



*International Human Resource Management* is a rare instance of a textbook that has developed alongside the field – helping to shape what it is today. The author team (based in Australia, the US and Europe) link International Human Resource Management (IHRM) practices with developments in academic curriculum, making this a key resource for intermediate and graduate IHRM students, as well as any business students wishing to further their understanding of IHRM.

This new edition is updated to reflect the rise of the individual, the enabling technology and digitalization, the interconnected global economy, new market and global responsibilities, and a rise in entrepreneurship.

#### ABOUT THE AUTHORS

Peter Dowling is Professor of International Management & Strategy at La Trobe University, Melbourne, Australia

Marion Festing is Professor of Human Resource Management and Intercultural Leadership at ESCP Europe and Rector of the Berlin Campus of this business school, Germany

Allen Engle is Professor of Management in the College of Business and Technology at Eastern Kentucky University, USA

#### PRAISE FOR THE NEW EDITION

“What a delight to read the 7th edition of *International Human Resource Management* by Dowling, Festing and Engle! These three focus on IHRM in the MNE primarily but also now include smaller and family owned firms. This book delves into cultural differences and articulates how and when these differences are relevant. Throughout the book are highly readable “Action Cases”, current research and practical insights, particularly on implications for IHRM of modes of international operations, cross border alliances, mergers and acquisitions and international joint ventures. I highly recommend this for scholars, students and HR practitioners who have international interests.”

Professor Mary Ann Von Glinow, Florida International University, USA: Former Academy of International Business President; Former Academy of Management President and Knight Ridder Eminent Scholar Chair in International Management, Florida International University.

“As the ecosystem of work becomes increasingly global, boundaryless and interconnected, more organizations are multinational, and must engage a workforce that spans nations, cultures and regions. In the 7th edition of *International Human Resource Management*, Dowling, Festing and Engle offer an evidence-based and practical framework to guide current and future organizational leaders. With 25 years of history, the book is solidly grounded in research, history and practical experience.”

Dr. John W. Boudreau, Professor and Research Director, University of Southern California Professor John Boudreau, Southern California University, USA.

“The 7th edition of *International Human Resource Management* represents a valuable update of our knowledge of the field in all its global dimensions. The co-authors clearly ‘know their stuff’ in the IJHRM arena. This work will continue to enlighten academics, students and practitioners across the world for many years to come. The text is now deepened and extended, thereby bringing us new insights and understandings.”

Professor Malcolm Warner, Wolfson College and Cambridge Judge Business School, University of Cambridge, UK.

“This outstanding book continues to set the standard in the field of international human resource management. Its international author team does a superb job of combining what we know from theory and research with current examples and cases to provide the perfect opportunity for students to engage with key decisions and challenges and apply what they have learned. In addition to revisions and updates throughout, the 7th edition adds a focus on global talent management, internationalizing the small and medium sized firm and a new, extensive case on career issues and managerial succession in the MNE.”

Professor Barry Gerhart, Bruce R. Ellig Distinguished Chair in Pay & Organizational Effectiveness, Department of Management and Human Resources, Wisconsin School of Business, University of Wisconsin-Madison, USA.

INTERNATIONAL HUMAN  
RESOURCE MANAGEMENT

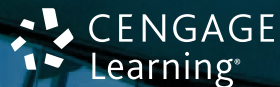
PETER J. DOWLING  
MARION FESTING  
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SEVENTH EDITION

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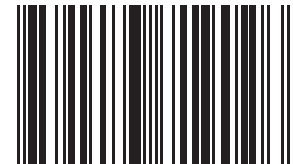
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# INTERNATIONAL HUMAN RESOURCE MANAGEMENT

SEVENTH EDITION

**PETER J. DOWLING  
MARION FESTING  
ALLEN D. ENGLE, SR.**



Australia • Brazil • Mexico • Singapore • United Kingdom • United States

**International Human Resource  
Management, 7th Edition**  
**Peter J. Dowling, Marion Festing and  
Allen D. Engle, Sr.**

Publisher: Andrew Ashwin  
Development Editor: Jennifer Grene  
Content Project Manager:  
Phillipa Davidson-Blake  
Manufacturing Buyer: Eyvett Davis  
Marketing Manager: Vicky Pavlicic  
Typesetter: Lumina Datamatics, Inc.  
Cover design: Cyan Design  
Cover image: Baloncici/Shutterstock Inc.

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British Library Cataloguing-in-Publication Data

A catalogue record for this book is available from the British Library.

ISBN: 978-1-4737-1902-6

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# PREFACE

In writing the Preface for the 7th Edition of *International Human Resource Management* two important published documents illustrate the context for HRM in International Business in the first quarter of the 21st Century. One is the Internet document *Decent Work and the 2030 Agenda for Sustainable Development* published by the International Labour Organization (ILO) which states that “over 600 million new jobs need to be created by 2030, just to keep pace with the growth of the working-age population. That is around 40 million per year. We also need to improve conditions for the 780 million women and men who are working but not earning enough to lift themselves and their families out of US\$2-a-day poverty”. In addition, we observe the demographic challenges of low birth rates in many industrialized countries and a lack of qualified talent.

A second document is the *Special Report on Companies* published by *The Economist* (17 Sept. 2016) titled *The rise of the superstars*. This report notes that “a small group of giant companies (some old, some new) are once again dominating the global economy” and asks the question “Is that a good or a bad thing?”. There is also a chart which lists the world’s ten largest listed companies by market capitalization in billions of US dollars in 2006 and 2016. The 2016 companies are Apple, Alphabet, Microsoft, Berkshire Hathaway, Exxon Mobil, Amazon, Facebook, Johnson & Johnson, General Electric and China Mobile. Of this list only Microsoft, Exxon Mobil and General Electric were on the 2006 list, indicating the extent of change in what *The Economist* describes as “a virtually new world” (page 5).

We also acknowledge the so-called megatrends highlighted by many authors, mainly from consulting firms. An important issue they address is the complex and ongoing effect of demographic shifts on global business practices. In part, many countries are characterized by higher life expectancies and lower birth rates. This is not only a challenge for the social welfare systems<sup>1</sup> but also for companies and their human resource management.

According to this and other studies other challenges include the rise of the individual, the enabling technology and digitalization, the interconnected global economy, new market and global responsibilities as well as a rise in entrepreneurship<sup>2</sup>. In preparing the 7th Edition the authors have attempted to pay considerable care and attention to this new world of international business.

The world of global business is very different than it was in 1990 when the first edition of this text was introduced. Our task remains to capture key human issues, those complexities, challenges, and choices faced by individuals and organizations engaged in global business and exchange. This world remains as compelling and critical as it was some 27 years ago.

The more significant changes to the Seventh Edition include the following:

Several of the IHRM in Action cases embedded throughout the chapters have been significantly updated. These changes will help students grasp the principles and models in the chapter and better apply these ideas to a range of settings or contexts.

A new case, written particularly for this edition, has been added in the area of career development and repatriation. The nine in-depth cases at the end of the text have been written by the co-authors or solicited from global experts to provide a range of in-depth applications for all of the major functional areas of IHRM. Extensive teaching notes are provided for adopters of the text. Long time users of the text will find a more systematic and extensive set of cases, but hopefully our loyal adopters will still find some of their

favorite cases remain as well. Our feedback on these end-of-text cases was outstandingly positive in the 6th edition and we feel this new edition builds on that strength.

As in previous editions, the challenge of this Seventh Edition has been to organize the complexities particular to HRM activities in MNEs in such a way that provides teachers (of both undergraduate and graduate students) real choice as to how they will present the material. We have tried to find a balance that is meaningful and appropriate to the varying cultures represented by potential adopters and readers, and across educational traditions, institutions, and forms, while accurately capturing the compelling realities facing HRM professionals in MNEs. As always, we welcome your comments and suggestions for improvement in this task.

The author team remains an excellent example of collaborative work (across a significant number of time zones) in the 21st century with tri-continental representation from the Asia Pacific, Europe, and North America.

## ENDNOTES

1. [www.kpmg.com/Global/en/IssuesAndInsights/ArticlesPublications/future-state-government/Documents/future-state-2030-v3.pdf](http://www.kpmg.com/Global/en/IssuesAndInsights/ArticlesPublications/future-state-government/Documents/future-state-2030-v3.pdf)
2. see also [www.rolandberger.com/gallery/trend-compedium/tc2030/content/assets/trendcompendium2030.pdf](http://www.rolandberger.com/gallery/trend-compedium/tc2030/content/assets/trendcompendium2030.pdf); [www.ey.com/Publication/vwLUAssets/ey-megatrends-report-2015/\\$FILE/ey-megatrends-report-2015.pdf](http://www.ey.com/Publication/vwLUAssets/ey-megatrends-report-2015/$FILE/ey-megatrends-report-2015.pdf)



# ACKNOWLEDGMENTS

First we would like to thank the scores of academics and practitioners who have come up to us at conferences and workshops, as well as communicated by emails sent over the last four years, sharing with us their comments and suggestions. Many of the improvements to this new edition of the book outlined above are the direct result of these conversations. The tricky task of balancing the need for continuity and meeting expectations for an enduring and highly successful title with the need to update and revise materials in what is still a very young and dynamic academic area of study is made easier by the support of our peers and colleagues around the world. We thank you for your patience, ongoing interest in and commitment to our book.

As with previous editions, we have received a great deal of assistance from numerous colleagues in various educational institutions and organizations across the globe. Particular thanks go to the following colleagues for their assistance with this edition of the book:

Ruth Alas; Estonian Business School

John Boudreau; University of Southern California

Helen De Cieri; Monash University

Barry Gerhart; University of Wisconsin-Madison

Wolfgang Mayrhofer; Vienna University of Economics and Business

Mark Mendenhall; University of Tennessee-Chattanooga

Molly Pepper; Gonzaga University

József Poór; Szent István University Gödöllő, Hungary

Susanne Royer; University of Flensburg

Hugh Scullion; National University of Ireland, Galway

Günter Stahl; Vienna University of Economics and Business

Shuming Zhao; Nanjing University

Cherrie Zhu; Monash University

Particular thanks go to Maike Andresen, Claudia Fischer, Manfred Froehlecke, Martine Cardel Gertsen, Yvonne McNulty, Ihar Sahakiants, and Mette Zølner for their case contributions.

We also gratefully acknowledge the support of the following institutions:

## LA TROBE UNIVERSITY

Peter Dowling thanks Tim Majoribanks, Associate Head of the School of Business and his HRM and International Business colleagues for providing a supportive academic environment.

## ESCP EUROPE, BERLIN CAMPUS

Marion Festing thanks the Dean of ESCP Europe, Professor Frank Bournois and her colleagues for providing a supportive environment for writing and research. Special thanks go to the team of the Chair of Human Resource Management and Intercultural Leadership for outstanding support.

## EASTERN KENTUCKY UNIVERSITY

Allen Engle thanks the ECU Foundation Board, Harold Glenn Campbell as well as Lana Carnes, Chair of the Department of Management, Marketing and International Business in the College of Business and Technology for their ongoing financial support of research and travel. He would also like to acknowledge the longstanding technical and creative help of Ron Yoder and Florencia Tosiani.

The assistance from staff at Cengage Learning UK has been greatly appreciated. In particular, we thank our Publisher, Annabel Ainscow, for her ongoing assistance and advice with this edition and Jenny Grene for all of her work on the production of the book.

The Publisher would like to thank the following academics who supplied feedback on this and the previous edition:

Mark Williams; University of Surrey

Rachel Williams; Cardiff University

Elaine Farndale; Penn State University

Rosmini Omar; University Teknologi Malaysia

Nancy Long; San Jose State University

Peter Mclean; University of Wollongong NSW

Jay Leighton; Curtin University of Technology

Anne-Marie Francesco; Hong Kong Baptist University

Alan Burton-Jones; Bond University

Finally, our personal thanks to the following individuals for their understanding, support, and encouragement throughout the process of completing this Seventh Edition:

Fiona Dowling

Christian Daubenspeck, Janik and Annika

Elizabeth Hoffman Engle, Kathryn, Caroline and Allen Engle

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Melbourne**

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*Journal for East European Management Studies* and *International Journal of Globalization and Small Business*. Recently, together with her colleagues she was awarded a best paper award at the Academy of Management Conference in Vancouver (2015) for her work on the impact of international business education on career success.

Marion is the Co-Editor of the German Journal of *Human Resource Management* and serves on various editorial boards. She is also the German ambassador of the HR-Division of the Academy of Management and is involved in many academic organizations. In 2012 she was the co-track chair (HRM) of the IFSAM conference in Limerick/Ireland in 2012. In 2013 she organized the 11th EIASM Workshop on International Strategy and Cross-Cultural Management at the Berlin Campus of ESCP Europe. In 2014 she organized the 3rd EIASM workshop on Talent Management, also at the Berlin Campus of ESCP Europe in the context of her responsibilities as the Academic Director of the ESCP Europe Talent Management Institute.

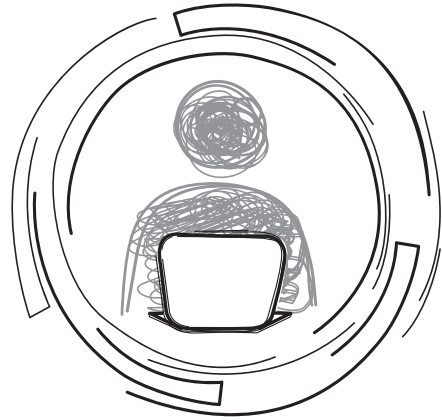
Her current research interests focus on transnational HRM strategies, global performance management, global careers, global talent management and global rewards and diversity and inclusion.

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His research interests are in the topic areas of compensation theory and practices, global performance management, leadership and organizational change, job analysis, managerial competencies and organizational design, particularly as they impact on multinational firms. He has published in regional, national and international academic journals, presenting academic papers on many of the topic areas presented above at conferences in the USA, Australia, Canada, the Czech Republic, Estonia, France, Germany, Hungary, Ireland, Italy, Japan, Poland, Slovenia, Spain and the UK. Allen has consulted for regional firms and presented professional seminars in the areas of performance-appraisal systems, executive team building, strategically responsive compensation systems, intercultural management issues and organizational change.



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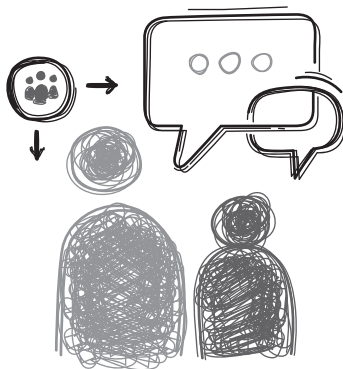


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# CHAPTER 1

# INTRODUCTION

## Chapter Objectives

In this introductory chapter, we establish the scope of the book. We:

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



## SCOPE OF THE BOOK

The field of IHRM has been characterized by three broad approaches.<sup>1</sup> The first approach<sup>2</sup> emphasizes cross-cultural management: examining human behavior within organizations from an international perspective. A second approach developed from the comparative industrial relations and HRM literature<sup>3</sup> and seeks to describe, compare, and analyze HRM systems in various countries. A third approach seeks to focus on aspects of HRM in multinational firms.<sup>4</sup> These approaches are depicted in Figure 1.1. In this book, we take the third approach. Our objective is to explore the implications that the process of internationalization has for the activities and policies of HRM. In particular, we are interested in how HRM is practiced in multinational enterprises.

FIGURE 1.1 Interrelationships between approaches to the field



As Figure 1.1 demonstrates, there is an inevitable overlap between the three approaches when one is attempting to provide an accurate view of the global realities of operating in the international business environment. Obviously, cross-cultural management issues are important when dealing with the cultural aspects of foreign operations. Some of these aspects will be taken up in Chapter 2, where we deal with the cultural context of HRM in the **host country** context – indicated by (a) in Figure 1.1. Chapter 9 deals with international industrial relations and the global institutional context and draws on literature from the comparative industrial relations field – (b) in the above figure. While the focus of much of this book is on the established MNE – a firm which owns or controls business activities in more than one foreign country – we recognize that small, internationalizing firms which are yet to reach multinational firm status, and family-owned firms, also face IHRM issues and many of these issues are addressed in Chapter 4.

## DEFINING IHRM

Before we can offer a definition of IHRM, we should first define the general field of HRM. Typically, HRM refers to those activities undertaken by an organization to effectively utilize its **human resources (HR)**. These activities would include at least the following:

- HR planning
- staffing (recruitment, selection, placement)
- performance management
- training and development
- compensation (remuneration) and benefits
- industrial relations.

The question is, of course, which activities change when HRM goes international? An excellent early model developed by Morgan<sup>5</sup> is very helpful in terms of answering this question. Morgan presents IHRM in three dimensions:

- 1 The broad HR activities of procurement, allocation, and utilization. (These three broad activities can be easily expanded into the six HR activities listed above.)
- 2 The *national or country categories* involved in IHRM activities:
  - the host-country where a subsidiary may be located
  - the parent-country where the firm is headquartered, and
  - ‘*other*’ countries that may be the source of labor, finance, and other inputs.
- 3 The *three categories of employees of an international firm*:
  - host-country nationals (HCNs)
  - parent-country nationals (PCNs), and
  - third-country nationals (TCNs).

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

Morgan defines IHRM as the interplay among the three dimensions of *human resource activities, countries of operation, and type of employees*. We can see that in broad terms IHRM involves the same activities as **domestic HRM** (e.g. procurement refers to HR planning and staffing). However, domestic HRM is involved with employees *within only one national boundary*. Increasingly, domestic HRM is taking on some of the flavor of IHRM as it deals more and more with a multicultural workforce. Thus, some of the current focus of domestic HRM on issues of managing workforce diversity may prove to be beneficial to the practice of IHRM. However, it must be remembered that the way in which diversity is managed within a *single national, legal, and cultural context* may not necessarily transfer to a multinational context without some modification.

## What is an expatriate?

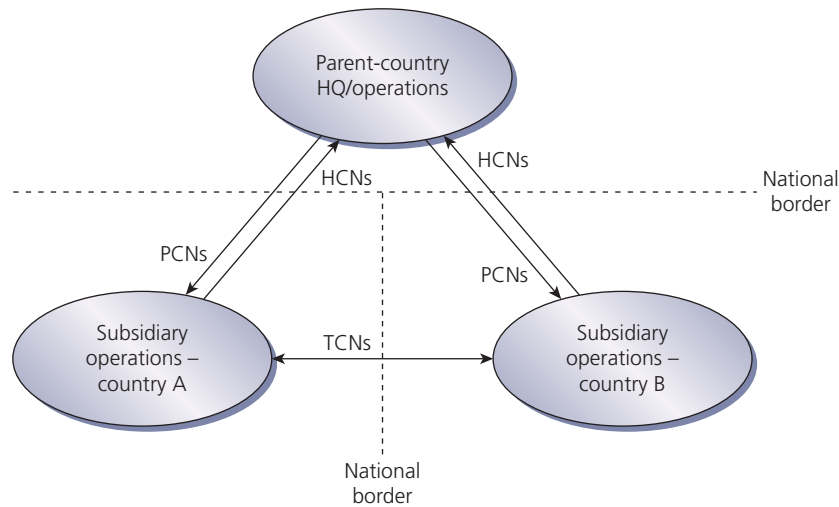
One obvious difference between domestic and IHRM is that staff are moved across national boundaries into various roles within the international firm’s foreign operations – these employees have traditionally been called ‘**expatriates**’. An expatriate is an employee who is working and temporarily residing in a foreign country. Many firms prefer to call such employees ‘international assignees’. While it is clear in the literature that PCNs are always expatriates, it is often overlooked that TCNs are also expatriates, as are HCNs who are transferred into parent-country operations outside their own home country.<sup>6</sup> Figure 1.2 illustrates how all three categories may become expatriates.

The term ‘**inpatriate**’ has come into vogue to signify the transfer of subsidiary staff into the parent-country (headquarters) operations.<sup>7</sup> For many managers this term has added a level of confusion surrounding the definition of an expatriate. The (US) Society for Human Resource Management defines an inpatriate as a ‘foreign manager in the US’. Thus, an inpatriate is also defined as an expatriate. A further indication of the confusion created by the use of the term ‘inpatriate’ is that some writers in international management define all HCN employees as

inpatriates. HCNs only become inpatriates when they are transferred into the parent-country operations as expatriates, as illustrated in Figure 1.2.

Given the substantial amount of jargon in IHRM, it is questionable as to whether the term ‘inpatriate’ adds enough value to justify its use. However, some firms now use the term ‘inpatriate’ for all staff transferred into a country. For clarity, we will use the term ‘expatriate’ throughout this text to refer to employees who are transferred out of their home base/parent country into some other area of the firm’s international operations. In doing so, we recognize that there is increasing diversity with regard to what constitutes international work, the type and length of international assignments, and the increasingly strategic role of the HR function in many organizations, which in turn influences the nature of some expatriate roles.

FIGURE 1.2 International assignments create expatriates



Stahl, Björkman, and Morris have recognized this expansion in the scope of the field of IHRM in their *Handbook of Research in International Human Resource Management*, where they define the field of IHRM as follows:

*We define the field of IHRM broadly to cover all issues related to managing the global workforce and its contribution to firm outcomes. Hence, our definition of IHRM covers a wide range of HR issues facing MNEs in different parts of their organizations. Additionally we include comparative analyses of HRM in different countries.*<sup>8</sup>

We believe that this broad definition accurately captures the expanding scope of the IHRM field and we will use this definition in this book.

## DIFFERENCES BETWEEN DOMESTIC AND INTERNATIONAL HRM

In our view, the *complexity* of operating in different countries and employing different national categories of workers is a key variable that differentiates domestic and international HRM, rather than any major differences between the HRM activities performed. Dowling<sup>9</sup> argues that the complexity of international HR can be attributed to six factors:

- 1 more HR activities
- 2 the need for a broader perspective



- 3 more involvement in employees' personal lives
- 4 changes in emphasis as the workforce mix of expatriates and locals varies
- 5 risk exposure
- 6 broader external influences.

Each of these factors is now discussed in detail to illustrate its characteristics.

## More HR activities

To operate in an international environment, a HR department must engage in a number of activities that would not be necessary in a domestic environment. Examples of required international activities are:

- international taxation
- international relocation and orientation
- administrative services for expatriates
- host-government relations
- language translation services.

Expatriates are subject to international taxation, and often have both domestic (i.e. their home-country) and host-country tax liabilities. Therefore, **tax equalization** policies must be designed to ensure that there is no tax incentive or disincentive associated with any particular international assignment.<sup>10</sup> The administration of tax equalization policies is complicated by the wide variations in tax laws across host countries and by the possible time lag between the completion of an expatriate assignment and the settlement of domestic and international tax liabilities. In recognition of these difficulties, many MNEs retain the services of a major accounting firm for international taxation advice.

International relocation and orientation involves the following activities:

- arranging for pre-departure training
- providing immigration and travel details
- providing housing, shopping, medical care, recreation, and schooling information
- finalizing compensation details such as delivery of salary overseas, determination of various overseas allowances and taxation treatment.

The issues involved when expatriates return to their home-country ('repatriation') are covered in detail in Chapter 7. Many of these factors may be a source of anxiety for the expatriate and require considerable time and attention to successfully resolve potential problems – certainly much more time than would be involved in a domestic transfer/relocation such as London to Manchester, Frankfurt to Munich, New York to Dallas, Sydney to Melbourne, or Beijing to Shanghai.

An MNE also needs to provide administrative services for expatriates in the host countries in which it operates.<sup>11</sup> Providing these services can often be a time-consuming and complex activity because policies and procedures are not always clear-cut and may conflict with local conditions. Ethical questions can arise when a practice that is legal and accepted in the host country may be at best unethical and at worst illegal in the home country. For example, a situation may arise in which a host country requires an AIDS test for a work permit for an employee whose parent firm is headquartered in the USA, where employment-related AIDS testing remains a controversial issue. How does the corporate HR manager deal with the potential expatriate employee who refuses to meet this requirement for an AIDS test, and the overseas affiliate