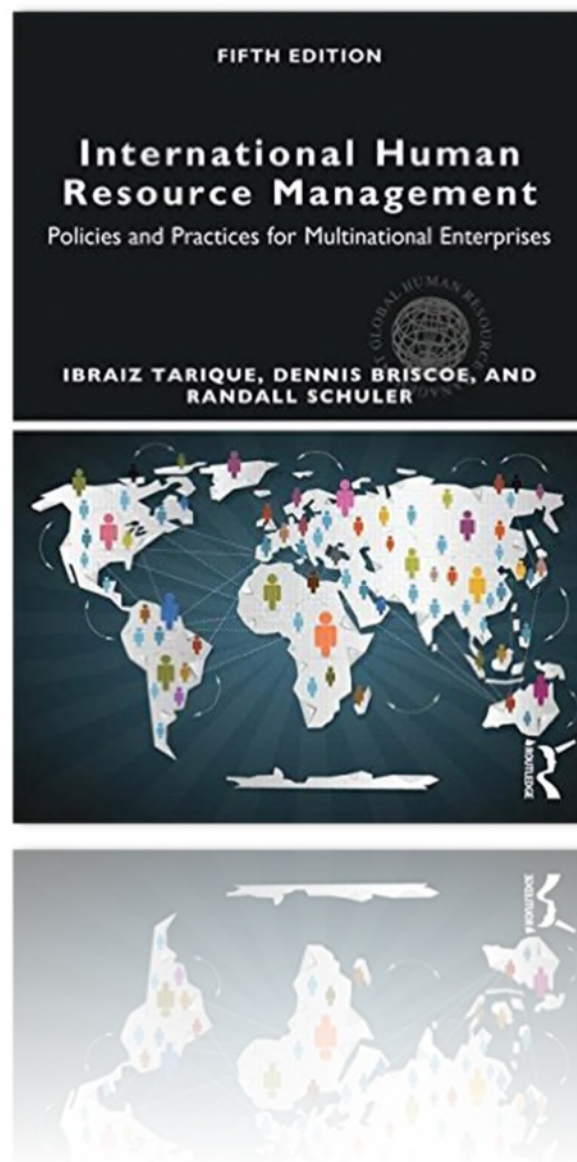


***INSTRUCTOR MANUAL***  
***CHAPTER 2 GUIDE WITH ANSWERS***

**STRATEGIC INTERNATIONAL HUMAN  
RESOURCE MANAGEMENT**



# CHAPTER 2

---

## Strategic International Human Resource Management

---

### CHAPTER OVERVIEW

This chapter is about *Strategic International Human Resource Management* (SIHRM). While the first chapter described the new global business realities and introduced IHRM, this chapter describes international business strategy and how IHRM supports and enhances the international business strategies of the firm. The chapter starts with a general description of the process of international strategic management and then follows with an explanation of the evolution of international business strategy and describes how IHRM fits into the overall strategic management of the MNE. This includes describing the links of global business strategy to the performance of HR responsibilities in international business and discussing the outcomes that a strategically managed international business might expect from effectively tying together an international business strategy and SIHRM. The chapter then summarizes the findings of research studies on the nature and role of strategic IHRM.

### LEARNING OBJECTIVES

- Describe the development of SIHRM and the process of international strategic management.
- Describe the evolution of the MNE in terms of various stages of internationalization and the methods firms use to enter international markets.
- Describe the process for developing MNE strategy and IHRM strategy and the relationship between the two.
- The extent and nature of research into the practice of strategic IHRM.

### CHAPTER REVIEW OUTLINE

#### I. Strategic International Human Resource Management: An Introduction

SIHRM is the part of IHRM that focuses on creating and implementing IHRM policies and practices that help achieve an MNE's international vision and objectives, that is, its international strategy. It also involves the strategic management of the IHR function and department itself.

## II. Evolution of the Multinational Enterprise

As a firm internationalizes, it moves through *stages* and in each stage it must make a choice of *methods for market entry*. An important point here is that as firms pass through the various stages, they increase their degree of international activity, and as firms increase their levels of international activity, their IHRM responsibilities become increasingly complex.

### A. Internationalization process and methods for market Entry within the five stages

#### 1. Stage 1

##### a. Portfolio investment

At the simplest level of involvement, a firm may just decide to make financial investments in foreign firms, buying shares of stock, much as it could do within its own domestic equities markets.

##### b. Exporting

Due to a foreign inquiry (often unsolicited) as to the possibility of buying or selling the firm's product(s) or the desire by the firm to expand beyond its domestic markets, many firms begin to export their products or services to foreign markets through the use of direct sales to foreign customers (via direct mail or Internet sales, for example), or they sell through import/export firms or through foreign distributors.

## 2. Stage 2

### a. Sales subsidiary/local sales office

If foreign sales or purchasing increase in importance, a firm will assign responsibility for international sales to a sales manager and/or purchasing agent. This individual may travel to foreign countries in which the firm has sales, but is likely to be chosen purely for reasons of sales or purchasing experience or product or service knowledge.

## 3. Stage 3

### a. Operations through licensing

In this strategy, the firm usually locates foreign firms that have the experience to manufacture (and sometimes market) their products—with minimal technology transfer, in order to bypass import duties and to provide the simplest avenue to local sales.

### b. Operations through franchising

Here the organization puts together a package of the “successful” ingredients that made them a success in their home market and then franchises this package to overseas investors. The franchisor may help out by providing training and marketing the services or product.

### c. Operations through contracting/sub-contracting

Increasingly, as firms manage their supply chains on a global basis, they sub-contract all or most of their manufacturing to firms abroad, in order to take advantage of lower labor and operating costs.

## 4. Stage 4

### a. Wholly-owned subsidiaries

Subsidiaries can be developed in a number of ways, including through *greenfield* or *brownfield* projects or through acquisition of existing foreign-owned businesses. The development of a subsidiary through a greenfield project involves acquiring an open (green) “field” in order

to build the subsidiary facilities from scratch. A brownfield project involves the purchase of existing facilities (buildings) and developing the subsidiary inside those facilities (sometimes referred to as a turnkey operation). The third alternative is often seen as providing the easiest access to new (foreign) markets and involves the acquisition of an existing enterprise that is already established in the target country.

b. Maquiladora

A *Maquiladora* is a form of subsidiary with special characteristics favorable to the foreign parents. These “twin plants” (one in the US and one in Mexico) were established to attract investment and create jobs in Mexico along the US-Mexican border, with the intention to reduce the numbers of Mexicans entering the US illegally in search of jobs.

5. Stage 5

a. Operations through international joint ventures (IJVs)

Two or more firms (at least one from each of at least two countries) create a new business entity (the joint venture) with shared ownership and managerial responsibilities. This entity is often created with limited objectives and a planned limited life.

b. Operations through international mergers and acquisitions (IM&As)

One of the preferred market entry methods in both developed and emerging markets in order to most easily consolidate the scope of activities and the parent firms’ positions in the global marketplace.

c. Operations through international alliances, partnerships and consortia

These are defined as informal or formal partnerships or agreements that do not result in an independent legal entity. Firms using these methods do not necessarily replace their wholly owned subsidiaries. But rather they develop less formal structures, such as alliances, partnerships (e.g., in research and development projects), and other forms of linkages to operate internationally.

## B. Auxiliary methods of internationalization

Auxiliary methods refer to approaches firms can use to further internationalize their operations at any stage.

### 1. Outsourcing (a form of subcontracting)

With the development of computers and the Internet, making long-distance control easier, firms began to contract out other business processes, such as information technology and business processes such as call centers, accounting, claims processing, customer service, and data analysis, to other firms in their home country and in other countries. Typically, the initial reason for outsourcing to a third party (whether a single function or an entire business process) was to reduce costs, but improving quality (because the service provider specializes in the outsourced function) and freeing company resources for greater focus on core competencies have also become reasons given for outsourcing. The term “outsourcing” was developed to describe this process of contracting with an external firm to provide products or services that would otherwise be completed internally.

### 2. Off-shoring

Differs from outsourcing in that it involves the relocation of one or more aspects of a firm’s business processes to a location in another country for the purpose of lowering costs. That is, the function is now performed by an entity owned by the firm but staffed with foreign personnel in an offshore location (although sometimes, at least some of the employees are relocated from the home locale). This can include any business process, such as operations, manufacturing, or services. So, the unit performing the process in a foreign country is still a part of the parent firm and the employees are employees of the parent.

## C. The born-global firm

Frequently IT based, that almost immediately operate in key global markets due to the nature of their products, global networking, and possible partnering on projects of the engineers and scientists involved, and marketing through the World Wide Web.

#### D. IHRM and the evolution process of internationalization

As firms increase their levels of international activity, their organizational structures (discussed in the next chapter) and IHRM responsibilities become increasingly complex. Some firms have used complete assembly or manufacturing plants as their means of initial entry to certain countries, normally to take advantage of cheap labor or sources of materiel, manufacturing products for export, such as is often the case for American and Asian firms in the maquiladora sector of the Mexican economy. Others have internationalized through sub-contracting or licensing their manufacturing. Still others have used franchising or joint ventures or partnerships to internationalize. And still others acquire their foreign operations directly.

### III. MNE Business Strategy

An MNE's business strategy provides a direction for managing various subsidiaries. The nature of an MNE's business strategy is primarily guided by the extent of *integration* and/or *local responsiveness* required by the firm to manage its worldwide operations.

Integration is defined as the extent to which the subsidiaries and the headquarters develop a unified whole and can thus provide the MNE with a variety of competitive advantages such as economies of scale (being able to utilize all of the firm's global resources), improved quality, and standardization.

Local responsiveness is defined as the extent to which subsidiaries respond to local differences, which involves the modification of products or services in order to fully meet local customer needs, respond to local competition and culture, remain compliant with various government regulations, more readily attract local employees, and penetrate local business networks.

#### A. Types of strategic business approaches

##### 1. International

International is the simplest business strategy, requiring limited local responsiveness and limited integration. This is the type of strategy that begins with export or import and may be limited to licensing or sub-contracting. It typically involves no overseas offices or operations, other than possibly small sales offices.

## 2. Multi-domestic

A multi-domestic approach responds to the high needs, values, and demands of a local market is used mostly used by MNEs with a multi-domestic organizational structure.

## 3. Global

An approach that uses a unified strategy implemented for all countries regardless of their cultural and national differences.

## 4. Transnational

The transnational approach attempts to maximize responsiveness and integration by being global and multi-domestic at the same time.

### B. Headquarters' international orientation and MNE business strategy

The orientation of senior executives usually referred to with terms such as ethnocentrism, regiocentrism, polycentrism, and geocentrism. The key strategic issue in these orientations (or mind-sets) is the degree of domination of the MNE headquarters over subsidiary management and HR practices as compared to the degree of localization of subsidiary practices.

#### 1. Ethnocentrism

Managers use a home-country standard as a reference in managing international activities.

#### 2. Polycentrism or regiocentrism

Host-country cultures and practices assume increased salience for managers.

#### 3. Geocentrism

Managers' outlook is one of creating a global network and a preference for following an integrative and interdependent transnational strategy among various elements of the global organization.



#### IV. IHRM Strategy

The creation and implementation of IHR practices that help achieve an MNE's international vision and objectives and involve the strategic management of the HR function and department.

##### A. IHRM strategy formulation

For IHRM, the central trade-off pits pressures for *centralization* against the need for *decentralization*.

1. Centralization (integration) vs. Localization (differentiation)
  - a. Centralization is very similar to the notion of integration and refers to the concentration of authority and decision making toward the top (HQs) of an organization.
  - b. Decentralization is similar to the notion of local responsiveness and defined as the dispersion of authority and decision making to operating units throughout the organization.
2. Convergence—the use of parent-company policies and procedures throughout a firm's global operations.
3. Divergence—cultural and institutional differences play a role in the manner in which seemingly universal techniques and procedures (globally applied) are implemented (in varying ways) within differing countries.

##### B. IHRM strategies and MNE business strategies

The overall effectiveness of an IHRM strategy is contingent on the context in which it is used. An IHRM strategy's effect on organizational effectiveness is always dependent on how well the IHRM strategy *fits* with and supports a MNE's business strategy.

1. Autonomous IHRM strategy—low degree of global integration and high degree of local responsiveness.

Each subsidiary has the freedom to develop and implement its own IHRM policies and practices that support local rules and conditions.

2. Receptive IHRM strategy—high degree of global integration and a low degree of local responsiveness.

Each subsidiary is tightly connected with headquarters with very little freedom to adapt to the local conditions.

3. Active IHRM strategy—high degree of global integration and a high degree of local responsiveness.

A MNE with this type of IHRM strategy is more likely have a transition HR function with considerably more control over HR decision making than autonomous IHRM strategy but less than in a receptive IHRM strategy.

## V. Research on SIHRM

The existing research on SIHRM has found that local culture and national managerial orientation influence the nature of HR practice; that the degree of global mind-set influences the nature of an MNE's global strategy; and that global strategy influences the degree of global focus in the HR strategy. In addition, it has been found that following appropriate global HR practices—rather than only using the parent firm's HR practices—was associated with the later stages of an organization's life cycle (as the MNE matures) and with better organizational performance.

### A. Models/frameworks for understanding SIHRM

In an effort to understand the role of IHRM in MNEs, scholars and researchers have suggested several SIHRM models or frameworks. The model has five parts: 1) Strategic MNE components; 2) Exogenous factors; 3) Endogenous factors; 4) IHRM issues, functions, and policies and practices, and; 5) MNE concerns and goals.

### B. Basic steps in SIHRM model

1. Strategic MNE components

a. Inter-unit linkages

How MNEs manage the different geographically dispersed operating units and describes how they balance the competing pressures for differentiation and integration.

b. Internal operations

How each unit operates within its local environment, laws, politics, culture, economy, and society.

2. Exogenous factors

Forces external to the firm that are largely beyond an MNE's control, but can create challenges that affect an organization's IHRM issues, functions, policies and practices.

3. Endogenous factors

Issues and concerns that are internal to the firm and include structure of the organization, stage of internationalization, business strategy, and headquarters' international orientation.

4. IHRM issues, functions, policies and practices

- a. IHRM issues are HR issues that result from the inter-unit and intra-unit needs and challenges.
- b. IHRM function includes the resources (time, energy, money) allocated to the human resource department or unit, and the location of those resources and HR decision making.
- c. IHRM policies and practices involve the development of general guidelines on how individuals will be managed and specific HR initiatives or activities.

5. MNE concerns and goals

This part of the model can be defined in terms of utilizing and integrating appropriate IHRM practices and policies that enhance overall performance

of the MNE on several criteria, both short term and long term. There are five criteria:

a. Global competitiveness

How can IHRM policies and practices help provide competitive advantage?

b. Efficiency

How much can IHRM help make the MNE more efficient by delivering the most effective human resources that will deliver world-class products and services world wide?

c. Local responsiveness

How much can IHRM help the MNE be locally responsive and globally competitive at the same time?

d. Flexibility

How much can IHRM help the MNE be more flexible in adapting to changing conditions—internal and external?

e. Organizational and Transfer of Learning

How much can IHRM facilitate learning and transfer of this learning across geographically dispersed units?

## VI. Conclusion

### **END OF CHAPTER DISCUSSION QUESTIONS**

***1. How has the multinational enterprise evolved? How have the changes in MNEs affected IHRM?***

The typical development of multinational firms has moved from very limited presence overseas (exporting) to very complex and integrated presence (partnerships, joint ventures, acquisitions, wholly-owned subsidiaries and businesses, subcontracting).

Until recently, MNEs developed through simple exporting and sub-contracting. As the extent of their overseas sales increased, they moved to more closely held business forms. With the advent of the Internet and opportunities for e-sales, many Internet businesses (such as Amazon.com) are “born global”.

The importance and complexity of IHRM increases with the complexity and global integration of an MNE’s global business.

**2. *What are the various choices that MNEs have for entry into international business? How do the functions of HR vary with these various choices?***

See Discussion Question no. 1, and refer to figure 2.2.

The responsibilities of HR increase and become more complex with increased internationalization. Refer to the discussion of the internationalization of HR in Chapter 1. In the early stages, the use of expatriates evolves and takes on major importance in IHRM. As the level of international business increases, the numbers and types of expats increases (and the IHRM workload for managing them), and as foreign business ownership and the number of international partnerships and joint ventures increase, MNE IHRM takes on additional responsibility for local workforces, as well. Eventually, efforts to integrate foreign workforces and managers with home-country workforces and management become a central focus.

**3. *What is the link between SIHRM and IHRM? Why is it important for IHRM to be strategic?***

The most important link between international strategy and IHRM is the degree to which the firm pursues a localization strategy versus a centralization or standardization strategy. A strategic emphasis on localization (a multi-domestic strategy) requires a localization strategy for IHRM, with an emphasis on localized HR policy and practice, in every area of HR, from recruiting and staffing, to training, to compensation and benefits, to labor relations and employee health and safety. A strategic emphasis on centralization (referred to as a Global strategy, with emphasis on integration of HQ policy with the local business) requires a large emphasis on use of expatriates and international assignees in all locales of the business, developing a global mindset and a headquarters’ focus throughout the business. A strategy to be as local as possible within the context of an integration and centralization strategy requires HR to develop policies and practices that are global in scope while being sensitive to local custom, drawing on the best practices from headquarters as well as from throughout the world.

In order for IHRM to contribute to the global success of its firm, it must develop the competencies to understand and execute practices in all areas of its responsibilities (e.g., staffing, training, management development, compensation, health and safety and employee well-being, union relations, etc.) and in all areas of the global business that support the global strategy of the firm.

**4. *How does IHRM strategy vary with an MNE’s business strategy?***

When an MNE's business strategy emphasizes globalization, with increased use of international assignees, the need for executives with a global mindset, the use of a global workforce, and operations in dozens of countries, IHRM must develop its own competencies to support such strategies. It must grow from a purely domestic focus and skill-set to a truly global focus and mindset. As the first two chapters point out, the global skill-set for IHR is very different from that required in a domestic HR focus.

**5. *What are some of the IHRM challenges faced by a MNE with a transnational business strategy?***

Refer to Figure 2.4.

Transnational strategy implies geocentric mindset, taking advantage of global knowledge and technology while adapting to local culture and values. IHRM plays an important role in developing the global mindset while ensuring that local practice and values are accommodated

**6. *What are the pros and cons of centralization and decentralization of the IHRM function?***

Centralization takes advantage of standardized policy and practice; decentralization takes advantage of local cultural values and differences. There is no easy answer to which strategy is best—it all depends. Refer to Figure 2.6 to see the many variables that influence IHRM. The end result is that there are both pros and cons to each of these strategies. The examples in this chapter illustrate how these different factors influence IHRM as organizations become increasingly global in focus.

## **END OF CHAPTER CASE**

### **Case Study 2.1: The Early Evolution of Manufacturing Firms: Ford Motor Company goes International (USA)**

This is a general case study. Instructors are encouraged to use this case to allow students to examine the automobile industry with which they are familiar—from their own countries, their own experiences. It provides a great example of the evolution of international business as well as IHRM in parallel with that evolution.

For instructors who need guided questions:

**1. *What are some of the reasons that HRM tends to develop at the local level in the international expansion of firms like Ford Motor Co.?***

- Each country has its own set of employment laws and laws related to social security systems and related taxes; it is not likely that HQs have the expertise, initially, to ensure local compliance with these foreign laws and regulations.

- HR practices in each country will have evolved based on local culture and tradition; only HR managers with training and experience in the local HR practices and laws will have the necessary knowledge to be effective and legal.
- So, it is usually seen as easier to use local HR managers than to try to develop the needed expertise in-house at headquarters—or even to hire it from headquarters.

## **2. *Are there other alternatives?***

- Companies can outsource HR practices to consultants or vendors that specialize in various aspects of HR, e.g., payroll, staffing, taxes, labor relations.
- Given some time, it is possible to develop such expertise in-house.
- It is also possible to “hire” such expertise to be centralized from HQs, that is, recruiting HR managers with the necessary experience.

## **3. *What HR issues arise when a firm like Ford moves to regional and then global or transnational structure?***

- Questions arise as to centralization versus localization of HR practices (obviously, local employment laws must still be followed, no matter the HQ strategy).
- This issue will be addressed on a frequent basis throughout this text, as each area of HR responsibility is addressed: can it be standardized or does it need to be highly localized to fit strong cultural and legal differences?
- As the MNE first regionalizes and then moves to an increasingly global and transnational strategy and structure, debates over such standardization versus localization become increasingly strong. Because of the nature of HRM, there are strong pressures in both directions, often resulting in practices that combine these two foci.
- Many of the cases in this text show various components and practices related to this debate over centralization versus localization.

© 2016 Taylor and Francis