

# Human Resource Management in an International Context

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## Learning outcomes

After reading this chapter, you should be able to:

- Identify different approaches to international human resource management (IHRM).
- Evaluate the reasons for the growth of IHRM.
- Examine the convergence and divergence debate in IHRM.
- Understand the multinational company as a particular domain in IHRM.

## INTRODUCTION

Business has become more international since the Second World War, with increased foreign direct investment (FDI) especially by US companies in many countries. Research on internationalization of business has also gained momentum. How businesses have managed their people in different countries for increased economic performance and the implications of this on managerial behaviour and work organization have emerged as key concerns. Within this environment, academic and practitioner interest in the management of human resources internationally has also increased. However, there is still a lack of consensus about what international human resource management (IHRM) entails (Scullion, 2001). This chapter discusses the specific reasons for the rapid growth of interest in IHRM and examines various approaches to the management of international human resources. The chapter explains the significance of multinational companies as a particular domain of study and practice. This is followed by a discussion of the convergence and divergence debates in IHRM, and the chapter concludes by questioning whether we can identify

‘an’ IHRM. The case study presented at the end of this chapter provides insights into convergence and divergence of HR practices, drawing on evidence from multinational companies operating in a developing country.

## REASONS FOR THE GROWTH OF INTEREST IN IHRM

IHRM is a rapidly developing field of study. Although Laurent (1986) described it as ‘a field in the infancy state of development’ less than two decades ago, it is argued that considerable progress has been attained recently and only a few scholars would claim that it is still in the infancy stage (Scullion 2001). IHRM gained increased interest from both academic and practitioner communities after the 1970s, with the rapid increase in international business, especially in the form of foreign direct investment (FDI) (UNCTAD 1999). Since the mid-1980s, but particularly during the 1990s, business has become even more international as a result of such developments as the opening of previously closed market economies in Eastern Europe, former Russian republics and China, to international trade supported by extensive deregulation and regional integration, for example through the EU, NAFTA, ASEAN. These changes, together with improvements in communication technologies, have helped to develop a ‘globalized’ world. Among other reasons cited for the growing interest in IHRM are the growing awareness that the success of international business depends primarily on the quality and effective management of human resources (Scullion 2001).



What kind of evidence can you find for increased interest in IHRM among academic and practitioner communities?



### GROUP ACTIVITY

Browse through copies of the *Journal of International Human Resource Management* (JIHRM) in the last 10 years. How has a journal based solely on IHRM issues been justified? Discuss.

Can you identify any significant themes in the JIHRM in the last five years?

### Different approaches to IHRM

Looking at various books with the title of ‘international’ HRM or related chapters on international and comparative issues in mainstream HRM books will reveal that they consider the subject from a number of different perspectives. Dowling, Welch and Schuler (1999, p. 2), for example, identify three broad approaches in the field of IHRM:

- 1 earlier studies examining human behaviour in organizations with an international perspective, which emphasized a cross-cultural approach;
- 2 studies that seek to describe, compare and analyse HRM in different countries; and
- 3 studies that concentrate on aspects of HRM in multinational companies (MNCs).

In fact, as Sorge (1995, p. vii) argues, '[events and developments in] international management and organization, international human resources, international industrial relations and the international enterprise cannot be seen as separate from each other'. However, it is difficult to find a unifying approach in the literature where the above are represented together. Moreover, many of the earlier studies that focused on aspects of HRM in MNCs have in fact merely dealt with the management of high-level expatriate managers (home-country nationals) instead of a systematic study of broader issues concerning HRM in MNCs in different countries.

Recruitment and selection, training and development, performance appraisal and compensation of expatriates have been widely studied in recent years. Management of expatriates, especially, dominated IHRM books: see for example the various editions of *International Human Resource Management* by Dowling *et al.* (1990, 1994, 1999). Although in the third edition two comparative sections have been added, the majority of the chapters are still concerned with the HRM issues pertaining to home-country nationals. Briscoe (1995) also deals with expatriate issues in half of his book, which he argues to be 'the first comprehensive book on IHRM'. The edited volume by Harzing and Ruysseveldt (1995) offers a unifying approach, bringing together the organizational, management, HR and Industrial Relations (IR) issues emanating from the internationalization of business, which is quite different from the expatriate orientations of most of the IHRM books.

In addition to IHRM books, there is a growing body of literature which deals with expatriate issues. The research on the human and financial costs of poor performance or failure of expatriates on international assignments suggests that there is a strong business case for IHRM (Tung 1981; Mendenhall and Oddou 1985; Ronen 1989; Black and Mendenhall 1990; Scullion 1995; Dowling *et al.* 1999). Furthermore, some authors have attempted to explain the benefits and methods of cross-cultural training of expatriates (Gudykunst, Hammer and Wiseman 1977; Earley 1987; Mendenhall, Dunbar and Oddou 1987; Black and Mendenhall 1989; Bhawuk 1990; Bhagat and Prien 1996; Blake, Heslin and Curtis 1996; Gudykunst, Guzey and Hammer 1996).

Despite this strong emphasis on expatriate HR management, particularly in the early literature, there were also comparative studies of HRM and IR at the national (USA, Japan, European countries) or regional levels (EU, Australasia, Latin America). One of the most extensive comparative surveys is the Price Waterhouse Cranfield survey (Cranet-E), which started by comparing HRM practices in five European countries and has recently been extended to cover over 16 countries with the inclusion of Eastern European states and Turkey. Brewster and colleagues have reported widely on these surveys and developed a 'European model' of HRM based on the extensive research databank (see for example Brewster and Bournois 1991; Brewster and Larsen 1992; Brewster 1995). Despite some methodological problems, endemic in comparative studies, some common trends were observed across the participating countries, such as increased variable pay, merit and performance-related pay, flexible working patterns, and a higher importance placed on communication in management of human resources.

Other significant examples of comparative employment studies, such as the ones by Bean (1999), Ferner and Hyman (1992, 1998) and Hyman and Ferner (1994), are centrally concerned with examining and comparing industrial relations in various countries. However, Holden (2001) argues that HRM is not their central concern. A more recent research project is the Best International Human Resource Management Practices Project, which covers 40 countries with an international research team using common research questions, design, and methodology. A first in-depth discussion of

the findings from a subset of these countries can be found in the special issue of the journal *Human Resource Management* (Spring 2002). Members of the research team, led by Von Glinow (2002), present the comparative analyses of 10 countries in terms of selection, compensation, training and development, and the role of HRM.

Some recent HRM books devote chapter(s) or sections to IHRM, such as in Mondy, Noe and Premeaux (1999), Dessler (2000) and Gomez-Mejia, Balkin and Cardy (2001). In these examples, IHRM is considered in a single chapter and largely from the common 'expatriate management' perspective. Two significant examples of HRM books that deal with IHRM as a separate issue in a comprehensive way are the edited volumes by Beardwell and Holden (2001) and Storey (1995, 2001). Storey's edited volume (1995, 2001) has a very similar approach and includes three chapters on international and comparative HRM, such as the European dimension by Brewster (2001, 1995) and the American dimension by Kochan and Dyer (1995, 2001).



What are some of the possible reasons for the emphasis on expatriate management issues within the IHRM literature?

What kind of insight can regional surveys like the Cranet-E provide?



#### GROUP ACTIVITY

Find the Best International Human Resource Management Practices Project in the special issue of the *Human Resource Management* journal mentioned above. What are some of the methodological problems involved in such large-scale regional surveys?

International HRM is a complicated field of study to define. Early research and publications in the field has been anecdotal, descriptive and lacking in analytical rigour (Brewster and Scullion 1997). There have been attempts at defining IHRM through models and examples, but it has been difficult to find a commonly agreed definition. Scullion (1995), for example, suggested the following as a definition of IHRM:

The HRM issues and problems arising from the internationalization of business, and the HRM strategies, policies and practices which firms pursue in response to the internationalization process. (p. 352)

Although he argues that this definition covers a much broader area than only the management of expatriates, and includes management of people worldwide, it is obviously concerned with HRM in MNCs. He also claims that such a definition emphasizes that IHRM is a separate field from comparative employment relations, therefore arguing implicitly that a distinction between international and comparative HRM should be made and that they should be treated separately.

Dowling *et al.* (1999) take a similar approach and define international HRM in terms of HRM practices in MNCs with a model adapted from Morgan (1986; cited in Dowling *et al.* 1999). According to this model, they argue that IHRM involves broadly the same activities as domestic HRM; however, it is the 'complexities of operating in different countries and employing different national categories of workers' (p. 4) that

differentiates IHRM from domestic HRM. They claim that, otherwise, the major HRM activities performed by MNCs in various countries would be the same as their domestic activities but on a larger scale. Although Dowling *et al.* (1999) argue for the divergence debate, which will be discussed later in this chapter, their definition implies a *universal* HRM where the activities would be the same but how they are performed might be different. However, evidence for this claim is still lacking in that, reportedly, mainstream HRM approaches and activities do not easily translate or transfer across national borders.

Brewster (2001) argues that HRM is universal in the sense that 'every organization has to utilize and, hence, in some way, to manage human resources' (p. 255). While questioning the 'universality' of HRM practices in the world, he takes a comparative approach. As already discussed above, based on the data sets gathered by the Price Waterhouse-Cranfield survey, Brewster explores the extent of differences in HRM practices in various countries and regions, questioning if HRM models are converging towards a universal one. In this comparative approach the differences between HRM practices at the national and regional levels are discussed, while a trend towards 'a distinctive and converging European' pattern of HRM is identified. It is important to note that Brewster's (2001) analysis at the country level is based on the divergence approach, which he names as the 'contextual paradigm'. He recognizes that the level of examination can vary from workplace to national settings, and there might be differences such as size, ownership structure and sector among organizations in the same country.

Holden (2001) proposes that drawing a distinction between international and comparative HRM is useful in order to understand and decipher the various approaches and debates in the IHRM field as a whole. He defines international HRM as 'the creation and implementation of HRM strategy and policies and issues of international organizations', and comparative HRM as 'dealing with HRM concerns in national and regional contexts' (p. 647). Bean (1999) argues for a similar conceptual distinction within industrial relations, which can be used in the area of international HRM, furthering Holden's (2001) proposal:

- 1 'international' or 'transnational' studies deal with 'institutions and phenomena that cross national boundaries, such as the IR aspects of MNCs';
- 2 'foreign' studies describe IR in other countries to one's own;
- 3 'comparative' studies offer systematic and analytic investigation of IR in two or more countries (p.4).

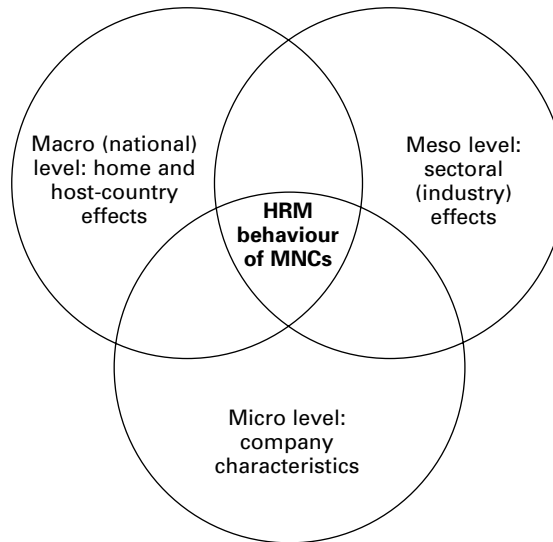


### GROUP ACTIVITY

Find earlier definitions of IHRM from a variety of sources. Have there been any significant changes in the definitions through the years? What kind of characteristics can you observe?

In the light of the above discussion, MNCs take a special place at the intersection of comparative and international HRM. The important questions are: if the level of analysis taken is the country (national) level, where do the MNCs belong? Are they considered as domestic companies in the respective country? In the Price Waterhouse-Cranfield survey, for example, subsidiaries of MNCs in the participating countries

**Figure 4.1** Influences on HRM behaviour of MNCs



were included, but in the analysis they were not treated differently from the domestic companies. In many ways MNCs probably cannot be regarded simply in the same category as domestic companies because of home-country and host-country effects on their HR behaviour.

In fact, the HR behaviour of MNCs is affected by three groups of factors at three levels (Figure 4.1). At the macro level is the national business systems, in terms of home-country and host-country effects; it is argued that MNCs are 'embedded' in their home countries' national business systems and when they go to other countries they are faced with different national business systems (Ferner 2000; Holden 2001). Industry-sector effects represent the mezzo level, and the company characteristics are at the micro level. The HR policies and practices of a MNC in any host country therefore need to be analysed at the intersection of these fields, using both international *and* comparative HRM. Within this theoretical framework, the comparative HRM studies at the macro level, dealing with HRM at the national level, have used various perspectives based on theories of different disciplines. In the next section we will discuss the convergence and divergence debates and the significant approaches within them.

## APPROACHES TO HRM IN MNCS: THE CONVERGENCE AND DIVERGENCE DEBATES

The acceleration of international business in the 1950s brought about a search for management practices, especially in the form of a 'one best way' approach to managing people in an effective way across national borders. One of the dominant strands in international management research, the convergence approach, which Brewster (2001) called the 'universalist paradigm', propagated this perspective (p. 256). It has been the dominant approach in the USA. It is argued that the convergence perspective and its enduring influences on management and organization emanated from the seminal text by Kerr *et al.* (1960), *Industrialism and the Industrial Man*. Kerr *et al.* firmly

supported the argument that business practices around the world would converge towards the most efficient, namely the US model, as technology imposes similar structures and work organization (Holden 2001). As a 'monothetic' social science approach (Brewster 2001, p. 256) the convergence approach looks for similarities in business, and for our purposes, in HRM, applications in different countries. The convergence perspective has three main assumptions: firstly, improving performance through high-performance work systems is the ultimate objective in all organizations and cases (Brewster 2001). Secondly, this universal aim can be achieved by using sound and effective management principles that hold true regardless of differences between national environments. Finally, it argues that if local practices are different from these principles, they are expected to be replaced with the 'one best way', converging mainly on the American model as the leading industrial economy (Dowling *et al.* 1999).

The studies by Drucker (1950), Galbraith (1967) and especially Kerr *et al.* (1960) are regarded as the origins of the more recent globalization debate. The forces of globalization, such as the opening of world markets, deregulation, regional integration and improvements in communication technologies have been encouraging notions of convergence around one-best-way practices. Taking its roots from convergence theory, the proponents of the more recent globalization theory claim a 'borderless world' where 'transnational' or 'global' companies operate in many countries like 'insiders', detached from their original nationalities (Ohmae 1990; Reich 1990). The main proposition of the globalization argument is that nationality factors in the operation of economic systems and of companies are no longer influential or important, as international companies become 'transnationals' which converge to a new 'best model' (Bartlett and Ghoshal 1989).

The convergence hypothesis has gained much support in the context of globalization, and has become influential in the management and international HRM literature. However, there is a growing body of empirical support for the continuing influences of national and regional variations on the distinctiveness of management and organizational behaviour. The challenge to the globalization thesis gained ground in the 1970s especially when Japan, with its distinctive work organization and managerial practices, started to emerge as an industrial power in the world economy: there was much less convergence found than expected in Japanese organizations towards Western (American) employment policies and practices. Even Kerr *et al.* (1971; cited in Bean 1999) in a later postscript modified their views, stating that they had been too simplistic in theorizing how technology would uniformly influence organization and management. They proposed that the convergence of industrial countries would be towards a range of alternatives, rather than to one specific model.



#### GROUP ACTIVITY

Japanese management systems have subsequently been at the core of a similar convergence debate, especially in the automobile production industry. Find some of the sources on this issue, starting with Womack *et al.*'s *The Machine that Changed the World* (1990), to compare and contrast the arguments between the two theses, that is convergence towards American and Japanese management systems.



Despite a growing body of evidence refuting the convergence hypothesis, it has been argued that it 'became an established paradigm which many researchers found difficult to give up' (Dowling *et al.* 1999, p. 13). The arguments and evidence challenging globalization and convergence are provided mainly by two strands of literature, namely the culturalist and institutionalist perspectives. We will discuss two of these approaches in the next section, which in fact both reject the convergence/globalization thesis on the basis of the influence of national and regional specificities on the business environment and behaviour of companies, but with considerably different theoretical frameworks.

The divergence approach or 'contextual paradigm' in Brewster's terminology (2001, p. 258) does not set out to search for evidence to support the claims that management is becoming more alike around the world. Instead it searches to find the 'contextually unique' (Brewster 2001, p. 258) practices and approaches. For our purposes in IHRM, this research paradigm focuses on the variation of policies and applications across different national and regional contexts and tries to understand the particularities of the context with a view to decipher why and how such differences have emerged in these settings. There are two main strands of literature in the divergence paradigm:

### **The culturalist approach**

The culturalist approach explains the differences in managerial behaviour as mainly stemming from variations in national culture (Hofstede 1980; Laurent 1983; Adler 1991). It argues that globalization as a unifying influence as such can never be realized because of the deep and multi-layered influence of national culture on the organization and behaviour of companies (Adler 1991). The culturalist perspective attempts to explain variances in work organization, managerial behaviour and HR/personnel practices by the national 'cultural distinctiveness in terms of values, ideas and beliefs shared by people in a society' (Olie 1996, p. 127). This approach found widespread acceptance in the IHRM literature and many studies, based mostly on Hofstede's concepts of national culture and value-based behavioural dimensions, have attempted to account for the influence of culture upon MNCs' behaviour (see for example Kogut and Singh 1988; Wong and Birnbaum-More 1994).

Although this approach offers a counter-argument for the sweeping claims of globalization and the prevalent acceptance and usage with which globalization is treated in the literature, there are some key problems with the culturalist approach. Firstly, the literature, which draws on the culturalist approach, suffers from methodological inadequacies and weak conceptualizations of culture where culture is used simply as a synonym for nation without any further theoretical grounding (Olie 1996). Moreover, this approach views national values and norms as fixed and static constants of national societies. The behavioural indices developed by Hofstede (1980) present such artificial constructs of such national values and norms. Finally, even when the dimensions of Hofstede's (1980) or Laurent's (1983) theories are used to explain the effects of these behavioural indices on the variations of work organization and managerial behaviour in different countries, they are still of very limited use in explaining the underlying reasons for such differences (Ferner 2000). While many researchers acknowledge the significance of culture and the influence of underlying cultural differences on the HRM behaviour, methodological problems in defining culture so as to capture meaningful insights should be acknowledged (Holden 2001).





### GROUP ACTIVITY

Perform a literature search on 'cultural' IHRM. Identify one of the papers that uses Hofstede's well-known behavioural indices, and discuss the reasons for their use as a theoretical framework for IHRM research.

### The institutionalist perspective

The institutionalist perspective presents itself as a more comprehensive framework for the comparative study of different national systems. This approach is variously characterized by Maurice *et al.* (1980) as the 'societal effect' approach, by Lane (1989, 1992) and Whitley (1992) as the 'national business systems' perspective, and Hollingsworth and Boyer (1997) as the 'social system of production' approach. The variances among these perspectives are in fact small and they all argue that organizational behaviour is determined by the social-institutional environment of nation states or at sub- or supra-national levels.

Hollingsworth and Boyer (1997) define the social system of production as consisting of:

institutions or structures of a country or a region . . . integrated into a social configuration: the industrial relations system; the system of training of workers and managers; the internal structure of corporate firms, the structured relationship among firms in the same industry on the one hand, and on the other firms' relations with the suppliers and customers; the financial markets of a society; the conceptions of fairness and justice held by capital and labour; the structure of the state and its policies; and a society's idiosyncratic customs and traditions as well as norms, moral principles, rules, laws, and recipes for action. (p. 2)

Business systems, as the sum of intertwined structures and institutions, thus shape the internal organization of firms and the nature of markets and competition. They reportedly have evolved over time, and the different national development paths followed by countries have meant different national forms of business organization. Lane (1992) argues that national systems gain their distinctive character at an initial stage of industrialization but they continue to evolve as they face social, economic, political and technological challenges, and thus are not rigid and unchanging. The interrelated nature of the institutional components, however, means that change in one will lead to change in the others. In addition to the historical, path-dependent evolutionary nature of business systems, Lane (p. 64) also argues that there is a two-way relationship between social institutions and businesses, that is a 'reciprocal conditioning of business organizations and institutional complexities'.

As such, the institutionalist approach presents a framework useful for the comparative study of different national systems. Arguing that business organizations are 'embedded' in their own national systems, such a framework also allows the comparison of the organizational behaviour of companies from different national environments. By using this framework, the case of MNCs – which are in effect embedded in two distinct institutional environments, that of the parent country and the host country or countries – can be analysed, offering insights into how MNCs behave in host

countries in which the institutions that shape market and internal structures are particularly different from those of their countries of origin.



Compare and contrast advantages and disadvantages of adopting culturalist or instrumentalist approaches for studying IHRM?

## INTERNATIONAL AND COMPARATIVE HRM IN MNCS: MICRO, MESO AND MACRO EFFECTS

As identified in Figure 4.1, there are three main levels of influence over the behaviour of MNCs. Host-country national business systems present themselves as macro level effects. The meso level effects come from the industry sector, as different industries may predict different HRM approaches. Finally at the micro level is the company (institution), which is characterized by such variables as age, size, ownership structure, employee relations, management style and organizational culture. The HRM behaviour of MNCs is shaped at the intersection of these three different levels of variables. In addition to the divergence debate discussed above, sectoral effects as the meso variable and the company characteristics as the micro level will also be discussed shortly, to be able to give a framework for investigating the HRM behaviour of MNCs.

MNCs are not the only actors in the international business arena any more. It is argued that the rapid internationalization of business now includes small and medium-sized enterprises (SMEs) as well as public-sector organizations (Dowling *et al.* 1999; Brewster 2001). Despite the growing international role of SMEs and public-sector organizations, MNCs, as the established players of the international arena, still have the major share, representing a significant domain of research and practice in IHRM.

As the discussion on divergence above reflects, the HRM behaviour of MNCs is shaped by their own national business environments in which they are deeply 'embedded'. MNCs from different national origins display variances in their HRM behaviour, which reflect the differences inherent in their market conditions as well as the resources available to them. Large MNCs overwhelmingly originate from the most economically developed countries, and have HRM policies and applications that are shaped in response to the specific conditions of their home-countries' national business systems. As the national business systems of even the developed countries, let alone those of the less-developed/developing countries, are not fast-becoming similar to each other, or to the American model, it can be argued that the MNCs in different host countries have to adapt their HRM behaviour to the specific conditions and circumstances of the host countries.

The middle-level element of the framework is the sectoral effects, the industry to which the companies belong can be of vital importance for a number of reasons. Firstly, the structure and operation of the industry shape many aspects of individual firm behaviour and performance. Secondly, the sector is the intermediate level where the effects of a national business system meet the individual firm. Such effects might be varied in defining firms' behaviours in different industries. That is, although the elements of a national business system affect an individual firm's behaviour, it is not possible to find the same features in all industries within the same national system. In the case of MNCs, the sectoral effect can be even more important as the industry can

act as the mediator in international business. Marginson and Sisson (1994), for example, claim that the nature of particular business sectors has even more effect on the HRM practices of MNCs than home- or host-country effects.

In a similar vein, Ferner (1997) hypothesizes that the transmission of home-country influences will be more significant in more 'globalized', highly internationalized sectors as opposed to domestically oriented industries. It is argued that in highly integrated production or service sectors, such as automobile production, chemicals, electronics or investment banking, multinationals tend to have a centralized approach towards their HRM/IR applications where operating units are more integrated into the international corporate strategy of the parent company (Ferner 1997). This facilitates the transfer of home-country employment policies and practices to foreign subsidiaries. On the other hand, diversified conglomerates or companies which operate in more 'polycentric' or 'multi-domestic' sectors serving national markets, such as food and drinks, textiles, clothing and retail banking, are likely to call for a decentralized approach with greater local management autonomy and lower international integration. In such industries transmission of country-of-origin policies and practices to host countries might be expected to be much less, with greater adaptation to host-country practices. Therefore sectoral effects need to be taken into consideration as a crucial element for the understanding of a MNCs' HRM behaviour, together with the notions of national business systems and company characteristics.

A further component of the conceptual framework is the impact of the company's features, such as its age, size, ownership structure, employee relations, management style and organizational culture on HRM in MNCs. The age, time and length of internationalization of the company can predict some aspects of its HRM behaviour. For instance, a younger and newly internationalizing company might not have firmly established international HRM policies and practices. Size of the company, in terms of the number of its employees, can also predict establishment of HRM applications: smaller companies might not need an established, systematic HRM approach. If the MNC is large internationally but small in size in that particular host country, it can handle its HRM by, for example, an ethnocentric approach (Perlmutter 1969; Dowling *et al.* 1999), that is by transferring its home-country applications directly to the subsidiary, or by a polycentric approach which involves adopting the host-country applications.

The ownership structure of the MNC is also argued to be an important variable in shaping the HRM behaviour. Many MNCs engage in FDI, particularly in developing countries, through international joint ventures (IJVs) rather than wholly-owned subsidiaries (WOS). Such ventures are increasing in number at a growing pace, especially where American companies are involved (Beamish 1988; Hladik 1985; Shenkar and Zeira 1987). IJVs are generally defined as subsidiaries of MNCs where the equity ownership is shared between a local and a foreign partner, with percentage ownership of partners defined for individual studies, ranging from 5–20 per cent minimum to 80–95 per cent maximum (Beamish 1988; Martinez and Ricks 1989; Demirbağ *et al.* 1995; Tatoğlu and Glaister 2000).

Research findings suggest that there are certain implications of shared ownership for the transfer or the choice of home-country HR/IR policies and host-country applications adopted. The parent on which the subsidiary is more resource-dependent, for example, is found to be more influential on the HR decisions of US companies in Mexico (Martinez and Ricks 1989). While the ability of the local partner to use its expertise and knowledge to access raw materials and local markets is a source of influence, control of product and process technologies is the main source of power in

decision-making (Shenkar and Zeira 1987). The effects of the ownership structure can therefore be considered as a possible source of impact on the transfer of parent-country HR policies and applications to subsidiaries.



What are the issues that make IHRM in MNCs a complicated field both for academics and practitioners? How do these issues interact with each other?

By investigating MNCs from different home-countries operating in various host-countries, research in IHRM works to understand the interrelation between parent- and host-country effects and how these shape the transfer of international HR policies and practices of MNCs. The mezzo-level, that is the industry sector, effects and the company characteristics as the micro-level effects, need to be taken into consideration as well. Research with such a framework can provide especially interesting results if the MNC is from a developed country and their subsidiaries are located in the distinctive business environments of less-developed or developing countries. In the case that follows, summary findings from such a study are presented for discussion.

#### Case study 4

##### US MNCS IN TURKEY

Research on international and comparative HRM is still dominated by those done in and about developed countries, especially the Triad, that is the USA, EU countries and Japan. Although recent years have seen increases in the number of similar research in the developing or 'emerging' markets such as China, India, and Eastern European countries, these do not yet represent a significant share. In fact, studies on HRM in multinational companies in such different environments may shed light on our understanding of comparative and international HRM, and especially the role of MNCs in the convergence or divergence of HR management. The following case study draws on some findings from a qualitative research done on the transfer of HR policy and practices by American MNCs their subsidiaries in Turkey.

##### Insight into the Turkish business environment

Turkey is not an entirely unfamiliar country to those in Europe, especially through its long-standing efforts to become a member state of the

European Union. It is generally classified among the developing countries by international organizations such as OECD. It has indeed got many of the characteristics of developing countries, in terms of its market size (large and growing), labour market (young and abundant workforce, which is cheap but unskilled, with a high unemployment rate), political and economic environment (instability and widespread corruption). However it has also some features that are argued to make its business system a 'distinctive' one, which does not simply fit into developing/emerging markets category.

Two of these factors are about the role of the state in the business and some related features of the Turkish private sector within this environment. Although interventionist and in many instances suppressive, the state has been in support of the development of a well-functioning private sector. Therefore legislation created a business environment favouring the employers, rather than workers. There has been a tradition of private sector since the 1950s, even though the state-owned enterprises (SEEs) in many sectors, from banking to textiles to food, have

been dominant. The economy has been liberalized and an export-oriented approach has been brought in since the 1980s, which had aimed at the growth of the private sector by providing some of the necessary conditions. So the business environment is now argued to be quite permissive for the management of human resources, especially in terms of collective employment relations, hiring and firing, compensation, etc. The labour and union laws are argued to be loose and more in favour of employers than of employees. Unionization and unions are weak, especially since after the 1980s because of the changes in law, which were arguably introduced in order to provide a more accommodating environment for the employers to flourish in international markets.

Turkey has long been among the most liberal environments for foreign direct investment. In many of the emerging economies certain restrictions have been imposed on FDI, in terms of establishment of compulsory joint ventures, employment of home-country nationals, use of expatriates, etc., whereas in Turkey no such restrictions existed for a long time. Restrictions on the type of industries that foreign capital can invest have also been largely lifted, except partial limitations in some sensitive industries, such as defence.

Within this environment, one of the distinctive characteristics of the Turkish private sector has been large holding companies that

- (a) operate in many (significant) sectors, including banking and finance
- (b) have been in operation for decades, which started as family businesses, and very much respected and trusted by consumers and employees;
- (c) are also quite powerful in their individual company relationship with the state/government due to the same respect, and have always been supported by the state;
- (d) have powerful strong collective relationships with the state through their various associations.

These holding companies engaged in IJVs with foreign partners, more so after the liberalization of economy in the post-1980 period. Establishing partnerships with foreign firms was among the ways of competing in the domestic market after the reduced or altogether abolished tariffs and taxes. They were also very eager to learn from their foreign partners about production and management. These large holding companies act upon their power on, and knowledge of, the market and in their relationship with the state/government. They also have a long-standing experience of manufacturing and management (by licensing arrangements, contract manufacturing, etc., especially in some sectors such as pharmaceuticals, car production, household electronics), and available financial resources. These large holding companies in Turkey hence use their 'resources', namely (i) market power and knowledge, (ii) previous long-standing experience in manufacturing, (iii) good reputation, (iv) links to the state, and (v) access to financial resources, in the IJVs. Therefore they were/are not in a weak position when it comes to forming IJVs, especially in comparison with their counterparts in the above mentioned emerging markets (Child and Faulkner, 1998) which are at more disadvantaged positions due to their lack of the similar resources. As such, Turkish, especially holding, companies can be in a rather strong position in negotiating with their joint venture partners. This argument is discussed below in relation to their roles in the management of companies, especially HRM.

### Three cases

In the research, from which partial findings are cited here, one of the major issues studied is how the Turkish business environment influences the transfer of American MNC's HR policies to their subsidiaries operating in Turkey. Selection, training and development, performance management and industrial relations are among the substantive areas of HRM studied for two reasons: first, these are the most likely areas that American companies want to transfer their corporate policies; second,

they are also the ones that might be most affected by the particular business system. Case companies in the research project are selected to represent both IJVs and WOS in various sectors, although only three IJVs are discussed here.

### IJV1

The Turkish parent of IJV1 is one of the most reputable large holding companies in the country and is active in a number of sectors, including pharmaceuticals, bathroom suites, personal care and cosmetics, finance, and IT. It started as a family company in the 1960s and developed into a conglomerate holding company. Although still owned by the family in majority, some of its affiliates' shares are partly publicly traded. It has extensive experience in and knowledge of the Turkish market in the various industries it operates. Its owners have very good relations with the state and are powerful business people.

The Turkish parent company started the production and sales of the American parent's product under a license agreement in the early 1960s. It had since then gained experience in manufacturing, and acquired the majority share in this sector through its marketing and sales activities. In the early 1990s, IJV1, in which Turkish and American parents shared 50–50 equity ownership, was established. IJV1 is the only joint venture that the American parent has been involved in its international operations, whereas the Turkish parent does not accept a minority share in any of its IJVs with various foreign parents. In the IJV agreement, management and functional areas were shared between the two parents, where sales and marketing together with HRM were left to the Turkish parent, while production (and related functions such as quality assurance) and finance were given to the American parent. Production is the core area where the American parent has extensive investment in R&D, hence the know how, and international experience. Sales and distribution of their products require the Turkish parent's broad knowledge of and experience in this sector in the Turkish business environment as a majority of

sales are made to the national services which can only be realized through the large-scale bidding regularly invited by the state institutions. HR/IR can also be argued to be a similar function in terms of the experience and knowledge needed, although less so as American parent's HR policies can in fact be transferred and applied through experienced and knowledgeable managers in the Turkish business system.

The HR function, managed by Turkish nationals, has very close connections with the Turkish holding's HR coordination unit. Selection, performance evaluation and compensation policies are set and applications are closely controlled by the holding HR coordination. However, some of the policies and applications in these areas closely resemble American HR policies in general. There are also some training methods taken from the American parent and used in the Turkish subsidiary.

Although there are no formal reporting lines in the HR function between the Turkish subsidiary IJV1 and the American parent's corporate head office, regular reports summarizing significant issues are sent. The American parent is argued to have a more of a consultation and supporting role in HRM: 'they are very much willing to share their knowledge and experience about the issues that we ask help for'. The HR management team in the Turkish subsidiary is invited into international HR conferences and meetings held by the American parent where information on the current and future policies as well as 'best practices' from subsidiaries are shared. IJV1 is also provided with information on changes and development of policies and given extensive help in incorporating these into its HR system if it decides to do so. The American parent is argued to be very much willing to take more control in HRM where and if it can, although it had from the beginning been agreed that HR is within the Turkish parent's responsibility.

Unionization is quite strong in the sector and IJV1 used to be unionized before the IJV was established. However, through the use of a subcontracted workforce in manufacturing, the



company went through a de-unionization process. Currently there are neither collective employment procedures nor a recognized union. The Turkish parent's other company in the same industry (and companies in some other industries) continues to be unionized. The American parent, although unionized in some countries, such as in the UK, is strongly inclined to avoid unions when and where it can.

### IJV2

In IJV2 a very similar situation to that of IJV1 is observed: the Turkish parent is another one of the oldest and largest holdings in Turkey. It is active in many industries, e.g. banking, car production, household equipment manufacturing, food, and retailing to name but a few. It has been in many of these sectors since the 1960s and 1970s, and developed a very trusted and respected name in the country. Some of its companies' shares are publicly traded, although the holding and the affiliates still largely belong to the family members. The owners' relationship with the state has always been very positive and active business members are among the most powerful businesspeople in the country. Although it is involved in many IJVs in various industries with parents from different countries, like IJV1, it never accepts a minority ownership. In all of the IJVs it is involved it has therefore at least 50 per cent, or equal share with the foreign parents.

The Turkish parent established its first relationship with the American parent very early, in the late 1920s, when it had began distributing the latter's products in Turkey. In the late 1950s, a licensing agreement was signed between the Turkish and American parents for the licensed manufacturing of the products. The Turkish parent established the company, which later was the basis for IJV2, and started manufacturing in a new plant, which was then a very important achievement for the Turkish industry. The American parent took a minority equity stake in that company in the early 1980s. As part of the American parent's move to enlarge its 'traditional'

markets into 'emerging' markets, a new JV agreement was reached in the late 1990s, where the equity shares of the two parents were equalized (both less than 50 per cent), and the board and management responsibilities were shared equally. Company structure and functions are agreed in detail in the JV contract, where the general manager is from the Turkish parent and deputy general manager is from the American parent. Finance, and sales and marketing are within the American parent's responsibility, whereas production and HR/IR functions are left to the Turkish parent.

The American parent had made a large investment for a new production site in one of the most industrialized areas of Turkey, providing thousands of new jobs. The land was acquired and permission for the site was taken from the government. Although the company continues to serve the domestic market, its production is now geared towards supplying the European markets of the American parent. The American parent's production system, which involves work group organization, has been brought and applied into the new plant.

IJV2's relations in HRM with the Turkish parent are organic, although there are no formal reporting lines in place. As in IJV1 described above, selection, performance management and compensation systems are developed by and transferred from the Turkish parent's holding HR coordination unit. There are no formal or informal lines of reporting and communication between IJV2's HR/IR function and American parent's regional or corporate head office HR/IR. However, the new production system transferred from the American parent requires certain HR/IR policies and practices to be applied, especially in selection, training and health and safety areas.

New employees hired need to have a certain level of formal education and skills, which will allow for further development through company training. In the new work group organization, each employee has to be in command of a minimum number of different tasks and able to replace each other. Therefore continuous and



rigorous training and development of blue-collar workers have become a very important task for the HR/IR function. Although there are no formal reporting lines with the American parent specifically in HR/IR, through the reporting procedure of the production system used (although in varying degrees) globally, certain HR/IR issues are reported. The annual audit done by the American parent has sections on employee training and development, and health and safety.

As in IJV1's industry, unionization is also strong in this sector, nationally and internationally. IJV2, since its initial establishment as a Turkish company producing under license, has long been unionized. There have been no changes in the relations with the unions since the new IJV arrangements in the late 1990s. In fact, both management and the union agree that employment relations continue smoothly, where both parties support each other, being aware of the fact that 'we are on this boat together'. Unions have been in a very supportive role during the economic crisis in 2001, and in the establishment of the new production site and the new work group organization. The American company, perhaps as a feature of its sector, is unionized in many countries and is not known to be specifically against unions.

### IJV3

The Turkish parent in IJV3 can be described in almost the same way, with the Turkish parents in IJV1 and IJV2, in terms of its history, the industries it is active in, reputation in the market, and relations with the state. IJV3 however was first established in the early 1990s where the Turkish and American parents share the equity ownership 25:75. The American and Turkish parents had no previous business relationship and this initial business venture has been realized after the liberalization of the Turkish business environment.

The Turkish parent is not involved in the management of IJV3 at all. It is represented in the quarterly board meetings but the company is managed entirely by the American parent, although the management almost completely

consists of Turkish nationals, except the finance director's position, recently filled by a Turkish manager. The absence of the Turkish parent in the management is reflected in HRM, where the managers define their company as 'an entirely American company'.

The HR policies are developed at the American parent's corporate headquarters, disseminated to the subsidiaries through regional head offices. Some policies might be adapted to the legal and market environment, such as when ethnic diversity is not an issue for the specific country, but gender diversity is closely followed in the application of the diversity policy where they aspire for 30 per cent female managers. Selection criteria and methods are centrally designed and closely followed. As for compensation, 'you cannot argue that you want to be in the 4th quartile in Turkey when the company policy is to be in the 3rd quartile of the market in the respective country'. International reporting lines are formally set, annual plans and budget are agreed, and applications are closely monitored through regular and rigorous reports by the regional head office of the American parent.

Although not involved in the management of the IJV3, the Turkish parent has a very significant role in the relations and communication because of its strong and powerful connections with the state. The company operates in a very 'sensitive' sector and communication and negotiations with the government have always been very important. The Turkish parent must have been especially indispensable at the start-up phase, as the sector used to be a state monopoly by law and was then opened to private businesses for the first time.

IJV3 was never unionized. A union has tried to be organized at the plant but was not successful 'because our employees did not want a union'. Management claims that employees would want a union only to be able to get better terms and conditions but the company already provides them with excellent conditions in compensation (pay and benefits), promotion, communication, and working environment. However, they also claim that they would in any way not oppose it

should their employees want a union, as their (American parent's) corporate policy is not to conflict with employees' rights and wants. The American parent is unionized in the USA and the union has a powerful stance, especially in its main plants.

### Case study discussion topics

- 1 What are the similarities and differences in the three cases described?
- 2 What might be the reasons for American parents to engage in IJVs with their Turkish partners?
- 3 How do these differences influence the relationship between the American parent and the Turkish subsidiary in terms of HRM?
- 4 What might be the possible (international and domestic) outcomes of these arrangements on the transfer and application of HR policies of American parents to their Turkish subsidiaries?
- 5 Discuss some possible learning points for American parents from their experiences in Turkey that might be transferred to their subsidiaries in other developing countries.

### SUMMARY

This chapter has examined the reasons for the growth of IHRM as a field of study, and has identified the various approaches within IHRM, such as international and comparative studies. The chapter also reviewed the convergence and divergence debates that prevail in the IHRM literature. Finally the chapter examined MNC as a particular domain within the IHRM field, and has concluded with a case study on HRM policies and practices of various US MNCs in a developing country, Turkey, in an attempt to understand the significant factors that impact on the transfer and application of their HRM policies to their subsidiaries.