Human
Resource
Strategies
for
International
Growth

Chris Hendry

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Human resource strategies for international growth

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Internationalization is often seen as posing distinctive human resource problems that are difficult to overcome. In contrast, this book is written in the belief that there are many basic similarities and continuities between domestic and international business, and that identifying these reveals generic processes and skills which are the basis for escaping from the domestic setting.

Unlike much existing literature, *Human resource strategies for international growth* considers the problems of internationalization as they affect large and small firms, newly internationalizing firms and those which are mature in the international arena. The implications of the Single European Market are explored and relevant theories are explained to reveal the what, why and how of internationalization.

Drawing on original research and an extensive review of the literature, this book offers a comprehensive and critical overview of human resource issues in internationalization which will appeal to business students from first degree level to MBA.

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Introduction

Internationalization is often seen as posing distinctive issues for a firm that are troublesome to surmount. The treatment of internationalization from a human resources point of view thus dwells on such problems as the selection, training, and management of expatriates; managing organizational complexity in the multinational; and managing joint ventures and other forms of strategic alliance.

The assumption that managing the international business, as opposed to the domestic, is different and more difficult blinds us to many basic similarities and continuities between domestic and international business. If we take as our focus the processes by which firms internationalize and sustain their international operations, we get a different perspective than if we focus on the specific tasks of the human resources function. This perspective exposes fundamental regularities between domestic and international business.

Identifying these regularities is important for international growth for the following reasons:

- it reveals generic processes and skills which are the basis for escaping from the domestic setting;
- it suggests how the domestic environment and analogous settings can be used to develop these skills; and
- it identifies organizational weaknesses which stand in the way of such development.

If these commonalities, opportunities, and blocks are recognized, it can help firms to think more positively about becoming international and to address relevant skills through their present systems for developing managers. Equally, it can help those in the

educational and training business, in the universities and business schools, to develop activities, tasks, and situations for international management education.

A principal aim of this book is therefore to trace the similarities and regularities that exist between domestic and international business, and to follow through the implications for human resource management (HRM). These similarities/regularities can be described in terms of the different contexts in which internationalization manifests itself. Identifying these different contexts, moreover, highlights basic similarities and generic skills between different levels of internationalization. The book identifies six such 'contexts':

1 the leveraging of domestic competitive advantages;
2 initiating and sustaining international commitment;
3 networking in the newly internationalizing firm;
4 networking and learning in alliances and international joint ventures;
5 managing complexity in the international firm;
6 developing inter-cultural competence.

Each of these contexts defines particular issues for HRM. After Chapter 1, which provides an overview, Chapters 2–4 develop these contexts and issues according to a sequence which reflects the development of firms from being purely domestic to becoming progressively more internationalized. Chapter 2 considers how firms take the first steps towards internationalization. It thus embraces contexts 1, 2 and 3 above – the idea of internationalization as the leveraging of domestic competitive advantages, initiating international commitment, and the role of networking in developing international business. Chapter 3 takes this forward by looking at processes of networking and learning in alliances and international joint ventures, with the different issues for small and large firms arising from the way they use alliances. Chapter 4 then looks at the issues for the truly international firm in terms of the last two 'contexts' – managing complexity, and developing inter-cultural competence among staff.

The treatment of these 'contexts' not only reveals continuities and similarities for HRM between the international and domestic business environment, it identifies certain recurrent themes across the different levels of internationalization. Internationalization at all levels involves similar processes and the need for certain

generic skills. These centre on networking, the role of teams, and organizational learning.

Large international firms, for instance, need to be able to mobilize, within their internal structures, knowledge accumulated in a variety of networks, and apply these both to new markets and to gain better synergies in existing ones. Newly internationalizing firms need to practise networking skills externally to build up the knowledge of customers and suppliers on which new business depends. Firms in alliances need to be able to access knowledge and transfer it through a network of personal exchange relationships. All of these processes involve networks, geared to learning, in which teams facilitate the conversion of information from individual sources into 'organizational' learning. Again, these processes and the skills which support them are not confined to international management.

It will be clear from this discussion that we are applying a broad definition to HRM, concerned not just with what human resource managers do, but with the skills of people and organizing. On the other hand, there are specific differences between domestic business management and international management which derive from the institutional factors which HRM, the function, has to address. These become apparent when we move from the generic processes of internationalization to country-specific contexts. It is at this point that differences of language, culture, company and employment law, and so forth, begin to loom large. To apply a crude distinction, processes are common, but knowledge is unique.

The attempt to establish a Single European Market (SEM) provides a highly specific context in which to view internationalization. Harmonization and the Social Chapter have begun to highlight the strengths and weaknesses in comparative European systems from which international competitiveness (or the leveraging of domestic advantages) is launched, while rationalization and the encouragement to European companies provides a powerful test of managing across cultural diversity. The final part of the book therefore shifts the focus from generic processes of internationalization and HRM to the specific context of the new Europe.

Chapter 5 considers the impact of the Single European Market on the industrial structure, and what this means for UK firms, given the way the British economy and UK firms are presently

organized. Chapter 6 then reviews the human resource impli-
cations for Britain and Europe in terms of three themes – the
consequences for employment and the requirements for skills and
training; the Europeanization of firms and how companies are
responding; and comparative systems of HRM, including the role
of international firms in spreading employment practices. In this
way these two chapters provide specific illustration of leveraging
domestic competitive advantages and coping with issues of
inter-cultural competence.

In summary, then, this book does four things. First, it is
concerned throughout with the similarities and continuities
between domestic and international business management
(although equally we will note areas of real difference which
successful internationalization has to overcome). Second, it
considers the problems of internationalization as they affect both
large and small firms, newly internationalizing firms and mature
international firms – from the first steps through to inter-
nationalization in the global firm. This itself is unusual, since most
treatments of HRM in internationalization restrict themselves to
issues in the large, already internationalized, global firm. Third, it
analyses these as generic processes and then with specific
reference to the new Europe. And fourth, it reviews human
resource strategies for internationalization against relevant
theoretical perspectives on the process of internationalization.

This last is also important since such processes underpin what
HRM is called upon to do. At each point, therefore, we outline
relevant theories which explain the what, why, and especially the
how of internationalization. The use of such theories is necessarily
eclectic. This is not a case of HRM borrowing casually from the
strategy literature, as it has sometimes tended to do (as, for
example, in adopting the portfolio concept or modelling the
stages of growth of firms). The reason is that internationalization
itself comes in many forms. As these forms of internationalization
and the processes by which firms arrive there have become more
elaborate over the past forty years, a range of competing theories
have been developed which explain different aspects:

> The sheer variety of transnational activity, however, suggests the
> search for an all-embracing explanation may be illusory.
> Certainly there is no single, universally accepted, theoretical
> explanation of the TNC (transnational corporation). Rather,

there is a variety of competing explanations which operate at different scales of explanation and which derive from different ideological perspectives.

(Dicken, 1992: 120)

Relevant underpinning theories of the internationalization process are therefore introduced throughout the book. These help to highlight the contribution of HRM to international growth by identifying specific behaviours, whereas much of the theory concentrates on the decision to internationalize. (For a systematic presentation and critique of these, the reader is referred to Chapter 3 of Peter McKiernan's (1992) book in this series.)

Within the framework of these four objectives, it is intended that the reader should find a comprehensive as well as critical review of the human resource issues, literature and research relating to internationalization.

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Chapter 1

Internationalization and the domestic firm

INTRODUCTION

The treatment of HRM in internationalization has tended to focus on the problems of the large multinational around such issues as the selection, training, and management of expatriates. In part, this reflects particular concerns about the apparently high rate of failure of expatriate assignments within American multinationals. More recently, attention has turned to the problems of coordinating activity and maximizing synergistic benefits in increasingly complex large international companies. Each of these problems reflects a stage in the evolution of large multinationals, especially American ones. Similarly, recent interest within HRM on managing joint ventures and other forms of strategic alliance reflects a feeling within the American business and academic community that they have been somehow asset-stripped (or more bluntly, ripped off) by Japanese rivals with whom they unsuspectingly entered into alliances.

The result of this problem-centred focus is twofold. First, international HRM appears as a series of fragmented responses to distinct and separable problems. Second, it tends to emphasize the disjuncture between doing business domestically and internationally. This blinds us, however, to certain basic similarities and continuities that exist between domestic and international business. If we look more systematically at the different types of issues involved in internationalization, at different stages of internationalization, among both small and large firms, attention shifts from what the HRM function is called on to do to more broadly defined human resource activities and processes. In turn, this serves to highlight continuities with human

resource management in the domestic environment in creating an effective organization, and common underlying processes in different aspects of internationalization.

The discipline, theory, and practice of HRM then begins to address issues which are fundamental to the growth of firms internationally, instead of being hooked on the role of the HRM function as an activity following in the train of international business strategies. Identifying human resource continuities and regularities in doing business domestically and internationally does three things:

- it reveals generic processes and skills which are the basis for escaping from the domestic setting;
- it suggests how the domestic environment and analogous settings can be used to develop these skills; and
- it identifies organizational weaknesses which stand in the way of such development.

Since it is typically the difficulties of internationalization which are stressed, identifying commonalities, opportunities, and blocks in relation to the domestic organization and setting can help firms to think more positively about becoming international and to address relevant skills in the present organization.

An overview of internationalization processes suggests there are six areas, or 'contexts', in which there are discernible similarities or regularities with domestic activity and operations:

1 internationalization as the leveraging of domestic competitive advantages;
2 initiating and sustaining international commitment;
3 networking in the newly internationalizing firm;
4 networking and learning in alliances and international joint ventures;
5 managing complexity in the international firm;
6 developing inter-cultural competence.

Each of these 'contexts' defines particular issues for HRM, but also brings out certain key processes that are common across different levels of internationalization – namely, the importance of networking, the role of teams and the goal of organizational learning.

The rest of this chapter provides an overview of these contexts and issues. Succeeding chapters then develop the human resource implications more fully in relation to the different stages of