CHAPTER 1

Introduction to International Dimensions of Human Resource Management

1.1 The Global Economy and Multinational Companies

In today's highly competitive global business environment, organizations need to aggressively compete for new markets, products, services, and the like in order to develop and sustain competitive advantage in the global arena. For many years, multinational companies[1] (those operating in more than one country) have effectively managed their financial and material resources globally, leveraging such things as economies of scale, low cost production, and currency fluctuations. This book accepts the fact that the competitive economy in which most companies operate is, indeed, the *global economy*. Along with financial and material resources, firms must also compete for human resources. Human resources, like all other business resources, are now being managed on a global scale – and those firms most effectively competing for talent and unlocking their employees' potential are clearly winning a competitive advantage. This book focuses on global firms' human resources and how to most effectively manage the global workforce.

Multinational Companies' Growth and Structure. Let's begin with how firms grow their geographic reach around the world.

Every organization, with few exceptions, has a country of origin. This is generally the country of the founder's nationality and often the country where the firm's headquarters are located and to which foreign or host national subsidiaries report. This is generally the country defining the firm's domestic market and from which it will build its international market. Many, but not all, companies grow by competing first within a largely domestic market and then competing on a global scale. Organic global growth occurs as firms naturally (and relatively slowly) expand their market reach around the world by gradually expanding their markets, opening subsidiaries in other countries, spreading production and distribution locations around the world, and so forth.

Multinational firms may also grow inorganically (and relatively quickly) through mergers, acquisitions, international joint ventures, and alliances. These methods for growing globally pose a different set of challenges for HR professionals because, in addition to managing the scale and geography, there are also new HR systems to be merged, employees to be integrated, cultures to be assessed, work to be divided, and the like. In acquisitions, the acquiring firm purchases a target firm whereas mergers are the blending of two firms into one. The line between a merger and an acquisition becomes blurred as the merger departs from a 50-50 blend of two comparably sized firms. Mergers and acquisitions will occur for several possible reasons, including an attempt to consolidate and control more of an industry, to gain access to products, to gain entry into a geographical region where they are not represented, underrepresented or previously unsuccessful, to have access to the target firm's research and development, patents, licenses, and the like. Whatever the reason, there are synergies a global firm expects to achieve by acquiring or merging with another firm.

In international joint ventures and alliances there are two (or more) firms from different countries involved in a jointly owned and/or jointly operated business venture. The benefit of these international alliances and joint ventures is an expeditious expansion of global resources, at minimum, across two countries. These ventures and alliances may range from two firms creating a third, newly formed more permanent business (the typical international joint venture) to more temporary or cooperative arrangements, such as licensing and royalty or project-based agreements. In the latter, these ventures tend to include partners with complementary roles.

Whether through organic or inorganic growth, as firms expand globally, their organizational structures tend to become increasingly more complex. The most basic organizational structure of a firm operating globally has a corporate headquarters located in the company's country of origin and at least one (but often several) foreign subsidiaries. These foreign subsidiaries may perform a variety of functions, such as production, sales, administrative hubs, research and development sites, call centers, distribution centers, and so forth. Firms organize the relationships among their foreign subsidiaries – and with the headquarters – in three predominant ways: by geography, by business units, or through a matrix structure. Firms organized by geography may be organized by countries or, more typically geographic regions (e.g. the Americas, Asia, Middle East, Europe) reporting into headquarters.

There are two factors to consider which will influence a firm's organizational structure across its foreign subsidiaries. They are (1) geographic dispersion and (2) multiculturalism.[2] *Geographic dispersion* is the extent to which a firm is operating across borders and must coordinate operations across borders in order to be effective. *Multiculturalism* is the extent to which the workers, customers, suppliers, etc., are from diverse cultural backgrounds and must coordinate the activities of people from diverse cultures in order to be effective.

Operating with both geographic dispersion and multiculturalism concurrently, organizations must achieve a dynamic balance between the need to be centralized, or tightly controlled by headquarters, and the need to be decentralized, or operating differently across diverse locations.[3] Extreme centralization can provide an organization with a variety of competitive benefits such as economies of scale (and associated cost controls), improved value chain linkages, product/service standardization, and global branding. Extreme decentralization, however, can also be useful, enabling a firm to modify products or services to fully meet local customer needs, respond to local competition, remain compliant with various governments' regulations in different countries of operation, readily attract local employees, and penetrate local business networks. These two countervailing forces, centralization and decentralization,[4] will affect a firm's organizational structure by reinforcing or relinquishing central (controlled by headquarters) or local (controlled by subsidiaries) control. The level of autonomy

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and control each country has relative to the headquarters is a strategic issue depending on the amount of global integration and local responsiveness sought by each firm respectively.

As firms become more diversified with multiple lines of business, the strategy of the firm as a whole may be better served with each line of business operating as a relatively separate (more flexible and more responsive) entity. This is the structure of firms organized by business unit. In firms with a matrix structure, there is an acknowledgement that geographies may need some degree of local responsiveness and that the repetition of administrative activities across the business units does not leverage economies of scale for the firm as a whole. In other words, neither organizing by geography nor by business unit is, on its own, effective. The solution is for firms to structure themselves into a matrix having geographical regions embedded within business units, or vice versa. The matrix organizational structure is popular among large and mature firms operating globally. The structure, as you can imagine, is complex.

1.2 Managing Human Talent for Global Competitive Advantage

Even in the most complex organizational structure, the matrix structure, organizations' competitiveness on a global scale is largely contingent on the ability of firms to strategically adapt, reconfigure, and acquire the resources needed for the ever-changing global marketplace. Given that it is the *people* within organizations who sell and market, develop products, make decisions, and implement programs, human resources are vital to the success of an organization. The allocation of human talent worldwide and the application of human resource practices congruent with the organizations' strategic goals to help manifest the firms' strategic capabilities are a means to facilitate the successful implementation of firms' global business strategies.

Human resources, like all other resources in firms with foreign subsidiaries, should be managed on a global scale. When to move jobs? Where to move people? Whether to leverage local talent or search for talent globally? How to create synergy within units across countries? These are a few of the many human resource challenges facing firms today. We believe, as we hope to illustrate in this book, that in our ever-increasing knowledge economy, winning in the global arena will largely depend on how well firms can leverage, attract, develop, engage, and motivate the capabilities of their human talent globally.

1.3 This Book

This book was written to offer a framework for understanding the complexities of managing the global workforce. The framework introduced in this book and illustrated in Figure 1.1 is helpful for understanding the challenges and issues you must address and the decisions you must make when managing human talent on a worldwide basis. The chapters are organized around progressive themes within each of the book's two major sections. The first half of *International Dimensions of Human Resource Management* covers the three foundational areas for managing a global workforce: business strategy, comparative HR systems, and cross-cultural issues.

Focusing on global business strategy, Chapter 2 describes the strategic levers and the ways in which human resource practices

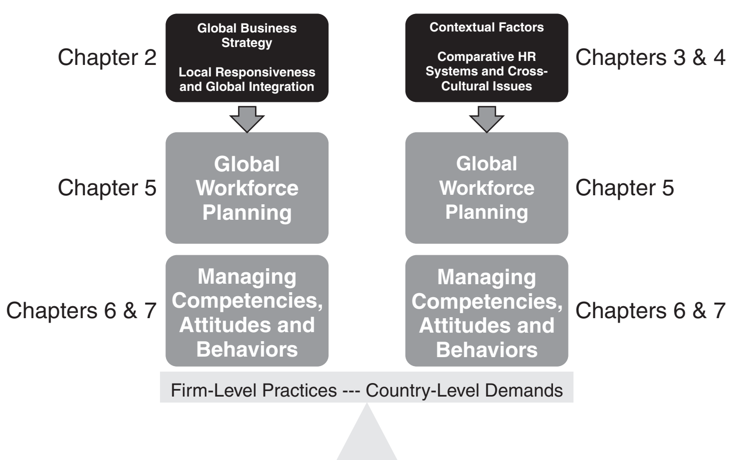

Figure 1.1 The Balance of Firm-Level Strategic Demands and the Country-Level Contextual Factors

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may vary depending on the strategic goals of the transnational firm. Chapter 2 also discusses the various strategic capabilities for which global firms strive, such as global integration, local responsiveness, and worldwide innovation and learning – exploring the various ways human resource practices can facilitate these strategic capabilities. This chapter will ask and answer questions, such as: How can we gain a competitive advantage in managing a global workforce? What tasks and strategic HR decisions will we have to adopt in this area? Will we need to use the same (or a similar) system of managing workers throughout the company's international structure? What barriers or difficulties will stand in the way of its implementation? What can we do to facilitate cooperation and exchange of experiences among employees working in different subsidiaries?

Chapter 3 focuses on comparative HR systems, the various fixed aspects of countries' human resource systems, such as labor unions, educational systems, legal systems, and so forth. These dimensions are particularly relevant when transnational firms operate in multiple foreign countries (as most do), adding to the complexity of managing a global workforce. This chapter will ask and answer questions, such as: What are the cross-border differences in employment and labor laws, workforce competence (e.g. literacy rates and educational systems), labor economics, and unionization?

Chapter 4 focuses on cross-cultural differences, describing the cultural dimensions that influence the acceptance of global human resource practices, such as cross-cultural differences in management styles, time, communication, and the like. This chapter encourages readers to not only understand cultural differences but to better understand when to leverage them and when to ignore them from the perspective of business strategy. This chapter will ask and answer questions, such as: What are the cross-national differences in the ways individuals gain trust and credibility, communicate, and work together?

The second half of *International Dimensions of Human Resource Management*, Chapters 5 through 7, applies the three foundational areas concurrently when considering the key questions that must be answered within the practice areas of HRM: (1) How do you manage work design and workforce planning globally? (2) How do you manage the competencies of your global talent? and (3) How do you manage their attitudes and behaviors to align with the strategic intent of the organization? Chapter 5 will focus on the way talent is managed in order to accomplish the work necessary for the effective functioning of the organization. As dynamic entities, global organizations must manage the global mobility of their people (e.g. expatriates), the global mobility of jobs (e.g. offshoring) or where to place work, and the global mobility of knowledge (e.g. transnational teams).

Once the work is planned and designed globally to align with strategy, and the context for that work is understood from a comparative and cross-cultural perspective, the next step of the framework would be to effectively manage the competencies, attitudes, and behaviors of the global talent. Chapter 6 will focus on managing the competencies of the global workforce (e.g. recruitment, selection, training, and development) and Chapter 7 will focus on managing their attitudes and behaviors (e.g. compensation and motivation). In both chapters we highlight a few of the cross-national and comparative issues to help raise awareness of the breadth of challenges when making human talent decisions in various countries around the world. Following this, each of these two chapters includes a segment on managing international assignees. We opted to include a larger segment on international assignees in both chapters because, as a group, international assignees' competencies, attitudes, and behaviors can greatly influence a firm's competitiveness around the world. International assignees are, as they should be, generally managed in a way which reflects the high level of influence they can have globally.

The book was not intended to be fully comprehensive – covering every possibly country-specific factor one may encounter for any given country, for every type of organization with their diverse competitive needs, etc. The goal of the book is to raise awareness of the contingencies that must be considered when managing talent globally and decisions to be made on how to apply them. This book is more practical than academic in its treatment of the key issues but does rely on both the academic and practitioner-oriented approaches to describe the conceptual issues. Each chapter will conclude with summary points that will help reiterate the key concepts covered in the respective chapters. We hope the book provides you with an introduction to the many interesting challenges and intriguing complexities of managing the global workforce.

Notes

1 While the academic literature in the area of international business strategy will differentiate among the terms "global", "multinational", and "international" to describe different transnational strategies, the lack of consistency in their use in the literature is unnecessarily confusing for the ideas discussed in this book. This book will use these three terms synonymously to describe all firms, companies, businesses or organizations operating in one or more countries.

2 Adler, N.J. (1983). Cross-cultural Management Issues to be faced. *International Studies of Management and Organization* 13(1–2): 7–45.

3 Bartlett, C. A., and Ghoshal, S. (1987). Managing across borders: New strategic requirements. *Sloan Management Review*, Summer, 7–17. Bartlett, C. A., and Ghoshal, S. (1988) Organizing for worldwide effectiveness: The transnational solution. *California Management Review* 31: 54–74.

4 Prahalad, C. K., and Doz, Y. L. *The Multinational Mission* (New York, NY: The Free Press, 1987).