

HRER 800 PowerPoint Presentation 5 - Strategic International HRM theory

Author – Dr. Elaine Farndale, Visiting Assistant Professor at the Pennsylvania State University 2009

Slide 1 – Introduction

In this lesson we move on to exploring Strategic International HRM in firms operating across national borders.

Slide 2 – The 3 Dimensions of IHRM

Having explored the ways in which countries differ, based on both a cross-cultural and institutional perspective, and having considered the debate between best-practice and best-fit, and integration versus differentiation, it is now time to think about how multinational corporations actually manage their people across these potential sources of complexity.

So now we have reached the third dimension of IHRM: strategic international HRM.

Slide 3 - SIHRM

First of all, let's look at a definition of strategic international human resource management – Schuler and colleagues state that SIHRM includes the “human resource management issues, functions, and policies and practices that result from the strategic activities of multinational enterprises and that impact on the international concerns and goals of those enterprises”.

So now, we're interested in all aspects of HRM as they relate to firms working internationally and how they manage people across borders.

Slide 4 – Approaches to Management

As you might expect, however, due to the great variety in firms operating internationally, there are choices that these firms can make in terms of how they approach their international operations.

The first choice we introduce here is the firm's approach to management, and here we draw on a framework by Perlmutter from 1969, later developed also by Perlmutter and Heenan in 1974.

This framework identifies three possible approaches to management ethnocentric, polycentric, and geo- or regiocentric.

Firstly **ethnocentric**: this approach is home-country or headquarters-centered. In other words, it is assumed that people in the home country of a firm know best how the firm should be run. And therefore, one of the things an ethnocentric firm will do is send parent-country (or home-country) nationals (PCNs) from headquarters to set up subsidiaries in new countries. In this way, the headquarters maintain tight control over the overseas operations.

The second approach is the opposite of ethnocentrism, and is known as **polycentrism**: here, the focus for the firm is on the host-country, in other words, there are multiple centers of activity, each able to run their own operations without headquarters taking control. In this situation, host-country nationals (HCNs) are most likely to be used to manage subsidiaries rather than parent-country nationals, because of their knowledge of local markets.

The third approach to management is known as **Geocentric or Regiocentric**: as the term suggests, the firm is no longer considering where its parent or host country locations are, but sees the world as one big market. Regiocentric just narrows down the focus of geocentric, from a world level to a regional level, such as Asia, the Americas, or Europe, the Middle East and Africa – which are regions often used in multinational firms. In this geo- or regiocentric approach, management is about finding the best manager for the position regardless of whether they are from the parent-country, host-country or a third country (TCN) – just so long as they are the best person for the job.

Slide 5 – Internationalization Strategies

Building on these three approaches to management, there are different types of internationalization strategies that firms can adopt. The best known typology of internationalization strategies is that by Bartlett & Ghoshal from 1989.

The four strategies are International, Global, Multidomestic and Transnational.

My intention is not to describe these in full here, but to highlight how these overlap with the management approaches identified in the previous slide. Global firms take an ethnocentric approach, managing the firm tightly from the center; Multidomestic firms take a polycentric approach, giving subsidiaries a lot of autonomy in their operations; and Transnational firms take a more geocentric or regiocentric focus, operating as a networked organization across the globe. International firms, you'll note I haven't mentioned as yet – these are the least globalized – they operate largely as a federation of local firms with little interaction between the different locations.

You can read in detail more about these strategies and their different goals in the readings which accompany this lesson. One thing to note though is that different pieces of literature use this terminology differently. So make sure that you are clear on what the term “international”, “global” or “transnational” actually means in the text that you are currently reading. For now, we will move on to consider how these corporate strategies then translate into the orientation the firm adopts towards strategic international HRM.

Slide 6 – SIHRM Orientation

The framework suggested by Taylor and colleagues in 1996, can help us with this next stage.

They suggested three orientations which firms can adopt to SIHRM: adaptive, exportive and integrative.

The **adaptive** approach is very much embedded in the local context – HRM systems are created and implemented locally to match the prevailing cultural and institutional factors present in a particular country context.

An **exportive** approach on the other hand, means that the firm exports all of its HRM policies and practices from the central headquarters to the subsidiaries around the world, making little adaptation to the local country context.

The **integrative** approach focuses on finding the best HRM practices to support the business, irrespective of whether they are designed locally or centrally, and these practices are then implemented worldwide.

These three approaches lead to different extents of internal and external consistency and differentiation. The more practices are adapted to the local context, the less internal consistency there is across the firm, but the more we standardize practices across the firm, the less they fit with local conditions. The integrative approach attempts to maximize internal integration, but acknowledges the need for local development and implementation when necessary.

You will already be able to see the overlaps with the international management frameworks presented earlier, but let’s take a look now to see how we can bring this all together.

Slide 7 – Corporate & IHRM Strategies

Firstly, we need to think of whether we are talking about a home (or parent) country focus, a host-country focus, or a balance between home and host country locations.

	Strategy (Bartlett & Ghoshal, 1989)	Management Approach (Perlmutter, 1969)	SIHRM Orientation (Taylor, <i>et al.</i> , 1996)
Home country focus	Global	Ethnocentric	Exportive
Host country focus	Multi-domestic	Polycentric	Adaptive
Balance between home and host country	Transnational	Geocentric/ Regiocentric	Integrative

From a strategy perspective, we see that global firms have a home country focus, multidomestic firms have a host-country focus, and transnational firms try to balance their operations across both the home and host countries.

Looking at management approaches, we can see how an ethnocentric approach, and the use of parent-country nationals, is most likely to be used in global firms with their focus on the home-country and the firm's headquarters. A polycentric approach is more likely to be adopted in multidomestic firms, which give great autonomy to their subsidiary operations. And a geocentric or regiocentric approach is most likely to be taken by transnational firms which do not focus on whether they are dealing with the home or host-country operations, just so long as the right activities are taking place at the right locations around the world.

Finally, we can add the strategic international HRM orientation to this model. Now we can see that global firms, with an ethnocentric management strategy, would make most use of an exportive SIHRM orientation, controlling all HRM policies and practices from headquarters. Multidomestic firms, with high subsidiary autonomy, are therefore most likely to take an adaptive approach to SIHRM, with all locations devising HRM policies and practices which fit the relevant country context. Transnational firms, aiming to achieve a balance between a home and a host-country focus, are most likely to take an integrative approach to HRM policy and practice design and implementation, gathering ideas from around the world to establish best practice within the firm.

This has provided you with an overview of the key frameworks which help us to make sense of the different options facing firms in their international operations. The literature which supports this lesson will explain in greater detail the characteristics of each of these frameworks, including the benefits and drawbacks of the different approaches.