



LECTURER NOTES

chapter 17 international HRM and global capitalism

Chapter overview

This chapter outlines some developments in global capitalism and how they play out in terms of employment relations and international HRM in MNCs. We identify three alternative theories relating to the impact of global processes on domestic patterns of employment relations. The chapter then goes on to examine the international aspects of recruitment and selection, training and learning, rewards performance appraisal management and the repatriation of expatriates.

Chapter objectives:

After studying this chapter, you should be able to:

1. Explain how developments in global capitalism affect corporate strategies and patterns of employment relations
2. Describe the difference between strategic international human resource management (SIHRM) and international human resource management (IHRM)
3. Explain how SIHRM is linked to different global business strategies
4. Outline some key aspects and contemporary issues in IHRM
5. Comment on whether globalization is driving processes of convergence or divergence in HRM policies and practices

Introduction

The 1990s, with the pace of globalization accelerating, national systems regulating the employment relationship appear to be passé.

The process of globalization - the integration of markets, new markets e.g. China and India, increased foreign direct investment by MNCs, and cross-border integration of production and services.

The proliferation of interest in both international HRM and comparative HRM springs directly from globalization, strategic management theory and, in the light of Brexit, the prospect of new trade deals between the US, India and Turkey.

The chapter explores the argument that there is nothing in the logic of profit-making corporations and capital accumulation to keep the manufacture of steel, for example, in traditional local markets (Sheffield, the Ruhr or Pennsylvania).

MNCs with distinctive competencies can potentially realize higher profits by applying those competencies in foreign markets, where local competitors lack similar competencies.

Higher profits can be realized through economies of scale, consistent with low-cost leadership. The logic of unfettered globalization means that labour-intensive value-added activities migrate from high-wage to low-wage countries.

Study tip: Further insight into international business-IHRM strategy links can be obtained from Charles Fishman's book, *The Wal-Mart Effect* (2006). On page 20, Fishman asks some interesting questions: Does Wal-Mart, for example, send factory jobs abroad?

Typologies of global business strategy

Global corporations typically face tension from two types of business pressure: on the one hand demands for global cost reductions and integration, and, on the other hand demands for *differentiation* and local *responsiveness*.

The duality of culture – its pervasiveness yet its uniqueness – impacts on global business strategy. Pressure to be locally responsive, including HR practices, arise from consumer tastes and preferences, differences in infrastructure and the national business system imposed by the host government.

The integration–responsiveness grid is made up of four typologies – global, multi-domestic, international, and transnational, which show the dual pressure for cost-efficiency and responsiveness.

- a) **Global strategy** - focus is on increasing profit margins through cost-efficiencies arising from economies of scale and economies of location (e.g. Texas Instruments).
- b) **Multidomestic strategy** – focus is on maximizing local responsiveness (e.g., ITT).
- c) **International strategy** – focus is on the global diffusion of the company’s distinctive competencies (e.g., Procter & Gamble).
- d) **Transnational strategy** – the focus is on rationalizing and integrating resources to achieve superior cost-efficiencies from economies of scale and economies of location, while at the same time, being sensitive and capable of responding to local needs, and by sharing knowledge (e.g. Unilever).

The typologies depict a theoretical or “ideal type” of global strategy that MNCs strive for if they wish to attain superior performance outcomes.

Managing the conflicting pressures for rationalization and integration (low-cost leadership) and local responsiveness (differentiation) sets the context for IHRM.

International human resource management

Three alternative theories on the impact of global processes on domestic employment relations: economic, institutionalist, and integrated.

The *economic globalization* approach predicts that international markets operate in accordance with universal principles and will result in a ‘convergence’ of national employment relations.

The *institutionalist* approach contends that global forces are more fluid in their dynamics resulting into ‘divergent’ power struggles.

The *integrated* approach suggests that both global economic trends and nationally based institutions are important in structuring national patterns of employment relations.

Definition: International HRM (IHRM) - HRM issues and problems arising from the internationalization of business, and the HRM strategies, policies and practices

that global firms pursue in response to the internationalization process. Typically celebrates a Western management and hegemonic culture.

Definition: strategic IHRM - HR policies and processes that result from the global competitive activities of MNCs and that explicitly link international HR practices and processes with the worldwide strategic goals of those companies.

Integrative model of strategic IHRM consists of five core parts: exogenous factors, endogenous factors, SIHRM, pressures and goals of the MNC, and the corporate SIHRM orientation.

The central theoretical argument of the integrative model is that IHRM should be explicitly related to the MNC's global business strategy and that its changing forms must be understood in relation to the strategic evolution of the MNC.

Figure 17.1 (p. 537) offers an integrative model that denotes the reciprocal relationships between exogenous factors, SIHRM and the pressures and goals of the MNC.

HRM and globalization 17.1: Is the 'race to the bottom' an inevitable consequence of globalization? This feature (p. 533) encourages you to consider the causal mechanisms of globalization and reflect critically on general claims about globalization. Try typing the phrase 'race to the bottom' into the search engine Google Scholar to find out what other researchers have said about this important global process. And ask yourself: If Britain has to depend on new trade deals with the US and China, what will be the impact on HR?

HRM in practice 17.1 'We are disposable people...'

This feature (p. 535) highlights the issue of the increasing use of migrant workers seasonal temporary labour in agriculture.

Study tip: HRM as I see it - Lesley White, Huawei Technologies (p. 536)

Watch the video of Lesley talking about the challenges of working in a UK-based HR department for a company headquartered in China, which highlights cultural differences in working and management styles, and the place of HR in business strategy.

The internationalization of the HRM cycle

This section explains that when leveraging their core HR activities, MNCs must achieve a dynamic balance between the pressures for central control and the

pressures for local responsiveness across national locations, intercultural business contexts and business cultures.

The section introduces the dimension of cultural diversity to explore the international aspects of recruitment and selection, rewards, training and development, and performance appraisal, as well as the issue of repatriation.

The central modus operandi of the global company is the creation and effective management of multicultural work teams that represent diversity in competencies, levels of experience and cultural and language backgrounds.

International recruitment and selection

Selection is important beyond simply staffing key technical or managerial positions.

HRM and globalization 17.2: Realizing gender balance in British boardroom
This feature (p. 542) encourages you to consider the implications of cultural diversity on corporate governance and employee voice in the workplace.

International rewards

Managing *international rewards* requires that managers are familiar with the foreign country's employment law, national employment system, e.g., benefits, and currency fluctuations in particular host countries.

International training and development

International training and development will vary and take one of three forms: centralized, synergistic or local. Irrespective of business strategy, training and development interventions in MNCs typically include cross-cultural training and competencies associated with global leadership.

Table 17.1 (Page 45) summarises these interventions and their respective goals.

Studies suggest that performance appraisal is the favoured way to ensure that strategic employee competencies, employee behaviour and motivation are performed effectively in the host country.

International performance appraisal

The complexity of performance appraisal is illustrated by Hofstede's (1980) model: who sets what performance criteria for an individualistic, task-oriented Anglo-Saxon expatriate transferred to, for example, a more collectivist, relationship-oriented subsidiary?

Repatriation

Traditional work on IHRM focused on repatriation. Problem varies from individual to individual, but managers should be aware that a violation of the psychological contract may lead to a negative psychological reaction to repatriation.

The convergence/divergence debate

A common theme in the comparative HRM literature has been 'convergence' and 'divergence' in HR practices, resulting from globalization. The debate has a long antecedent in neoclassical economic theory.

Evidence of continued diversity in local or national patterns of economic activity and employment relations has contributed to the notion of 'varieties of capitalism'.

A 'European HRM model' is problematic. Despite economic pressures toward convergence, resilient differences in cultural and institutional contexts produce divergent employment relationships.

Studies suggest divergence of HR practices in Asian economies. E.g., in China shifts from 'iron rice bowl' to 'market-responsive' system do not constitute convergence to an anglo-centric HRM ideal-type model.

Figure 17.2 (p. 550) helps to address the question: Does globalization bring into being a convergence of HR practices?

While changes in HR practices within a MNC are mediated by environmental changes and universal 'best practices', the model draws attention to "gaps" between universalism versus national culture and HR practices.

The sheer variation of economies, national institutional profiles and cultures makes claims for convergence both simplistic and problematic.

HRM in practice 15.2 (p. 522) 'Japanese CEO breaks stereotype by firing 14,000 staff.'

This example is designed to highlight the simplicity of popular views of Japanese HR practices.

Engaging in critical thinking

Chapter case study – ICAN

This case explores the links between SIHRM and international business strategy.

Tip to students: This case requires you to demonstrate an understanding of strategic IHRM and the typologies of global business strategy. The report would make reference to Bartlett and Ghoshal's thesis that global corporations typically face tension from two types of business pressure: on the one hand demands for global cost reductions and integration, and, on the other hand demands for differentiation and local responsiveness. Further, you should evaluate the argument that local rationalities, local culture, local ideologies and local HR challenge a universal vision of order, equilibrium and convergence practices. Sanford Jacoby, *The Embedded Corporation* (2005), presents the case for 'divergence' thesis. Go to web page: 'HR-Related Skill Development: Writing a Justification Report' for help on report writing.

Reflective question/essay question

Discuss how a national institutional system may influence a corporation's decision to locate its profit-making operations and how that system may influence its HR practices.

Tip to students: This question requires you to examine strategic IHRM within competing typologies of global business strategy. A comprehensive answer would discuss Bartlett and Ghoshal's thesis that global corporations typically face tension from two types of business pressure: on the one hand demands for global cost reductions and integration, and, on the other hand demands for differentiation and local responsiveness. The integration-responsiveness grid provides an analytical framework for examining a MNC's decision to relocate, particularly in terms of differences in national business systems. Examples include employment standards, trade union density, and health and safety regulations. Charles Fishman's book, *The Wal-Mart Effect* (2006), provides useful examples and questions on global business strategies. Review Figure 15.3 and consider the merits of the convergence/divergence debate.