will play in the organization. It is advisable to use both traditional and non-traditional selection methods to find the right individual for the position.

BOX 10.1

Case study: Japanese expatriates through the decades

Japanese international managers are a particularly interesting group to consider in this context because the economic circumstances, expectations of managers and attitude to globalization of Japanese MNCs has changed dramatically over the past 30 years. By considering case studies of Japanese international managers in the 1980s, 1990s and 2000s, we can see how the needs, circumstances and attitudes of the managers and their companies change over time in response to outside events, affecting the recruitment and selection process.

Hamada's study 'Under the silk banner' (1992) was based on interviews with Japanese expatriate managers in the mid-1980s. At this time, the emphasis in Japan was strongly on the idea of managers as 'company men', who would remain loyal to the company, making it the focus of their personal lives as well as their business activities (see Rohlen 1974), and of centralized companies focused on a Japanese head office. Japan was also internationalizing rapidly after a period in which business had been largely domestic. Consequently, companies tended to prefer a model of international management based on a group of Japanese expatriate top managers and senior managers controlling each branch, with local junior managers and staff handling day-to-day issues.

At the same time, the Japanese managers were concerned about the personal impact of the internationalization process. Hamada's interviewees were reluctant to go overseas and concerned about losing their social networks within the company: under the traditional Japanese corporate system, senior employees look after and encourage the careers of their juniors, who in turn support their seniors, but staff posted overseas find themselves struggling to maintain their position within this network. Women were virtually non-existent within this cadre: Lam (1992), writing at the same time as Hamada, noted that women were usually passed over for international positions on the grounds that they would be expected to leave the company once they married. The wives and children of expatriates often stayed in Japan; given that Japanese men were expected to form their social lives around the company, this is not too surprising, but the perceived difficulty of making an overseas move was also a factor.

In terms of recruitment and selection, then, the companies had a stake in ensuring that the people sent over were loyal and focused on Japan and the head office. There was the additional problem, however, that the international assignment might incur feelings of disloyalty in managers cut off from their networks and families. Furthermore, the fact that overseas postings were not regarded as avenues for career advancement meant that they had difficulty attracting the best staff for such positions. Japanese companies in the 1980s were thus forced to rely on employee loyalty to maintain successful international assignments.

By the time of Sakai's study, *Japanese Bankers in the City of London* (2000), however, much had changed. During the 1990s, Japan had undergone a severe financial crisis, which had a similarly drastic effect on traditional Japanese company structure. In addition, the intervening years had seen the development of a cohort of what Goodman (1993) calls 'international youth': Japanese children raised wholly or partly abroad, who are consequently more internationally focused. Japan had thus become more flexible and globalized as a result of its experiences.

Consequently, among Sakai's interviewees, we see more interest in an international career among Japanese managers; as the system collapsed and reformed itself, managers felt less bound by the old social hierarchies and traditions of company loyalty, and sought non-traditional employment patterns, including going abroad. They also displayed more flexible approaches to international management: a notable portion of Sakai's interviewees were either Japanese already settled in England who were recruited to Japanese banks, or expatriates who settled and became locals. Although women still faced discrimination, the loss of the 'career for life' among male employees had put them on a more equal footing with the men. With the 'international youth' becoming more of a prestigious group, families were becoming less concerned about going abroad. In view of these changes, also, the head offices were more inclined to allow their subsidiaries greater control over their own affairs, resulting in a relaxing of the Japan-centric international management practices noted by Hamada.

Furthermore, Sakai's study clearly shows that the Japanese companies' relationship to home and host countries changes over time. In the 1960s, she notes, banks focused for the most part on domestic concerns and providing financial support for Japanese companies overseas; in the 1970s, they become more focused on the international, due to financial and political pressures from Japan to expand into other economies. Following the collapse of the Japanese 'Bubble Economy' in the 1990s, the banks again changed their practices, hiring more foreign employees (and, apparently, allowing them greater status within the organization); layoffs and redundancies became more common. Many of her interviewees felt that the Japanese national business culture was changing to become more like that of the United States or Britain: no lifetime employment, a focus on generalists rather than specialists, and less of a sense of belonging to the company. With these changes, patterns of recruitment and selection also changed, from wanting staff who are focused on the head office, loyal to the company and technically skilled, to more flexible patterns focusing increasingly on inter-cultural skills and linguistic abilities.

In recent years, the economic situation has stabilized in Japan. However, it is facing increasing competition from China both in economic terms and in terms of its influence on business practices outside Asia; the number of English-language books and articles attempting to understand the Japanese business system has declined sharply in recent years. This, plus the worldwide recession of the late 2000s, has brought about renewed stability but also renewed conservatism in the expatriate staffing of Japanese MNCs. Okamoto and Teo's (2009) study of informal controls among Japanese expatriates indicates that some aspects of the traditional Japanese MNC form, as seen in the 1980s, are reasserting themselves, with a dominant head office, a long-term approach to business, and international managers being used primarily for control over the branches being the norm.

One development, however, is that a focus on more flexible international careers remains (Sedgwick 2011). Okamoto and Teo (2009) note that the expatriates often had quite vague and informal job descriptions, and showed a lot of flexibility in terms of their approach to their job, and expected much the same from their employees. They also maintained informal, but powerful, knowledge networks among themselves, although these frequently excluded local staff (Okamato and Teo 2009; Sedgwick 2011). Furthermore, it appears that not only is it becoming more normal to include the family in the assignment, but some Japanese may actively seek to move abroad to provide an international educational experience for their children (Igarishi 2014). Despite the reversion to more traditional attitudes and practices in international management in the early 2000s, then, these are no longer as Japan-centric as they once were, and the recruitment and selection of international managers continue to involve a greater focus on flexibility, inter-cultural abilities and knowledge management skills.

The case of Japanese international managers, considered over the past 30 years, thus demonstrates that the needs and strategies of both companies and managers change over time and under different circumstances; the requirements of the company, and the concerns of the expatriate, were quite different in the 1980s, the 1990s and the 2000s. Finally, the main lesson that we can learn is that recruitment and selection patterns for international managers can, and should, vary depending on the circumstances of the individual assignment.

For more details, see Hamada (1992), Sakai (2000), Goodman (1993), Lam (1992), Okamato and Teo (2009), Sedgwick (2011), Igarishi (2014) and Rohlen, (1979).

Review question

1. What impact do you think the changes in international management in Japanese companies in the 1990s and 2000s have had on: (a) what the manager expects from the company; and (b) the company's criteria for recruiting and selecting a suitable candidate?

Diversity issues in international recruitment and selection

Although women can have advantages over men in certain international assignments, even, sometimes, in countries where female managers are not the norm, women have a harder time winning international assignments, partly because of the common belief in European and North American business contexts that they 'will not be taken seriously' in less egalitarian countries, and partly because they traditionally take on more of the family's childcare responsibilities. This is a problem for many companies, both because of the pervasiveness of equal opportunities legislation in many countries, and because MNCs are increasingly concerned to hire the best candidate for the job. Furthermore, this belief is not supported by research: Sinangil and Ones (2003) found no differences in performance between male and female expatriates. We shall here consider some of the issues involving diversity in international recruitment and selection, focusing on those relating to gender and ethnicity, although of course many other traits may form a basis for discrimination, such as age (Riach 2009), sexual orientation (Colgan *et al.* 2009), religion (Bell 2007) or class (McLeod *et al.* 2009).

The problem

International management has long remained the preserve of white male employees – or, as Davison and Punnett (1995: 418) put it, the preserve of male employees of the 'elite race' (Han Chinese males in Chinese firms, white German males in German firms and so forth). This is despite the fact that demographics in the home countries of these firms have been changing. In North America, for instance, equal opportunity initiatives have meant a rise in the numbers of women and ethnic minorities in management, which is not reflected in the same firms' international management practices. Also, Davison and Punnett (1995) note that, though most, if not all, firms recognize that they can benefit from diversity, and firms that avoid systematic discrimination are more effective internationally, they still maintain discriminatory hiring practices. Despite advances in equal opportunity practices, then, women and ethnic minorities are still discriminated against in the recruitment and selection of international management.

Equal opportunity practices may, furthermore, actually be *preventing* women and ethnic minorities from obtaining international posts. Davison and Punnett (1995) argue that many companies try to take a 'gender- and race-blind' approach to hiring, but, rather than being therefore able to pick the best candidate for the job, they frequently damage the assignment. In the first place, to try and ignore gender and race is to deny the real fact that discrimination exists. Linehan and Walsh (1999) note that, of their sample of female international managers, none had been asked or suggested by their colleagues for the assignment, but all had deliberately put their names forward. Second, this approach ignores the advantages that gender and race may bring to the assignment, particularly as these are situations in which intangible assets may count, and in which an innovative approach may be necessary. To be 'colour-blind' is thus not to grant everyone an equal chance, but to ignore workplace realities.

This is all the more significant because discrimination in recruitment is often the result of unconscious bias rather than any systematic process. Thomas (1990) notes that the reason for the overwhelming number of white male managers in American corporations is because the senior management of such corporations also tend to be white men, who are more favourably disposed towards people who resemble them, and with whom they can empathize. This is supported by Davison and Punnett's (1995) study, which suggested that female and black candidates were more favourably viewed by female and black assessors than by white and/or male assessors. Subconsciously, managers may decide that a female candidate would be 'unambitious', or that a black manager would 'have trouble fitting in' (see Paik and Vance 2002; Insch *et al.* 2008). Women are also often seen as being more likely to have 'split loyalties', as they attempt to balance their role within the company with their role within their families. Alternatively, the recruiters may not consider them at all, as they do not fit their stereotype of what an international manager looks like.

In addition, Linehan and Walsh also suggest that male senior managers may subconsciously feel threatened by an ambitious woman (1999: 523; see also Paik and Vance 2002). Furthermore, they note that studies of uncertainty suggest that people under those conditions are more inclined to fall back on stereotypes than otherwise, which would further preclude the hiring of candidates from groups traditionally stereotyped as unambitious or unreliable (this can also potentially be a barrier against the hiring of individuals with physical or mental disabilities, neither of which in themselves preclude an aptitude for international management). The strongest barrier to the selection of women and minorities as international managers would thus seem to be subconscious prejudice (for a useful review, see Shortland and Altman 2011).

Finally, different countries have different regulations and traditions regarding discrimination, equal opportunities and positive discrimination. When engaging in the selection of international managers, it is thus advisable to be aware of the regulations in the home and the host country regarding the hiring of disadvantaged groups, and to take these into account. One should also consider the International Labour Organization's regulations concerning race and gender, in particular the ILO Convention Concerning Discrimination in Respect of Employment and Occupation (Convention 111). In many places there can be significant benefits to being seen to be an equal opportunities employer.

Hiring women and ethnic minorities: the pros and cons

Another reason to recruit women and ethnic minorities as international managers, aside from the legal argument, is that they may have advantages which white male managers do not. Adler and Izraeli (1994) cite the case of an American female manager who did very well in Japan, despite the fact that the Japanese indigenous business culture is strongly male-biased, because an American woman was seen as a novelty or curiosity, and so her contacts were better able to remember her than more conventional male expatriates. It may also be the case that, in a male-dominated business culture, businessmen may not see a female manager as a potential rival, and thus may be more open with her than with male managers. Taylor *et al.* (2004) also cite the case of a black American female interviewee, who said that, due to her experience of discrimination in her home country, she was less upset than her white male colleagues when she faced discrimination in Japan. Linehan and Walsh (1999) speculated that, as managers come to realize that relational skills and inter-cultural competencies may be worth more than technical skills as success factors in the international business arena, the stereotype of women as better relators and facilitators than technicians may come to work to the advantage of female managers; while this has unfortunately not been borne out in the subsequent decade, it is worth considering that many of the key skills associated with international assignments are stereotypically 'feminine'. There are thus a number of advantages to recruiting women and ethnic minorities as international managers.

There are, however, also disadvantages. Discrimination can be a source of stress, particularly when a woman or minority manager moves from a more egalitarian business culture to a more hierarchical one. American women in Germany, for instance, found what they saw as the 'casual sexism' of their German colleagues offensive (British women, however, did not, indicating that what are seen as acceptable forms and levels of discrimination vary from culture to culture) (Taylor *et al.* 2004). This can also lead to situations of cross-cultural misunderstanding, in which a local manager may cause offence to an international manager without realizing it, or vice versa, due to differences in attitude to gender and ethnicity. Furthermore, discrimination may go beyond simple bias and stereotyping; in some countries, for instance, women may not be allowed to travel without a male escort, and there are also countries in which homosexuality is illegal, putting gay and lesbian international managers at serious risk. In countries where this is not the case, the legal recognition of same-sex marriage and/or partnership varies from country to country, and, in countries with a federal system such as the USA, may also vary from state to state. It is also possible that a male trailing spouse will face more problems than a female one, due to the lack of an extant support group, and of finding himself in a non-traditional social role (that of stay-at-home spouse and/or parent) at the same time as he moves to a foreign setting (Punnett *et al.* 1992). When selecting women and minorities as international managers, one must bear in mind the particular advantages and disadvantages that they face; one should not, however, let the disadvantages blind one to the potential benefits of such a choice.

Family

For managers of both genders, the happiness of a spouse and children can have a strong impact on their morale and adaptability (Punnett *et al.* 1992; Tzeng 2006; Gupta *et al.* 2012). Even in the most traditional expatriate situation, the attitudes of the family can be crucial to its success or failure; in a classic study, Steinmetz (1965) focuses on the role of wives in the traditional male-centred expatriate assignment, demonstrating that the wife's happiness had a measurable impact on that of the expatriate himself. This has been confirmed by many other researchers, and, as Gupta *et al.*'s (2012) study of Indian spouses indicates, is not simply confined to European and North American expatriates. It is therefore in the interests of the MNC to ensure that the international manager's family are also adequately provided for.

Furthermore, as dual-career couples increasingly become the norm, one spouse is usually forced to choose between their partner's international assignment and their own career (Harvey 1998). As Forster notes, 'It is often relocating partners who have the most to lose from a move abroad—particularly if this means they have to give up work or ... put their careers on hold' (2000: 131). Despite the fact that some companies are now trying out compensation policies for spouses, including hiring an executive search consultant to find a new job for the spouse in the area to which the manager is being assigned, Forster's and Harvey's respective studies indicate that the bulk of trailing spouses simply give up employment altogether for the duration of the assignment (see Table 10.1), and more recent research indicates that little has changed in the interim (Brewster *et al.* 2014: 1929).

Forster also notes that, increasingly, many people who might otherwise be suitable candidates for an international assignment are refusing the offer or failing to put their names forward because they do not want their partner to be forced to choose between the assignment and their own job. When hiring international managers of whatever gender, then, the situation and welfare of the family should be a key consideration.

In summary, whereas in the past, most of the literature has assumed international managers to be white and/or elite males with families, and while managers have consequently focused their selection processes upon this group, it should not be assumed that such individuals are therefore the best candidates for an international assignment. HR managers must be particularly careful in the case of international assignments to ensure that the recruitment and selection process is egalitarian, and takes into account the particular strengths and weaknesses of women and minorities in the assignment in question, as well as considering the impact of the move on the international manager's family.

Table 10.1 Career patterns of partners of expatriates

Before the move	*(%)*	*After the move*	*(%)*
Part-time	32	Part-time	9
Full-time	34	Full-time	11
Not employed	34	Not employed	80

Source: Forster (2000: 131).

The developing world

Finally, the nature of present-day geopolitics means that assignments where a manager goes from a more-developed to a less-developed country, or vice versa, are not only becoming more common, but are increasingly seen as more desirable on the part of ambitious international managers and MNCs keen to pursue interests in potentially lucrative markets such as China and India (Shen and Edwards 2004; Cullen 2007). It is worth noting that such assignments can encounter issues not normally considered in the traditional international assignment. As noted earlier, issues of relative power can lead to problematic relations between the international manager and his or her local contacts; there may also be a greater danger of resorting to damaging stereotypes, and/or misunderstanding the local culture and the social qualities necessary for the assignment (Li and Karakowski 2001), meaning that care must be taken to select a manager with particularly good skills in the areas of communication and sensitivity, as well as, in some cases, an understanding of local norms and values. It is also worth noting that the definition of 'development' is a particularly flexible one: while many people still consider such complex and sophisticated economies as China and South Korea as 'developing', parts of the 'developed' United States are socially and economically underdeveloped (Micklethwait and Wooldridge 2000: Chapter 13). Recently, intermediate categories between developed and developing countries are increasingly gaining currency, such as the so-called 'BRIC economies', which have their own distinctive relationships to other players in the global economy. Such issues must increasingly be taken into account when selecting international managers.

The changing international manager

In our final section, we shall briefly consider whether the case of international recruitment and selection supports or contradicts the theory that 'international managers' are emerging as a distinct group in the business world, what the implications are for recruitment and selection in either case, and the potential implications for how we think about globalization.

It has been suggested in the past that the increasing recognition of international management as a distinct case within recruitment and selection is furthering the emergence of the 'international manager' as a distinct class (Gregersen *et al.* 2004; Selmer 2004). By selecting less for practical or technical skills, and more for such things as 'inter-cultural ability' and 'global awareness', it is possible that MNCs are in fact developing a cadre of people who specialize in international management, and who ultimately will become a group who go from assignment to assignment, like diplomats (Forster 2000). If this is in fact the case, then the possibility of the development of such a group should form a key part of any MNC's international recruitment and selection programme. Recruitment and selection should also focus less on the particular *national* context of the assignment, and more on the international development of the manager.

On the other hand, there is considerable evidence to support Forster's rejection of the idea that such a managerial class is emerging, in an article tellingly entitled 'The myth of the "international manager"', Forster (2000) argues, in line with the more general arguments of Hirst, Thompson and Bromley (2009), that managers are not, and can never be, 'rootless'; everyone has to come from somewhere and go to somewhere else, and few people are psychologically capable of moving from region to region at regular intervals. The most successful international managers, he notes, are not the ones who keep on moving, but the ones who like their assignment so much they opt to stay in the country. This has been supported by, among others, Harzing and Christensen (2004), who argue that the complexity of the modern international assignment means that concepts such as 'expatriate failure', as traditionally understood, no longer apply. Moore (2005) notes that there may be a generational element to mobility, with international managers generally being under 35 or over 50, and moving into more sedentary phases of their careers in the years between. Furthermore, it has been suggested by Bartlett and Ghoshal (2002) and Tomlinson (1999), among others, that globalization is as much a state of mind as anything else; suggesting that if a globalized managerial elite is emerging, it will not be defined in terms of people's international assignments, but more in terms of their attitudes and activities (Collings *et al.* 2007).

If this is the case, HR managers must be more flexible in terms of international recruitment and selection, thinking less in terms of developing the individual over the long term, and more in terms of the particular position to be filled, and the specific requirements and competencies needed for it (ibid.). While this need not preclude companies from developing general guidelines and policies for international management, they must also recognize that this term covers a wide and diverse field.

While it is possible that international managers may be developing into a distinct group, then, the situation, as always in globalization, is probably more complex, involving processes that encourage both convergence and divergence. The flexibility and variety of international assignments mean that the important thing for human resource managers is to focus on the specific circumstances of the assignment in question, and the particular pressures involved.

Conclusion

The one certain thing in international recruitment and selection would seem to be the *lack* of certainty. While one can identify general skills and abilities which can be useful under particular circumstances, the nature of globalization and the political manoeuvring which the implementation of IHRM policy involves mean that it is impossible to identify hard-and-fast criteria for all international managers, or for that matter all international assignments. Each situation must therefore be taken on its own merits; the strategy of the company, the MNC's relationship with home and host country cultures (see, for instance, Rao 2009), the tension between global and local interests within the MNC and the agendas of the candidate and their family need to be taken into account, and the recruitment and selection programme designed accordingly. As Bartlett and Ghoshal put it, 'Instead of forcing the individual to conform to the company's policies and practices, the overall objective is to capture and leverage the knowledge and expertise that each organisational member brings to the company' (1997: 114).

Key points to remember in international recruitment and selection are:

- Be flexible: remember that things change rapidly in the global sphere and that a variety of different political and cultural pressures are involved.
- Consider carefully the nature of the assignment, the cultures of the home and host country, the company's needs, the candidate's needs and the subsidiary's needs before developing a recruitment programme.
- Don't be gender-or race-blind, but remember the problem of subconscious prejudice – ask yourself what you really need, and be wary of discrimination.
- If there are problems, or even expatriate failure, the key thing is to *learn* from the experience. If you do, this can offset the short-term cost by producing long-term improvement.
- Don't be afraid of taking risks – it can prove beneficial in the long run.

Recruitment and selection in the international sphere are very much context-dependent, and it is consequently very difficult to predict who will do well. However, with care and consideration, it may be possible to significantly reduce the risk of failure and produce successful international managers.

Review questions

1. In the selection of international managers, how important are cultural factors as opposed to past knowledge and experience? Discuss the pros and cons of hiring an international manager based on each criterion.
2. Develop an advertisement to recruit an international manager for one of the corporations described in any of the books in the References section, below. Be sure to take all possible considerations into account.
3. You are an HR manager in a large multinational firm. You are asked to help select a candidate for an international assignment to a country where local women face a considerable amount of discrimination. The two candidates have equal qualifications; one is a man with no inter-cultural experience at all, the other is a woman with considerable past experience in the country in question. Which would you choose and why?
4. 'International assignments are so complex and diverse that there is no point in developing specialized programmes for the recruitment and selection of international managers'. Argue for or against this statement, with reference to Forster (2000) and Harzing and Christensen (2004).

Further reading

1 Brewster, C., Bonache, J., Cerdin, J-L. and Suutari, V. (2014) 'Exploring expatriate outcomes', *International Journal of Human Resource Management,* 25(14), 1921–37.

While not specifically dealing with recruitment and selection, this article provides a good overview of recent research on expatriate careers, from recruitment to repatriation.

2 Dowling, P.J., Festing, M. and Engle, A.D. (2008) *International Human Resource Management: Managing People in a Multinational Context* (5th edition), London: Thompson, Chapter 5.

A comprehensive, if brief and slightly managerialist, overview of the issues involved in international recruitment and selection.

3 Linehan, M. and Walsh, J,S. (1999) 'Recruiting and developing female managers for international assignments', *Journal of Management Development,* 18(6), 521–30.

Good consideration of the issues involved in the recruitment and selection of women in international management.

4 Shen, J. and Edwards, V. (2004) 'Recruitment and selection in Chinese MNEs', *International Journal of Human Resource Management,* 15(4), 814–35.

A good overview of international recruitment and selection generally, with particular reference to issues relating specifically to expatriates and MNCs from developing countries.

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Chapter 11

International pay and compensation

Chin-Ju Tsai

Key aims

The aims of this chapter are to:

- examine the differences and similarities in the use of compensation practices in different countries;
- explain the factors leading to variations in compensation practices;
- present MNCs' strategies for dealing with the competing pressures of alignment and conformance;
- introduce expatriate compensation and discuss the issue of internal equity.

Introduction

International compensation includes both monetary rewards (e.g. base pay, incentives and benefits) and non-monetary rewards (e.g. recognition, interesting work, opportunities for learning and development) that multinational corporations (MNCs) give to their employees for their contribution to the organization. International compensation management is one of the most strategically important, yet most complex, of all HRM functions in MNCs. It is an important strategic tool because employee compensation constitutes the largest single operational cost item for most firms (Brewster *et al.* 2011; Shields 2012), it provides the primary means by which organizations elicit and reinforce desired employee attitudes and behaviours (Bailey 1995; Noe *et al*. 2006; Jansen *et al.* 2009; Shields 2012), and it is one of the organization's main recruitment, motivational and retention devices (Bailey 1995). The operation of international compensation is complex as it involves the development and implementation of compensation programmes for three main groups of employees: (1) parent country nationals (PCNs); (2) third country nationals (TCNs); and (3) host-country nationals (HCNs), all of whom are working in and/or come from a variety of different cultural, legal-institutional and socioeconomic environments and may have very different reward expectations.

International compensation is different from and more complex than domestic compensation. It requires knowledge that is not usually needed for domestic programmes. For instance, international HR managers would need the following information or knowledge of foreign locations to design comparable compensation packages for expatriates and HCNs: pay rates, legally-mandated benefits, employment laws, tax laws, local compensation practices, employee expectations, and exchange and inflation rates. Although international compensation is different from its domestic counterpart, they have the same objectives: to attract and retain key personnel, and to motivate employees to achieve the organization's goals.

This chapter covers three key themes in international compensation. Two of the themes are related to two recurring and central debates in the international management literature: the convergence versus divergence debate and the localization versus standardization debate. For the convergence versus divergence debate, this chapter will, from the comparative perspective, show how the use of compensation practices varies in different countries. In addition, factors influencing variation in the use of compensation will be discussed. For the localization versus standardization debate, the chapter will, from the strategic perspective, discuss two competing pressures faced by MNCs, alignment and conformance, and show how MNCs deal with them. The third theme is expatriate compensation, which will cover the principle of developing compensation programmes for expatriates, key approaches and the equity issue. This chapter covers not only expatriate compensation, the traditional focus of international compensation research, but also compensation practices in different countries, to provide a balanced view on international compensation. The issues discussed in the chapter make extensive reference to the findings of extant empirical research to enrich our discussion and understanding. The discussion focuses on the financial aspects of compensation, such as pay, incentives and benefits, to avoid it become too broad and over-generalized.

Convergence versus divergence in compensation practices

Research on international compensation has mainly focused on compensation for expatriates. Comparative research on the use of compensation practices in different countries is limited. Based on the available research findings, this section presents arguments and empirical evidence on similarities and differences in compensation practices across different countries. As will be seen, the extant research shows mixed results and provides support for both the convergence and divergence theories.

Arguments and empirical evidence for international convergence of compensation practices

Researchers holding the convergence perspective argue that similarities in management practices between countries can be expected, as firms are forced to adopt 'best practice' in order to increase or maintain competiveness in the globalized business environment (Björkman *et al.* 2007; Pudelko and Harzing 2007; Sahadev and Demirbag 2011). In the field of HRM, an example of advocated best practice is High Performance Work Systems (HPWS), which are claimed to consist of a universal set of effective HRM practices that can be applied in all situations and national contexts. It includes such practices as employment security, selective hiring, self-managed teams and decentralization of decision-making, high compensation contingent on organizational performance, extensive training, reduction of status differences, and extensive sharing of financial and performance information (Pfeffer 1998).

Some empirical research provides support for the convergence theory. For instance, in a large-scale study of US, Japanese and German MNCs, Pudelko and Harzing (2007) found that HRM practices in the German and Japanese subsidiaries appeared to converge to the dominant US model, which the authors argued has been setting the standards for 'global best practice' in management. Other researchers report that performance-based compensation is used increasingly. For example, Stiles' (2006) study of 30 large MNCs found that the majority of firms used some form of performance-based pay system, including individual, team or group, and organizational performance-based pay. A comparative study conducted in 32 Turkish and 18 Hungarian banks found that most of the banks have performance-based compensation systems (Aydinli 2010). A similar result was found in Russia where, historically, few local firms used performance-based compensation. Fey, Engström and Björkman (1999) reported that about 80 per cent of the Western MNCs operating in Russia used some form of pay for performance schemes. Shekshnia (1998) reported that the pay of about 80 per cent of Russian sales personnel was performance-based.

Lowe *et al.*'s (2002) exploratory study of cross-national compensation practices in 10 countries or regions (Australia, Canada, China, Indonesia, Japan, Korea, Mexico, Taiwan, the USA and the regions of Central and South America) found that there were no significant variations between collectivistic and individualistic countries in terms of using group or organizational performance as the basis for pay. In addition, the study found that managers in the 10 locations made very similar assessments of the desired future state of compensation practice. For instance, they felt that pay should be contingent on group/organizational performance and long-term results, that pay incentives should be important and should be a significant component of total pay, and that seniority should be less important than performance when making pay decisions. These results are surprising as the countries studied varied widely in their national cultures and institutions.

The above studies suggest that there is some evidence of convergence between countries in pay practices: performance-based compensation is widely used and a strong link between pay and performance is seen as a feature of future compensation systems. Nevertheless, a contradictory perspective and related empirical findings have also been presented in the literature, to which we now turn.

Arguments and empirical evidence for international divergence of compensation practices

Researchers holding the divergence perspective argue that differences between countries in terms of management practices will remain, due to persisting differences in cultural and institutional characteristics (Whitley 2000; Pudelko and Harzing 2007; Wood and Lane 2012). HRM practices are considered to be particularly diverse and difficult to transfer from one country to another. This perspective sees little scope for convergence in compensation practices. Box 11.1 shows examples of differences in compensation practices in three regions.

BOX 11.1

Variations in compensation between selected countries in three regions

Asia

- Average hourly wage rates for adult workers remain relatively low in India (US$0.36) and the Philippines (US$1.72).
- In Japan, housing allowances may be provided to core employees.
- Workers in South Korea, Japan and Malaysia expect bonuses at least twice a year, although this is not required by law.
- In some areas in China, housing is provided as part of the compensation package.

The EU

- The statutory minimum paid leave and paid public holidays in all EU member countries is four weeks (20 working days).
- The Nordic countries (Norway, Denmark, Finland and Sweden) have a relatively high level of social benefits which are universal and relatively generous. The main elements include health insurance, unemployment insurance, social security, and pensions for both early and later retirement.
- The regulation of minimum wages varies across Europe. In the United Kingdom, the mandatory minimum wage varies by age: for those aged 25 and over, it is £ 7.2 per hour, and for 18–20 year olds, it is £5.30 per hour. Contrary to most European countries, Germany has no legal minimum wage; pay rates and wages are agreed directly with the employer through collective bargaining.
- Sweden gives working parents 16 months' paid parental leave; parents are paid 80 per cent of their previous income up to a ceiling of around €3400 per month for the first 13 months and a flat rate of approximately €20 per day for the remaining three months.

North America

- In Canada, the statutory minimum paid leave is ten days per year.
- There is no statutory minimum annual leave in the USA. Most companies give a two-week vacation after one year of employment.
- In the USA, employers of more than 50 people are legally obliged to provide up to 12 weeks of *unpaid* maternity leave.
- In the USA and Canada, health care is basically a private system paid for by employees and/or their employers.

Sources: Perkins and Shortland (2007); Ray and Schmitt (2007); Cullen and Parboteeah (2008); Briscoe (2012); Dribbusch (2013); NORDEN (2013); Swedish government (2015); UK government (2015); USA government (2015); the World Bank (2013)

Again, some empirical research provides evidence of divergence in compensation practices. For instance, Jansen *et al.*'s (2009) study compares incentive compensation practices in over 200 Dutch and American automobile retailers and found dramatic differences between the two countries. They found that Dutch firms were much less likely to provide their managers with incentive compensation than US firms, and that where Dutch firms did use incentives, the payments were smaller. Similarly, Björkman, Fey and Park's (2007) study, surveying 158 subsidiaries of MNCs, found that there was a significant difference in the use of performance-based compensation practices among US, Japanese and European subsidiaries located in Russia, Finland and the United States. They concluded that the finding could be attributed to differences in institutional context between the countries. A large-scale survey conducted by the Cranfield Network on International Human Resource Management (Cranet) in 2008–9 provides comparative data from 29 countries on the use of different forms of financial participation and performance-related pay (Cranet 2011).

It found that PRP was more widely used than financial participation, but there was huge variation between countries (see Table 11.1). For financial participation, profit-sharing was used more than shares or stock options. For PRP, an individual bonus was more common than group- or team-based bonuses. The use of PRP was more extensive in Finland, Serbia and Switzerland, but less so in Australia, Cyprus, the United Kingdom and Norway. Share plans were more widely used in Taiwan, Japan, South Africa, Belgium and Australia; profit-sharing was common in Finland, France, Germany, Switzerland and Taiwan; and stock options were most used in Belgium. The variation in the use of PRP was explained by 'cultural differences in the acceptance of these forms of variable pay' (Cranet 2011: 68), while the use of financial participation schemes was thought to be influenced by 'country-specific legislation and tax concessions' (ibid.: 80).

Table 11.1 The use of financial participation and performance-related pay in 29 countries

	Financial participation (private sector only)			*Performance-related pay (private and (semi-)public sectors)*		
	Share plan (%)	*Options (%)*	*Profit sharing (%)*	*Performance-related pay (%)*	*Bonus based on ind. goals (%)*	*Bonus based on team goals (%)*
Austria	13	13	65	61	67	37
Belgium	37	46	36	63	73	59
Bulgaria	17	13	23	53	59	50
Cyprus	10	2	22	27	25	19
Denmark	25	18	13	60	62	58
Estonia	10	10	17	28	61	48
Finland	23	16	80	78	71	55
France	22	10	79	47	44	22
Germany	17	25	71	37	76	45
Greece	26	30	19	76	81	49
Hungary	30	26	4	58	73	60
Lithuania	11	14	16	69	72	53
Netherlands	27	24	59	64	72	55
Slovakia	31	10	20	28	62	41
Slovenia	16	9	35	64	64	55
Sweden	16	11	22	75	79	44
United Kingdom	32	23	19	21	30	35
Iceland	2	17	23	46	59	54
Norway	21	12	26	27	29	33

(continued)

	Financial participation (private sector only)			*Performance-related pay (private and (semi-)public sectors)*		
	Share plan (%)	***Options (%)***	***Profit sharing (%)***	***Performance-related pay (%)***	***Bonus based on ind. goals (%)***	***Bonus based on team goals (%)***
Russia	11	22	37	34	0	31
Serbia	12	20	12	81	84	58
Switzerland	28	27	73	84	42	37
Israel	14	18	27	70	70	40
Japan	58	13	12	28	35	24
Philippines	12	20	40	42	79	45
USA	19	42	52	77	77	54
Australia	37	23	30	28	25	17
Taiwan	63	45	71	56	60	48
South Africa	44	31	44	55	48	41
RANGE:						
Max	63	46	80	84	84	63
top 15 per cent	0.35	0.29	0.69	0.75	0.78	0.57
bottom 15 per cent	0.12	0.10	0.17	0.28	0.31	0.32
Min	2	2	4	21	0	17

Source: Cranet (2011) *International Executive Report 2011,* Cranet survey on comparative Human Resource Management, pp. 69–70.

In this section, we have shown that empirical findings on similarities and differences in the use of compensation systems between countries are mixed and contradictory. There is some evidence of convergence in compensation practices across countries but significant differences remain. In the next section, factors leading to divergence in compensation are discussed.

Factors influencing international compensation

The previous section demonstrated that although there is evidence of convergence in compensation, variations remain across countries. As a matter of fact, compensation practices vary not only between *countries* but also among *organizations within countries.* In this section, we will first focus on the national level and consider the two major influences often discussed in the literature that lead to international differences in compensation practices. We will then focus on the organizational level and discuss factors leading to variation in the use of compensation in MNCs.

Factors influencing compensation practices in different countries

National culture and local institutions have been the two most widely discussed factors in explaining variations in compensation practices between countries. The impact of national culture on compensation systems has been widely examined by researchers (see e.g. Schuler and Rogovsky 1998; Lowe *et al.* 2002; Sparrow 2004). The underlying premise of this line of research is that compensation practices vary across different countries since they are embedded in national culture; and cultural norms, values and beliefs influence attitudes towards pay. It is suggested that, for MNCs to be globally competitive, it is essential to match HR practices, particularly compensation practices, with the culture in the host country, as this conveys cultural awareness and addresses the cultural expectations of host country employees (Schuler and Rogocsky 1998). Several empirical studies provide support for the argument that national culture is a significant factor in explaining national differences in compensation practices and policies. Before presenting the findings of extant empirical research, it should be noted that most studies in this area use Hofstede's cultural dimensions and country scores (see Hofstede 1980, 1984; Hofstede *et al.* 2010), although the validity of Hofstede's cultural model has been questioned by some scholars (see e.g. McSweeney 2002; Baskerville 2003).

Schuler and Rogovsky's (1998) study, which analysed data collected from 24 countries, concluded that national culture was an important explanation for compensation practice differences between countries. They found that seniority-based pay and skill-based pay were more likely to be used in countries with higher levels of uncertainty avoidance such as Greece, Portugal and the Latin nations. Individual incentive compensation practices were likely to be found in countries with higher levels of individualism (e.g. Anglo-Saxon countries). In countries with higher levels of masculinity (e.g. Japan and Germany), the use of flexible benefits, workplace childcare programmes, career break schemes, and maternity leave programmes were less common. Share options and stock ownership plans were more likely to be found in countries with higher levels of individualism, and lower levels of uncertainty avoidance and power distance. Other studies show similar findings and indicate that culture often plays a part in determining the use of particular compensation practices (see Townsend *et al.* 1990; Hodgetts and Luthans 1993; Sparrow 2004). For instance, it is found that countries characterized by greater individualism, greater masculinity, and lower uncertainty avoidance, such as the Anglo-Saxon nations, tend to use individual PRP schemes and share ownership. In contrast, countries with greater uncertainty avoidance, such as the Latin nations, tend to focus on seniority and skills when designing pay systems (Gomez-Mejia and Welbourne 1991). Countries with fewer masculine characteristics (such as the Scandinavian countries) and with low scores on individualistic aspects tend to have a lower focus on individual pay.

Although research evidence shows that there is a relationship between culture and compensation practices, it has also been shown that culture alone is not sufficient to explain differences in compensation between countries. It is found that compensation systems can be influenced by another key factor: local institutions, such as employment and labour regulations, tax laws, trade unions and work councils, employers' associations and the like (Marin 2008; Jansen *et al.* 2009). Institutional forces either coerce or motivate firms to adopt, or not adopt, certain types of pay practices.

For instance, in Germany, the use of financial participation schemes (e.g. profit sharing and share ownership) is not common due to legislation and formalized employee representation arrangements (Festing *et al.* 1999; Pendleton *et al.* 2002). In France, it is mandatory for private sector organizations employing over 50 people to have profit-sharing schemes (van het Kaar and Grunell 2001, cited in Brewster *et al.* 2011). In countries with high income tax rates, MNCs may need to adjust pre-taxed pay levels in order to maintain equity among different subsidiaries. In countries where trade unions have a strong role, the use of financial incentives is likely to be limited as unions are generally opposed to pay plans that increase risks to employees' income (Vernon 2011). Jansen *et al.*'s (2009) study serves as a good example to illustrate the influence of institutions on compensation practices. The study compared incentive compensation practices in Dutch and American automobile retailers and found dramatic differences across the two. They identified four potential institutional factors that could contribute: (1) tax rates; (2) bank financing calculations; (3) formalization of terms of employment; and (4) experience with incentive systems. They illustrated that higher tax rates in the Netherlands make the use of monetary incentives less common than in the USA, as high tax rates mean employees receive less money. It would be more expensive for Dutch firms to achieve the same incentive effects as in America, where the tax rates are lower. In addition, they stated that Dutch firms prefer fixed salaries to variable pay as, for example, eligibility for a mortgage is calculated on individuals' fixed incomes in the Netherlands, while in the USA it is based on total compensation.

Factors influencing MNCs' compensation practice

We now turn to factors that lead to variations in compensation practices in MNCs. Compensation practices vary from organization to organization. Different MNCs generally use different levels of pay and different types of allowance and benefit. For instance, some may choose to use employee ownership plans, others may choose to use either seniority-based compensation or performance-based compensation. The degree of difference between managerial and non-managerial employees also varies from organization to organization. Many factors can influence compensation practice in MNCs, most of which concern the internal and external environments. Internal factors may include MNCs' capacity to pay, their competitive strategy, the organizational culture, the internal workforce composition and subsidiary role. For example, if an MNC's competitive strategy is to be a market leader in employee compensation in order to attract the most competent candidates, it will need to provide higher levels of pay than its competitors. Organizational culture can also influence MNCs' compensation strategy. Some organizational cultures value seniority, while others emphasize individual performance. The characteristics of employees, such as education levels, skill levels, qualifications and experience, will result in different compensation approaches. MNCs generally use different compensation systems in different subsidiaries, depending on the subsidiary's strategic role. Subsidiaries with a main function of competing for market share are likely to get a better compensation package than those with a function of providing after-sales services.

The most frequently discussed external factors influencing MNCs' compensation practice are local culture, local institutions, labour market characteristics, the industry sector and the competitors' strategy. The first two factors were discussed in a previous section. Labour market characteristics such as the level of supply and demand for labour, and the educational and skill levels of those in the labour market can lead to variation in compensation practice. For instance, when the demand for a particular skill (e.g. accounting, IT) is high relative to supply in a particular subsidiary, MNCs will need to provide a better compensation package in order to attract potential employees. On the other hand, when the supply of labour is high relative to demand, they may only need to provide the average market level of compensation, as the number of applicants is usually greater and provides a better opportunity for attracting qualified applicants. Different sectors generally have different norms and practices for international compensation. For example, service-sector and high-technology MNCs have been found to be more likely than manufacturers to include employee share ownership schemes in their compensation. Competitors' strategy can also influence compensation strategies, as MNCs need to keep up with market rates in order to attract and retain capable employees.

Pay strategy in MNCs

As discussed above, MNCs' pay practice is influenced by factors in their internal and external environments. It looks as if MNCs have very limited discretion in determining their compensation systems. Nevertheless, empirical research has shown that firms do develop and use different compensation systems even when they share similar characteristics such as industry sector, firm size, and profitability, indicating that firms do have space for strategic choice (Gerhart and Milkovich 1990; Gerhart 2000). The critical issue is, while under the constraints of internal and external contexts, to determine strategically-appropriate pay levels, pay mix (pay elements in the compensation package, e.g. type and extent of bonuses and benefits, long-term and short-term incentives), basis for pay (pay based on skill, performance or seniority), degree of standardized or localized pay across subsidiaries, and ways to maintain internal equity. The issues of standardization versus localization and internal equity are the most-discussed in the literature on international pay strategy. In the next section, the former issue will be discussed; the latter will be addressed in the final section of the chapter.

Standardization versus localization

MNCs operating in different contexts often face a strategic decision about how to deal with two competing and contrasting pressures when designing international compensation programmes: alignment pressure (the extent to which the pay practices in subsidiaries should resemble those of the parent country) and conformance pressure (the extent to which the pay practices in subsidiaries should respond to local conditions) (Bloom *et al.* 2003). The alignment pressure comes from the need to align with corporate strategy (Gomez-Mejia and Balkin 1992; Yanadori 2011), foster a feeling of equal treatment among employees in different subsidiaries, and facilitate operational efficiencies in administration processes (Bloom *et al.* 2003). This pressure compels MNCs to develop a globally consistent compensation strategy and use standardized compensation systems across their subsidiaries (Bloom *et al.* 2003; Yanadori 2011). The conformance pressures, on the other hand, come from the need to conform to the unique characteristics of the local environment (e.g. cultural norms, institutions, market conditions, traditions and legislation) in order to operate effectively in multiple countries. Failure to respond to local conditions may lead to a number of negative results such as undesired employee behaviour and problems in attracting and retaining employees (Gomez-Mejia and Welbourne 1991). This pressure forces MNCs to use location-specific compensation systems tailored to each host location, which will generate significant variation in compensation systems among subsidiaries within an MNC (Gomez-Mejia and Welbourne 1991; Bloom *et al.* 2003; Yanadori 2011).

The need both to support the corporate strategy and address local differences creates competing pressures on MNCs as to whether to use the standardization or localization approaches. The potential conflict between these approaches has also influenced other international HRM activities, and international compensation is often used to illustrate this conflict (Yanadori 2011). The two approaches, nevertheless, are not mutually exclusive and both can be included in the compensation systems of a given MNC. It has been argued that it is necessary to carefully ‘balance’ the potential conflict between the two approaches according to the strategic needs of the MNC, as both are important for establishing effective compensation systems (Festing *et al.* 2007; Yanadori 2011). Compensation systems in foreign subsidiaries are likely to function effectively when they support the corporate strategy as well as address their local contexts, particularly labour market, institutions and culture.

Two recent empirical studies investigated how MNCs deal with the two competing pressures and found that they used a combined approach, with a globally standardized approach being used more often for managerial staff, and a localized approach for non-managerial employees. One study was conducted by Yanadori (2011), based on data collected from 2,300 non-expatriate employees from 10 subsidiaries of a US-based financial MNC. He found that the way it balanced the two pressures was to distinguish between pay level and pay mix, and between managers and non-managerial employees. For pay level, it used local market rates in its foreign subsidiaries. The use of the localization approach for setting pay levels in subsidiaries was explained as the result of needing to be in line with local market rates and institutions, so that the MNC could attract and retain employees and control compensation costs. For pay mix, the MNC used a more standardized approach. For instance, it used a standardized ratio of stock bonus to base pay across its subsidiaries. It was found that it used the standardized pay level more for managers than for non-managerial employees. This led to more consistent compensation systems for managerial employees among subsidiaries than for non-managerial employees. The variation in compensation in different employee groups was explained by the different contributions to organizational effectiveness made by different employee groups. The other study was done by Festing *et al.* (2007) in a pharmaceutical MNC, which found that the pay system used by the MNC was carefully designed to balance the two approaches. Box 11.2 shows the MNC’s effort to balance global strategic alignment and local conformance pressures in the design and implementation of its international compensation systems.

BOX 11.2

Case study: balancing global strategic alignment and local conformance pressures in a pharmaceutical MNC

Healthcare is a Europe-based pharmaceutical MNC with R&D as its core business activity. It has more than 140 subsidiaries inside and outside Europe, employing more than 25,000 employees in 2005. In the past, *Healthcare* had mainly used a localization strategy, allowing HRM processes to be adapted according to country- or region-specific conditions. For instance, managers were recruited, selected, assessed, and compensated based on local standards. However, changes in the competitive situation in the pharmaceutical industry (e.g. increasing costs of R&D and increasing competition on prices) forced *Healthcare* to redesign its business processes and move towards more globally integrated business processes, with some room for local responsiveness, in order to use resources effectively and ensure fast market penetration.

Its international pay strategy for managers now reflects its corporate strategy, consisting of both standardized and localized elements, but with a stronger emphasis on global consistency. For variable pay, *Healthcare* places a high emphasis on performance-based pay, which includes a combination of individual and group performance, emphasizing the performance orientation of the firm and a risk-taking approach to global compensation. *Healthcare* implemented a standardized bonus system for managers, designed to foster the performance culture. The bonus is calculated based on three components with different weightings: (1) individual performance (50 per cent); (2) organizational business unit performance (25 per cent); and (3) corporate performance (25 per cent). Another standardized incentive is the share options which are granted to its managers; the number of options is determined mainly by the manager's hierarchical level. The manager's base pay and fringe benefits are based on local or regional levels in order to match local or regional market standards and to abide by local legal requirements.

The international compensation strategy and the overall HR strategy have been jointly developed by the HR managers at headquarters together with local HR representatives, and line managers from different regions and business units.

Source: Festing *et al.* (2007).

Review question

1. How has *Healthcare* designed and implemented its international compensation strategy to respond to the alignment and conformance pressures?

Expatriate compensation

Assigning expatriates to work in foreign subsidiaries is a widespread practice in MNCs. Compensation for expatriates has been an important yet complex issue for MNCs following the extension of their businesses to foreign countries. Research on international compensation in recent years has primarily focused on expatriate compensation. This is not surprising, given the role expatriates play and the high cost of expatriation. MNCs typically offer attractive compensation packages to encourage employees to take up international assignments. The costs of sending expatriates abroad often reach two to five times the cost of their home country counterparts and 10 or more times that of local nationals (Reynolds 1997; Briscoe *et al.* 2012). Sending employees overseas is costly, but is seen as necessary, as the international assignment has become an important mechanism for controlling and co-ordinating international operations, transferring organizational knowledge, and developing international knowledge and skills of key personnel

(Belderbos and Heijltjes 2005; Bonache *et al.* 2010). Thus, despite the high cost, MNCs still use expatriates and the practice is set to continue (Brewster *et al.* 2014). This section first briefly outlines the principles for developing expatriate compensation, then introduces the approaches commonly used by MNCs for compensating expatriates, and discusses the issue of pay equity between expatriates and HCNs.

Principles for developing expatriate compensation

Researchers have recommended several principles which should be taken into account when designing expatriate compensation programmes. Here, we briefly describe five of them (see Table 11.2). First, the compensation programme should provide incentives to undertake international assignments (Black *et al.* 1999; Briscoe *et al.* 2012). Attractive compensation packages can motivate employees to leave their home country and work in a foreign location, or transfer to another foreign location, although not all assignees undertake international assignments for monetary reasons. Second, the programme should maintain equity and consistency among expatriates and for expatriates undertaking a series of foreign assignments, irrespective of the nationality of the expatriate and the assignment location (Evans *et al.* 2002; Oltra *et al.* 2013). Discrepancies in pay can result in a sense of unfairness and lead to demotivation. Third, it should be relatively transparent and offer ease of communication and administration (Harvey 1993; Bonache and Fernández 1997; Evans *et al.* 2002;). In addition, it should ensure the expatriate's compensation will not be eroded due to tax obligations and fluctuations in currency and inflation rates. Finally, the programme should facilitate re-entry into the home country at the end of the assignment (Suutari and Tornikoski 2001; Briscoe *et al.* 2012).

Table 11.2 Expatriate compensation approaches

Approaches	*When most appropriate*	*Advantages*	*Disadvantages*
Negotiation/Ad	• Special situations • Organizations with few expatriates	• Conceptually simple	• Inconsistency • High time and cost to negotiate • Breaks down with increasing numbers of expatriates
Headquarters-based balance sheet	• Many nationalities of expatriates working together • Very few TCNs • Career expatriates	• No nationality discrimination • Simple administration	• High compensation costs • Difficult to repatriate TCNs
Home country-based balance sheet	• Several nationalities of expatriates on out-and-back-home assignment	• Lower compensation costs • Easy to repatriate TCNs	• Discrimination by nationality • Highly complex administration
Localization	• Permanent transfers and long-term assignments • Entry-level expatriates for developmental purposes	• Simple to administer • Cost effective • Equity with local nationals	• Variation in compensation in different locations for the same employee • Discourages mobility

(continued)

Approaches	*When most appropriate*	*Advantages*	*Disadvantages*
Cafeteria	• Senior professionals and executives	• Tax- and cost-effective	• To be effective, options need to be tailored for each country
Lump sum	• Short-term assignments (less than three years) , followed by repatriation	• Resembles domestic compensation practices • Does not intrude into expatriate finances	• Exchange rate variation makes this unworkable
Global plans	• Senior executives of all nationalities • Professional and technical employees above a certain pay level	• Tax- and cost-effective • Expatriates and local nationals may be on the same compensation plan	• Inhibits mobility of lower levels of expatriates
Regional plans	• Large number of expatriates mobile within region(s)	• Less costly than global plans • Can be tailored to regional requirements	• Multiple plans to administer • Discrimination between regional and global expatriates
Multiple programs	• Many expatriates on different types of assignments	• Can tailor compensation program to different types of expatriates • Possible lower compensation costs	• Discrimination by category • Highly complex administration

Sources: Reynolds (1997); Evans *et al.* (2002); Briscoe (2012).

Approaches to expatriate compensation

There are a number of different approaches to expatriate compensation including *ad hoc* negotiation, balance sheet, localization, cafeteria, lump sum, global plans, regional plans and multiple programmes (see Table 11.2 for a summary). The conditions under which each is most appropriate and their advantages and disadvantages are discussed. As will be shown, there is no single best approach for expatriate compensation, as some approaches are more suitable for some staffing patterns than others.

Negotiation/Ad hoc

The negotiation or *ad hoc* approach was widely used in the 1970s. During this period of time, expatriate compensation was usually the result of negotiation between the international HR practitioner, the manager and the expatriate. This approach was followed mainly because the number of international assignees was small, foreign assignments were not considered particularly desirable, and international HR managers did not have much experience in designing expatriate compensation packages. This approach often resulted in some difficult and complicated situations such as high escalating expatriate costs, difficulties in systematically tracking compensation packages, inconsistencies between compensation packages and difficulties in repatriation (Briscoe *et al.* 2012; Evans *et al.* 2002). It can become particularly problematic and time-consuming to manage when the number of expatriates increases. This approach is most appropriate in special situations, such as when trying to persuade a senior executive to transfer to a foreign country and when the number of expatriates is low.

Balance sheet

To overcome the problems of the negotiation approach, MNCs started to use location-specific approaches in order to provide some common bases. One very popular such approach is the balance sheet approach, which is used widely in American and European MNCs for experienced senior and mid-level assignees (Reynolds 1997; Briscoe *et al.* 2012). In this approach, expatriates' basic pay is tied to the salary level of a base country (usually the MNC's headquarters or the expatriate's home country). To make the compensation package attractive, various allowances are often included such as an expatriate allowance or foreign service premium, cost-of-living allowance, housing allowance, education allowance for expatriates' children and hardship allowance (used to compensate for living in locations considered dangerous or subject to hard living situations). In principle, expatriates are compensated for extra costs on goods and services, housing, their children's education, taxes and other specific elements of expenditure. This is designed to ensure expatriates can maintain an equivalent purchasing power and living standards to that in the base country while they are in the host location. The fundamental objective of this approach is to facilitate global mobility by making all assignments equally attractively economically. Generally speaking, due to the high costs involved in this approach, it is more appropriate for expatriates on temporary assignments of from one to five years.

There are two common variants of the balance sheet approach (Reynolds 1997). The first uses the MNC's headquarters country as the base country and links the compensation of all expatriates to the headquarters' pay structure. Expatriates from the headquarters country (PCNs) and TCNs undertaking similar duties will be compensated equally under this approach. This promotes pay equity among different nationalities of expatriates and is simple to administer, but the cost is relatively high and it is difficult to repatriate TCNs who come from countries with relatively low-income levels. This approach is more commonly used when there are a small number of TCNs, many nationalities of expatriates working together and/or expatriates undertake a series of assignments (e.g. a career expatriate in commercial banking). The second variant of the balance sheet approach uses the expatriate's home country as the base country and ensures that expatriates maintain the same purchasing power as in their home country while on assignment. This generally costs less and makes it easier to repatriate all nationalities than does the headquarters-based approach, but it may result in wide discrepancies in compensation among expatriates of different nationalities and is highly complex to administer. This is the most frequently used approach among North American MNCs.

Localization

The localization approach is often used to address the high cost and perceived inequity associated with the balance sheet approach (Reynolds 1997; Briscoe *et al.* 2012). The issue of inequity will be discussed in more detail later in the chapter. In this approach, expatriates are treated as local nationals and their base pay is based on the salary level of the host country. Expatriates are paid comparably to local nationals without expatriate incentives and premiums but additional allowances for living expenses are generally provided if the cost of living in the host location is high. This approach is suitable for employees who transfer permanently to other countries, who accept extended assignments and who are at a relatively early stage in their careers, and therefore undertaking international assignments for developmental purposes. It promotes equity between expatriates and local nationals and is relatively simple to communicate and administer, if done locally. A key drawback of this approach is that it leads to variation in compensation in different locations for the same employee. For example, the same employee assigned to London and then to Bangkok will be compensated differently. This often results in competition among expatriates for financially attractive locations but lack of interest in other locations. A related downside is that it discourages mobility; it is often easy to move expatriates to locations where standards of living are high but not the other way around.

Cafeteria

In light of the increasing diversity of the expatriate population and the disadvantages associated with location-specific approaches, MNCs have also used more flexible approaches such as the cafeteria approach. This offers expatriates a choice from within a set of benefits, up to a pre-determined limit in monetary value. These may cover, for example, a company car, a country club membership, insurance, company-provided housing and the education of two teenage children. This approach is more often used for highly salaried professionals and executives than for mid-level managers and specialists. One of the advantages of this approach is related to the tax coverage of benefits and perquisites, as it allows expatriates to gain benefits without increasing their income for tax purposes. The choices in the plan often need to be tailored to the taxability of perquisites in each country.

Lump sum

In response to concerns over the balance sheet's unnecessary intrusion into expatriates' personal spending patterns (required in order to calculate the expenditure differentials between home and host country) and private financial circumstances, such as tax status, some MNCs have used the lump sum approach (Reynolds 1997; Evans *et al.* 2002; Briscoe *et al*. 2012). This provides a lump sum payment, usually paid monthly with the salary, to cover additional expenses associated with relocation and lets the expatriate decide how to spend it. It is more suitable for shorter assignments that are limited in duration and do not extend beyond three years. A potential drawback is that exchange rate fluctuations may cause the cost of the guaranteed lump sums to rise to a high level.

Global plans

These provide a common global compensation package for expatriates who have specialized skills and are on a certain pay level, for example experienced software engineers and senior executives. This approach is used to acknowledge the fact that there is a global labour market for people with specialized expertise, who should therefore be compensated at the same level wherever they are (Briscoe *et al*. 2012). A key advantage of this approach is that expatriates and HCNs who are performing the same professional/technical/managerial tasks are on the same compensation plan, which facilitates pay equity.

Regional plans

Regional plans provide a generic compensation plan for expatriates working within a region, such as the EU or the Asia Pacific region. This approach facilitates labour mobility within the region and is suitable where there are a large number of expatriates taking international assignments within a specific region. The compensation package is often tailored to the conditions within the region to maintain equity within it. The cost of this approach is generally lower than a global plan but it requires the administration of multiple plans if the MNC operates in more than one region. It can also cause inequity between regional and global expatriates.

Multiple programmes

The use of multiple compensation plans has been advocated to address the different needs of different groups of assignees (e.g. senior executives, mid-level professionals and junior trainees), the increasing diversity among expatriates (who may come from different countries, have different roles and be assigned to different countries or regions) and the increased expatriation cost (Evans *et al.* 2002; Briscoe *et al*. 2012). This approach may lead to, for example, the use of a global plan for senior executives, local pay systems for junior assignees and permanent transfers, a lump sum approach for short-term assignments and a modified home country-based balance sheet approach for mid-level managers. For this to work, it requires classifying expatriates into different categories, although this can result in inequity among different groups. It is highly complex to administer as multiple plans are implemented.

Compensation equity between expatriates and HCNs

As mentioned before, a common practice used by Western MNCs to encourage employees to take up foreign assignments is to provide expatriates with attractive compensation packages. However, this can lead to considerable pay discrepancy between expatriates and HCNs and cause a deep sense of inequity among HCNs who have similar skills to, and work alongside, expatriates (Suutari and Tornikoski 2001; Toh and DeNisi 2003; Mahajan 2011; Oltra *et al.* 2013). It is reported that, on average, an expatriate receives approximately three times the salary of an equivalently qualified local employee (Reynolds 1997). In some countries, pay disparities between HCNs and expatriates are even higher. For instance, it has been reported that the average level of compensation of expatriates is about 15 times that of local Chinese employees (Chen *et al.* 2002). The issue of internal equity in compensation requires careful attention from MNCs, as the qualifications, skills and experience of HCNs in popular host countries for Western expatriates such as China, India, Malaysia and Singapore are increasingly similar to that of their expatriate co-workers (Toh and DeNisi 2012). Furthermore, HCNs play an important role in helping expatriates on international assignments. For instance, they can act as valuable socializing agents and facilitators in helping expatriates adapt to local culture, become familiar with local business systems, and establish business connections. HCNs can also provide friendship and social support (Bonache *et al*. (2009); Toh and DeNisi 2012). HCNs may withhold their support from expatriates when they perceive expatriates are over-compensated and/or feel that they themselves have not been compensated fairly (Mahajan 2011). The sense of compensation inequity among HCNs can lead to pay dissatisfaction, which in turn may lead to dissatisfaction with other aspects of their jobs, and result in negative consequences such as low morale, low job satisfaction, poor performance, and lack of co-operation with expatriates (Chen *et al.* 2002; Leung *et al.* 2009; Mahajan 2011).

Adams' (1963, 1965) equity theory is able to shed light on this sense of inequity. The theory suggests that individuals assess compensation fairness by comparing their own output/input ratio with that of other people performing similar tasks at a similar level. Inputs include elements that employees bring to the organization to fulfil their job duties, such as knowledge, skills and experience. Outputs, on the other hand, refer to the rewards they receive from the organization for their contribution, which may include financial rewards, esteem and status. The situation is perceived to be fair when the ratios are equal, and unfair when they are not. The retention and motivation of HCNs are important, as they make up the majority of MNCs' overseas workforce, with expatriates typically accounting for less than 1 per cent (Reynolds 1997), and they possess local knowledge (e.g. about local culture, language, business systems, customs, and legislation) which is crucial for the operation of the subsidiary.

Suggestions for mitigating the sense of inequity

Given the potentially negative effects of a perception of inequity, what can MNCs do to resolve the dilemma of providing sufficient incentives to attract and motivate expatriates to accept foreign assignments while also maintaining internal equity? A small number of empirical studies have investigated factors that can mitigate the sense of inequity and its negative effects and have suggested potential solutions to the problems. Chen *et al.*'s (2002) study of 161 local Chinese employees of international joint ventures (IJVs) found that they perceived higher compensation fairness when they were paid more than the local Chinese employees of other IJVs, regardless of how large or small the pay discrepancy was between them and expatriates. It is suggested that if HCNs are paid more than other locals in other organizations, MNCs should highlight that fact to ease HCNs' sense of unfairness. They also found that Chinese employees' perceived compensation unfairness was lessened when expatriates showed interpersonal sensitivity towards locals, for instance being kind, helpful and respectful of locals.

Another study conducted in foreign MNCs in China by Leung *et al.* (2009) found that the negative effect of perceived distributive injustice was moderated by the trustworthiness (e.g. honesty and integrity) of expatriates. Bonache *et al.*'s (2009) study of MNCs in Colombia, Spain, Mexico and the UK identified several factors that may alleviate the negative effect of pay disparity between HCNs and expatriates including HCNs becoming more aware of expatriates' contributions (e.g. transferring knowledge and co-ordinating global operations) and special needs associated with living abroad, expatriates showing concern and sensitivity towards locals, and HCNs being paid more than their local counterparts in other organizations. It is therefore also suggested that helping HCNs understand expatriates' contributions and personal circumstances, together with improving expatriates' sensitivity towards locals would also reduce perceived pay unfairness among HCNs.

Other measures suggested by other scholars to promote internal equity include developing HR policies and practices that provide equitable compensation to both expatriates and HCNs (Toh and DeNisi 2012), using the balance sheet approach only for short-term assignments (Mahajan 2011) while local pay structures are applied to expatriates who are on assignments for developmental purposes early in their career, and clear communication in explaining and justifying the rationale for any differing compensation packages (Perkins and Shortland 2007).

Conclusion

This chapter has presented three themes relating to international compensation: (1) convergence versus divergence in compensation practices; (2) MNCs' pay strategy in coping with global alignment and local conformance pressures; and (3) expatriate compensation. We have shown that research on similarities and differences in the use of compensation systems between countries provides mixed and contradictory results, providing support for both the convergence and divergence theoretical arguments. Nevertheless, the empirical support for the divergence theory seems to be stronger. The two most widely discussed factors leading to divergence in compensation practices between counties are national culture and local institutions. Both factors receive an equal amount of empirical support suggesting the need to consider both factors when explaining differences in the use of compensation in different countries.

In relation to MNCs' strategy in dealing with alignment and conformance pressures, we have shown that it is important both to support corporate strategy and address local differences in order to establish effective compensation systems. In practice, as shown by the empirical findings, MNCs have carefully balanced the two competing pressures by using a combination of standardization and localization approaches to compensation. This has certainly demonstrated international HR professionals' effort in devising strategies to tackle the most challenging and sensitive aspect of international HRM.

In this chapter, we have also discussed the principles, approaches and equity issues related to expatriate compensation. It has been shown that there is no single best approach to compensation for expatriates, as not all assignees, assignments and locations are the same. Considerations that need to be taken into account when designing expatriate compensation programmes include the purpose of international assignments, their duration, the type of employee group involved, staffing patterns, cost efficiency and equity issues. Expatriate pay is a sensitive matter for HCNs and the issue of equity in compensation requires careful attention from MNCs to prevent any negative effects associated with perceptions of pay unfairness.

Review questions

1. Why are cultural differences alone not sufficient to explain differences in compensation systems between countries?
2. Has globalization brought international convergence in compensation practice? What are the implications for MNCs in determining pay arrangements in their foreign subsidiaries?
3. Is there a best expatriate compensation approach? How could MNCs choose the most appropriate approach(es)?
4. Why is it important to maintain pay equity between expatriates and HCNs? What could be done to achieve it?

Further reading

1 Oltra, V., Bonache, J. and Brewster, C. (2013) 'A new framework for understanding inequalities between expatriates and host country nationals', *Journal of Business Ethics,* 115, 291–310.

Using employment discrimination theory and Rawls's 'Theory of Justice', this study develops a framework of workplace justice in MNCs, with a special focus on the differences in the working conditions between expatriates and local employees.

2 Le, H., Brewster, C., Demirbag, M. and Wood, G. (2013) 'Management compensation systems in MNCs and domestic firms: cross-national empirical evidence', *Management International Review,* 53, 741–62.

This paper presents a study that examines the relationship between management compensation and institutional settings. The results show that MNCs' approaches to managerial compensation are influenced by firm type and national setting.

3 Festing, M., Eidems, J. and Royer, S. (2007) 'Strategic issues and local constraints in transnational compensation strategies: an analysis of cultural, institutional and political influences', *European Management Journal,* 25(2), 118–31.

Using the case of a transnational compensation strategy in a pharmaceutical MNC, this article illustrates how power relations in MNCs may influence the balance between global standardization and local responsiveness. It reminds us to consider factors that go beyond cultural and institutional influences on international compensation strategy.

4 Pudelko, M. and Harzing, A-W. (2007) 'Country-of-origin, localization, or dominance effect? An empirical investigation of HRM practices in foreign subsidiaries', *Human Resource Management,* 46(4), 535–59.

This article presents an empirical study that investigates HRM practices in US, Japanese and German MNCs. The results provide support for the convergence perspective.

5 Björkman, I., Fey, C.F. and Parks, H.J. (2007) 'Institutional theory and MNC subsidiary HRM practices: evidence from a three-country study', *Journal of International Business Studies,* 38(3), 430–46.

Published in the same year as Pudelko and Harzing's article above, this article also presents a study examining HRM practices in MNCs, but interestingly the study provides support for the divergence perspective, a contrasting result to that of Pudelko and Harzing's study.

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Chapter 12

International and comparative employee voice

Enda Hannon

Key aims

The aims of this chapter are to:

- consider the concept of employee voice and the various forms this may take;
- examine the regulation and practice of employee voice at regional level in the European Union;
- explore patterns of employee voice practice across advanced industrialized and developing countries;
- consider the impact of globalization and multinational companies on employee voice systems and practices.

Introduction

The intensification of competition in the business environment over recent decades resulting from globalization and related processes has prompted managers across the world to examine ways of increasing firm productivity and performance. A common strategy adopted in this regard has been the introduction of various 'employee voice' policies and practices (e.g. suggestion schemes, quality circles or team working systems) aimed at increasing employee commitment and input into decision-making regarding their jobs and the issues that affect them at work. The rationale for the use of these practices has been twofold: first, employees possess a great depth of knowledge and expertise regarding what works and what does not work in their organizations and involving them in decision-making means that this can be tapped into and harnessed, resulting in improved business performance. Second, informing, consulting and getting the input of employees are seen to enhance their commitment and 'buy-in', which again may underpin an increase in productivity or performance improvement (Hyman and Mason 1995; Poole *et al.* 2001; Marchington and Wilkinson 2005).

The management of employee voice has as a consequence become a key concern for organizations in general and it is therefore of great importance for managers of multinational companies to carefully consider and implement policies and practices in this area. However, as will be discussed in detail in this chapter, designing and implementing employee voice policies are not a straightforward exercise for managers of multinational firms because there exists a great deal of diversity in approaches to this across the world.

The chapter begins by explaining and defining the term 'employee voice' and the related concepts of 'employee participation' and 'employee involvement'. Next, the different types or groupings of employee voice systems that exist around the world are outlined and important trends and issues affecting them are discussed. First, in this regard, the European Union will be examined as a possible example of a regional system of employee voice. Following this, the policies and practices adopted in individual European and other countries will be considered within the context of a discussion of employee voice in 'advanced industrialized nations'. This will be followed by a consideration of policy, practice and challenges arising for multinational companies in 'developing' or 'industrializing' countries. Finally, a conclusion will be provided.

Employee voice, employee participation and employee involvement

'Employee voice' is a general, over-arching concept that refers to the various ways in which employees take part in decision-making in organizations and also the degree of influence they have over the same (Rollinson and Dundon 2007; Rose 2008). The essential focus is on what sort of input workers or employees have into decision-making in their organizations, how this is manifested and how strong or powerful it is.

'Employee participation' (EP) and 'employee involvement' (EI) are terms that have been developed to identify and distinguish between different types of employee voice policies and practices. Rollinson and Dundon (2007: 230) define employee participation as: 'the sharing of power between employees (or their representatives) and management, in the making of joint decisions'. In contrast, employee involvement is defined as: 'the soliciting of employee views, opinions and ideas to harness the talents and co-operation of employees, but without the sharing of power in an eventual decision-making outcome' (ibid.).

These definitions illustrate that the *objectives* or *focus* of employee involvement and participation practices are rather different. The central purpose of employee participation structures and practices, such as collective bargaining via trade unions or works councils, is to give employees decision-making power and authority. These processes therefore constrain management's freedom to make decisions. In contrast, the primary objective of employee involvement policies such as suggestion schemes or quality circles tends to be to improve organizational performance by tapping into the ideas and creativity of employees and gaining their commitment and enthusiasm. Here, management's decision-making authority remains unaffected – they remain the ultimate decision-maker.

These differences in essential focus or objectives both relate and lead to differences in the *content* of employee involvement and participation practices and processes. EI practices tend to be *task- and performance-centred,* for example, it is common for suggestion schemes to ask employees how a particular job-related product or process might be adjusted so as to facilitate improved performance. In comparison, EP practices are typically concerned with fundamental organizational issues such as wage levels, working hours or the make-up of redundancy packages. They are therefore primarily *power-centred* – they involve workers challenging the decisions and decision-making power of managers.

Other related but important differences between EI and EP practices concern their *source* or *origin,* that is, where they come from or who initiates them. Employee involvement practices generally originate from management decisions or initiatives, for example management in a company may make a decision to introduce a team working system. While employee participation practices may also be initiated by management, they more commonly have their origins in government legislation or worker actions or initiatives. In the former case, the legislative authority in a particular country may pass a law obliging management to set up structures which give employees influence in decision-making. In the latter, workers in a company or sector may through their trade unions be so powerful as to effectively compel management to share decision-making power with them.

Finally, there are commonly differences between EI and EP practices in the way in which employee input is manifested. Employee involvement systems are generally *direct* in nature, that is, individual employees are directly concerned with them. Examples of direct forms of employee involvement are attitude surveys or suggestion schemes – both these practices directly involve individual employees. In contrast, employee participation practices are generally *indirect,* with individual employees not participating directly but rather doing so indirectly through elected or appointed representatives. For example, a 'shop steward', trade union official or works council representative will negotiate with an employer on behalf of a number of employees.

This overview highlights that employee participation tends to be a stronger form of employee voice than employee involvement; EP practices typically give employees greater power and influence than EI practices. Table 12.1 outlines the key differences between employee participation and involvement summarized above. It is important to note, however, that it may not always be clear under which category a particular practice falls, and that there may be significant overlap between EI and EP practices. Nevertheless, dividing employee voice practices into these two broad categories is useful in that it enables us to analyse trends and activities in this area in particular organizations or countries.

Employee participation in determining terms and conditions of employment through the process of trade union-based collective bargaining is a relatively common feature of

Table 12.1 Key characteristics of employee involvement and employee participation practices

	Employee involvement	*Employee participation*
Core focus	Gaining/enhancing the commitment of employees to organizational goals	Providing employees with opportunities to influence and take part in decision-making
Content	Task-/performance-centred	Power-centred; work tasks but also more fundamental organizational decisions
Origin	Management discretion	Legislation; worker organization and power
Authority	Resides with management	Joint/shared
Mode of involvement	Direct/individual or workgroup	Indirect/collective, via representatives
Examples	Staff surveys Suggestion schemes Team working systems Quality circles Staff forums	Collective bargaining Works councils Joint consultative committees

Sources: Adapted from Salamon (2000: Chapter 10) and Lewis *et al.* (2003: 259).

national employment relations systems. There are greater differences, however, in the exercise of employee voice more broadly in the management of organizations or businesses. The focus of this chapter is on examining the different approaches to the latter that are identifiable internationally, possible changes in the same resulting from processes of globalization, and the issues and challenges facing managers of multinational companies in attempting to manage employee voice in diverse cultural and institutional contexts.

The European Union as a regional system of employee voice

While international regulation of employee voice is lacking, there is notable regulation of this at a regional level in the form of the European Union's growing body of legislation on employee participation. As Dicken (2011) explains, the European Union (EU) constitutes a relatively developed form of regional economic co-operation. For example, while NAFTA (North American Free Trade Association), involving the United States, Canada and Mexico, is a mere 'free trade area', the European Union is an 'economic union' wherein economic policies are harmonized and subject to supra-national control. The various member states of the European Union have given the institutions of the EU the power to make laws binding on them in areas such as competition policy, product safety and environmental protection. European Union law also has supremacy in a significant number of employment-related areas. The EU is therefore permitted to pass binding legislation on information and consultation of employees, provided that the majority of member states support a particular proposal (Barnard 2000). The EU has exercised this power by passing directives which make it compulsory for employers across the EU to provide for employee input into organizational decision-making. Consequently, in the European Union, we see a unique, regional-level regulation of employee voice, which has important implications for multinational as well as indigenous firms (Gold 2010). The key provisions of the primary EU directives relating to employee voice are therefore summarized in Box 12.1.

BOX 12.1

EU legislation on employee voice

- *Directive on Collective Redundancies 1998 (Directive 98/59/EC).* This obliges employers in the EU to consult with employee representatives 'in good time with a view to agreement' on ways of avoiding, reducing the number or mitigating the effects of collective redundancies (e.g. where 20+ employees are to be made redundant over a period of 90 days). Employers must provide worker representatives with 'all relevant information' such as the reasons for the redundancies, the number and categories of workers affected and the period over which the planned redundancies are to take place, during the course of the consultations.
- *Directive on Transfers of Undertakings 2001 (Directive 2001/23/EC).* The purpose of this directive is to protect employees whose companies or undertakings are sold to or merge with another firm. It requires both the 'transferor' and 'transferee' to inform employees affected by the transfer, or their representatives, in good time about the date of the proposed transfer, the reasons for it, the legal, social and economic implications, and any measures envisaged in relation to the employees. Where measures are envisaged (e.g. company restructuring), employee representatives must be consulted in good time 'with a view to reaching agreement' about them.

- *Health and Safety Framework Directive 1989 (89/391/EEC).* This requires workers in the EU and/or their representatives to be provided with information on health and safety risks, measures taken to address them and inspection agency investigations. Workers or worker representatives with specific responsibility for health and safety should also be consulted on various issues, including measures which may substantially affect health and safety and the planning of health and safety training. Representatives have the right to ask employers to take measures to remove or reduce hazards and to submit observations to health and safety inspectors.
- *European Works Council Directive 2009 (2009/38/EC).* This creates obligations for multinational companies operating in the EU to establish a system for the information and consultation of employees regarding issues of concern to employees at a transnational level. The directive applies to all companies with 1000+ employees and at least 150 in two or more EU member states, even if they originate from a country outside the EU. Relevant companies may be required to establish a 'European Works Council' (EWC) made up of representatives of employees from the various countries of operation which must operate according to a standard set of rules. These provide EWCs with a right to an annual meeting with management and also to be informed and to request a meeting where are 'exceptional circumstances or decisions affecting employees' interests'. Management is obliged to inform the EWC of the economic position of the company and business developments, and to inform and consult about investment plans and changes impacting on work organization and employment.
- *Directive on Information and Consultation 2002 (2002/14/EC).* This established general, minimum requirements for the information and consultation of employees which are applicable throughout the EU as a whole (Weiss 2004). It applies to either all 'undertakings' with 50 employees or more or all 'establishments' with 20 employees or more (EU member states decide on this themselves). Employers covered by the directive are required to inform and consult employee representatives as follows:
  - *Information* should be provided on the organization's business or operating situation and activities and likely developments in the same.
  - Employee representatives should be *informed and consulted* on levels and nature of employment and any measures envisaged in that regard.
  - Representatives should also be *informed and consulted* on decisions likely to lead to substantial changes in work organization or in contractual relations.

Information must be provided at such time and in such a way as to enable employee representatives to conduct an adequate study and prepare for consultation. Consultation processes should enable employee representatives to meet with the employer and obtain a response to any opinion they might formulate. Consultation must take place 'with a view to reaching an agreement'.

In addition to setting out rights and obligations, these directives oblige EU member states to ensure that their provisions can be enforced via judicial or administrative institutions and procedures.

Sources: Barnard (2000); Gold (1993; 2009).

Impact of European Union legislation on employee voice

Box 12.1 demonstrates how European Union regulation of employee voice has developed from the directives on collective redundancies and transfers of undertakings covering specific situations, to the general, framework directive on information and consultation. Two questions that arise from this are, first, whether these directives have resulted in a distinctive, common approach to employee voice being adopted across the EU, and second, whether their impact has been to provide employees in the EU with effective rights to participate in decision-making in practice.

It is certainly the case that the various directives mean that particular common, minimum standards regarding employee participation in decision-making now exist throughout the EU. There is also evidence to suggest that these directives have been quite effective in providing employees with input into and influence over decision-making in practice in EU member states where this has historically been absent (see, e.g. Hall and Edwards' (1999) study on the implementation of the collective redundancy directive in the United Kingdom). However, a common approach providing employees and their representatives with strong participation rights has not resulted from these directives for a number of reasons.

First, the purpose of EU directives is to create *minimum standards,* with member states free to enact more demanding legislation at national level. Therefore, at a general level, these directives are not likely to lead to a harmonization of employee voice policies and practices across the EU. Second, there are very significant differences in the views and approaches of the various EU member states to the exercise of employee voice. As will be discussed further below, while some European countries such as Germany, Denmark and Austria strongly support employee participation in decision-making, others such as the United Kingdom and Ireland have historically been either ambivalent or opposed to this idea.

An effect of these national differences has been to weaken the content of EU legislation on employee voice. Because it is necessary for a majority of countries to agree for a directive to be passed, the existence of opposing views among member states tends to place limits on the potential content of new legislation. As Hall (2005) outlines, objections by the UK and other governments resulted in the final text of the Information and Consultation Directive being weaker in a number of respects than the European Commission's original proposal. For example, the Commission's proposal that company restructuring decisions taken by employers in breach of their obligations to inform and consult would not be given legal effect was not included in the final text, arguably making the directive less powerful from an employee perspective. European trade unionists have also criticized the definition of 'consultation' in the directive – 'the exchange of views and establishment of dialogue between the employees' representatives and the employer' – stating that this provides employee representatives with little power and influence in practice.

These differences in views and approaches to employee voice between countries also mean that the manner in which relevant directives have been implemented at national level has operated to limit their potential impact in a number of cases. Although the core provisions and obligations contained in EU directives are binding, member states need to bring these into force by implementing national legislation, and are provided with flexibility regarding how this is done. For example, Article 1(2) of the Information and Consultation Directive states that 'the practical arrangements for information and consultation shall be defined and implemented in accordance with national law and industrial relations practices in individual Member States in such a way as to ensure their effectiveness'. Notably in this regard, the UK regulations implementing this directive stipulate that UK employers are only obliged to establish a procedure for the information and consultation of employees when they receive a written request from 10 per cent of the workforce in a relevant establishment. This is a so-called 'trigger mechanism' – the obligations in the directive are only triggered when employers receive this written request. However, commentators have highlighted the practical difficulties involved for employees and/or their representatives in attempting to collect signatures from this proportion of employees in a relevant undertaking (Hall 2005).

The UK regulations also provide that employers are entitled to use direct rather than indirect methods of information and consultation, provided these arrangements are agreed with their employees. This means that UK employers may not need to appoint employee representatives; it can be sufficient for them to communicate directly with their employees. Critics have noted that in such cases this means that employees are not in fact provided with representation, contrary to the spirit of the directive (ibid.). These examples illustrate how differences in national approaches to implementation can weaken the practical impact of EU directives and militate against the establishment of a common approach to employee participation across the Union. A recent report concludes that the directive has had limited impact on information and consultation at national level across the European Union (Eurofound 2013).

While the discussion so far has focused on how European legislation impacts on national systems of employee voice, research evidence also highlights the limited nature of employee participation structures established in multinational firms operating across the EU in order to comply with the European Works Council Directive. Research has identified approximately 820 EWCs active across Europe, covering 14.5 million employees. However, despite these impressive figures, EWCs had been set up in only 36 per cent of eligible undertakings (European Commission 2008: 2). In addition, the explanatory memorandum to the European Commission's recent proposal for a revised EWC directive notes that 'the right to transnational information and consultation lacks effectiveness, as the European Works Council is not sufficiently informed and consulted in the case of restructuring' (ibid.).

This view is supported by other analysis of the operation of EWCs in practice. A review by the European Foundation (2008a) reported research findings highlighting how a majority of EWCs are typically provided with information either at the point in which decisions on transnational business issues are taken by management or afterwards. Consultation in good time is rare, with the consultation process typically concerning the *implementation* of decisions rather than the content of the original decisions themselves. The review did note that in a number of companies, such as Volkswagen and General Motors, EWCs were engaged more fully in decision-making and negotiated outcomes with management (see also Banyuls *et al.* 2008), but these accounted for only a small minority of firms. Similarly, Waddington's (2011: 526) survey of European Works Council representatives found that the quality of information and consultation in EWCs to be poor, with the author noting that at best the majority of EWCs are institutions 'at which managers disclose information'.

Concerns regarding the weakness of the EWC Directive prompted a formal revision of it, with a recast directive being adopted in May 2009. This strengthens the original 1994 directive in a number of ways, for example, with a definition of what constitutes 'information' and a revised, stronger definition of 'consultation' included in the new text. The impact of these changes remain to be seen, however, it is arguably unlikely that the revised directive will give EWCs significantly more power and influence in practice. For example, like the original, the revised directive states that while the EWC has the right to meet management where there are exceptional circumstances affecting employees' interests, this meeting 'shall not affect the prerogatives of central management'. This implies that management's decision-making power is to remain unaffected.

Overall, therefore, while the various directives have created certain minimum rules and standards regarding employee participation which member states are obliged to comply with, they have not led to a common approach to employee voice being adopted throughout the European Union.

Employee voice in 'advanced industrialized economies'

In advanced industrialized economies, it is possible to distinguish between countries which have predominantly 'voluntarist' systems of employee voice and those with predominantly 'mandatory' systems. In the former, employers are generally in a position to freely decide which employee voice practices to implement, with governments tending not to intervene in this area or to force them to adopt particular systems or practices. In contrast, in the latter, employers are generally obliged, typically by legislation enacted by national parliaments, to establish institutions or mechanisms through which employees can participate in decisions about the management of the firm (Frege and Godard 2010; Hyman and Gumbrell-McCormick 2013).

It is not suggested that these groupings are watertight or comprehensive and it is recognized that some countries (e.g. Japan) may not fit into either category. In addition, significant variation is evident within these groupings (Hyman and Gumbrell-McCormick 2013). Nevertheless, they are seen to reflect quite distinct general approaches to employee voice which effectively describe policy and practice across a sizable number of countries. The essential characteristics of each group are therefore now discussed in some detail.

Voluntarist systems

Countries whose legal systems are based on British 'common law' principles and whose economic policies tend to favour the free operation of market forces are most obviously those which have voluntarist employee voice systems. They include the United Kingdom, the United States, Australia, Ireland, Canada and New Zealand. In these countries, there tends to be only limited legal regulation of the exercise of employee voice in decisions regarding the management of the firm, with the nature and extent of employee voice exercised in particular companies primarily determined by the policies and preferences of management (hence the 'voluntarist' description – the practice of employee voice is something which management tends to *voluntarily* decide upon) (Roche and Geary 2000; Poole *et al.* 2001; Godard 2003; Gollan and Hamberger 2003; Rasmussen and Lind 2003; Katz and Wheeler 2004; Lansbury and Wailes 2004; Hyman and Gumbrell-McCormick 2013). EU legislation and in particular the recent directive on Information and Consultation summarized above, have changed this situation somewhat for the UK and Ireland, although in practice employees in these countries continue to have only limited influence in decision-making, with management still the dominant actor.

Where employee voice is exercised in voluntarist system countries, it tends to be in the form of 'employee involvement' as opposed to 'employee participation' practices. Management are willing and eager to involve employees in decision-making so as to improve their performance and commitment to the organization, but are reluctant to cede control over decision-making to employees and their representatives. Outside the firm in the labour market and broader society, there tends to be no strong or pervasive culture in favour of employee participation in organizational decision-making (e.g. Rasmussen and Lind 2003; Gollan and Hamberger 2003). Employee participation is therefore limited in extent and scope.

For example, a recent survey of employee relations in Great Britain, the 2011 Workplace Employee Relations Survey (WERS 2011), identified quite extensive use by British employers of employee involvement practices (van Wanrooy *et al.* 2013: 60–7). In 2011, 80 per cent of workplaces surveyed held meetings between senior management and the whole workforce, while in 66 per cent team briefings took place. The incidence of both these direct forms of voice increased between 2004 and 2011. Some 38 per cent of workplaces had conducted a formal survey of employees in the preceding two years, compared to 35 per cent in 2004, with 25 per cent making use of suggestion schemes (unchanged from 2004). In contrast, forms of representative participation such as Joint Consultative Committees (JCCs) were limited in coverage. JCCs were present in only 8 per cent of workplaces in 2011, a similar percentage to 2004.

Mandatory systems

While in a number of countries, then, the exercise of employee voice is predominantly determined by management prerogative, in other advanced industrialized nations, management *is obliged* to allow employee voice to be expressed and exercised. Legislation has been passed in many continental European countries, including Germany, Austria, the Netherlands, France and Spain, which provides for the mandatory establishment and operation of institutions for the exercise of employee voice at the workplace and/or company level (Slomp 1995; Hyman and Gumbrell-McCormick 2013). In other countries, for example, Denmark and Italy, collective agreements between trade unions and employers make it compulsory for similar employee voice systems to be implemented (Carley *et al.* 2004; Hyman and Gumbrell-McCormick 2013).

These countries with such mandatory employee voice systems tend to have a long history of promoting employee participation in organizational decision-making, often operating alongside but separate to collective bargaining between trade unions and management over terms and conditions of employment (Hyman and Gumbrell-McCormick 2013). In addition to the laws and institutions regulating the exercise of employee voice, the wider culture of organizations and the broader society also tends to be strongly supportive of employee participation in organizational decision-making (e.g. Wever 1994). In practical terms, therefore, while decision-making power in these countries continues to rest mainly in the hands of management, substantial autonomy and control have been ceded to employee representatives. The German system is often seen to be the exemplar of this sort of approach to employee voice and the key features of this system are therefore outlined in Box 12.2. It is necessary to note, however, that substantial differences in various respects exist between national models (Hyman and Gumbrell-McCormick 2013).

BOX 12.2

The German system of employee voice

Legislation passed by the federal parliament has created compulsory rules and regulations for German companies to follow regarding employee participation in the management of the firm:

- The *Works Constitution Act 2001* obliges German employers to set up employee only 'works councils' in workplaces with five or more employees, where requested by the employees. The purpose of works councils is to represent and promote the interests of employees, but they are also expected to consider the needs of the enterprise. Works councils and management are obliged to co-operate in 'a spirit of mutual trust for the good of employees and the establishment'.
- Works Council representatives are elected by a secret ballot of all employees aged 18 and over. The number of representatives can range from 1 to over 35 depending on the size of the workplace. They are entitled to paid time off from work to carry out their duties and in workplaces of 200+ employees, full-time representatives should be appointed. Employers and works councils are required by law to meet at least once a month.
- Employers are also required to establish a *company-level* works council where more than one workplace works council is in operation.
- Works Councils have a *right to information* on financial and general business matters (e.g. company strategy or investment plans).
- They have *information and consultation rights* regarding company policies on jobs, levels of employment and work organization, and also on specific plans to close, reduce or amalgamate operations or change working methods and processes.
- They have *co-determination rights* regarding personnel policy matters such as working time and holiday arrangements, payment methods and principles, rules governing team working systems and health and safety. Co-determination rights also exist regarding the development of guidelines for recruitment, transfer, regrading and dismissal and the implementation of the same. In addition, they apply to the drawing up of a 'social compensation plan' to alleviate the negative social effects arising from restructuring or the implementation of redundancies. In these situations, management is obliged to seek the agreement of the works council and the works council is entitled to make its own suggestions. If agreement is not possible, then the issue in question is adjudicated on by a 'conciliation committee' with a neutral chair. The right of codetermination is generally exercised through the signing of binding 'works agreements' with management.
- German law also provides for mandatory representation of employee interests in the 'supervisory boards' of companies above a certain size:
  - *'Third Part Act 2004':* companies with 500–2000 employees, one third of the members of the supervisory board must be employee representatives.
  - *Co-Determination Act 1976:* companies with more than 2000 employees – equal representation of employee and shareholder representatives; the chair of the supervisory board (usually appointed by shareholders) has the final say in the event of a tied vote.
  - Supervisory boards appoint and oversee the activities of the management board, which is responsible for the day-to-day running of companies.
  - Employee representatives directly elected by the workforce; many are works councillors and trade union members; trade unions are entitled to appoint a number of representatives in larger companies.

Sources: German Federal Ministry of Economics and Technology; Page (2006)

Impact of globalization and other economic trends on mandatory systems of employee voice

There have been dramatic changes within and across national economies over recent decades. Processes of globalization have accelerated, meaning that firms operating in internationally traded sectors have become exposed to increasing competition from abroad. There has been a shift of manufacturing and increasingly some significant service sector activities from the wealthy advanced industrialized nations to lower-cost, emerging locations such as Eastern Europe, China, India and the Philippines (Dicken 2011).

Other important changes in economic structures and the business environment, in part linked to processes of globalization, have also occurred. There has been a general shift of employment from manufacturing to services within national economies. Economic activity has been increasingly privatized, liberalized and deregulated, with the promotion of market mechanisms and competition becoming the dominant governmental strategy for economic management and growth (Dicken 2011; Noon *et al.* 2013).

The significance and impact of these developments for mandatory systems of employee voice are of great interest. Examining trends and developments in mandatory systems of employee voice provides an ideal opportunity to explore the practical impact of globalization. If 'strong globalization' theories are correct and national employment systems increasingly are converging to one common model, then we might expect country-specific mandatory systems of employee participation to be under intense pressure and to be weakening. This is arguably particularly likely if, as highlighted by many commentators, the American approach to management and HRM is becoming progressively more dominant. As outlined above, American managers have a preference for employee involvement over employee participation, so we would therefore expect American MNCs operating in countries such as Germany, France and Spain to strongly challenge the mandatory systems of employee voice existing in those countries (Jirjahn and Müller 2014).

Before considering the policies and practices of US and other multinationals in these countries, we can use the example of German works councils to analyse how the general trends and pressures resulting from globalization and other changes in the economic sphere are affecting mandatory systems of employee voice.

Trends in the presence and influence of German works councils

The evidence from Germany suggests that globalization and the other economic trends outlined above are impacting significantly on mandatory systems of employee voice. However, these trends appear to be having rather contradictory effects.

On the one hand, some survey evidence demonstrates how economic trends and developments are leading to a decline in the proportion of private sector companies and employees covered by works councils (Hassel 1999; Grahl and Teague 2004). Hassel (1999: 488) outlines that while in 1981, 52 per cent of private sector employees in Germany were covered by a works council, by 1994 only 42 per cent were covered. A survey conducted 10 years later, in 2004, found that in that year 47 per cent of employees in private sector workplaces in West Germany were covered by a works council, but only 38 per cent of workers in East Germany were so covered (EIRO online 2005). Coverage was relatively high in the manufacturing sector, at 68 per cent (in West

Germany), but substantially lower in services at only 33 per cent. By 2008, 42 per cent of German employees were covered by a works council, with coverage lower in East Germany than in West Germany (34 per cent compared to 43 per cent). Employees in newly formed workplaces were significantly less likely to be covered by a works council (Addison *et al.* 2010).

Important reasons for the decline in the number of German companies and employees affected by works councils include the growing importance of small firms in the German economy and also the substantial increase in total employment in the private services sector over recent years (Hassel 1999; Hertwig 2011). As indicated in the above figures, small firms and those in the services sector are less likely to have works councils than others (Grahl and Teague 2004). Trade unions find it particularly difficult to establish works councils in small 'new economy' firms such as those in the IT or biotechnology fields (Hertwig 2011). These changes in the structure of the economy have therefore served to undermine Germany's mandatory system of employee voice.

The increasing competition faced by German businesses as a consequence of globalization has also challenged the power and authority of works councils (Grahl and Teague 2004). As in other countries, managers in German companies have come under intense pressure to reduce costs and increase productivity, and these pressures and dynamics have led to widespread conflict and disagreement with works councils over issues such as relocation, outsourcing, employment levels and working arrangements (Hassel 1999; EIRO online 2008a). Raess and Burgoon's (2006) research demonstrates how works councils at German factories exposed to processes of foreign direct investment and trade have had to offer management substantial concessions in order to secure jobs, for example, greater flexibility in work practices. Raess and Burgoon (ibid.: 304) conclude that 'greater openness, especially FDI openness, tends to increase concessions by works councils'.

These trends have led German employers to demand and unions to agree to institutional changes providing greater flexibility, while the deregulation of industries such as air travel and telecommunications, linked to wider trends of liberalization in the international economy, have also had a big impact on the prevailing patterns of employee voice. Research by Doellgast and Greer (2007) and Holst (2014) in the telecommunications and automotive/metalworking sectors illustrates how the power and influence of works councils in those sectors has been substantially undermined by firms' strategies of outsourcing production and making greater use of temporary agency workers. Case study research highlights how privatization of German airports has led to a deliberate strategy of dismantling or ignoring works councils leading to a diminution of employee voice (Casey *et al.* 2011).

While globalization and related changes have to a significant extent therefore operated to undermine the power of German works councils, in other ways, they have made them *more* important and influential than before. This is because there is a growing trend in Germany for working conditions and employment practices to be negotiated at company or plant level instead of the historically dominant sector level, in recognition of the competitive pressures faced by individual firms (Behrens and Jacoby 2004; Whittall 2005; Gumbrell-McCormick and Hyman 2006).

In recent years many industry-level collective agreements between unions and employers in Germany have contained 'opening clauses' granting works councils the freedom to agree less favourable standards with management at company/establishment level regarding working time and pay, and this has in practice been a widespread occurrence (Haipeter and Lehndorff 2005; Seifert and Massa-Wirth 2005; Keller and Kirsch 2011). The 2008–2009 global financial crisis further emphasized this trend (Lehndorff 2010; Bellman and Gerner 2012; Zagelmeyer 2014). For example, works councils were centrally involved in negotiating agreements with employers on 'short time working' in order to protect levels of employment in the face of reduced consumer demand for German products (Lehndorff 2010).

Impact of MNC policies on mandatory employee voice systems

There is limited and rather mixed evidence on the policies and practices of multinational firms in countries with mandatory employee voice systems. Schmitt (2003) conducted a survey of a representative sample of indigenous German and foreign-owned companies employing 70 or more employees. He found that the foreign-owned firms in his sample were as least as likely to have works councils as indigenous German firms, with nearly 60 per cent of the personnel managers surveyed at the foreign firms placing a high importance on works councils as a means of management-employee communication. In contrast, a survey by Looise and Drucker (2002) found that works councils in the subsidiaries of Dutch and foreign-owned multinationals operating in the Netherlands had less influence on strategic and operational decision-making than works councils in firms based in the Netherlands alone.

While survey evidence is limited, there have been quite a large number of case study-based examinations of the practices of MNCs in mandatory systems. Royle (2002) examined the employee representation policies of the American fast food giant McDonald's in four European countries. He found that McDonald's did not comply with the compulsory rules on employee participation in Germany, France and Spain. Management in the company deliberately set out to prevent the establishment of employee participation structures and institutions and was largely successful in this strategy.

While this is quite an extreme case, other case study evidence also shows how MNCs operating in such countries can avoid complying with mandatory rules on employee participation. Muller (1998) conducted case studies at nine US and four UK-owned MNC subsidiaries in the German banking and chemical sectors, which he compared with twelve comparable German companies. He found that while all the indigenous and British-owned firms complied with German legislation on employee participation, six of the nine US firms either did not comply at all or only partially complied. Four of these did not have any works councils at all, while the two others did not have councils at major workplaces. Although this evidence suggests that globalization is a serious threat to the German employee participation system, Muller notes that the small size of a number of the US firms studied can explain why they were able to operate without a works council. In addition, he outlines how in order to prevent a works council from being established, these firms were in practice required to provide their employees with good terms and conditions as well as alternative communication mechanisms.

Findings similar to those of Muller (1998) emerged from a study focusing on the collective representation and participation practices of US multinationals operating in Germany, Spain, the UK and Ireland (Colling *et al.* 2006). This found that, while the case study firms, which were large MNCs based across a range of sectors, generally established works councils in their German and Spanish subsidiaries as required by law, in practice, management made strong efforts to limit the role and influence of works councils on organizational decision-making.

An insightful example of a foreign MNC challenging national rules on employee participation is the decision by the mobile phone company Nokia to close its manufacturing site at Bochum in western Germany. The decision to close the plant, which was announced in early 2008, was made on the basis that labour costs at the Bochum site were excessively high. However, the closure was announced without prior notice being given to the site's works council (as required by law), which caused great anger on the part of German workers, trade unionists and politicians (EIRO online 2008b). Although the closure went ahead, the works council was nevertheless able to negotiate a 'social plan' for the workers affected worth €200 million.

Summary

The above evidence demonstrates how processes of globalization and other changes in the economic environment are impacting heavily on employee participation practices in countries with mandatory voice systems. These trends and developments mean that these systems are becoming less common across these countries as a whole, while in sectors in which they remain in place the intense competitive pressures faced by businesses are impairing the effectiveness of EP systems in representing and protecting workers. The picture, however, is complex and contradictory as economic forces have in some senses made bodies such as works councils more central than before. Globalization arguably affects mandatory employee voice systems most directly through the policies and practices of multinational firms. Although what limited survey evidence exists does not suggest a clear pattern, a wide range of case studies highlight how many foreign-owned MNCs deliberately flout the rules and regulations regarding employee participation existing in mandatory system countries.

Managing employee voice in 'industrializing' or 'developing' economies

Due to the very large number of developing or industrializing economies and the great differences between them in economic conditions, culture and institutions (Wood 2010), undertaking a comprehensive analysis of the practice of employee voice across these countries is beyond the scope of this chapter. Instead a number of general observations will be outlined regarding these countries before the example of China is examined in some detail.

Developing countries are typically seen to be characterized by great power imbalances between employers and employees and low levels of employee voice (Jackson 2002; Wood 2010). Cultural influences are key, with high power distance between managers and subordinates and collectivist outlooks common (Hofstede 1980; Tayeb 1996; Wood 2010). Organizational strategies are frequently based on Fordist work organization, providing limited discretion alongside authoritarian management, or paternalistic approaches that are more employee-friendly but which nevertheless do not provide workers with meaningful input into decision-making (Wood 2010).

Like their advanced or developed counterparts, some developing countries have mandatory employee voice systems based on government legislation. However, the comparative weakness of economic and social institutions in these countries often means that binding rules on employee participation are not implemented fully in practice (European Foundation 2008b; Wood 2010).

Common features of many developing or industrializing countries include a transition from closed to open economic systems based heavily on trade with other countries and regions and, related to this, a desire to attract inward foreign direct investment by multinational firms. These features have, for example, been strongly characteristic of the experience of China, India and the former member states of the Soviet Union in recent times.

Because of the extent to which investment by MNCs is prized and desired, the latter tend to be in a strong position in deciding what sort of employee voice system to introduce in host developing countries. In general terms, therefore, the primary challenge facing MNC managers implementing employee voice systems in industrializing countries may be to address and overcome cultural differences and issues, with the need to comply with legislation regulating employee participation institutions being less important.

Employee voice in China

MNC managers in China are faced with a complex working environment. This is because Chinese managers and workers' orientations and preferences regarding the exercise of employee voice are shaped by a wide range of cultural, social and institutional influences. In this regard, Yang (2012) identifies Confucianism, socialism and capitalism as the three dominant cultural influences on work and employment in China.

The ancient philosophical system of Confucianism forms a key foundation stone upon which contemporary Chinese society is built (Wang *et al.* 2005; Warner 2009; Yang 2012). As Wang *et al.* (2005) and Yang (2012) outline, Confucianism is based on a number of fundamental principles, including hierarchy and harmony, group orientation, the centrality of close networks and relationships ('*guanxi*') and the preservation and promotion of reputation or 'face' ('*mianzi*'). The principles of Confucianism dictate that employees respect the position and authority of managers, while the latter should treat their subordinates in a humane and considerate manner. Social stability and harmony are greatly valued, while there is also a strong sense of collectivism, with group involvement and identity being of central importance. Work groups or organizations may be seen as equivalent to family environments, while the principles of egalitarianism and distributive fairness are also emphasized (Wang *et al.* 2005; Yang 2012).

Wang *et al.* (2005) highlight how this Confucian cultural context has important implications for decision-making processes within Chinese firms. They note that while, on the one hand, the strong sense of collectivism and group identity may be conducive to the successful adoption of team working principles and systems, on the other hand, the same characteristics arguably militate against individual employees being held accountable for their work. Similarly, while the emphasis on hierarchy and harmony is likely to promote good working relationships between managers and employees, it may also lead to low levels of employee participation and autonomous working (Huo and Von Glinow 1995; Chen *et al.* 2000; Hirst *et al.* 2008). Recent and current changes taking place in China are strongly challenging the influence of Confucian principles, but it nevertheless remains important for managers to be aware of these when implementing management practices (Warner 2009).

While Confucianism continues to underpin Chinese society today, it has over the last century been superimposed with other important belief systems, ideologies and institutions emanating from the political and economic spheres (Yang 2012). The Chinese Communist

Party (CCP) came to power in 1949 and since then has transformed the country's society and economy. A central pillar of the CCP's early economic policy was the establishment of hundreds of thousands of state-owned-enterprise (SOEs). These are seen to have been bureaucratic and paternalistic organizations, which adopted common structures and management practices (Warner 2008). While still important, the opening of the Chinese economy to world trade and the forces of globalization since 1979 has meant that SOEs have become less influential. Privately owned and multinational firms have grown in importance. Over the last two decades, MNCs from a large number of countries have invested in China, establishing joint ventures with previously state-owned companies or their own wholly-owned Chinese subsidiaries (Warner 2008; Cooke 2011).

Despite the high importance ascribed to workers in China's social and political system, the Communist approach to economic management has provided limited support for employee voice in decision-making (Taylor *et al.* 2003). The dominant state-owned enterprises have typically been characterized by rigid and bureaucratic management structures strongly emphasizing hierarchy and provided little autonomy or voice to workers (Cooke 2005; Warner 2008). This has resulted in demotivated and uninvolved employees. While by law every SOE should have a trade union-guided Workers' Representatives Congress with formal powers to participate in decision-making, in practice, these structures have been quite marginal, having little influence or impact (Taylor *et al.* 2003; Cooke 2005; Nichols and Zhao 2010).

Lewis (2002) conducted research at a large SOE, which manufactured consumer electronics products, in 2000 and 2001. He found employee involvement at the company to be very limited indeed. There was minimal direct communication between managers and their employees. Communication was hindered by 'the almost obsessive concern for maintenance of status' on the part of staff at all levels (ibid.: 55–6). Lewis found that the traditional structures and management practices in the company impacted negatively on employee morale and in particular on that of enthusiastic young graduates whose expectations and ambitions were stifled by the prevailing working environment.

Against this context, the expansion of new ownership forms consequent to the opening of the Chinese economy to international trade has created space for greater diversity in employee voice and management practices. The strategies and influence of multinational firms are of particular interest. Previous research has illustrated the difficulties faced by Western firms in attempting to transfer non-hierarchical management structures to China (Ilari and La Grange 1999), but Gamble's (2003) research on HRM practices at two Chinese stores of a Britis-owned DIY multinational provides an example of an MNC where this appears to have been possible. The main findings are outlined in Box 12.3.

Gamble subsequently undertook additional research at another store owned by the same company as well as at a branch of a comparable state-owned retailer (Gamble 2006). Drawing on interviews and questionnaire surveys, he outlines how employees at the UK-owned multinational reported higher levels of management consultation, closer supervisor-worker relationships and a more positive employee relations climate than their counterparts at the state-owned retailer; with the distinctive approach to communication and employee voice at the British MNC seen to be key in this regard.

This case study research highlights both the opportunities and challenges for MNC managers attempting to introduce employee voice practices in China. The findings demonstrate that the Chinese context may provide fertile ground for the implementation of such

BOX 12.3

Employee involvement in a British MNC in China

Gamble (2003) conducted interviews with 70 employees at two DIY stores owned by a UK multinational in Shanghai in 1999 and 2000. A focus of his research was on communication and representation systems and organizational structures.

The British parent company, 'StoreCo', expressly attempted to transfer important elements of its organizational model to these Chinese stores, including formal employee communication mechanisms, a flat organizational structure and an emphasis on close, informal interpersonal relationships between management and staff. Two British expatriate managers played a hands-on role in implementing these structures and practices.

The Chinese employees reacted very positively to these policies. They greatly enjoyed the extensive informal communication they had with management. They felt that the expatriate managers cared about them and treated them as important members of the organization, which contrasted strongly with their previous experience of impersonal and hierarchical management practices in working in state-owned enterprises. Gamble (ibid.: 384) notes how the management systems at the company had 'tapped into an egalitarian ideal' which the employees possessed and which was seen to be linked to past policies and ideals espoused by the Communist Party. The British managers noted that as a consequence of the policies adopted, the Chinese employees were gradually becoming more willing to question those above them. Gamble explains how the suitable personalities and strong abilities of the two expatriate managers were key to the successful implementation of the parent company's operating policies.

Source: Gamble (2003).

practices, but that this process needs to be undertaken with care and sensitivity and a strong awareness of social and cultural issues. Of particular concern is the need to establish close, respectful relationships between managers and staff (Gamble 2003, 2006; Gamble and Huang 2008; Wang 2008).

Gamble has subsequently undertaken research adopting a wider, survey-based approach, examining employee attitudes to employee participation, respect for authority and job satisfaction at 22 foreign-owned and state-owned retailers (Huang and Gamble 2011). Non-managerial employees at the foreign-owned firms reported higher levels of participation in decision-making and job satisfaction but lower levels of respect for authority than their counterparts in state-owned enterprises. These findings were expected, given the stronger adoption of HRM approaches in MNCs alongside the traditionally more hierarchical management culture within SOEs.

Huang and Gamble (2011) found that in both groups of firms, respect for authority was negatively associated with employee job satisfaction and employee participation positively associated with the same. These results demonstrate that, reflecting the more qualitative research outlined above, Chinese employees value involvement and participation, regardless of the ownership status of their particular firms. This challenges prevailing views about the limiting effects of cultural influences on employee participation in the Chinese context (ibid.).

A study by Cheng (2013) presents very similar findings from a nationally representative survey of 4,000 Chinese employees conducted in 2006. This identified how few front-line employees were granted genuine involvement in decision-making regarding such matters as allocating work tasks or work scheduling. The survey nevertheless highlighted a strong demand for greater input, with 78 per cent of respondents agreeing that ordinary employees should play an important role in decision- making (ibid.: 7). In addition, those employees who had comparatively more flexibility, autonomy and greater freedom in expressing their opinions to their supervisor reported higher job satisfaction. These findings again highlight the demand on the part of Chinese employees for input into decision-making at work.

Unfortunately, however, the drive to generate high profits means that management practices at many multinational firms that have set up in China disregard this need and desire. Many MNCs adopt policies and practices of the 'hard HRM' as opposed to the 'soft HRM' variety (Storey 1992), with workers experiencing poor working conditions, being treated very badly and having little input into decision-making. A vivid example of this is the Taiwanese-owned company Foxconn, which manufactures Apple products, where the appalling working conditions and treatment of employees led to numerous workers attempting to commit suicide (Chan 2013). While this example reflects a very negative employment experience, it is necessary to highlight the heterogeneous nature of business organizations and strategies in China arising from the diverse range of company nationalities and ownership forms present in the country (Cooke 2011; Sheldon *et al.* 2014). As a consequence, the employment experience of Chinese workers is likely to vary substantially.

Conclusion

This chapter has provided an overview and discussion of employee voice from an international and comparative perspective. The concepts of employee voice, employee involvement and employee participation were explained before the EU was presented as the only regional international entity with some common rules and regulations in this area. The diverse nature of EU member states alongside the flexibility provided to them in implementing relevant legislation was, however, found to be preventing the emergence of a common approach to employee voice across the EU.

The examination of national models identified two broad groupings of countries among the advanced industrialized economies: those with 'mandatory' employee voice systems and those with 'voluntarist' systems. While the former have developed binding rules and regulations regarding employee participation for employers to follow, the latter generally give managers the freedom to implement whatever employee voice policies and practices they see fit to adopt. A central focus of the discussion in this section was the impact of globalization on mandatory system countries. The example of Germany illustrated how processes of globalization and wider economic change are to a significant extent undermining mandatory employee voice systems. The policies and practices of multinational firms pose a particular challenge for such countries.

The final section of the chapter addressed the practice of employee voice in developing or industrializing countries. It was noted that while there is great diversity between these countries, in general terms, addressing cultural rather than institutional influences and considerations can be seen to constitute the primary challenge for managers of multinational firms operating in such contexts. Cultural considerations were found to heavily influence employee voice practices in China, the developing country chosen to be the focus of this section. Here, the ancient philosophical system of Confucianism was found to constitute an important influence on contemporary organizational life, emphasizing hierarchy and status but at the same time a sense of common identity and paternalistic relationships between managers and employees. Alongside this, the pervasive structures and policies established by the Communist Party over recent decades were also noted to be highly significant. In particular, the SOEs set up by the Chinese government were found to have inhibited the exercise of employee voice in organizational decision-making due to their rigid, bureaucratic and hierarchical management structures and approaches. When combined, these elements of the Chinese context make the adoption of employee voice policies and practices challenging for multinational managers, Gamble's research from the retail sector demonstrated how it may be possible for MNCs to implement such policies in China, provided this process is managed carefully. In addition, survey evidence demonstrates Chinese employees' desire for input into organizational decision-making, which should provide encouragement for multinationals to adopt policies in this regard.

Review questions

1 What does the phrase 'employee voice' refer to? Explain the differences between 'employee participation' and 'employee involvement'.

2 What are the key European Union provisions on employee voice? Have these led to a common approach to employee voice across the EU? If not, why?

3 What are the differences between voluntarist and mandatory voice systems?

4 What are the key influences on employee voice in China?

Further reading

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Chapter 13

International corporate social responsibility

Lutz Preuss

Key aims

The aims of this chapter are to:

- introduce the concept of corporate social responsibility (CSR);
- provide reasons why companies should engage with this idea and explore how they can do this;
- examine how CSR differs between countries and why;
- discuss the implications of the rise of CSR for HRM.

Introduction

Many companies today explain on their website how they see their relationship with their wider society. For example, Marks and Spencer, headquartered in London, writes in its 'Plan A': 'We believe that sustainability is both a moral and commercial imperative. Unless we respond to the social, environmental and economic pressures of the future, not only will we struggle to compete, we may also struggle to survive as a business'. Some 7,000 km east of London, the Mongolian Mining Corporation, based in Ulaanbaatar, the capital of Mongolia, similarly writes: 'By taking a holistic view of corporate growth, our actions and decisions go beyond sectorial and legislative requirements to ensure that we are accountable for the social, economic and environmental impacts of our mining activity'. Another 7,000 km south-east, Asco Motors sells and repairs cars on the Pacific islands group of Tonga, employing some 50 people. This company also speaks of: 'Our responsibility as good corporate citizens – forming close relationships to the people of Tonga and the community in which we do business in'. It seems that corporate social responsibility (CSR) has become a key part of modern business discourse, but what are we – as students, consumers and employees – to make of this phenomenon? Hence, this chapter will address the following questions: What is CSR? Why should companies engage with this idea? How can a company do this? Does CSR differ between countries and, if so, how and why? What implications does the rise of CSR have for HRM?

The concept of corporate social responsibility

To start with, what actually *is* CSR? This question is more difficult to answer than it looks at first glance, as there is no commonly accepted definition of the term. However, two approaches to defining CSR dominate in the literature. CSR is often defined as voluntary commitments that go beyond a company's legal requirements. McWilliams and Siegel (2001: 117) define CSR as 'actions that appear to further some social good, beyond the interests of the firm and that which is required by law'. This definition highlights that CSR is about companies proactively engaging with the needs of employees, customers, suppliers, local communities or other stakeholders. Take the Body Shop as an example. From the very start, its founder, Anita Roddick, clearly stated that she was opposed to testing cosmetics on animals – despite this practice being, at the time, both legal and widespread in the cosmetics industry. Her tireless campaigning on animal rights eventually led to a ban by the European Commission on animal tests of finished cosmetic products from 2004 and cosmetics ingredients from 2009. However, as a definition of CSR, pointing to voluntary commitments that go beyond the law has one crucial disadvantage. Social values and laws are dynamic and shaped by a plurality of societal actors. When a law changes, a company could find itself no longer socially responsible – despite not having changed its operations. Before the European ban on animal testing, the Body Shop was a leader on this issue; today it 'merely' fulfils its legal requirements.

As an alternative, the European Commission (2011: 6) defines CSR as 'the responsibility of enterprises for their impacts on society', which requires companies to 'have in place a process to integrate social, environmental, ethical, human rights and consumer concerns into their business operations and core strategy in close collaboration with their stakeholders'. This definition is somewhat formulaic, as there is, for example, no indication how far a company needs to go to address the concerns of its consumers. However, it has the advantage of allowing the company to sketch out what the entire range of its responsibilities might be. For example, Unilever, whose products are used in 190 countries by 2 billion customers a day, adopted a Sustainable Living Plan in 2010. The plan states three key priority areas: (1) improving health and well-being; (2) reducing environmental impact; and (3) enhancing livelihoods, each of which is broken down into more specific commitments. The plan allows the company to closely align its CSR priorities with its operations: the first priority addresses the impact of its products, the second, the impact of its manufacturing and distribution processes, and the third, the impact of its position in the community.

Another influential model of CSR is the pyramid of CSR developed by Archie Carroll (1991). It depicts the responsibilities of a company as a pyramid of four layers (see Figure 13.1). The first layer specifies economic responsibilities, a requirement to produce goods and services that are in demand with consumers, to pay wages to employees, returns to the providers of capital, taxes to government, etc. This is the foundation for all other responsibilities; clearly, if business did not fulfil its economic role, there would be little point in having companies. The second layer contains legal responsibilities, a requirement to obey the letter and spirit of the law and play by the rules of the game. This is a requirement for individuals as citizens; hence it should apply to other societal actors too.

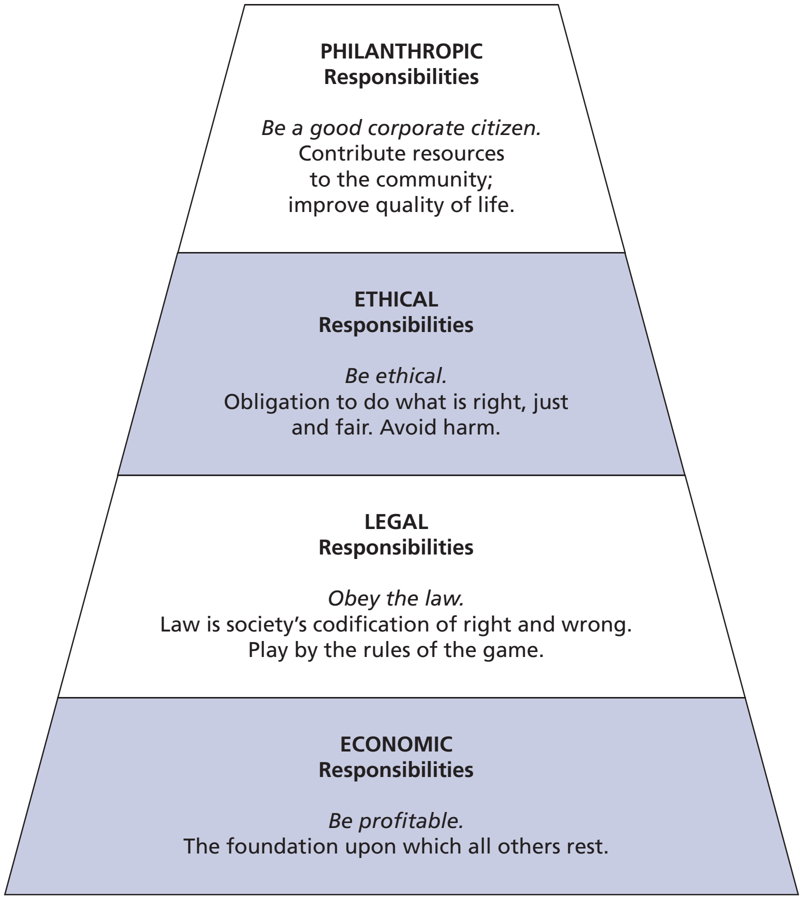


Figure 13.1 The pyramid of corporate social responsibility
Source: Carroll (1991: 42).

The third layer stipulates ethical responsibilities. A company should do what is right, fair and just and avoid harming others. As societal values develop over time, there may be issues that are not codified in law, but that are increasingly becoming seen as unacceptable. Testing cosmetics on animals is just one example. Companies are thus well advised to pay close attention to such trends in society. At the top of the pyramid, there are philanthropic responsibilities. Companies are asked here to contribute resources to the local communities they operate in and to contribute to improving the quality of life. In comparison with the others, these responsibilities are more discretionary.

Defining CSR is made more difficult as there are competing concepts that seek to capture the role of business in society from related but slightly different angles, not least the concepts of corporate sustainability and corporate citizenship. Corporate sustainability is a translation, to the level of the company, of the concept of sustainable development. Probably the best-known definition of sustainable development is that provided by the Brundtland Commission, more formally referred to as the World Commission on Environment and Development (WCED), in its landmark publication *Our Common Future* in

1987: 'Sustainable development is development that meets the needs of the present without compromising the ability of future generations to meet their own needs' (WCED 1987: 43). Sustainable development stresses that a more sustainable future can only come about through the interaction of a wide range of societal actors, such as businesses, consumers, regulators, NGOs and so on. Applying the system-level concept of sustainable development to the level of the individual organization then leads to the concept of corporate sustainability (Dyllick and Hockerts 2002). Most scholars agree that corporate sustainability requires firms to address economic, environmental and social issues, which tallies with most approaches to CSR – and then they stress in particular the interconnected and interdependent nature of these issues (Bansal 2002).

Corporate citizenship takes the same starting point as CSR, namely, that companies are members of society, with obligations as well as privileges. Using the concept of citizenship to clarify what these obligations and privileges are, scholars have applied the distinction in the political science literature between liberal and communitarian versions of citizenship (Marshall 1950). The liberal view sees citizenship as a set of rights, such as the right to education or health care, that all members of a community enjoy: if you are a citizen or resident of the United Kingdom, you are entitled to health care through the country's National Health Service; if you are not a UK citizen or resident, you are not entitled to such health care. Now, given that many governments, in particular in industrialized nations, struggle to keep up their commitment to welfare, corporate citizenship has been conceptualized as a provision of such services to citizens, not by government, but by business (Matten and Crane 2005).

The communitarian view sees citizenship as citizens getting actively involved in their society, participating in the solving of common challenges. Again, this idea can be transferred to business. Just like individuals, companies too can contribute to the solving of common challenges. Companies have indeed started to assume political responsibilities where governments are not able to provide these, in particular with regard to issues that are beyond the limited reach of nation-states and international institutions (Moon *et al.* 2005). As an example, the Kimberley Process seeks to address the challenge of conflict diamonds that are mined in areas of civil war, for example Congo, Liberia or Sierra Leone, to fund arms purchases. Collaboration between governments, diamond companies and civil society organizations has led to the establishment of the Kimberley Process Certification Scheme so that consumers know that the diamonds they buy are not being used to fuel further civil war. The concepts of corporate sustainability and corporate citizenship undoubtedly bear strong resemblances to CSR and are often used interchangeably.

Now we know what CSR is, how can a company identify whose needs and interests it should consider as part of its CSR activities? A useful concept here is the term 'stakeholder', a word play on 'shareholder' or 'stockholder', that is, anyone who has a stake in an organization. Freeman (1984: 46) defines a stakeholder in an organization as 'any group or individual who can affect, or is affected by, the achievement of the organization's objectives'. A manager can use this concept to classify stakeholders into groups. They may, for example, distinguish between core, or primary, and peripheral, or secondary, stakeholders (Clarkson 1995). Core stakeholders are essential to the survival of the firm; employees and providers of capital are likely to be in this category. Peripheral stakeholders are those groups and individuals who are not engaged in transactions with the company and who are not necessary for its survival. The media or local community groups may fall into this category. Mitchell, Agle and Wood (1997) distinguish between stakeholders in terms of:

- *legitimacy*: how valid is the stakeholder's claim in the eyes of the wider public?
- *power*: to what extent is the stakeholder able to produce an effect?
- *urgency*: to what degree does their claim need immediate attention?

The manager should focus on those stakeholders who have a legitimate claim that is urgent and who also have the ability to potentially inflict damage on the company. When Nike was criticized for poor labour conditions in its supplier plants in South-East Asia during the 1990s, few would disagree that the right of employees to decent working conditions constituted a legitimate claim. Information gathered by non-governmental organizations (NGOs) showed the widespread nature of these malpractices, giving urgency to the legitimate claim. Finally, the sustained campaign by several NGOs led to a great deal of publicity for the case with the attendant threat of consumer boycotts – the urgent and legitimate claim had become a powerful one too.

The reasons why a company might want to engage with CSR fall into three broad categories: (1) the business case; (2) societal pressure; and (3) ethical arguments (see Figure 13.2 on p. 283). The business case for CSR suggests that 'a company can "do well by doing good": that is, it can perform better financially by attending not only to its core business operations, but also to its responsibilities towards creating a better society' (Kurucz *et al.* 2008: 84). The business case can take several forms (Carroll and Shabana 2010):

- *cost reduction*: better management can reduce the exposure of employees, contractors or customers to environmental hazards;
- *competitive advantage*: through environmental proactiveness, a company can develop environmentally friendlier goods or production processes;
- *reputation*: a reputation for being a responsible company can increase customer loyalty;
- *synergistic value creation*: through establishing connections with various stakeholders, companies may be able to tap into novel opportunities for value creation.

So far, empirical studies into the link between corporate social and financial performance have yielded inconclusive results (Orlitzky *et al.* 2003; Peloza 2009), although there are plenty of examples of individual firms, such as the Body Shop, which have been able to generate commercial benefits from attending to social and environmental challenges.

According to the societal pressure model, CSR results from social pressure by consumers and NGOs as well as political pressure by government. Business enjoys a 'licence to operate', a tacit or even explicit permission from society to engage in certain types of activities, yet this licence can be revoked if a firm is found wanting in terms of its social or environmental performance (Lynch-Wood and Williamson 2007). Calls for more responsible behaviour of companies have been voiced particularly loudly in the wake of corporate scandals, such as the collapse of Enron in 2001, or financial crises, like the one that started in 2008. Societal pressure for CSR is predicated upon an active civil society. In particular, NGOs – such as Amnesty International, Greenpeace, Oxfam or the WWF – have redefined the relationship between government and business 'by transforming it from a two-way exchange into a trilateral system of relationships and entanglements'

(Doh and Teegen 2002: 667). NGOs may be involved in monitoring corporate behaviour, enforcing adherence to established rules and even establishing novel rules for companies (Yaziji and Doh 2009). Due to their differences in terms of outlook and mission, NGOs used to predominantly adopt a conflictual stance against business; however, in many cases nowadays this has given way to more collaborative approaches.

The third category consists of ethical reasons to explain what corporations should or should not do (Swanson 1999). Ethical arguments for CSR suggest that individuals – as company owners, managers or employees – undertake or refrain from activities because this is 'the right thing to do'. Ethical arguments highlight the crucial role of internal champions in promoting CSR initiatives and steering these through difficult waters. One of the main arguments against an ethical approach to CSR is that the market cannot distinguish between a company that decides to forego certain opportunities for ethical reasons and one that is simply inefficient. From such a perspective, a call for ethically motivated CSR would be futile, because it raises hopes that cannot be met under the economic system of capitalism. However, ethics also operates at the societal level where it provides arguments why certain corporate practices are wrong, however much financial gain they generate. Through impacting on the legitimacy of corporate practices, specific firms or sectors or the private sector as a whole, ethics thus forms the basis for societal pressure.

CSR in the multinational enterprise

Having discussed what CSR is, one further complication arises when we consider multinational enterprises (MNEs): as CSR is shaped by the ways in which business is embedded in society, different societies are likely to have different expectations as to what constitutes socially responsible behaviour. While MNEs are used to dealing with different legal requirements at local, national and international levels, international CSR also requires them to pay attention to differences between countries in the needs of their stakeholders. Comparing the United States with continental European countries, such as France or Germany, it is noticeable that a greater tradition of individualism and less reliance on the state in the USA has led to a greater emphasis on explicitly articulated CSR policies, programmes and practices. For example, health care for employees and their families is often an explicit part of CSR commitments by US companies. By contrast, capitalism in continental European economies tends to work somewhat differently. Economic priorities are often developed through consultation and in co-operation between labour and capital (e.g. in Germany) or through strong leadership by the government (e.g. in France), and these processes have led to more indirect expressions of CSR. As health care for employees and their families is financed through taxation and free at the point of delivery, companies have traditionally not included these in their explicit CSR commitments although they have provided funds through corporate taxation that is higher than in the USA (Matten and Moon 2008).

Differences in stakeholder needs are even more pronounced when we compare developed with developing countries (Dobers and Halme 2009). In many developing countries governments are severely handicapped in their ability to address social and environmental needs. When faced with the trade-off between economic development and environmental protection, hence they may choose the former. Particularly at local level, communities are often either unable to represent their interests vis-à-vis MNEs or are unwilling to do so, because they are economically dependent on the continued operations of the MNE. Developing countries typically experience a weaker role of NGOs in promoting CSR, while consumers are usually not a significant force in the demand for socially responsible products. Last but not least, the regulation of corporate social and environmental impacts is often less stringent than in industrialized nations. Due to a limited capacity of regulators, compliance with even basic legislation can in many cases not be taken for granted (Jamali *et al.* 2015). Hence, international CSR not only deals with the question of how MNEs treat their stakeholders in the different countries they operate in; it also concerns the contributions of MNEs to international development, particularly that of developing countries (Hopkins 2007).

The question for the MNE then is whether it develops a global CSR strategy, which is co-ordinated from its headquarters and rolled out across the entire organization, or whether it adopts a local CSR strategy, where the individual subsidiaries are encouraged to tailor their CSR efforts to the needs of their local stakeholders (Husted and Allen 2006; Muller 2006). A global CSR strategy has the advantage that it aids an effective transmission of CSR priorities across all parts of the company. In particular, in countries where social and environmental legislation is less stringent than in the MNE's home country, such a global CSR strategy may lead to an upward harmonization of CSR standards. However, a global strategy is not responsive to the needs of local stakeholders, and the company may experience limited buy-in by staff from its subsidiaries. As an example, when Wal-Mart expanded into Germany in the late 1990s, the company rolled out its American CSR practices, oblivious to the fact that German employees were not accustomed to being told not to have relationships with colleagues, just as German consumers felt intimidated by the 'greeters' and 'baggers' who greet customers as they enter the store and help them place their purchases into their bags. Although its failure to adjust its CSR policy was not the only reason – not least, the company faced vigorous competition from domestic low-price supermarkets like Aldi and Lidl – in the end, the company sold its stores in 2006 and withdrew from the country.

A local CSR strategy can overcome some of these downsides as it is much more responsive to the local situation, allowing for meaningful dialogue with local stakeholders. However, under a local strategy a company's CSR initiatives can become fragmented and uncoordinated, as they are run by a variety of managers. The company may then get criticized for a lack of consistency in its CSR strategy. A local CSR strategy also requires more co-ordination among the various parts of the company. In countries with less stringent social and environmental regulation, a local CSR strategy might furthermore lead to lower standards compared to a global strategy. Consider, for example, the different images that the subsidiaries of Japanese automotive company Suzuki have created for themselves in India and in Hungary. In India, Maruti Suzuki was praised by the *Times of India* as a true CSR pioneer in the Indian automobile sector for its efforts to promote safe driving. Meanwhile, the Hungarian subsidiary, Magyar Suzuki, became widely known in its host country for refusing to allow legal union representation at their plant and was found guilty of violations of labour legislation in several instances (FIDH 2006).

The MNE can try to balance a global CSR strategy with a local one. This promises to offer the best of both worlds, responding to the needs of local stakeholders while integrating its CSR activities globally in order to make the provision of CSR cost-effective while also adequately responding to global, social and environmental problems. However, such a balanced CSR strategy is much more demanding in terms of the time and resources required to manage it properly. An example of a credible balanced CSR strategy is Unilever. Building on its existing strengths in sustainable agriculture, water and fishing – the company was instrumental in setting up the Marine Stewardship Council – Unilever aligned its many CSR programmes and messages under the key word 'vitality' as it created initiatives like Dove's inner beauty campaign, Omo's 'dirt is good' campaign to encourage children to play outdoors or Lipton creating new tea products with dramatically reduced sugar content (Mirvis 2011).

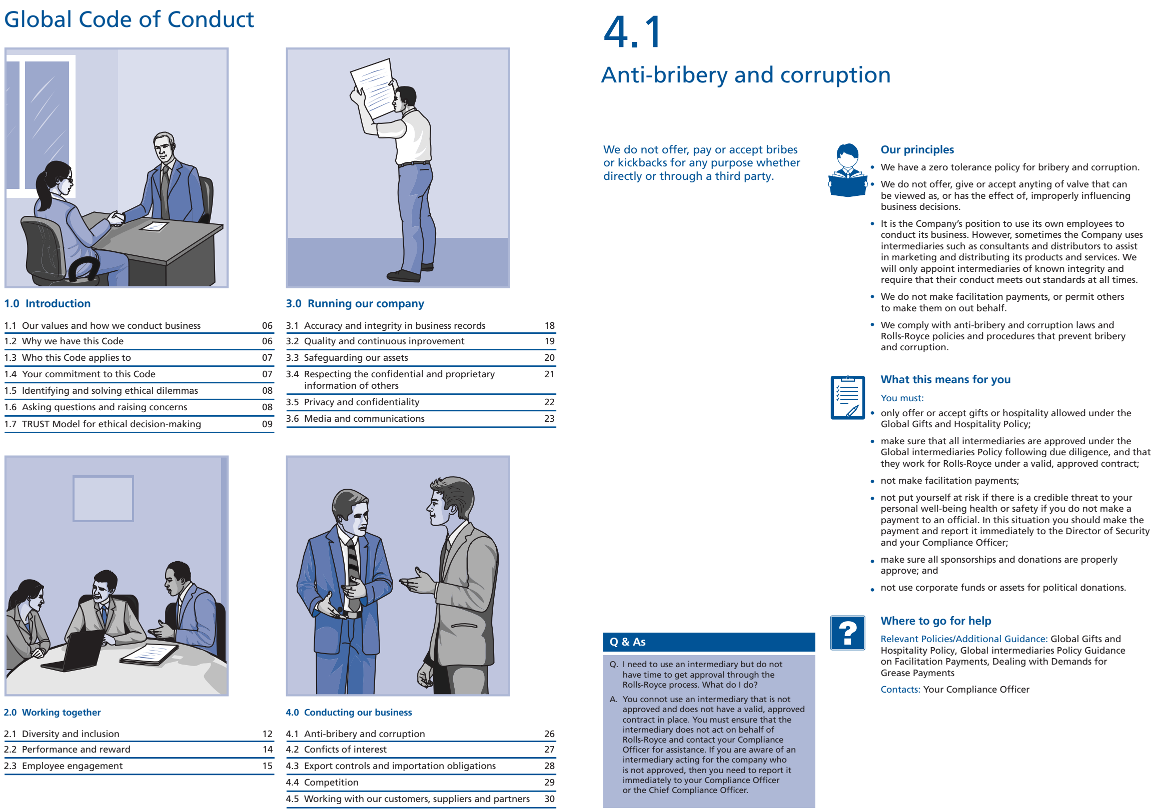
Managing corporate social responsibility

Having understood what CSR is and why a company might want to engage in such activities, the next question is how it can do this. In fact, companies have quite a range of tools at their disposal, both internal ones, such as codes of conduct or social and environmental reporting, and external ones, such as CSR standards.

A code of conduct (also called ethical policy, code of ethics, statement of business practice, business principles, etc.) is a policy document that defines the responsibilities of the company towards its stakeholders and/or the conduct the company expects of its employees. For example, the Global Code of Conduct adopted by engineering company Rolls-Royce (see extracts in Figure 13.2) clearly states that the code applies to all employees of the company. It lists a range of key areas where moral challenges may lurk, from privacy at work and confidentiality of information through employee diversity to anti-bribery measures and conflicts of interest. These are then broken down into more specific scenarios. On bribery and corruption, the company states: 'We do not offer, give or accept anything of value that can be viewed as, or has the effect of, improperly influencing business decisions'. Many companies go even further and stipulate maximum values for gifts, which are often as low as US$10. The Rolls-Royce code also contains an endorsing statement by the company's CEO, question-and-answer style advice for typical scenarios, as well as details on how to contact the company's legal team and its ethics help line.

Codes of conduct have a particular prominence in the United States. An early example that is still in use today is 'Our Credo', a code drafted by Johnson & Johnson in 1943. During the last two decades, such documents have also become widespread in other industrialized nations, such as the United Kingdom, Germany and Sweden. In developing countries, significant adoption rates of codes have been reported for countries as diverse as South Africa, India, Brazil and Mexico. Today most large companies – 92 per cent of the G250 – have a code of conduct in place (KPMG 2008). In addition to the corporate level, codes have also been drawn up by various industry associations, like the 'Code of Business Practices' by the International Council of Toy Industries (Leipziger 2015). Codes of conduct have a number of advantages. They clarify what the company expects of its employees and hence may offer encouragement and support for moral behaviour. A code can also reduce inconsistencies in employee behaviour, which is particularly important for multinational enterprises operating in dozens of countries. However, codes do not work automatically; rather, their effectiveness depends on how they are developed, how they are implemented and what follow-up activities the company undertakes.

Another widely applied CSR tool is social and environmental reporting (also called sustainability reporting, accounting for sustainability or social and environmental disclosure), which is an extension of financial reporting. In a nutshell, financial reporting seeks to generate information about the financial performance of a firm so that managers can take decisions



Global Code of Conduct

1.0 Introduction

3.0 Running our company

2.0 Working together

4.0 Conducting our business

4.1

Anti-bribery and corruption

We do not offer, pay or accept bribes or kickbacks for any purpose whether directly or through a third party.

Our principles

- We have a zero tolerance policy for bribery and corruption.
- We do not offer, give or accept anyting of valve that can be viewed as, or has the effect of, improperly influencing business decisions.
- It is the Company's position to use its own employees to conduct its business. However, sometimes the Company uses intermediaries such as consultants and distributors to assist in marketing and distributing its products and services. We will only appoint intermediaries of known integrity and require that their conduct meets out standards at all times.
- We do not make facilitation payments, or permit others to make them on out behalf.
- We comply with anti-bribery and corruption laws and Rolls-Royce policies and procedures that prevent bribery and corruption.

What this means for you

You must:

- only offer or accept gifts or hospitality allowed under the Global Gifts and Hospitality Policy;
- make sure that all intermediaries are approved under the Global intermediaries Policy following due diligence, and that they work for Rolls-Royce under a valid, approved contract;
- not make facilitation payments;
- not put yourself at risk if there is a credible threat to your personal well-being health or safety if you do not make a payment to an official. In this situation you should make the payment and report it immediately to the Director of Security and your Compliance Officer;
- make sure all sponsorships and donations are properly approve; and
- not use corporate funds or assets for political donations.

Q & As

Q. I need to use an intermediary but do not have time to get approval through the Rolls-Royce process. What do I do?

A. You connot use an intermediary that is not approved and does not have a valid, approved contract in place. You must ensure that the intermediary does not act on behalf of Rolls-Royce and contact your Compliance Officer for assistance. If you are aware of an intermediary acting for the company who is not approved, then you need to report it immediately to your Compliance Officer or the Chief Compliance Officer.

Where to go for help

Relevant Policies/Additional Guidance: Global Gifts and Hospitality Policy, Global intermediaries Policy Guidance on Facilitation Payments, Dealing with Demands for Grease Payments

Contacts: Your Compliance Officer

Figure 13.2 Extracts from Rolls-Royce's global code of conduct

Source: Rolls-Royce, Global Code of Conduct.

regarding the firm's future strategy, shareholders can assess the risk of their investment, while suppliers and customers can assess the creditworthiness of the firm. Recognizing the wide range of social and environmental impacts of a firm, social and environmental reporting seeks to provide information on the firm's performance that is wider than just financial information and that addresses the needs of a wider range of stakeholders. Not least, connecting financial with social and environmental information should help sustainability considerations to become embedded in strategic decision-making (Hopwood *et al.* 2010).

Social and environmental reporting often uses a mixture of quantified and qualitative data to convey the company's economic, social and environmental impacts. For example, the Sustainability Report for 2014 by BP (see Figure 13.3 for extracts) starts with an overview of the company's activities, from exploring potential oil and gas sources through extracting oil and gas to manufacturing and marketing fuels and other petrochemicals. The company then provides data on a range of key performance indicators with regard to safety, environmental protection, employees and economic performance. These include injuries and fatalities due to accidents, number and size of oil spills, the share of women in leadership positions and the amount of taxes paid. The company also sets out its position on some of the more controversial issues around energy supply, such as oil and gas extraction in deep waters and hydraulic fracturing.

A key challenge of social and environmental reporting is deciding which issues a company should include and where the boundaries of its reporting should be. You would

Data on our safety, environment, people, financial and operational performance from 2010 to 2014.

For the year ended 31 December					
***Safety*[a]**	***2010***	***2011***	***2012***	***2013***	***2014***
Fatalities – employees	0	1	1	4	**0**
Fatalities – contractors	14	1	3	2	**3**
Day away from work cases – workforce	408	168	152	130	**145**
Day away from work case frequency[b] (DAFWCF) – workforce	0.193	0.090	0.076	0.070	**0.081**
Recordable injuries – workforce	1,284	677	710	578	**547**
Recordable injury frequency[b] (RIF) – workforce	0.61	0.36	0.35	0.31	**0.31**
Hours worked – employees (million hours)	168	165	182	170	**173**
Hours worked – contractors (million hours)	255	209	220	203	**184**
Losses of primary containment (number)	418	361	292	261	**286**
Tier 1 process safety events[c] (number)	74	74	43	20	**28**
Tier 2 process safety events[c] (number)	213	241	154	110	**95**
Oil spills[d] (≥one barrel)	261	228	204	185	**156**
Volume of oil spilled (million litres)	1.7[a???]	0.6	0.8	0.7	**0.4**
Environment					
Oil spills – to land and water[d] (number)	142	102	l02	74	**63**
Volume of oil unrecovered (million litres)	0.8[e???]	0.3	0.3	0.3	**0.2**
Direct carbon dioxide (CO_2)[f] (million tonnes (Mte))	60.2[k]	57.7	56.4	47.0[h]	**45.5**
Direct methane[f] (Mte)	0.22[k]	0.20	0.17	0.16[j]	**0.15**
Direct greenhouse gas (GHG)[g] (MteCO_2 equivalent (CO_2e))	64.9[k]	61.8	59.8	50.3[j]	**48.6**
Indirect carbon dioxide (CO_2)[fi] (Mte)	10.0[k]	9.0	8.4	6.6	**6.6**
Customer emissions[m] (MteCO_2)	573	539	517	422	**406**
Flaring (Upstream) (thousand tonnes (kte) of hydrocarbons)	1,671[k]	1,835	1,548	2,028	**2,167**
Environmental expenditure ($ million)	18,400	8,521	7,230	4,288	**4,024**
Environmental and safety fines ($ million)	52.5	77.4	22.4	2.5	**1**

Figure 13.3 Extract from BP's sustainability report, 2014
Source: BP, Sustainability Report 2014.

probably expect a supermarket chain to report on the environmental impact of its stores, but should it also report on the impact of its distributors if these are legally independent firms, the impact of suppliers who manufacture the products it sells, or the impact of its customers when driving to the stores? To aid standardization of reporting, the Global Reporting Initiative (GRI) has developed a comprehensive Sustainability Reporting Framework that allows companies to report on their economic, environmental and social performance through a common format. The GRI framework stipulates generic principles for both the process of compiling a sustainability report and its actual content. With regard to the latter, the GRI proposed 79 performance indicators which cover six sustainability-related dimensions: (1) the economic dimension; (2) the environment; (3) labour practices; (4) human rights; (5) society; and (6) product responsibility. Of these, 49 indicators are defined as core indicators, which should be addressed by any company, and the other 30 indicators are defined as additional ones, that is, they can be addressed depending on the nature of the company's operations and the information needs of its stakeholders.

Research by accounting firm KPMG found that, by 2013, 93 per cent of the world's largest 250 companies were engaging in social and environmental reporting, with particular growth in reporting among companies from South and East Asia and Latin America. Thus, social and environmental reporting 'is now undeniably a mainstream business practice worldwide' (KPMG 2013: 11). However, this growth in output has been accompanied by challenging questions, such as whether the often upbeat tone in many corporate reports, together with selectivity in terms of the issues that are addressed, is really sufficient to bring about a solution to the sustainability challenges humanity faces or whether more radical alternatives are needed. Hence, NGOs like Friends of the Earth argue that accountability needs to go beyond the provision of information to encompass legally binding corporate commitments to maintaining environmental and social standards (Friends of the Earth 2005).

A third important group of CSR tools are CSR standards. In general terms, a standard involves a standard-setting organization defining the characteristics of a product (or service). Products that meet the requirements of the standard can be marked with a logo so that customers can make appropriate buying choices. For example, standard ISO 216 by the International Organisation for Standardisation (ISO) stipulates the paper sizes of the A series, that is, A1, A2, A3, A4, A5, etc., which are used in most countries globally except for North America. With the standard in operation, manufacturers of complementary products, from envelopes for letters to mail-sorting machines, know exactly what size of product they need to work to. The same logic can also be applied to CSR. For example, the Forest Stewardship Council (FSC), an international NGO dedicated to promoting responsible management of the world's forests, developed a certification scheme for sustainable forestry. The NGO developed criteria for the sustainable management of forests. Now forest owners can have their forests inspected by independent certifiers and receive certification to document that they meet the FSC criteria. Furthermore, the FSC system includes a certified chain of custody that tracks the timber through every stage in the supply chain. When consumers see the FSC logo (see Figure 13.4), they are reassured that the item they are about to buy has indeed come from a sustainably managed forest.

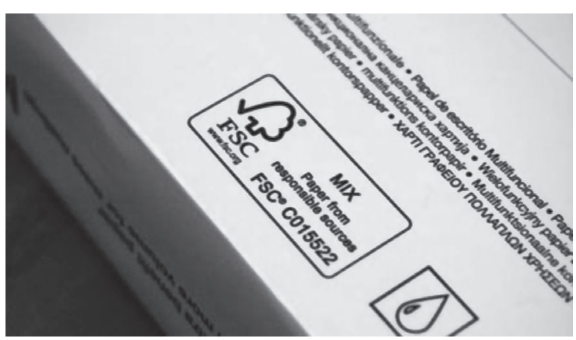


Figure 13.4 FSC logo
Source: FSC.

This logic has been applied to many other aspects of CSR. For example, the ISO designed a series of standards for environmental management, the ISO 14001 environmental management standard and related ones, as well as the ISO 26000 guidelines for social responsibility. To qualify for certification to ISO 14001, a company needs to take five steps:

1. Draw up an environmental policy.
2. Devise objectives, targets and an implementation plan for these.
3. Put in place necessary elements for successful operation of the plan, for example, assign roles, provide training.
4. Check that aims have been met, otherwise plan corrective action.
5. Engage in periodic auditing and review of the standard's operation.

Again there is a third-party certification process during which the company is visited by an independent certifier. Once approved, it can use the ISO 14001 logo on its product, letter heading and website. Other important CSR standards are:

- the SA 8000 human rights standard, developed by Social Accountability International;
- the AA1000 Assurance Standard and AA1000 Stakeholder Engagement Standard, developed by AccountAbility.

CSR standards have a number of advantages. They send a clear signal to consumers, NGOs and regulators that the certified company takes its social and environmental responsibilities seriously. They are hence part of a self-regulatory approach to CSR that aims to address social and environmental externalities through the activities of businesses themselves. However, CSR standards also suffer from a number of disadvantages. For a start, there can be competition between different standard setters. For example, parallel to ISO's environmental management standard ISO 14001, the European Commission developed its Eco-Management and Auditing Scheme (EMAS). EMAS requires certified companies to provide publicly available information on their environmental performance, whereas ISO 14001 does not come with such a requirement. There may also be conflicts of interest when the standard setters also have subsidiary firms that engage in certification. Most importantly, standards may suffer from under-enforcement and inadequate sanctions.

In a wider sense, organizations other than companies and business associations have also been involved in managing CSR. A number of NGOs have come into being whose main role is to monitor corporate commitment to social and environmental targets. A well-known example is Corporate Watch. Some NGOs also proposed their own CSR tools. For instance, Amnesty International drew up Human Rights Guidelines for Companies.

Another key actor is the trade union movement. Unions have been pushing for companies to sign International Framework Agreements (also called Global Framework Agreements) between MNEs and international union federations. Such agreements contain binding clauses on adherence to international labour standards across all the plants of a company. Early examples of such agreements were concluded between French food manufacturer Danone and the International Union of Food Workers in the early 1990s. In European MNEs, unions also have opportunities to influence the company's CSR strategy and outcomes through its members in the European Works Councils.

Likewise, a number of intergovernmental organizations have offered their own CSR tools. A particularly detailed code are the Guidelines for Multinational Enterprises by the Organisation for Economic Cooperation and Development (OECD), which were first adopted in 1976. The International Labour Organisation (ILO), a specialized agency of the United Nations, has drawn up conventions regarding basic principles and rights at work. Being legally binding international treaties, these are first and foremost directed at the member governments of the ILO but from these trickle through into corporate self-regulation. Last but not least, the United Nations launched its Global Compact in 2000, a list of ten principles in the areas of human rights, labour conditions, environment and anti-corruption. The Compact was deliberately kept very general so that any company in any country or industry could subscribe to it. The involvement of NGOs, unions and governments has had an important impact on the CSR debate as a whole. It led to a qualitative shift from CSR being about unilateral and voluntary commitments by companies to it becoming a more negotiated and binding concept that is shaped by a multitude of societal actors, not just from the private sector.

Corporate social responsibility and human resource management

The final section of this chapter will investigate the relationship between CSR and HRM, both in terms of what the implications of the rise of CSR are for HRM as a corporate practice and how HR managers can support companies in becoming more socially responsible. Given that companies cannot operate without employing people, it is not surprising that employment-related issues have been at the heart of CSR for a long time. Public disquiet over the exploitation of children, for example, led to a long series of Factory Acts in the United Kingdom throughout the nineteenth century. While the Cotton Mills and Factories Act 1819 stipulated a minimum age of 9, over the course of the century it was eventually raised to 12, with the Factory and Workshop Act 1901.

Today, the range of CSR issues that have an impact on HRM is greater than ever. Greenwood (2002) and Ehnert (2009) see the following challenges in more socially responsible HRM:

- fair reward systems based on the concepts of equity, distributive justice, autonomy and respect;
- health and safety in the workplace in order to avoid accidents and maintain employee health;
- investment in developing workforce skills, in particular in critical competencies and lifelong learning;
- support for work-life balance, work-family balance and an ageing workforce;
- due process in the treatment of employees, following the principles of respect, transparency, honesty and long-term nature of changes; and
- respect for employee privacy, and, as a consequence, freedom and autonomy as organizational values.

HRM practices that fail to take account of the social and environmental challenges the company faces can actually end up undermining economic success rather than supporting it. At an individual level, employees may suffer from stress, an imbalance between work and family responsibilities and, if these issues remain unaddressed, they become unable to contribute fully to the company's success or they leave the company altogether. At the level of the entire workforce, trust in employee relations can deteriorate if certain HR practices, such as 'downsizing' in times of declining sales, are handled aggressively. HRM may also have direct implications for the wider social and environmental context. If performance measurement systems for key categories of employees, say for supply chain management, do not include environmental and social issues, then these will remain unaddressed. As a flip-side, attention to CSR can actually support HRM in the achievement of its aims. Since companies compete with each other for highly qualified and motivated employees in a 'war for talent', addressing CSR as a form of employer branding can improve the attractiveness of a company, in particular for increasingly environmentally aware generations.

How can HRM as a corporate function support companies in becoming more socially responsible? Renwick, Redman and Maguire (2013) suggest several avenues HRM can pursue in this respect. As a first and very direct approach, the HRM function should hire employees who are willing to engage with CSR through concrete activities. Where appropriate, this may require the inclusion of CSR criteria in job specifications. HRM should also engage in employee training to develop the environmental and social abilities of the firm's staff. Such training is likely to increase employee awareness of the social and environmental impact of their organization's activities and will also equip staff with the skills needed to address these. As a result, the firm will acquire greater environmental and social expertise, which may even lead to novel commercial opportunities. For example, logistics firm DHL invested in employee skills to address the carbon footprint of its deliveries through reducing, replacing or neutralizing carbon emissions. Over time this led to the development of DHL Neutral Services as a consultancy arm of the firm.

Second, HRM can contribute to motivating employees to engage with the CSR challenges their company faces. This could be achieved through making social and environmental issues part of the company's appraisal and performance management system. Such a system measures environmental and social performance across different departments (see, for instance, the metrics BP uses in its Sustainability Report) and then aligns reward systems with socially responsible performance. This is not only rewarding for those employees who would like to address social and environmental challenges but struggle to do so where these are not included in their performance measurement criteria, it also sends a signal to others that CSR is now part of the company's strategic goals and that it explicitly supports such actions.

Third, HRM can provide opportunities for employee involvement in socially responsible actions, rather than restricting involvement to CSR managers and specialists. As employees are often a source of pressure for organizations to address environmental and social issues, companies can tap into this potential. HRM can, for example, set up suggestion schemes or green teams that look into specific CSR issues. Over time, such initiatives may even lead to the development of a workplace culture that supports social and environmental initiatives. These could again have significant economic advantages for the company. For example, the Carbon Trust estimates that UK businesses and the public sector could save £300 million and six million tonnes of CO_2 a year through encouraging employees to adopt behaviours that reduce energy use, travel and waste.

However, if HRM is to make a contribution to CSR, this requires changes to the way the HRM function works (Ehnert *et al.* 2014). To start with, HRM professionals themselves may need to develop a greater awareness that CSR is of importance to their work. All too often, HRM managers see a degree of disconnect between their own priorities and CSR, in particular the externally focusing parts of it. HRM managers also need to be aware that some effects of the HR strategies and practices they promote may actually undermine rather than support CSR. Performance measurement criteria are a good example. Last but not least, certain HRM practices have built-in externalities, whether these are acknowledged or not, in particular decisions on organizational 'downsizing'. HRM may thus be able to manage organizational talent in a more holistic way, in a way that takes account of the social and environmental implications of the function's activities, but this requires HR managers to reflect on the implications of their practices and strategies on the wider socio-economic system in which their company is embedded.

Conclusion

Corporate social responsibility may be somewhat difficult to explain as there is no commonly accepted definition of the term, yet attention to the needs of wider stakeholders than just shareholders is increasingly expected of business. Such pressure is amplified by scandals within individual companies or their supply chains, such as employee suicides at Apple's Chinese supplier Foxconn, or systemic crises of capitalism, like the global financial crisis of 2008. Companies engage with demands for CSR for a variety of reasons. At times, there are opportunities to make money out of addressing social and environmental issues – the business case for CSR. In other cases, companies respond to societal pressure, well aware that their 'licence to operate' in society may otherwise be withdrawn. In addition, there are ethical pressures, a human desire to do 'the right thing'. Today companies have a wide spectrum of CSR tools at their disposal, ranging from codes of conduct through social and environmental reporting to CSR standards. Furthermore, a veritable support industry of consultants, industry associations, NGOs and governmental bodies has grown up around CSR.

The rise of CSR tallies with many wider themes in this book. Just as economic globalization has at the same time spurred an increased awareness of differences in national culture, CSR has become a global phenomenon while national differences in socially responsible behaviour have been cast in strong relief too. As globalization is driven in particular by the 'state-less' MNE, CSR shows clearly that MNEs are a particular category of social actor, not just in economic terms but increasingly also in political terms. Last but not least, the intensification of relationships between social actors in different parts of the globe is clearly visible in CSR too. After assessing its stakeholders in terms of power, legitimacy and urgency, a company may well find that its most salient stakeholders, whether suppliers, providers of finance or campaigning NGOs, reside far away on different continents, yet still have the ability to influence its operations.

Last but not least, CSR, and neighbouring concepts like sustainability, have the potential to serve as new paradigm for HRM (Ehnert *et al.* 2014). Whereas strategic HRM often treats human resources as something to be exploited and consumed, CSR and sustainability stress the need to rethink the way companies manage and use their resources, including their human resources. Companies need to consider not just resource consumption – but also resource regeneration. The role of HRM in developing responsible and sustainable business organisations then centres on the function's ability not only to produce but also to regenerate resources and to ensure that resource holders are willing and able to supply their resources over and over again.

Review questions

1. Compare the engagement with CSR of the three companies mentioned in the Introduction: Marks and Spencer, United Kingdom; Mongolian Mining Corporation, Mongolia; Asco Motors, Tonga. What similarities and differences do you see? You could compare the three companies in terms of the range of CSR issues they address, the detail of information they present on their websites or the range of CSR tools they apply.
2. The European Commission defines CSR as 'the responsibility of enterprises for their impacts on society', which requires companies to 'have in place a process to integrate social, environmental, ethical, human rights and consumer concerns into their business operations and core strategy in close collaboration with their stakeholders'. What advantages and disadvantages do you see in this definition?
3. What motives are there for companies to engage in CSR? Examining CSR statements from large firms from different countries you are familiar with, what differences do you notice between countries? What might explain these differences?
4. How can the HRM function make a contribution to a more socially responsible company?

Further reading

1 Carroll, A. B. (1999) 'Corporate social responsibility: evolution of a definitional construct', *Business & Society*, 38, 268–95.

A thorough, if somewhat US-centric history of the evolution of CSR since the 1950s, which also includes related concepts, such as corporate citizenship.

2 Crane, A., McWilliams, A., Matten, D., Moon, J. and Siegel, D.S. (2008) (eds) *Oxford Handbook of Corporate Social Responsibility*, Oxford: Oxford University Press.

A valuable collection of articles that summarize key aspects of the CSR debate.

3 Ehnert, I., Wes, H. and Zink, K.J. (2014) *Sustainability and Human Resource Management: Developing Sustainable Business Organizations.* Heidelberg: Springer.

One of the first books to examine the role of human resource management in the quest for more sustainable companies.

4 Leipziger, D. (2015) *The Corporate Responsibility Code Book* (3rd edition). Sheffield: Greenleaf Publishing.

A comprehensive overview of contemporary CSR tools, ranging from company initiatives through industry-level ones to tools developed by major intergovernmental organizations.

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Chapter 14

International migration and HRM

Stephen Bach

Key aims

The aims of this chapter are to:

- examine trends in international migration and the links to the analysis of globalization;
- familiarize readers with the main debates about the causes of migration;
- explore the main winners and losers of international migration;
- assess the human resource management challenges that arise from employing a more diverse workforce.

Introduction

In the human resource management (HRM) literature, most analysis of globalization has concentrated on the movement of capital and the pivotal role of multinationals in diffusing innovative HRM practices. It is only in recent years that the mobility of labour has received more attention as employers in most countries are making increased use of migrant labour to fill highly skilled and low-skill jobs. Governments have also become more proactive in targeting migrant workers to enhance competitiveness and to address labour shortages. Policy-makers in source countries have also altered their orientation to labour migration. In the 1980s and 1990s, there was much concern about a brain drain of professional workers, but this has been replaced with a perspective that views workers as an important source of remittances and foreign exchange. Countries such as China, India and the Philippines are actively promoting employment opportunities abroad (Ness 2014).

In Europe, ageing populations and increased membership of the European Union (EU), with expansion into Central and Eastern Europe, have encouraged increased intra-country mobility. EU citizens have the right to move and reside freely in other member states and the strongest factor in moving from one EU country to another is for work reasons. EU enlargements in 2004 and 2008 encouraged flows of Polish and Baltic citizens to move to the United Kingdom and Ireland, and Romanian and Bulgarian citizens flows to Spain and Italy (Ernst and Young 2014). The global economic crisis had a marked, but temporary, impact on migration flows.

Migration, of course, is not a new phenomenon. There have been previous waves, as people have sought to escape religious persecution and famine. It was migrants from Ireland who constructed the railways in Britain and those from China who made a major contribution in building the railroad in the United States. Influential commentators suggest that the current 'age of migration' differs from the past because its magnitude suggests that nation-states have difficulties in regulating labour movement with considerable political, economic and social consequences for governments (Castles *et al.* 2014: 5–6). The scale of current migration is underpinned by structural inequalities in wealth between the Global North and the Global South, reinforced by the falling cost of transportation and communication technologies.

Governments and employers and a variety of other actors, such as recruitment agencies, are not passive onlookers but are seeking to *manage* migration. The state is crucial to regulating and facilitating labour migration, shaping and reshaping immigration rules to assist in enhancing national competitiveness and to plug skills gaps. For employers, migrants play a vital role in addressing labour shortages, especially in sectors such as construction, agriculture, hospitality, IT and health care. Indeed, employers often express a preference for migrant workers because of their strong work ethic and readiness to be flexible; often a euphemism for a willingness to accept low wages and comply with poor working conditions (Anderson and Ruhs 2010).

In the receiving countries, however, the native-born population is often wary of immigration. They are concerned that labour market competition will increase and that migrants may be prepared to work for lower wages, placing downward pressure on pay and benefits. These concerns are invariably heightened in periods of sluggish economic growth and rising unemployment, creating policy dilemmas in which the economic demand for labour and employer lobbying point to an open approach to immigration, but there is political pressure from citizens to limit it. Political pressure that leads to restrictions on immigration, especially for the lower skilled, has unintended consequences, often encouraging more irregular immigration. It is often these unauthorized migrants who are most vulnerable to employer exploitation because of the risk that if they complain, they may be reported to the immigration authorities. In addition, although governments frequently adjust immigration rules to meet their objectives, it is employers who actually hire migrants, and so a gap may open up between the intentions of policy-makers and the actual labour market experience of migrants (Lusis and Bauder 2011).

Trade unions also have to reconcile these political and economic tensions. They need to be sensitive to their existing members, who may be suspicious of new arrivals, but may seek to recruit and organize migrants to limit exploitation, maintain wage levels for their existing members and draw in new trade union members. Increasing mobility within the EU has given rise to concerns about the rights of workers who are required by their employer to work temporarily in another EU member state. The EU 1996 Posted Workers Directive provides posted workers with minimum core rights to ensure they are paid the minimum wage rates of the host country and covered by other provisions such as health and safety regulations. European Court of Justice decisions favourable to employers in the Laval and Viking cases, however, limit the protection of posted workers. Posted workers are not entitled to the prevailing terms and conditions in an industry, potentially undercutting wages and creating tensions with the existing workforce. The 2009 industrial dispute at the Lindsey oil refinery in England centred on the posting of foreign workers and the concern of the local workforce that posted workers were being used to undermine terms and conditions of employment (McKay 2012).

International migration: dimensions and trends

The term migrant is widely used but has different meanings and can be measured in different ways. In some countries such as the United States, Canada and Australia data on immigrants is based mainly on the criteria of a person being *foreign-born,* while in the EU more emphasis is placed on the person being a *foreign-national.* These criteria generate different data and many countries now provide figures for *both* foreign-born and foreign-nationals. There is an important difference between *flows* and *stocks.* Flow figures provide data on current trends in inflows and outflows with the balance known as *net migration,* while the stock of migrants in a country at a specific point of time indicates the longer-term impact of migrants within a specific population. Policy-makers and employers are also interested in understanding motives for mobility as this has consequences for the length of stay. In some cases migrants are seeking permanent settlement while for others only a temporary stay is envisaged, for example, the majority of students studying abroad. A relatively small proportion of migrants are escaping political or religious persecution, while larger numbers move to be reunited with family members and many move to work.

A further complication is that many migrants are undocumented, moving across borders without the authorization of the country they are entering. Unauthorized migration has risen sharply in recent decades (Castles *et al.* 2014). The best-known case is of that of the USA which has proved a magnet for workers from Mexico and other Latin American countries with large segments of the US economy reliant on the 10.8 million irregular migrants (Hoefer *et al.* 2011). Policy-makers use immigration policy to signal if migrants are viewed as a temporary or more long-term feature of the labour market. Governments often conceive of migrants as a temporary labour source who will return home after the end of their contract or if labour market conditions change, but the experience of guest workers in Germany recruited from the mid-1950s demonstrates that such expectations are often confounded as migrant communities develop and become embedded in the host society (Castles *et al.* 2014).

The United Nations (UN) defines a migrant as an individual who has lived outside of the country of their birth for more than one year and in 2013 there were 232 million migrants worldwide (UN 2015). Between 1990 and 2013 the number of migrants worldwide rose by 50 per cent to comprise 3.2 per cent of the world population (Figure 14.1). An estimated 105 million persons are working outside of their country of birth (International Organization of Migration 2014).

Global figures disguise the degree of concentration in a relatively small number of countries with 51 per cent of all international migrants located in only 10 countries. The largest number, one in five, reside in the USA (45.8 million), followed by the Russian Federation (11 million), Germany (9.8 million), Saudi Arabia (9 million), the United Arab Emirates and the United Kingdom (7.8 million each) (see Table 14.1).

A critical challenge facing advanced capitalist countries is their rapidly ageing workforce and the sharp decline in the proportion of the population that is of working age. These trends are encouraging workers from the Global South, with younger population structures, to move in search of better lives to the Global North. North America has witnessed the most rapid increase in migrant stock, adding 25 million migrants in 1990–2013. It is forecast that between 2015 and 2050, the USA, Canada, the UK,

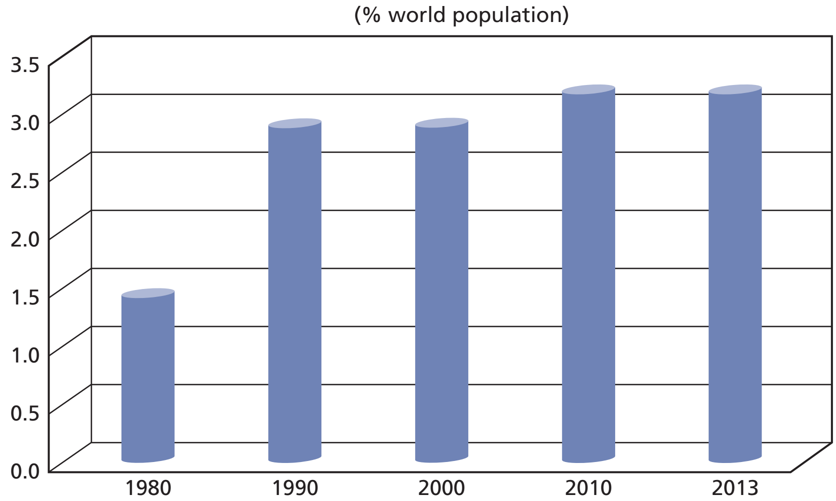

Figure 14.1 Stock of international migrants
Source: United Nations (2015).

Australia, Germany, the Russian Federation and Italy will receive more than 100,000 migrants annually, while net emigration in excess of 100,000 will prevail in India, Bangladesh, China, Pakistan and Mexico (UN 2015). In terms of flows, the USA is also the dominant receiving country, with net emigration concentrated among countries of the South. Nonetheless, increasing prosperity alongside uneven development has resulted in Asia adding more international migrants than any other major region, indicating the increasing importance of South-South migration (UN 2013, 2015).

The UK has become a more prominent destination for migrants in recent decades and debate about migration has been dominated by the impact of the accession of eight former communist countries (termed A8 countries) into EU membership in May 2004

Table 14.1 Countries hosting the largest number of international migrants in 2013 in millions

USA	***45.8***
Russian Federation	11.04
Germany	9.85
Saudi Arabia	9.06
UAE	7.83
UK	7.82
France	7.44
Canada	7.30
Australia	6.50
Spain	6.47

Source: UN (2013, 2015).

and Bulgaria and Romania (A2 countries) from 2007. Since then, the UK has experienced net migration from the EU of between 60,000 and 120,000 per annum, particularly from Poland. Immigration stabilized in 2010 before declining as a consequence of the economic crisis, but this has proved a temporary effect, in part because of strong inflows from countries affected by the Eurozone crisis, such as Ireland (Institute of Public Policy Research 2014). In 2014, half of all EU nationals coming to the UK were nationals of accession countries (Vargas-Silva 2015). Overall, between 1993 and 2014, the share of migrants in total employment (which includes, full-time, part-time and the self-employed) increased markedly from 7.2 per cent in 1993 to 16.7 per cent in 2014 (Rienzo 2015). Inclusion of earlier periods of immigration to the UK from the Indian sub-continent accounts for India, Poland and Pakistan being the top three countries of birth for the foreign-born. India and Poland remain the top two countries of citizenship of foreign citizens in the UK, with Poles being the biggest group, accounting for about 13 per cent of the total (Table 14.2).

It is not only the scale of recent migration that is important but labour market segmentation results in migrants being concentrated in particular sectors, occupations and localities. Employers often prefer to hire workers who resemble the existing workforce as training and integration are more straightforward, reinforcing labour market segmentation (Waldinger and Lichter 2003). Migrants are often found in jobs that local workers shun because they are dirty, demeaning, dangerous or of a seasonal character which accounts for a high proportion working in agriculture, care homes, hospitality and construction**.** The proportion of low-skilled migrants in countries such as Italy and the UK has been increasing, reflecting employer concerns to fill low-skill roles (Longhi 2014). Migrants, however, are by no means confined to the bottom of the labour market, but are also well-represented in higher skilled roles in sectors such as finance, health care and higher education.

Table 14.2 Top 10 sender countries of migrants by country of birth and nationality, UK 2013

Country of birth	*% share*	*Nationality*	*% share*
India	9.4	Poland	13
Poland	8.7	India	7.1
Pakistan	6.4	Ireland	6.5
Ireland	5.1	Pakistan	3.8
Germany	4	Romania	3
South Africa	2.6	Italy	2.8
United States	2.5	Lithuania	2.8
Nigeria	2.4	United States	2.7
Bangladesh	2.3	Germany	2.4
Sri lanka	2.1	France	2.2

Source: http://www.migrationobservatory.ox.ac.uk.

Two other features of contemporary migration experience are notable. First, women account for almost half of all migrants. In 2013, the percentage of women among all migrants was highest in Europe, Latin America and the Caribbean (52 per cent each) (UN 2013). In Asia, the majority of women migrate alone to work in neighbouring countries and the Middle East mainly as domestic workers, leaving women vulnerable to physical and sexual abuse in the isolation of the employer's home. The migration of women reinforces what Hochschild (2000: 131) has termed global care chains: 'a series of personal links between people across the globe based on the paid or unpaid work of caring'. Leaving one's family to provide care for an employer's child or elderly relative, in return for earnings to improve the quality of life of their own children, places a huge psychological strain on these families (Parrenas 2005). Migrant women, however, were less at risk of job loss during the global economic crisis than migrant men who tend to be employed in sectors like construction and manufacturing that were more immediately impacted by the economic downturn (Castles *et al.* 2014).

Second, policy-makers are increasingly concerned with skilled migration and focusing on attracting talent to enhance economic competitiveness. The OECD (2007), has noted intensifying competition between countries for knowledge workers where shortages are projected to worsen over the next 20 years. In 2007, the European Commission President proposed an EU blue card scheme to signal that 'highly skilled migrants are welcome in the EU' (Barroso 2007). This was developed into an EU-wide immigration pact during 2008. Finally, it is important to recognize the increased significance of student mobility, which represents a potential source of highly skilled migrants. Between 2000 and 2011 the number of international students more than doubled, with 4.3 million students enrolled in tertiary education outside of their country of citizenship. International students primarily go to English-speaking countries with the United States, the United Kingdom and Australia hosting more than a third of all foreign tertiary students worldwide (OECD 2013).

These trends indicate that migration, while certainly not novel, is becoming a more prominent feature of the global economy. Nonetheless labour remains far less mobile than capital and there is considerable variation between countries in receptiveness to migrants, indicating that key actors such as the state and employers have an important role in shaping patterns of labour mobility.

What shapes migration?

Migration has been analysed from a variety of disciplinary perspectives with limited consensus about its causes and consequences (Massey *et al.* 1998), but without a clear understanding of why migration occurs, government and other stakeholder attempts to shape migration are likely to fall short of achieving policy objectives. As concerns about global competitiveness have become more prominent, destination countries have emphasized the economic rationale of migration and targeted migrant labour as an integral component of the labour force. Governments in destination countries have an interest in putting downward pressure on unit labour costs and bolstering the supply of scarce skills to enhance competitiveness while source countries are also increasingly proactive in facilitating labour migration to enhance economic development.

The current preoccupation with migration as a defining feature of globalization has its origins in the historical-structural tradition within migration studies. This approach suggests that migration arises from the insertion of countries into an international division of labour in which cheap labour from source countries is mobilized to advance the interests of employers in industrialized destination countries. Sassen (2001), in her influential global cities hypothesis, emphasizes the importance of global cities, such as London, New York and Tokyo in which great wealth is concentrated, creating strong demand for an array of low-paid service workers such as cleaners and nannies which encourages a dramatic increase in migration, often reinforced by state policy encouraging immigration (May *et al.* 2007).

Related developments are addressed by Richard Freeman (2005) in what he terms the 'great doubling'. This refers to the entry of India and China into the global labour market, doubling the global supply of labour from approximately 1.46 billion to 2.92 billion, putting downward pressure on wages and conditions in the North. This phenomenon raises issues about the relationship between globalization and migration because only a small proportion of this increased global labour supply is converted into increased international migration. In some cases, such as in China, globalization has encouraged rural migrants to move to urban areas to work in factories supplying textiles and electronic goods to a global market. In other cases, improved technology and communications have increased offshoring with hospitals in the United States and the United Kingdom increasingly offshoring diagnostic radiology (Yu and Levy 2010).

In contrast to the emphasis on structural factors, many migration specialists focus on the individual *agency* of the potential migrant to explain migration; in other words, the emphasis is on the choices that individuals make. Neo-classical economic analysis suggests that migration flows stem from the existence of geographical wage differentials which are governed by the laws of supply and demand. Individuals undertake cost-benefit analysis, comparing the relative costs and benefits of remaining in their current country compared to the anticipated wage returns in moving to a new country. The decision to migrate is therefore an investment, intended to boost the individual's human capital in a similar fashion to investing in further education. This theory's underlying approach is often abbreviated to focus on the push and pull factors that influence an individual's decision to migrate. Push factors encourage people to leave their country of origin and pull factors attract individuals to particular countries. With its intuitive appeal that migration can be explained by the location and intensity of push-pull factors, especially disparities in wage levels between source and destination countries, push-pull models underpinned by neo-classical assumptions about individual behaviour have exerted a powerful influence over policy-making concerned with migration.

Sociologists and more institutionally orientated labour economists have always had doubts about the neo-classical approach. Although not ignoring the relevance of wage differentials in influencing migrant behaviour, the empirical evidence does not correspond closely to the predictions of neo-classical theory (McGovern 2007). Only 3 per cent of the world population are migrants, but if wage differentials were the main influence on behaviour, this proportion would be much higher because of the vast differences in wage differentials between countries. The limitations of neo-classical approaches point to the importance of embeddedness. Individuals are embedded in their country of birth by ties of family, culture and language and therefore may be reluctant to emigrate. Migration is a costly and difficult process that requires considerable personal drive and financial resources. This helps explain Portes and Rumbaut's (1990) observation that major labour flows often arise from countries at intermediate levels of development rather than from the poorest to the richest countries (as neo-classical theory implies) and it is rarely the poorest in a society who migrate.

A further limitation of the neo-classical approach is that by focusing solely on the aspirations of the individual migrant, a range of other actors and constraints that influence migrant behaviour are ignored. In the terms of this book, individuals do indeed make choices, but these are heavily constrained by the context in which they operate. In particular, restrictive admissions policies reflect the extent to which the state actively selects potential migrants on the basis of specific traits, such as skill levels and discourages other potential migrants. These policies have a substantial influence on the type and volume of migration flows, especially among highly regulated occupations such as doctors or nurses (Bach 2007). Consequently the wage gap has some influence on behaviour, but 'the existence of a wage differential still does not guarantee international movement, nor does its absence preclude it' (Massey *et al.* 1998).

Instead of focusing exclusively on the individual, much migration research highlights the extent to which migration represents a household or community strategy to maximize income, with different roles allocated to household members. As Ball (2004) notes in her study of nurses from the Philippines, women are often encouraged to become nurses to gain employment abroad, spreading risk and bolstering household income. Migration specialists also recognize that migration is facilitated by networks. The network is often characterized loosely as a web of relationships and acquaintances, not confined to immediate kin, which link potential migrants in source countries with existing migrants in destination countries. These networks provide potential migrants with information about employment opportunities, housing and visa requirements, although they are not always benign, as new arrivals are vulnerable to exploitation. The network is therefore conceived as an important mechanism for reducing the risks of migration and, over time, as networks become embedded in destination countries, it enables community formation. Migration becomes self-sustaining as the network continues to replenish its labour supply, irrespective of the conditions that initiated migration (Massey *et al.* 1998). Employers often make use of these informal networks to recruit labour.

These perspectives provide a more sophisticated understanding of labour migration, however, they still only focus on labour supply, neglecting the central role of employers in creating demand for migrant labour and pushing governments to liberalize immigration policy. In contrast to these supply-side accounts, Piore (1979) in an influential study suggested that migration stems from the structural demand for migrant labour within advanced industrial economies and it is only when employer demand stimulates migration that such flows occur. Piore argued that the use of migrant labour has specific advantages for employers that arise primarily from the attributes of jobs that migrants fill, rather than solely the wages that they are paid.

First, migrants often fill jobs that are unappealing. These jobs are not always low-paid but they usually denote low status and unpleasant working conditions with few opportunities for advancement. These jobs are frequently spurned by native-born workers because of their low status and the stigma attached to undertaking particular jobs, as in the case of care work (Cangiano *et al.* 2009). Changing gender roles has also resulted in traditional roles such as child care, elder care and meal preparation being commercialized as women have entered the labour market, creating new demand for low-skilled employment filled by migrant women. Even in higher status professions like medicine, there are certain unpopular specialties or particular grades that lie outside the main career structure that are hard to fill (Young 2011). Consequently some jobs that are unattractive to native-born workers are taken up by migrants, who are less influenced by social status and more concerned with economic security, an orientation reinforced by the labour market segments that are available to them.

Second, employers respond to labour shortages by using migrant labour. Employers are very reluctant to raise wages to alleviate shortages because of the impact on the wage structure with higher-paid workers seeking to restore wage differentials. Since Piore's work was published in the 1970s, employers have become more preoccupied with global competitiveness and actively use migrants to put downward pressure on wages in a wide variety of jobs, exacerbating the reluctance of native workers to enter these jobs. This situation is facilitated by the declining power of labour, confronted with challenges such as the threat of outsourcing and offshoring, reinforced by migrant wage expectations that are initially framed by the labour market in their country of origin. Piore (1979) emphasizes the segmented nature of labour markets with good jobs located within the primary labour market and bad jobs with worse terms and conditions located in the secondary labour market; migrants are concentrated in this secondary labour market.

Finally, employers also have a significant influence on immigration policy because they have a strong common interest in maintaining an open immigration regime and expend resources to lobby for such policies. By contrast, opponents of immigration policy have diverse interests and may be influenced by immigration in diffuse and intangible ways, limiting effective opposition.

As well as employers, the nation-state has a key influence on migration, with governments establishing the rules that can facilitate or inhibit migration flows. Of the source countries, Turkey, the Philippines, India, Pakistan, Bangladesh, Mexico, El Salvador, Nicaragua and Caribbean countries among others have endorsed migration as a way to enhance remittance flows, reduce unemployment and stimulate development by reverse migration and investment. The Philippines is the best-known case with the state indirectly encouraging overseas employment by acclaiming the contribution of migrants, and directly encouraging mobility via institutional support. The Philippines Overseas Employment Administration (POEA) provides contract labour directly to foreign employers, maritime agencies, and governments and has a regulatory role, for example, arranging mandatory pre-orientation training. This policy generates around $26 billion dollars a year in remittances (World Bank 2013) but is not without its critics because of concerns about the impact on the economic and social fabric of society (Parrenas 2005).

Most attention is directed at state policies in destination countries and the way in which migration regimes are shaped and re-shaped to accommodate shifting state priorities. In the UK, during the 1990s and 2000s, strong economic growth and the expansion of public services encouraged the government to ease immigration policy and issue more work permits. In 2006, prior to the financial crisis, immigration peaked at 596,000 people (398,000 emigrated) resulting in net migration of 198,000 (Salt 2013). In 2008, the government introduced a five-tier system of migration controls, intended to target skilled migrants who were essential to the UK's position in the world economy while preventing the entry of low-skilled labour from outside the EU. Tier 1 is devoted to 'high-value' migrants and Tier 2 is the main immigration category for skilled workers sponsored by a specific UK employer. As the economic crisis hit, accompanied by increased unemployment and a reduction in employer discourses of labour shortages, successive governments have tightened immigration rules and reduced the scope for employers to use non-EEA nationals.

What are the implications of these different approaches to understanding migration flows? First, the role of wage differentials as the dominant driver of migration flows is too crude a basis to provide a nuanced understanding of why migration occurs because it downplays institutional influences and the way in which people are embedded in particular contexts. Second, global economic integration is very important, expanding the global labour supply that may encourage international migration but at the same time opening up more domestic work opportunities as outsourcing and offshoring expand. Explanations that only consider the structural features of the global economy to explain migration without incorporating the agency of nation-states, employers and newer actors, such as recruitment agencies, provide only a partial explanation of migration dynamics. Institutions matter as much in the realm of migration as in other aspects of international HRM. Third, nation-states, employers and migrants themselves have become much more proactive in managing migration flows. Increased global inequality has raised awareness of opportunities available in other countries and also enlarged the number of jobs in areas such as elder care that are increasingly filled by migrant workers, while intermediaries such as recruitment agencies and people traffickers have facilitated the increased mobility of labour.

The impact of migration

A great deal of debate about migration concentrates on its effects on the economy. Most economists support the free movement of labour in the same way as they support free trade because it enables workers to be allocated in the most efficient manner. The argument can be simply stated. When migrants move to industrialized countries with higher productivity, arising from higher levels of capital investment, these workers are more productive, generating higher levels of productivity than in their home country and boosting the GDP of the receiving country. These arguments were largely accepted prior to the crisis and an influential study concluded that immigration had helped to boost growth above its long-term trend and helped dampen down inflationary wage pressures by increasing the supply of labour relative to demand (Blanchflower *et al.* 2007). These benefits may be higher because of cluster or 'spillover' effects which are hard to measure. For example, the finance sector based in London has been able to attract a diverse workforce with knowledge and networks from around the world, which has been critical to the growth of the sector.

These type of spillover effects have been investigated in detail by Saxenian (2008) in her work on Silicon Valley. She identifies the contribution of US-educated, but foreign-born engineers as a crucial component of its success. By 2000, over half of the scientists and engineers working in Silicon Valley were foreign-born and those from China (Taiwan and the mainland) and India alone comprised more than a quarter of those employed. These staff not only made a direct contribution to Silicon Valley, but Saxenian extends the argument, demonstrating that transnational networks of US-educated Chinese engineers transferred the Silicon Valley model of venture capital back to Taiwan. In this way she argues that the expertise and capital of expatriate professionals stimulate investment and entrepreneurial activity in the home country and a potentially damaging form of brain drain is converted into a beneficial form of brain circulation. The other main benefit to source countries relates to the income that migrants remit to their families back home. The World Bank (2013) estimates that remittances to developing countries amounted to $414 billion dollars in 2013, a figure that contributes to alleviating poverty. The two largest recipient countries – India and China – each received between $60 and $70 billion dollars in remittances.

Wages and employment

These macroeconomic benefits tell us little about the consequences for individual workers with most debate concentrated on the effects on wages and employment. The impact of migration is very dependent on the skill levels of migrants and also differs between the short and long run. A common assumption is that immigration by increasing labour supply, and substituting for existing workers, assuming no change in labour demand, will have a negative effect on wage levels in the short run until supply and demand factors bring wages back into equilibrium. But even in this simplified version of the operation of the labour market, the relationship between immigration and wages is not straightforward because wages depend on the availability of capital as well as labour. Immigration may reduce wages by increasing labour supply but this in turn will increase the return to employers of investing in new productive facilities, boosting the demand and hence the wages of the workforce. The degree to which this capital adjustment effect is included in the analysis can have an important bearing on the conclusions drawn.

Most attention has therefore focused on the degree to which the skills of migrants are viewed as complementary or a substitute for those possessed by the resident population. If the skills of migrants are complementary to existing workers, productivity and subsequently wages can be expected to increase. By contrast, the closer migrant skills resemble those of the existing resident workforce, the more likely are negative wage effects resulting from labour market competition. Resident workers who have skills which most resemble those of recent migrants are most likely to lose out.

In the USA, Borjas (1994) argued that immigration has a negative effect on the wages of unskilled native-born workers. US studies are based on lightly regulated US labour markets with a low federal minimum wage and these studies are less applicable to more regulated labour market contexts in which governments, among others, intervene to shape job and wage structures. Immigration can be expected to have a smaller effect on wages in the UK labour market because of the regulatory effect of the national minimum wage (NMW) that in 2016–17 was set at £7.20 per hour for those over 25 and £6.70 for those age 21–24. The NMW has provided some protection for many low-paid workers from the potentially adverse effects of immigration by placing a legal floor on wages. The protection provided by the NMW, however, is only partial because of the evasion of the NMW. Some employers, while appearing to pay the NMW, make deductions for accommodation or transport and make false declarations about the number of hours worked or the number of employees, reducing wage levels below the NMW. A study of the employment practices in the ethnic restaurant and textile sectors reported that the informality of employment practices in the sector and limited enforcement ensured evasion of the minimum wage was relatively straightforward. (Ram *et al.* 2007).

Overall, UK studies have found very small effects on average wages as a result of immigration (Migration Advisory Committee 2012) but more significant effects along the wage distribution. Consequently, many studies not only consider average wages but focus on those considered to be most affected by immigration – low-waged resident workers. Dustmann *et al.* (2013) conclude that each 1 per cent increase in the share of migrants in the UK-born working-age population leads to a 0.6 per cent decline in the wage of the lowest-paid workers while increasing the wages of higher-paid workers. Many of the studies do not include the whole period of the great recession that could be expected to have negative consequences for low-waged workers. In summary, the evidence suggests that adverse wage effects are concentrated on resident workers, who are themselves often migrants because the skills of new migrants are closer substitutes for migrants already employed in the UK labour market.

A related issue is the impact of immigration on employment with concerns linked to the lump of labour fallacy, that is, the assumption that there is a fixed amount of employment in an economy and therefore if migrants gain employment, other workers must be displaced generating unemployment. The experience of the labour market does not bear out the assumption that there are only a certain number of jobs in the economy. Empirical evidence from many countries indicates that immigrants have had little effect on unemployment. The Migration Advisory Committee (MAC) (2012: 63–4) in its review of the impact of migrants on UK-born people differentiated between the period 1975–94 and 1994–2010. In the latter period, it reported that there was an association between an increase in working-age non-EU-born migrants and a reduction in native employment but there was no association with inflows of working-age EU migrants. The MAC were very tentative in drawing conclusions, indicating that labour market effects of immigration are limited and also that many methodological challenges remain in interpreting the data.

HR implications

A great deal of the analysis of international migration has focused on the economic effects, but what have been the consequences for employers and workers of the expansion of migrant workers in many countries in recent years? Employers are seen as one of the main beneficiaries and key advocates of an open immigration policy. Employers have always drawn on migrant labour to address labour shortages, relying on them to fill jobs in low wage sectors such as agriculture, construction, hospitality, care work and food processing. Until the recession which began in 2008, the UK labour market was very tight and

Table 14.3 Top 10 occupations of foreign-born workers in Britain, 2014

	Top 10 by workforce share, all migrants	*%*	*Occupation share*	*Top 10 by workforce share, recent migrants**	*%*	*Occupation share*
1	Elementary process plant occupations	43	0.9	Elementary process plant occupations	19	0.9
2	Cleaning and house-keeping managers	34	0.2	Process operatives	12	0.9
3	Process operatives	32	0.9	Cleaning and housekeeping managers	11	0.2
4	Food preparation and hospitality	30	1.5	Elementary cleaning occupations	8	2.4
5	Health professionals	28	1.7	Health professionals	7	1.4
6	Elementary cleaning occupations	27	2.4	Elementary agricultural occupations	7	0.3
7	Managers and proprietors in hospitality	25	0.9	Elementary construction occupations	7	0.6
8	Natural and social science professionals	24	0.7	Assemblers and routine operatives	6	0.9
9	Elementary storage occupations	23	1.4	Other elementary service occupations	6	3.2
10	Assemblers and routine operatives	22	0.9	Natural and social science professionals	6	0.7

Notes: Occupation share indicates the share of total employment represented by the occupation.

* Recent migrants are defined as foreign-born people who have been living in the UK for five years or less.

Sources: Labour Force Survey (2014: Q1–4); Rienzo (2015).

unemployment had been low. As Table 14.3 indicates, in 2014, 43 per cent of workers in elementary process plant occupations (e.g. packers, canners, bottlers) and 28 per cent of health professionals were foreign-born (see discussion in Box 14.1).

In some sectors the variation in demand for labour over the year has encouraged a reliance on migrant labour. In agriculture, the average UK farm employs 134 workers in peak season and 29 workers in low season. During the 2008 peak season, a staggering 84 per cent of all agricultural workers comprised migrant labour, compared to around 1 per cent in the 1970s (Geddes and Scott 2010). This massive shift in employer reliance on migrant labour cannot simply be attributed to the seasonal character of the work. The supply chain in agriculture has become dominated by the power of the large supermarket chains that have placed downward pressure on food prices, which has depressed farm worker wages. This has reinforced the view among native-born workers that agriculture comprises low-paid, dead-end jobs (ibid.).

Employers not only view migrants as cost-effective but they also perceive them as bringing attributes to the workplace that are absent in native-born workers and which better serve the needs of clients. In schools in East London, the employment of teaching assistants from the local Bangladeshi community provided an important channel of communication between predominantly white teachers and Bangladeshi parents who spoke little English. Pupils also interacted in a more informal manner with the teaching assistants compared to

BOX 14.1

Case study: nursing

Few patients in hospital can fail to have noticed the increased contribution to their care made by staff who have migrated from an increasing array of countries. Many EU countries as well as the USA, Canada and Australia have become increasingly reliant on internationally recruited health professionals, especially nurses. The scale of nurse migration is unprecedented and this movement highlights the feminization of migration. The recent experience of the UK health sector throws much light on the causes and consequences of nurse migration. This phenomenon is not entirely new as nurses and doctors have transportable skills and in the 1950s and 1960s came to the UK to train and stayed on to work in the National Health Service (NHS). What is different about recent experience has been the extent to which governments in source and destination countries have actively encouraged nurse mobility.

When the Labour government came into office in 1997, it committed itself to improving the NHS and it decided an important way to do this was to expand staffing levels. In 2000, the Labour government established a target for England to recruit an additional 20,000 nurses and midwives by 2004 and the target was subsequently increased to 35,000 by 2008. Taking account of existing staff shortages and the three years that it takes to train a nurse, international recruitment was identified as the preferred strategy to ensure rapid workforce growth. The Department of Health established an institutional infrastructure to promote recruitment activity. An NHS Director of International Recruitment was appointed, supported by International Recruitment Coordinators and the number of staff recruited internationally comprised a key performance target for these coordinators. Financial assistance was made available by the government to enable managers to travel to the Philippines in particular, to recruit batches of 50–100 nurses at a time. The Department of Health actively marketed the NHS to potential recruits through its website and entered into bilateral agreements with countries such as Spain to get over the message that the NHS was welcoming nurses to the UK. Between 1999 and 2004, 68,000 additional nurses were recruited by the NHS in England, a significant proportion were overseas nurses recruited to work in less popular specialties and geographical locations.

The NHS and independent care homes have relied heavily on nurses recruited from the Philippines to address its nurse shortage. Strong demand for Filipino nurses stemmed from its US colonial past which ensured proficiency in English and a US-orientated nurse education system that dovetailed with the requirements of overseas employers. Nursing schools have played an important part in ensuring a growing supply of nurses to feed international demand. Although nursing schools in the Philippines are privately owned, the government has sponsored their growth and this has encouraged nursing as a career because of the opportunities it presents to work abroad. By contrast, low levels of health expenditure and poor wages encourage exit overseas.

The experience of overseas nurses working in the UK has varied. Nurses often have to use recruitment agents that charge high fees to place nurses in employment and sometimes provide misleading information about the type of work and the geographical location of the workplace. All nurses have to be registered with the UK professional nursing organization before they can be employed as registered nurses and it can be difficult to gain the relevant placements and experience, resulting in qualified nurses working as health care assistants for much lower wages. In general, nurses employed in the NHS have a much more positive experience of employment with formal induction and mentoring. This contrasts with nurses working in independent sector nursing homes who frequently confront issues of deskilling as their qualifications are not used and their experience is discounted. Internationally recruited nurses want to be treated with respect by patients and other staff and not allocated poor shift patterns or provided with few training and promotion opportunities.

Review question

1. Does the experience of nurses coming to the UK from other countries suggest that constraints on migration are falling?

their teachers (Bach *et al.* 2006). In hospitality, part of the customer's expectations of an ethnic restaurant is that they will be served by someone from that country (Lucas *et al.* 2010). These arguments have many similarities to the 'business case' for managing diversity.

In the UK, as in many other countries, migrants are generally better educated than the native-born population, but occupy low-paid jobs. This reflects the fact that migrants often experience downward occupational mobility. They often have difficulty gaining proper recognition for their qualifications, have less familiarity with the operation of the labour market and are frequently anxious to gain employment rapidly, ensuring that they do not maximize, at least initially, their earnings potential. This means that employers gain a more qualified employee than they would otherwise recruit. This is evident from the experience of the UK construction industry which has benefited from highly skilled East European migrants who often have served five-year apprenticeships that used to exist in the UK (Blackman 2007). The irony is that a relatively liberal UK immigration policy has facilitated migration which is necessary because the same *laissez-faire* policies have failed to institutionalize training, creating skill shortages in construction and other sectors. A less benign interpretation of employer demand for migrant labour is that their availability discourages employers from investing in the training of the native-born workforce or raising wages to more attractive levels.

It is not only technical skills that may lead employers to express a preference for migrant labour but also the availability of 'soft skills' such as customer service skills. In this sense, immigration enables employers to differentiate within their workforces by occupational group and ethnicity. Waldinger and Lichter (2003), in their research in California, suggest that employers have a cognitive map, which they term 'a hiring queue' in which they rank job candidates according to ethnic and racial origins which intersects with issues of nationality. Employers often have strong preferences for particular ethnic groups because of their perceived attitude to work and Latinos were favoured because they were seen as hard-working. Interviews in the hospitality sector in Brighton indicated that employers had particular preferences for certain nationalities in specific roles, for example, they favoured Australians and South Africans for bar work. As one hotel manager explained:

> The Polish in my mind are very hard workers – they could work all day and not really complain, whereas the Spanish are a bit more fiery. But that just goes with the culture, I suppose. Italians, I've found to be the most professional, and the Greeks are very good as well – very very professional, very proud of what they do. (cited in Matthews and Ruhs 2007: 30)

These positive views of migrants are frequently matched by negative views of resident workers who are characterized as demanding, inflexible and possessing the wrong work ethic. Among farmers, the domestic population was viewed as unreliable and viewed as reluctant to start work at 8.00 a.m. or to work at weekends (Geddes and Scott 2010). Chartered Institute of Personnel and Development (CIPD) (2013) research based on a survey of 1,000 employers indicated that employers frequently cited a strong work ethic among EU workers and a willingness to work anti-social hours as the key reasons for recruiting migrant workers as well as high attrition rates among UK-born workers. Many commentators point out, however, that although these stereotypes are widespread, they are often used to disguise other advantages of migrant labour, not least being compliant and accepting poor terms and conditions (Anderson *et al.* 2006), themes identified by Piore (1979) over 30 years ago.

For employers, the use of migrant labour is often associated with greater control over labour deployment, enhancing flexibility and scope for exploitation. The dependence of migrant workers on their employers is reinforced by their precarious status in the labour market, in which they are often not accorded the same employment and welfare rights as other workers. In some cases, a migrant worker is tied to an employer because their work permit is granted on the basis of them remaining with their existing employer, increasing their dependence on their current employer. These practices are evident in many Gulf States as the case of Qatar illustrates: 94 per cent of the Qatar workforce comprises foreign nationals and this migrant workforce of 1.5 million has expanded rapidly from some of the poorest countries in the world, such as Nepal, to build the infrastructure associated with the 2022 World Cup. In Qatar and many other Gulf States, the *kafala* laws tie workers to their employers and migrants have their passports confiscated on arrival. Recruitment agencies also mislead migrant workers about terms and conditions of employment. In Qatar, migrant workers are prohibited from joining or forming trade unions and there is little effective redress if migrant workers experience labour exploitation. The result is that migrant workers cannot leave their employer or the country without permission and this makes migrant workers vulnerable to exploitation, including the late or non-payment of wages, very low standards of health and safety on construction sites and reliance on squalid accommodation (Amnesty International 2013; Longhi 2014).

These approaches can extend beyond the individual to comprise whole industries. Champlin and Hake (2006) document the evolution of the American meatpacking industry which comprises physically demanding, unpleasant and frequently hazardous work. The industry, which is dominated by a small number of large corporations, has become increasingly reliant on non-unionized immigrant labour and this process was brought about by shifting plants from urban areas to more rural areas in the South and mid-West and actively recruiting workers from Mexico, who were often undocumented workers, making them especially vulnerable to exploitation. Since this article was published, there has been a clampdown on unauthorized migrants and employers have replaced many Latino workers with Somalis who are legally in the USA as political refugees and have been recruited to work in meatpacking plants in large towns such as Grand Island, Nebraska. This has created tensions between co-workers, with Somali workers requesting special breaks for prayers (Semple 2008).

Employers also face considerable challenges in employing migrant workers that stem from the complexities of employment and immigration law. In the UK, continuous changes in immigration law have placed far greater responsibilities on employers to ensure that they are complying with immigration law and have introduced much higher levels of fines for employing migrants unlawfully. Many employers may not have the requisite expertise or HR systems to be certain that all their employees are lawfully employed in a context of continuous incremental changes in immigration rules. Employers also face the challenge of ensuring that migrant workers are effectively inducted and integrated into the organization and that they do not face discrimination from their co-workers and service users.

McKay (2012) documented key areas that employers need to address in integrating migrant workers. First, information and consultation with the workforce and ensuring effective communication, for example, by translating key documents, such as health and safety policies into the languages of the main migrant groups. Second, recognition and representation formally and informally of the diverse interests of the workforce, for example, ensuring that terms and conditions recognize migrant workers' needs such as the wish to take annual leave in larger blocks at specific times of the year. Third, ensuring equal opportunities in interpreting qualifications and clear procedures to test competences as part of approaches that avoid discrimination, for example, recognizing the drawbacks of informal – word-of-mouth – recruitment. Finally, encouraging workforce integration by ensuring line managers and supervisors have appropriate training to manage a more diverse workforce.

Worker and trade union responses

Considering the variation in the jobs occupied by migrant workers, it is difficult to generalize about their experience of employment. Nonetheless a number of issues frequently arise, indicating the experience of employment can differ in important ways for migrant workers. Some of the advantages of employing migrant labour for employers, such as low wages and the flexibility that arises from being accommodated by the employer, are identified as disadvantages by migrant workers. Three factors have an important influence on their experience of employment.

First, their unfamiliarity with the labour market and employment rights increases their vulnerability in the labour market. In some cases, this can relate to their treatment by their supervisors and co-workers with under-utilization of their skills a common complaint. Workers in Stoke-on-Trent raised concerns that they were allocated harder tasks by their team leaders than indigenous workers, making it very difficult for them to achieve their targets. When concerns were raised on this matter and related concerns such as requesting a pay slip and national insurance number, contracts were terminated or workers relocated to distant geographical locations (French and Mohrke 2006). In general, the informality and lack of transparency about pay rates, deductions made for housing and transport, long working hours and unpaid hours are the most commonly reported difficulties (Anderson *et al.* 2006).

Second, the degree to which migrants are protected by employment law, which is itself influenced by their immigration status, has an important bearing on their vulnerability in the workplace. If an individual is working without authorization, i.e. illegally, workers are deprived of their employment rights. This situation extends far beyond people entering and working in the UK on a clandestine basis but also includes overseas students working more hours than permitted, asylum seekers and overstayers (Pai 2008). A related issue concerns bogus self-employment in sectors like construction which enables workers to lower their tax liabilities, but allows employers to terminate employment at will and avoids payment of sick pay and holiday pay. For many workers the fear of being reported to the immigration authorities ensures compliance and this can enable employers to take advantage of vulnerable workers, for example, by removing their passports preventing them from leaving their employer. Ryan (2005: 59–60) notes several cases in which trade union attempts to organize migrant workers and take industrial action were made more difficult by employer threats to check the immigration papers of workers and to call in immigration officers if necessary.

A third influence on the experience of employment stems from the recruitment channels used in the employment of migrants. Migrants often gain access to the labour market by drawing on networks or what are sometimes termed ethnic enclaves to gain employment.

Employers often have a preference for these informal word-of-mouth recruitment practices because these networks provide access to a reliable source of labour in an inexpensive way. Some of the responsibility for managing the workforce is transferred to the workers themselves, who will cover for each other in the event of sickness absence. Although informal networks also have certain advantages for migrants in terms of gaining employment, they are often a strategy of necessity rather than choice with new migrants exposed to wage skimming and blackmail by earlier arrivals who act as intermediaries with employers (Pai 2008). Not only is job search costly and difficult in an unfamiliar environment, but it is frequently the absence of adequate language skills that makes many migrant workers dependent on recruitment agencies. A study for the UK Home Office (Dench, S., Hurstfield, J., Hill, D. and Akroyd, K. 2006: 61) noted: 'Although there are many good agencies, this is also an area where a considerable amount of exploitation can occur.' The deaths by drowning of 23 Chinese cockle-pickers in Morecombe Bay in 2004 illustrates the degree to which 'gangmasters' were prepared to exploit undocumented workers, leading to the establishment in 2005 of the Gangmasters Licensing Authority to provide some regulation of these labour practices.

Trade unions have sought to safeguard the interests of migrant workers. This is not straightforward as existing trade union members are not always supportive of migrant workers because of concerns that migrants may erode wages and conditions. Trade unions, however, increasingly view migration as an integral component of globalization and that the best means to protect labour standards is to campaign for the regularization of unauthorized migrants and to draw migrants into union membership. Trade unions have worked with unions in the source country, seconding or employing officials of the same nationality, to organize migrant workers. These links have also encouraged agreements, enabling trade union membership to be transferred to the destination country, intended to ensure that migrant workers achieve pay and working conditions that are equivalent to local workers. The agreement between the UK TUC and the largest Bulgarian union organizations is illustrative of these trends (Dimitrova 2008). Trade unions have established new structures that are more open and welcoming to migrant workers, including working with other social movements and faith groups. In Scotland, the Overseas Nurses Network was established with Unison's endorsement, enabling nurses and other care workers to network and to exchange information and support.

In the United States, migrant workers have become a key element of trade union revitalization. The most prominent case concerns the Justice for Janitors campaign in which a local union branch won a major contract from one of Los Angeles' major building contractors after an intensive union recruitment campaign among Latino workers. As Milkman (2006) explains, the success of these forms of organizing stems from their focus on organizing immigrants across an industry rather than in a single workplace. In addition, a number of facilitating conditions existed, which included the dense networks of immigrants, which were often replicated in the workplace, the class consciousness and sense of stigmatization among migrant workers, and the perception that the risks for migrants workers, while not insignificant, were less extreme than the risks attached to being union activists in countries such as El Salvador (ibid.). This analysis was confirmed when in April 2015 low-wage workers in more than 200 US cities, including workers at McDonald's, walked out and called for a minimum wage of $15 an hour with McDonald's acceding to wage increases, but only for its directly employed workforce.

Conclusion

International labour migration has become an increasingly important element of international HRM. In a context of labour shortages, ageing populations and increased inequality, governments and employers have looked to migrant labour to undertake jobs that the indigenous population are unwilling to undertake and to use high-skilled migration to boost competitiveness. As in other areas of human resource management, it is deceptively simple to view international migration as an inevitable outcome of global economic and political developments. A number of actors, migrants themselves and their representatives, employers and governments as well as recruitment agencies are actively seeking to shape the migration process and its consequences. This is illustrated by the UK's government points-based system of managed migration and other countries guest worker programmes, intended to attract specific skills and discourage others, and the European Commission's emphasis on attracting highly skilled workers to boost EU competitiveness.

International migration has created winners and losers. Employers are the key beneficiaries, ensuring that they recruit to hard-to-fill posts, gain a relatively compliant and hard-working workforce, and often benefit from a more highly qualified workforce at lower cost than would otherwise be the case. Nonetheless the integration of a more diverse workforce, the need to get to grips with complex immigration regulations, and the response of co-workers and customers to the migrant workforce all raise new challenges for employers. For migrants themselves, the decision to migrate is frequently a constrained choice reflecting dismal employment prospects in the source country and growing global inequality that reinforces the impulse to migrate to a higher-income country. Consequently although lower-skilled workers in particular are vulnerable in the labour market and are often employed on poor terms and conditions of employment, there are still considerable personal and family benefits that accrue from migration. Nonetheless, the expectations of migrants and government frequently fall short of their earlier expectations. Policies of managed migration rarely operate as governments anticipate, leading to the undervaluation of skills and the shunting of highly qualified workers into less attractive segments of the labour market force, undermining attempts by governments to align job gaps and migrant skills. This in turn encourages constant tinkering by nation-states with their migration regulations.

Beyond the immediate effects for a range of actors, the context in which migration occurs and its consequences illuminate many aspects of contemporary labour market and HR policy. The use of migrant labour is indicative of the increased scope of employers to segment the labour force and erode employment standards, drawing on migrant workers as part of a diverse workforce of agency staff, outsourced workers and posted workers. While periodic scandals, such as the deaths of migrant construction workers employed in Qatar in preparation for the 2022 World Cup ignite public concern, there seems little doubt that the use of migrant labour will remain a prominent employer strategy and the experience of migrant workers will continue to illuminate contemporary changes in labour markets.

Review questions

1. Why do you think Castles, de Haas and Miller (2014) suggest that we are in 'an age of migration'?
2. How important is globalization in explaining why international migration occurs?
3. What are the advantages and disadvantages for employers of employing migrants? Do these differ from employing the native-born population?
4. Why are migrants viewed as vulnerable to exploitation in the labour market? What remedies would you suggest to ensure their employment rights are safeguarded?

Further reading

1 Castles, S., de Haas, H. and Miller, M. (2014) *The Age of Migration: International Population Movements in the Modern World* (5th edition), Basingstoke: Palgrave Macmillan.

An up-to-date comprehensive assessment of the trends and consequences of international mobility

2 McKay, S. (2012) *The Future Implications of Migrant Labour for Employment Relations,* London: ACAS.

A good overview of the implications for ER/HR of the increased participation of migrant workers in the workforce.

3 Bach, S. (2015) 'Nurses across borders: the international migration of health professionals', in Parry, B., Greenhough, B., Brown, T. and Dyck, I. (eds) *Bodies Across Borders,* Avebury: Ashgate, pp. 153–69.

This chapter analyses trends in nurse migration to the UK, highlighting the importance of state policy as a major influence shaping employers' use of migrant nurses and their labour market experience.

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