International Human Resource Management: Stereotypes, Staffing
Contexts and Strategy

ABSTRACT

This conceptual paper explores some definitional and strategic staffing issues arising from the emergence and practice of International Human Resource Management (IHRM). It firstly draws attention to theoretical problems and questions of interpretation arising from key debates on international staffing in MNCs and the global economy. The problem of reconciling demands for global integration with localisation is highlighted as having strategic importance for international staffing policy. The paper then questions the analytical usefulness of prescriptive expatriate staffing stereotypes, especially the ‘best practice’ ethnocentric model, and calls for a more informed and strategic approach to understanding differing international staffing contexts. It is argued that external structural and contextual factors (e.g., global firm ownership, pricing behaviour, labour market conditions, and legal/employment institutions) can and do impose significant constraints on internal management staffing decisions in international businesses.

Keywords: International Human Resource Management, Integration, Localisation, Ethnocentric Staffing Policy, Best Practice, Best Fit
INTRODUCTION

This paper firstly outlines some current theoretical debates and tensions found in the contemporary literature on International Human Resource Management (IHRM) and comparative employment relations. Following an overview of the dominant schools of thought and the important debate over global integration versus localisation, the paper traces the development of prescriptive staffing models based on cultural stereotypes derived from multinational business practices in post-war USA. In particular, the paper questions the analytical usefulness of the universal term ‘ethnocentric’ staffing policy to describe a parent headquarters’ practice of selecting Parent Country Nationals (PCNs) to manage employees locally. As a ‘best practice’ style of staff management, the model is criticised for its prescriptive limitations and capacity to crowd out head office choices based on structural variations and ‘best fit’ strategic staffing considerations.

Finally, the paper points to the diversity of employment regimes and practices found in the external organisational environment. It is argued that environmental factors, regulatory institutions and employee groups remain significant players in the global political economy and that their actions can help to moderate integrative tendencies in global staffing policies. The paper points up the strategic importance of external factors such as differing economic market structures, labour markets and national regulatory requirements in host countries and states. International staffing choices cannot easily be marked off a list of prescriptive staffing solutions. They are dynamic decisions which are also informed by contextual, institutional and regulatory factors.

IHRM IDEAS AND CURRENT THEORETICAL DEBATES

In the past decade or more researchers and authors have contributed to an avalanche of popular and academic articles, papers and textbooks in the field of IHRM. As an expanding sub-discipline of HRM the field of IHRM is concerned with the international and cross-cultural management of people in work organisations. The problems and challenges of managing human resources, information and knowledge in culturally diverse international
business environments have been key areas of interest to researchers (see Dowling, 1999; Dowling and Welch, 2004 and Morley & Collings, 2004). The more prescriptive material can read like favourite recipes from an international corporate cookery book on ‘how-to-do’ business with foreign managers, governments and employees in various locations around the world. This should come of no surprise. Management education in the USA has become a big business supporting an enormous industry of teachers, popular writers and practising managers (Spender, 2005: 1282). A preference for quick-fix solutions to problems of organisational inefficiency and uncertainty has effectively built into the published HRM and IHRM literature a distinct cultural and corporate bias (Ozbilgin, 2004: 8).

The ownership and control of professional management knowledge by academics and its everyday application by practising business managers is a recurring theme in debates about the value and use of international management education. Some academic researchers have lamented the lack of alignment between the interests of IHRM academics and those of business managers operating in global firms. A recent research study, for instance, noted that IHRM academics were more concerned with issues of IHRM ‘strategy’ and cross-cultural career management, while business practitioners were mostly focused on operational problems such as employee pay and compensation, recruitment/selection policy, industrial relations and taxation issues. The authors observed that the real challenge for IHRM was to bridge the gap between what academics observed as strategically important and what business managers saw as administratively relevant (De Cieri, Fenwick and Hutchings, 2005: 590-92).

The theorisation of management knowledge by academics and its utility for professional managers is not easily resolved in the business world. It may indeed be impossible to develop an integrated body of knowledge in a dynamic and evolving sub discipline such as IHRM. As one critic (Spender, 2005: 1283-4) has argued, how do you guard and regulate a body of professional management knowledge when there are few institutional or licensing barriers to the entry of new management ideas, gurus, and practitioners in the field? Despite this unresolved problem three broad schools of knowledge about the pattern and significance of international management and employment practices
have begun to emerge from the literature. The centralisation versus localisation debate constitutes a major school of inquiry ‘from both a practical and a theoretical perspective’ (McGraw, 2004: 538). It is closely coupled with another global debate involving convergency or divergency between different national employment systems (Bamber, Lansbury and Wailes, 2004: 15-16). Growing interest in the transfer of inter-organisational knowledge between subsidiary structures and its implications for international firm advantage and HR policy development makes up a third school of thought (Morley & Collings, 2004: 487-88).

**Integration versus Localisation**

The integration versus localisation perspective in IHRM focuses on the structure of management and staffing functions in multinational companies (MNCs). By seeking to achieve a high level of corporate integration, head office can attempt to centralise operational procedures, reporting relationships and information flows across its corporate group. There is debate about the extent to which MNCs attempt to formalise head office practices in their affiliate operations and what factors inform the decision to centralise and standardise HR practices in overseas countries. The degree of cross-border integration achieved by the MNC is seen as a source of competitive strength because it can promote efficiency, economies of scale, greater bargaining strength, intra organisational knowledge transfer and opportunities for employees to learn and internalise the values and views of head office. Under a centralisation strategy the corporate group could be expected to share core business practices such as employee recruitment, training and pay and performance management systems (McGraw 2004: 536-37).

In contrast, the localisation perspective on global HR management resides at the opposite pole. Emphasis is placed on the multi-centred structure of global operations and the responsiveness of head office to localised conditions affecting the operations of the foreign subsidiary. A loosely integrated corporate group may reflect the decision of head office to localise or decentralise organisational practices to the local subsidiary. The forces behind localisation are numerous and can include differing external environments, political, economic, social and regulatory factors as well as diverse national and cultural norms and
issues of communication. The strategic role of the subsidiary in the corporate group can also influence the level of integration. Not all subsidiaries perform the same role in MNC networks. The strategic importance of the subsidiary to the global network may be determined by its size, market share and functional position within the group. Another variable which can be a predictor of the tendency to centralise or decentralise global operations is the country of origin of the parent company. There is evidence to support the proposition that US parent companies favour centralised HRM practices compared to European MNCs (Ferner et al; 2001, 2003 cited in McGraw, 2004: 537). In general, however, the ability of head office to strike a trade-off between closer integration and localisation is not easily determined and the question of how best to manage relations between different parts of the business remains a key area of research interest for global HR analysts (McGraw, 2004: 537; 544).

**Convergence versus Divergence**

Closely allied with the debate over integration versus localisation is the question of convergence and divergence in the management of international employment relations. The argument behind convergence is that there is an increasing tendency towards uniformity in the employment and industrial relations practices of MNCs, due to the increasing integration of national markets and the rapid uptake of global technology (Kerr, Dunlop, Harbison and Meyers, 1960 cited in Bamber et al, 2004: 13). International labour management practices are assumed to be converging towards a standard model of employment relations which points towards greater similarity in labour management methods between the subsidiaries of MNCs. This is a contentious prediction which has some empirical support (Bray and Lansbury, 2000: 295-97) but is not consistently reflected in research findings. In a recent study, for example, (McGraw, 2004: 539) found that Australian subsidiaries of MNCs exercised a high degree of local management autonomy in matters of HR and had an active political voice in response to head office decisions. Political lobbying and bargaining with head office was not uncommon and local subsidiary managers complained that head office did not understand their HR staffing requirements. Moreover, the organisations studied had experienced constant internal structural change, fuelled by mergers, acquisitions and asset sales. Contrary to the
convergence argument, the study found that HR practices were poorly coordinated across
different product lines within the business group (McGraw, 2004: 543)

The convergence theorists have been challenged by critics who contend that there is
ample evidence to support the argument that divergent labour management models can be
found in the global economy. The supporters of divergence argue that there are important and
unique differences in national employment arrangements across countries and regions. For
example, (Doeringer, 1981 cited in Bamber et al, 2004: 15) argues that over time nation states
develop their own particular domestic responses to employment management problems. Other
researchers such as (Piore, 1981 cited in Bamber et al, 2004: 15-16) suggest that some aspects
of employment relations converge while others diverge over time and place. Patterns of
similarity and difference in employment practices across nation states may also be due to the
relative political strength of domestic interest groups, especially employers, unions and

**Inter-Organisational Transfer of Management Knowledge**

How international firms create, share and transfer knowledge within the group and
what implications this has for internal HR staffing strategy is another broad area of interest to
HR researchers. Firms may be tempted to internationalise when they possess ‘intellectual
knowledge’ which gives them an edge over domestic rivals. Knowledge is seen as a source of
competitive advantage for firms who wish to learn faster and exploit opportunities to change
employee work behaviours and culture (Boxall and Purcell, 2003: 83). Globalising firms
operating in foreign host cultures can take advantage of opportunities to learn and innovate
and force the pace of knowledge creation and enrichment (Tallman & Fladmoe-Lindquist,
1994 cited in Bonache, Brewster and Suutari, 2001: 7). However, a distinction has been
drawn between ‘explicit’ and ‘tacit’ knowledge. The former is seen as verbalised and codified
communication while the latter is regarded as non-verbalised or intuitive knowledge which is
difficult to capture and transfer (Boxall and Purcell, 2003: 83). What learning should happen
in international business, according to normative assumptions of rationality and expectation
and what actually occurs as a result of personal networks and power relationships, may be quite different.

The transfer and storage of management knowledge is seen as critical to HR performance. Tensions in inter-organisational learning and knowledge sharing can be a factor in the success or failure of corporate merger and acquisition activity (Boxall and Purcell, 2003: 220-23). Employee resentment caused by periodic organisational restructuring may actually hinder the diffusion of global HR knowledge. Lean corporate staffing policy, multi-tasking duties, the removal of middle management monitoring/reporting layers, outsourcing practices and high employee turnover rates can all frustrate employee learning, motivation and strategic direction (Keane, 2002: 360-62). In international firms storing, sharing and replicating knowledge is becoming difficult due to its increasingly ‘tacit’ character. If expatriate managers are seen as vehicles for the transfer of this ‘tacit’ knowledge, then the head office decision to assign them to foreign subsidiary firms can be seen as a strategy designed to transfer and exploit the creation of ‘tacit’ knowledge (Bonache, Brewster and Suutari, 2001: 7).

**INTERNATIONAL STAFFING TYPOLOGIES**

*Best Practice versus Best Fit Staffing Decisions*

The paper now departs from broad theoretical themes to discuss the emergence of international staffing typologies and their application to the management of expatriate staff. It is argued that the dissemination of popular staffing typologies in the IHRM literature risks squeezing international management staffing choices into a ‘best practice’ model of people management at the expense of the more strategic and contextually useful ‘best fit’ approach. The ‘best practice’ HR literature places emphasis on prescriptive and standardised HR activities for managers to follow and implement. The assumption is that performance goals can be set and progress towards their implementation easily measured. Generally, ‘best practice’ is closely aligned with HR concepts of centralisation and the perennial problem of organisational integration. It demands competence and commitment from employees and
managers but tends to ignore the problem of divergent employee interests and changing organisational goals (Boxall and Purcell, 2003: 61-64).

The alternate ‘best fit’ model of HRM adopts a contingency view of the firm and its environment. Here the emphasis is about fitting people management practices to the surrounding contextual character of the environment. A firm’s HR practices do not operate in isolation from its industry environment whose characteristics can include product/service markets, competitive position, labour market structure, applied technology and national institutional factors (Long and Shields, 2005: 58). As such, the industry environment is likely to influence the firm’s choice of internal HR strategy. The ‘best fit’ approach to international management staffing decisions essentially underscores the strategic tension over head office demands for global centralisation/integration and the countervailing call for greater local responsiveness (Harris, 2006: 1).

According to the IHRM literature (Dowling and Welch, 2004: 63-65) international staffing policy choices are key determiners of effective expatriate management. If headquarters wishes to make the right decisions about the managerial staffing of subsidiaries in host countries it can choose from a range of alternative policy options. The typology of staffing choices identified in most IHRM literature is described below:

- **Ethnocentric Staffing Policy**

  This policy involves the selection of parent country nationals (PCNs) to manage the foreign operations and maintain close communication with head office. Senior management positions in the parent company and foreign subsidiary firm are held by headquarters’ management personnel.

- **Polycentric Staffing Policy**

  This policy involves greater headquarters responsiveness to the foreign subsidiary firm via the selection of local host country nationals (HCNs) to management positions in the subsidiary. The policy permits local nationals to manage the subsidiary operation.
• **Regiocentric Staffing Policy**

This policy reflects headquarters’ preference for grouping the MNC into a geographical organisational structure. Regional managers are appointed by headquarters to manage distinct geographical regions/markets in the global group.

• **Geocentric Staffing Policy**

This policy permits the MNC to adopt a global approach to its operations and staff nationality is ignored in preference for global management skills and experience. Under this integrated policy PCNs, HCNs and Third Country Nationals (TCNs) effectively function as footloose global managers who can be recruited for any management position in the corporate group (Harris, 2006: 2).

The ‘ethnocentric staffing’ stereotype was largely shaped by US foreign direct investment experience in the 1950s. An expatriate contemporary of the time notes that professional ex-patriate staffing recruitment and selection policy was virtually non existent. Indeed, ‘international personnel’ management was mostly about augmenting US expatriate compensation packages in the host country subsidiary firm and ‘showing those guys how we do things’ (Reynolds, 2004). According to Reynolds the expatriate staffing terms ‘ethnocentric’, ‘polycentric’ and ‘geocentric’, were later given academic respectability by Howard Perlmutter and Raymond Vernon to describe differing management approaches to staffing US foreign business organisations (Reynolds, 2004). Arguably, the US centred view of international staffing management remains heavily geared to practical problems of managing the recruitment, transfer and pay and performance of expatriate staff in MNCs.

The staffing typologies outlined above present a number of problems which are inadequately explored by the mainstream IHRM literature. It is unclear whether all of the staffing descriptions represent ‘best practice’ models, corresponding to distinct stages of internationalisation, or ‘best fit’ adaptations aligned to the strategic business goals of head office. The ‘ethnocentric staffing’ approach could be interpreted as a ‘best practice’ approach for reducing foreign risk and investor uncertainty. For instance, in ‘high risk’ political and cultural environments head office may be persuaded to play it safe by appointing PCNs to
foreign subsidiary firms (Harzing, 1996: 8). This was very much the mindset of US executives in the post-war period. The idea was to centralise decision making and communication, minimise cultural difference and mould the foreign subsidiary firm in the habits of head office.

The ‘polycentric staffing’ approach, in contrast, appears to represent a political concession to localisation demands and greater receptiveness of head office to cultural sensitivities in the local firm. From this perspective the ‘polycentric staffing’ option could be viewed as more strategic and a better ‘fit’ than the ‘ethnocentric staffing’ approach. The adoption of a ‘polycentric staffing’ approach seems to indicate a lessening of political risk in the investment environment and a willingness by the parent head office to decentralise some staffing decisions to its subsidiary operations. This more mature approach to staffing operations indicates that local HCNs can be given greater responsibility to make decisions about the allocation, use and expenditure of organisational resources.

What the mainstream IHRM literature tends to overlook is how the strategic interaction of parent headquarters, its subsidiary network and market position can moderate international staffing approaches in different nation states. The literature links the application of the staffing typologies to distinct stages of internationalisation as the firm undergoes a process of organisational growth, diversification and maturity (Dowling and Welch, 2004: 58-62). However, it is unlikely that these staffing approaches and choices automatically unfold in a predetermined and mechanical manner without much variation between different international firms. What strategies might trigger the choice of one staffing type is not obvious and nor is the possibility that global headquarters’ may decide to employ a mix of staffing types in its corporate network.

A further problem regarding these staffing typologies concerns their national/global character and implementation practice. It could be argued that they represent labour management ‘styles’ rather than ‘strategies’. Following this line of argument the staffing typologies could represent varying attitudes of head office to a range of labour management methods in foreign subsidiary firms. As such, the range could vary from ‘low-trust’ labour
management relations (ethnocentric style) to ‘high-trust’ labour management relations (geocentric style), in fully integrated global organisations (Wright, 1996: 5). In short, there is little explanation in the IHRM literature as to why MNCs might prefer to select one national staffing ‘style’ over another.

Nor is there much discussion about the interplay of political processes and decision making in different parts or levels of the international organisation. Studies suggest that decisions about expatriate staff selection seldom conform to rational or ‘best practice’ principles in MNCs. Line managers may actually be responsible for making the expatriate selection decision and the pool of available global talent may be quite shallow and narrowly drawn from the favoured in-house group (Harris & Brewster, 1999 cited in Bonache, Brewster and Suutari, 2001: 9). Furthermore, it should not be assumed that ‘HR strategies are uniform within firms. It is wrong to conjure up the image of a single set of critical practices for managing people in the firm. The vast bulk of evidence suggests otherwise: firms rarely adopt a single style of management for all their employee groups’ (Boxall and Purcell, 2003; 50). Again the contentious debate about balancing the mix of elements advocating integration/centralisation as opposed to localisation, remains all important for understanding international HR staffing choices.

THE ROLE OF EXTERNAL CONTEXTUAL FACTORS

Firm Ownership and strategic role of subsidiary

International staffing choices are not as clear cut as the ‘best practice’ argument seems to suggest. A host of external and contextual factors are likely to interact with head office staffing preferences to shape and influence the nature of the staffing decision. Questions of firm ownership and control play a part. The nature of firm ownership and control is becoming increasingly ambiguous in a more open global economy. While the nationality of a company is legally defined by the location of its parent headquarters, some large European MNCs no longer have majority percentage of ownership in their country of origin and are effectively owned by other foreign entities (Bris, 2006). This must weaken the
company’s decision making power and reduce the likelihood that a PCN will be appointed as managing director.

Moreover, the country of location of head office can be changed which arguably weakens headquarters’ bargaining power still further. Indeed, the ‘host’ country subsidiary firms may no longer need to follow the human resource practices of the parent firm. The strategic role of the subsidiary can also be an important factor influencing expatriate staffing policy choice. Research by (Harzing, 1996: 10) found that subsidiary firms engaged in production, assembly or innovative research were more likely to have a PCN as a managing director. However, head office was unlikely to implement an ‘ethnocentric staffing’ arrangement in cases where MNCs were formed from the acquisition of well established foreign entities and enjoyed economies of scale and competitive advantage in an industry sector (Harzing, 1996: 10). In addition, the location of a new head office due to a strategic cross-border merger between two competing firms can be a further source of tension. This can impose significant constraints on the acquiring firm and its preferred choice of staffing practice. The paper now turns to consider the important role played by market structures and how these institutions can affect IHRM staffing activities and performance outcomes.

*Firm Pricing and Market Structure*

The planned allocation and professional management of people can give organisations a competitive advantage over rival firms operating in markets where there are no barriers to the entry and exit of firms, information and technology. However, the assumption of perfect competition in the IHRM field does not sit easily with the type of imperfect market structures in which many MNCs operate. International firm size, economies of scale, subsidiary network and pricing arrangements all affect cost competitiveness and management staffing choices. Considerable empirical data on the market behaviour of international firms shows that large oligopoly firms have opportunities to administer their pricing behaviour in international markets. They can also cooperate with other producers to reduce or eliminate competition from smaller domestic companies (Lieberman & Hall, 2005: 258-62). As such IHRM employment and staffing practices are likely to be affected by an
MNC’s changing market behaviour, its ability to frustrate market entry and engage in strategic bargaining with firm suppliers and nation states.

The integrated structure of the parent-subsidiary relationship provides MNCs with considerable ability to organise their global operations into cost and profit making centres. In the context of the host country location this has critical implications for local labour market demand and management staffing levels. The actual location of global profit making units and cost designated centres is likely to lead to differing international and local staffing demands. If the corporate structure is organised to maximise profits in one country and minimise investor risk in another, then HR staffing functions are more likely to follow the dominant market strategy of the firm.

**Labour Market Context**

If the effects of dominant market position on internal HR staff decisions cannot be ignored nor can the changing dynamics of international, regional and local labour markets. Labour markets in developed market economies have generally undergone varying degrees of liberalisation and deregulation in recent decades. While some governments have shifted policy towards more decentralised employment practices, centralised collective bargaining traditions remain strong in major European economies. MNC staffing approaches are therefore likely to vary depending upon the attitude of the parent headquarters, or its subsidiary, to institutional factors such as union strength, presence and host country labour laws. While studies indicate that US owned MNCs operating in European economies prefer to adopt ethnocentric employment practices, compared to European owned firms, (Ferner et al; 2001, 2003 cited in McGraw, 2004: 537) diverse labour market conditions do not appear to support standardised or ‘best practice’ staffing arrangements (Bamber, Lansbury & Wailes, 2004: 31).

**State Negotiating Power**

The negotiating power of the state is another institution which MNCs may need to consider in managing internal employment relationships. State sponsored tripartite agreements between large employer groups, industry unions and European governments are
common practice. State brokered economic partnerships which promote cooperative behaviour between key employer groups and national industry unions may be geared to national productivity, wage and employment/staffing outcomes. In some European states such as Spain, Germany and the Netherlands, companies undergoing restructuring are engaged in negotiating ‘Pacts for Employment and Competitiveness’. The Pacts aim to promote a stakeholder perspective among company managers, employee representatives and disadvantaged social groups affected by corporate restructures and the privatisation of public enterprises. The stakeholders are encouraged to participate in decentralised collective bargaining with a view to reaching agreements about job levels and productivity improvements (http://www.eurofound.ie/industrial/pecs.htm).

**Employee Union Involvement**

There are also significant differences in regulatory labour law in European states which can affect staffing policy choices. German works councils, for instance, can act as a brake on management prerogative and provide an active voice for employee and union involvement in the firm’s staffing practices (Bamber, Lansbury & Wailes, 2004: 31-32). In highly unionised industries cross-border corporate mergers can be fraught with problems of HR integration. For example, when the Swiss owned Nestle company acquired French owned Perrier in the early 1990s it also inherited a French workforce whose members mostly belonged to the Confederation Generale du Travail (CGT), the most militant union confederation in France. The CGT opposed staffing restructures and redundancies and turned the strategic deal into a difficult and conflict ridden acquisition (Capron and Guillen, 2006). All of these national institutional and contextual variables therefore suggest that the links between an international firm’s internal HR staffing choices, its economic behaviour, labour market position and host government regulatory regime, are closely interconnected and require further unpacking and interdisciplinary analysis.
CONCLUSIONS

This paper began by surveying critically important themes in the IHRM literature concerning the interplay of forces shaping the pattern of international staffing and employment management practices. Tensions between the integration and localisation of HR policies in foreign subsidiary firms were highlighted as strategically significant for international staffing arrangements. The important debate over convergent or divergent practices in the management of international employment relations was surveyed. Strategic links between the firm’s ‘tacit’ organisational knowledge and the management of its expatriate staff was highlighted.

The paper then took issue with ‘best practice’ international staffing stereotypes borrowed from the US expatriate and ethnocentric international business culture of the 1960s. These stereotyped descriptions, it was argued, are less helpful in understanding the contemporary contextual complexity of the global economy and the strategic character of international staffing choices. IHRM academics and practitioners should question existing staffing models when they fail to inform or reflect actual international human resource practices. The prescriptive and ‘best practice’ approach to the study of international staffing requires reassessment in view of rapid institutional change and the development of new market structures and employment relationships.

The links between IHRM, organisational change strategies and staffing choices are not clearly illustrated in the IHRM literature. The types of actors on the international business stage and the complex market structures which affect their competitive performance make attempts to define staffing policy choices very problematic. International staffing strategies cannot be easily squeezed into neat typologies tied to the goal of global firm integration. Firm ownership, history, size, organisational structure and pricing and acquisition behaviour, are all critical factors which can be expected to influence international staffing needs and choices in the global economy. The role of market structure and strategic pricing behaviour on IHRM staffing activities has received relatively minor attention compared to other factors. Globally
integrated firms operating in diverse labour markets may have the ability to administer their pricing behaviour and switch investment and production from one foreign subsidiary to another. Such strategic choices can obviously impact upon the host domestic labour market and undermine locally emerging HR staffing practices. A number of academics have begun to urge the case for greater ‘interdisciplinary collaboration’ in the IHRM field (Keating & Thompson, 2004: 596). This paper supports the call and the need for more empirically focused research on the strategic interplay of external and internal forces shaping the staffing decisions and practices of international business organisations.

References


