# *Part I: Chapter Notes*

# Chapter 1: INTRODUCTION

#### Learning Objectives

* Define key terms in international human resource management (IHRM) and consider several definitions of IHRM.
* Introduce the historically significant issue of expatriate assignment management and review the evolution of these assignments to reflect increasing diversity with regard to what constitutes international work and the type and length of international assignments.
* Outline the differences between domestic and international human resource management and detail a model that summarizes the variables that moderate these differences.
* Understand the complexity of IHRM and the increasing challenges to existing IHRM practices and current models, developing an increased awareness of the wide number of choices within IHRM practices due to increased transparency and the faster and more detailed diffusion of these practices across organizational units and firms.

#### Chapter Summary[[1]](#footnote-1)

The purpose of this chapter is to provide an overview of the emerging field of international HRM by:

* Defining key terms in IHRM and considering several definitions of IHRM.
* Introducing the historically significant issue of expatriate assignment management and reviewing the evolution of these assignments to reflect increasing diversity regarding what constitutes international work and the type and length of international assignments.
* Outlining the differences between domestic and IHRM by looking at six factors:
1. more HR activities
2. the need for a broader perspective
3. more involvement in employees’ personal lives
4. changes in emphasis based on variances in the workforce mix of expatriates and locals
5. risk exposure
6. more external influences

and detailing a model which summarizes the variables that moderate these differences.

* Presenting the complexity of IHRM, the increasing potential for challenges to existing IHRM practices and current models, and developing an increasing awareness of the wide number of choices within IHRM practices due to increased transparency and the faster and more detailed diffusion of these practices across organizational units and firms.

We conclude that the complexity from operating in different countries and employing different national categories of employees is a key variable in differentiating between domestic and IHRM, rather than any major differences between the HR activities performed. We also discuss four other variables that moderate differences between domestic and international HRM:

1. the cultural environment
2. the industry (or industries) with which the multinational is primarily involved
3. the extent to which a multinational relies on its home country’s domestic market
4. the attitudes of senior management. These five variables are shown in Figure 1.3. Finally, we discuss a strategic HRM model applied in multinational enterprises (Figure 1.4), which draws together several external and organizational factors that impact on IHRM strategy and practice and in turn on MNE goals.

#### Links to Other Chapters

This introductory chapter provides the basis for all the other chapters. The definitions and understanding of the differences between HRM and international HRM described herein are key to understanding the other chapters of the book.

#### Discussion Questions

## **What are the main similarities and differences between domestic and IHRM?**

This question is addressed in ‘Defining international HRM’ (pp. 2-3) and ‘Differences between domestic and international HRM’ (pp. 4-8):
*Similarities:*

* HRM = ‘[...] those activities undertaken by an organization to utilize its human resources effectively’(p. 2), including at least: human resource planning, staffing (recruitment, selection, placement), performance management, training and development, compensation (remuneration) and benefits, and industrial relations (→similarities between domestic and international HRM).

*Differences:*

* Domestic HRM involves employees working within only one national boundary*.*
* IHRM also includes aspects pertaining to the national or country categories involved in international HRM activities (the host country where a subsidiary may be located, the parent country where the firm is headquartered, and ‘other’ countries that may be the source of labor, finance, and other inputs), as well as the three categories of employees of an international firm (host country nationals, parent country nationals, and third country nationals).
* In IHRM, staff are moved across national boundaries into various roles within the international firm’s foreign operations (expatriates/international assignees).
* In IHRM, the complexity of operating in different countries and employing different national categories of workers is a key variable that distinguishes domestic and international firms. This complexity is due to six factors: more HR activities, the need for a broader perspective, more involvement in employees’ personal lives, changes in emphasis because of variances in the workforce mix of expatriates and locals, risk exposure, and broader external influences.

## **Define these terms: ‘International HRM’, ‘PCN’, ‘HCN’, and ‘TCN’.**

This question is addressed in ‘Defining international HRM’ (pp. 2-4).

**International HRM** can be seen as(Figure 1.1 on p. 2 summarizes these three approaches):

1. Cross-cultural managent (p. 2)
2. The ‘[…] interplay between the three dimensions of human resource activities, types of employees, and countries of operation’ (Morgan).

‘We define the field of IHRM broadly to cover all issues related to the management of people in an international context. Hence, our definition of IHRM covers a wide range of human resource issues facing MNCs in different parts of their organizations. Additionally, we include comparative analyses of HRM in different countries’ (Stahl and Björkman, 2010); *→* This is the definition used in this book on p. 4.

These are the three categories of employees in an international firm:

* + **PCN** – parent country national
	+ **HCN** – host country national
	+ **TCN** – third country national

For example, the US multinational IBM employs British citizens in its British operations (HCNs), often sends US citizens (PCNs) to Asia-Pacific countries on assignment, and may send some of its Singaporean employees on assignments to its Chinese operations (as TCNs). The nationality of the employee is a major factor in determining the person’s ‘category', which in turn is frequently a major driver of the employee’s employment contract and compensation.

## **Discuss two HR activities in which a multinational firm must engage, which would not be required in a domestic environment.**The question refers to material found on p. 5 under ‘More HR activities’.

To operate in an international environment, a HR department must engage in several activities that would not be necessary in a domestic environment. Examples of required international activities are: international taxation, international relocation and orientation, administrative services for expatriates, host-government relations, and language translation services.

* Expatriates are subject to international taxation, and often they have both domestic (i.e. home country) and host country tax liabilities. Therefore, tax equalization policies must be designed to ensure that there is no tax incentive or disincentive associated with any particular international assignment. The administration of tax equalization policies is complicated by the wide variations in tax laws across host countries and by the possible time lag between the completion of an expatriate assignment and the settlement of domestic and international tax liabilities. In recognition of these difficulties, many MNEs retain the services of a major accounting firm for international taxation advice.
* Host government relations represent an important activity for the HR department in an MNE, particularly in developing countries where work permits and other important certificates are often more easily obtained when a personal relationship exists between the relevant government officials and multinational managers. Maintaining such relationships helps resolve potential problems that can be caused by ambiguous eligibility and/or compliance criteria for documentation such as work permits. US-based multinationals, however, must be careful in how they deal with relevant government officials, as payment or payment-in-kind, such as dinners and gifts, may violate the US Foreign Corrupt Practices Act (FCPA).

Further discussion on other activities can be found on pp. 5-8.

## **Why is a greater degree of involvement in employees’ personal lives inevitable in many international HRM activities?**

See ‘More involvement in employees’ personal lives’ on p. 6.

* More involvement in employees’ personal lives is necessary to select, train, and effectively manage both PCN and TCN employees. The HR department or HR professional needs to ensure that the expatriate employee understands housing arrangements, health care, and all aspects of the compensation package provided for the assignment such as cost-of-living allowances, premiums, and taxes.
* In the international setting, the HR department must be much more involved in order to provide the level of support required. Consequently, it will need to know more about the employee’s personal life. For example, some national governments require the presentation of a marriage certificate before granting a visa for an accompanying spouse. Thus, marital status could become an aspect of the selection process, regardless of the best intentions of the MNE to avoid using a potentially discriminatory selection criterion.

## **Discuss at least two of the variables that moderate differences between domestic and international HR practices.**

See ‘Variables that moderate differences between domestic and international HRM’ on pp. 8-9 and Figure 1.3.

The text names five variables that act as “moderators”; i.e, that diminish or accentuate the differences between domestic and international HRM: complexity, the cultural environment, industry type, extent of reliance of the multinational on its home country domestic market, and the attitudes of senior management to international operations.

**Complexity:**

* Many firms from advanced economies, with limited experience in international business, underestimate the complexities involved in successful international operations—particularly in emerging economies. There is considerable evidence to suggest that business failures in the international arena are often linked to the poor management of human resources.

**Cultural environment:**

* Possibility of employee culture shock.
* Recognition and appreciation of cultural differences is essential, because international business involves the interaction and movement of people across national boundaries.
* In research, issues are: little agreement on either an exact definition of culture or on the operationalization of this concept, as well as the emic-etic distinction (emic refers to culture-specific aspects of concepts or behavior, and etic refers to culture-common aspects, i.e. universality →divergence-convergence debate).
* Cultural awareness is essential for the HR manager at corporate headquarters as well as in the host location. Coping with cultural differences, and recognizing how and when these differences are relevant, is a constant challenge for international firms.

**Industry type:**

* This is of considerable importance because patterns of international competition vary widely from one industry to another: *multi-domestic* versus *global industry*.
* Multi-domestic industry (competition in each country is essentially independent of competition in other countries, e.g. retail, distribution, and insurance). The HR department’s role will most likely be more domestic in structure and orientation. At times, there may be considerable demand for international services from the HRM function.
* Global industry (a firm’s competitive position in one country is significantly influenced by its position in other countries, e.g. commercial aircraft, semiconductors, and copiers).

**Role of the HR department:**

* an explicit recognition by the parent organization that its own peculiar ways of managing human resources reflect some assumptions and values of its home culture;
* an explicit recognition by the parent organization that its peculiar ways are neither universally better nor worse than others, but are different and likely to exhibit strengths and weaknesses, particularly abroad;
* an explicit recognition by the parent organization that its foreign subsidiaries may have other preferred ways of managing people that are neither intrinsically better nor worse, but could possibly be more effective locally;
* a willingness from headquarters to not only acknowledge cultural differences, but also to take active steps in order to make them discussable and therefore usable;
* and building a genuine belief by all parties involved that more creative and effective ways of managing people could be developed as a result of cross-cultural learning.
* → Changes that are required to internationalize the HR function have more to do with mindsets than with behaviors.

Pages 8-14 consider these five aspects in detail.

#### References

*Recent overviews on research in International Human Resource Management can be found in:*

* Stahl, G., Björkman, I., and Morris, S. (Eds.) (2012). Handbook of Research in International Human Resource Management. 2nd Ed. Cheltenham, UK: Edward Elgar Publishing.
* Brewster, C. & Mayrhofer, W. (Eds.) (2012). Handbook of Research in Comparative Human Resource Management. Cheltenham, UK: Edward Elgar Publishing.

*On convergence and divergence see:*

* Festing, M. (2012). Strategic Human Resource Management in Germany: Evidence of Convergence to the U.S. Model, the European Model, or a Distinctive National Model? In: Academy of Management Perspectives, Vol 26, (2), 37-54.

# Chapter 2: THE CULTURAL CONTEXT OF IHRM

#### Learning Objectives

Chapter 1 observed that international HRM differs from nationally-oriented HRM predominantly in the complexities that result from employees of various national origins working in different countries. People who work in internationally operating companies, as well as customers, suppliers, or representatives of government institutions in the host country, often face very different cultural and institutional environments due to differing socialization experiences. In this chapter, we systematically review the environment of international HRM decisions so that the complexity of these decisions can be better understood and adequate solutions developed. This chapter is designed to enable students to learn about the key findings of intercultural comparative research on:

* Definitions of culture
* Cultural concepts
* Results of intercultural management studies such as Hofstede’s research and the GLOBE study
* Reflections on cross-cultural management research
* Discussion of the development of cultures

These concepts are highly relevant to developing a more comprehensive understanding and explanation of the complexity of international HRM.

#### Chapter Summary

In this chapter, we outline how the cultural environment may influence HRM. In summary it can be concluded that an adequate understanding of the cultural context, as it impacts on the behavior of an organization’s employees, is of critical importance. Thus, the results of cross-cultural comparative research may provide valuable hints to managers about how to cope with employees from foreign cultures. Furthermore, these research results can form the basis for the development of intercultural training measures. These results could also be of great use to HRM in an international firm, because they could assist in undertaking a structured analysis of the transferability of specific elements of a parent firm’s existing HR policy to foreign subsidiaries. In this context, it would be conceivable to decide whether incentive systems for groups or for individuals would be effective in a specific culture.

Table 2.1 in the text (p. 32) summarizes these ideas about the cultural context and gives examples of environmental differences which could lead to problems when MNEs attempt to introduce worldwide standardized HRM practices. Within this context, it is important to recall the discussion on the convergence and divergence of HRM and work practices, as mentioned in the first chapter.

#### Links to Other Chapters and Cases

This chapter provides important information on one of the key contextual issues for international human resource management. The importance of the cultural environment has already been introduced in Chapter 1 and will be addressed in many chapters again and linked to topics such as the cultural adaptation process (Chapter 5), international performance management (Chapter 6), and intercultural training (Chapter 7).

Cases that provide the basis for a cultural discussion include Case 3 on transnational compensation, where, for example, risk aversion (which could be linked to uncertainty avoidance) plays an important role. A more general discussion on cultural values could be included in Case 7, which examines balancing values between Scandinavia and India.

#### Discussion Questions

## **Define culture. How can culture be conceptionalized?**

See ‘Definition of culture’ (p. 24) and ‘Schein’s concept of culture’ (pp. 23-24).

*To date, there is no predominant consensus on the exact meaning of culture:*

* ‘Culture consists of patterned ways of thinking, feeling, and reacting, acquired and transmitted mainly by symbols, constituting the distinctive achievements of human groups including their embodiments in artifacts; the essential core of culture consists of traditional […] ideas and especially their attached values…’ (Kluckhohn and Kroeber, 1950s).
* ‘[Culture is] mental programming’ or ‘software of the mind’ (Hofstede, 1991).
* Culture includes the customs of a community that are practiced by a majority and are based on four basic elements: standardization of communication, thought, feeling, and behavior (Hansen).

*Culture can be conceptualized on various levels (Schein, 2004):*

1. Artifacts or creations (conscious): visible organizational structures and processes; easily measurable, but hard to interpret variables such as, for example, the economic growth of a country or its political system.
2. Values (partly conscious and partly unconscious): values of a company or culture, found in the intermediate level of consciousness; based on underlying assumptions; e.g., they are the basis for national legislation or attitudes towards abortion. Hofstede’s study is at this level.
3. Underlying assumptions (invisible and unconscious): includes convictions, perceptions, thoughts, and feelings concerning, for example, the nature of reality and the nature of truth, time dimensions, the effect of spatial proximity and distance, the nature of being human, types of human activity, the nature of human relationships through religions, the basic understanding of democracy, and capitalist market organizations.

Influences from artifacts, through values to underlying assumptions, are much weaker than those leading in the opposite direction, because the influence of underlying assumptions on values and artifacts is stronger than vice-versa.

1. **Outline Hofstede’s cross-cultural management study and discuss it accordingly.**

See ‘Hofstede’s cross-cultural management study’ (pp. 26-33).

* It was the first major study in cross-cultural comparative research.
* It can be positioned on the values level (according to Schein).

Original study at IBM (1967-1973):

* N=116,000 questionnaires which were completed by IBM employees at all hierarchical levels and with various qualifications.
* Four dimensions of country cultures were identified: power distance, uncertainty avoidance, femininity vs. masculinity, and individualism vs. collectivism.
* These dimensions imply consequences for the structures of organizations.

Chinese Value Survey

* N=100 people from 23 countries.
* The results reflected three dimensions similar to power distance, individualism vs. collectivism, and masculinity vs. femininity and one new dimension: Confucianism dynamics, which could not be related to the results of the original IBM study.

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| --- | --- | --- | --- |
| **Dimension** | **Definition** | **Examples of Country Characteristics** | **Major Difference lies in…** |
| **Power Distance** | The acceptance of members of a culture that power is not distributed equally in institutions expresses the emotional distance between employees and superiors | *High*: acceptance of a hierarchical organization structure, in which every individual can occupy their place without any need for justification*Many South Asian countries, South America* | *Low*: aspiration to equal power distribution, demand for explanations for any instance of formalized power inequality*US, Anglo Saxon countries* | … how power inequality is dealt with |
| **Uncertainty Avoidance** | Extent to which the members of a culture feel threatened by uncertain, ambiguous and/or unstructured situations and try to avoid them | *Strong*: strict beliefs and behavioral codes, no tolerance for people and ideas that deviate from these*Some Asian Cultures, e.g. Singapore, Hong Kong, German-speaking countries* | *Weak*: significance of practice exceeds the significance of principles; high tolerance of deviations*Scandinavia* | … the reaction of individuals to time pressure or uncertainties in the future |
| **Femininit** **vs. Masculinity**  | Based on the assumption that values can be distinguished as more masculine or more feminine | *Masculine orientation*: comprises the pursuit of financial success, heroism and a strong performance approach; role flexibility is less clear-cut*German-speaking countries* | *Feminine* *orientation*: preferences for life quality, modesty and interpersonal relationships; role flexibility is more clear-cut*Scandinavia*  | … the form of social roles attributed to gender by the relevant society |
| **Individualism vs. Collectivism** | Extent to which individual initiative and caring for oneself and one’s nearest relatives are preferred by a society as opposed to, for example, public assistance or the concept of extended family | In more *individualist* *cultures*, there is merely a casual network of relationships between people. Each person is primarily responsible for himself*US, Anglo Saxon countries* | More *collective* *cultures* have closer, more clearly defined systems of relationships. This applies both to extended families as well as companies*Many South Asian countries, South America* | … the predominant self-sufficiency among individuals in a society (private & professional) |
| **Confucianism or****Long-term Orientation** | Basic orientation in the life of people, which can be either more long-term or short-term in nature | *Long-term*: great endurance and/or persistence in pursuing goals, position of ranking based on status, adaptation of traditions to modern conditions, respect for social and status obligations within certain limits, high savings rates and high investment activity, readiness to subordinate oneself to a purpose, and the feeling of shame→ future-oriented, dynamic *Asian Countries* | *Short-term*: personal candor and stability, avoiding loss of face, respect for social and status obligations without the consideration of costs, low savings rates and low investment activity, expectations of quick profit, respect for traditions, and greetings, presents and courtesies based on reciprocity → present-oriented or past-oriented, relatively static*US* | *x…the attitude towards time (short-long; past-present-future)* |

**Discussion** (see pp. 32-33 ‘A reflection on the Hofstede study’)

*Pros:*

* Historical prominence—an important contribution to cross-cultural management research.
* Could be repeated at different points in time.
* Results could serve as guidelines for explaining behavior, at least in initial orientation.

*Cons:*

* Deterministic and universalistic concept of culture (see discussion question 6).
* Reductionist approach.
1. Bullet points in the chapter summaries include important parts taken from the lecture, which are covered by the PowerPoint materials provided to instructors. [↑](#footnote-ref-1)