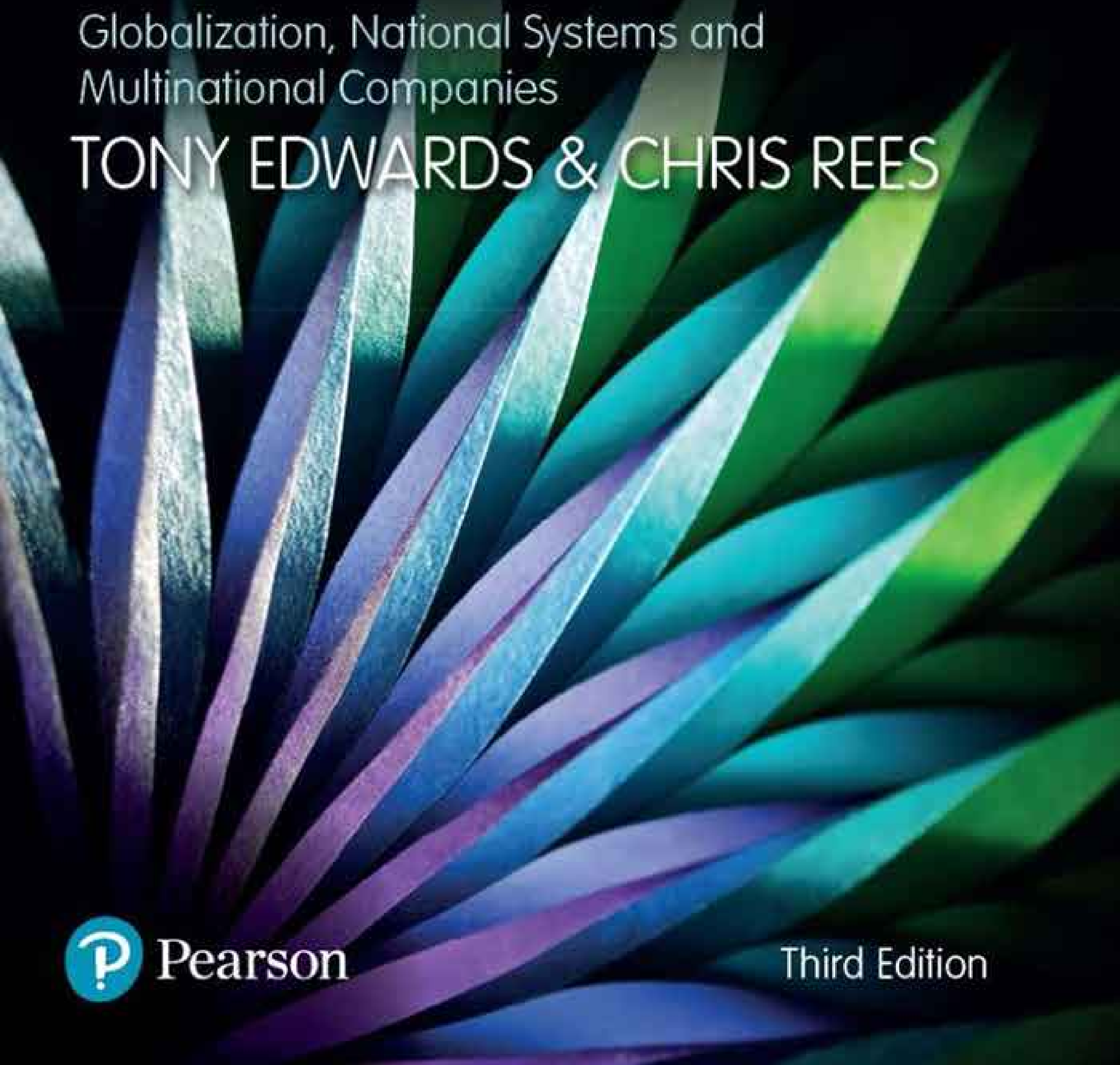
INTERNATIONAL HUMAN RESOURCE MANAGEMENT

Globalization, National Systems and Multinational Companies

TONY EDWARDS & CHRIS REES



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International Human Resource Management

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Introduction

Tony Edwards and Chris Rees

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

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

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

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

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

1. Globalization versus embeddedness

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

2. Cultures versus institutions

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

3. Choices versus constraints

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

4. Integration versus differentiation

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

5. Standardization versus segmentation

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

6. Collaboration versus contestation

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

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

Part 1

THE CONTEXT FOR INTERNATIONAL HRM

Chapter 1

Globalization, national systems and multinational companies

Chris Rees and Tony Edwards

Key aims

The aims of this chapter are to:

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

Introduction

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

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

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

The nature of contemporary globalization

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

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

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

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

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

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

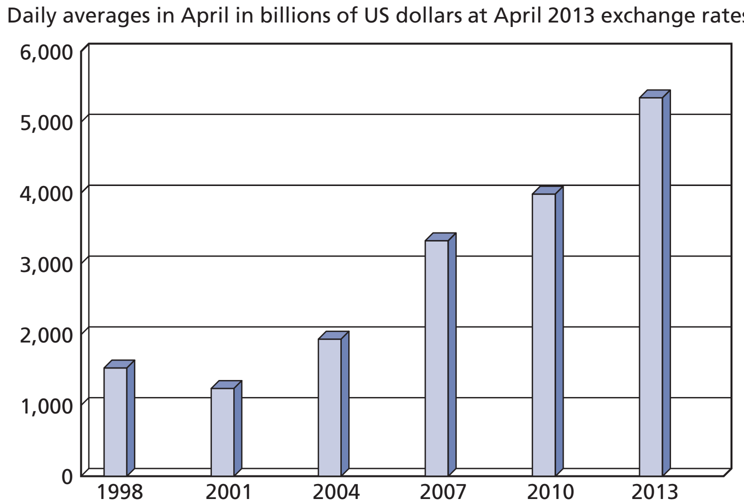

Figure 1.1 Global foreign exchange market turnover
Source: Bank for International Settlements.

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

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

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

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

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

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

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

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

Debating globalization

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

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

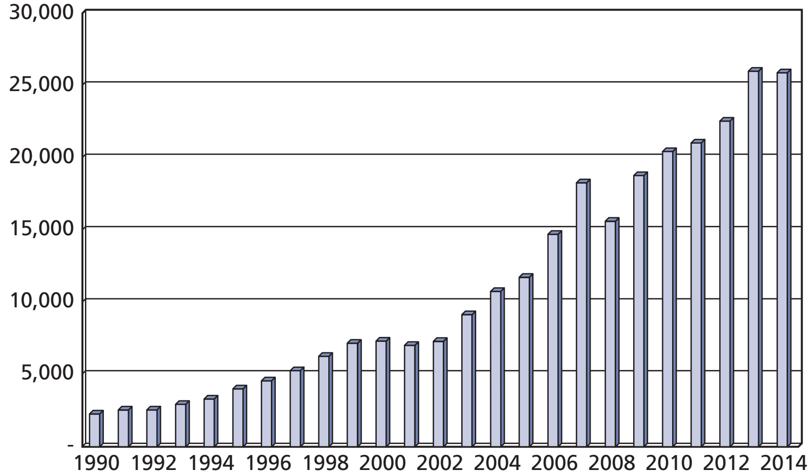

Figure 1.2 The growth in stock of foreign direct investment ($ billions)
Source: UNCTAD (2015).

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

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

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