

# The Use of HRM Practices in International and Domestic Organisations

Jean M. Hiltrop \*

## Introduction

The field of international human resources management has frequently been criticised as lacking analytical rigour. As Schollhammer (1975) noted, the existing research is often ad hoc and expedient in terms of design and planning. What emerges from this research, however, is that the multinationals often outperform their domestic counterparts in nearly all aspects of human resource management, including the degree of attention given to employee relations, the ability to attract and retain high potentials, and the use of innovative and progressive human resource practices. For example, a survey of 143 organisations in Britain in 1985 indicated that foreign-owned organisations used more advanced HRM techniques, devoted more resources to personnel management and were more likely to use a variety of new communication and work design methods in order to gain employee loyalty (Margerison, Edwards, Martin, Purcell and Sissons, 1988). However, it was appreciated that in many cases the differences in HRM may still have had as much to do with the specific sector, or the strategy being pursued by the organisation, as it did with the foreign ownership.

The objective of this article is to shed some light on the field of international HRM by reviewing the key findings and conclusions of two empirical studies that compared and contrasted the HRM practices of international and domestic firms. The first study was undertaken in 1991 and considered the differences between 117 multinational and domestic companies in Belgium. The second study took place between June 1992 and September 1994 and examined the HR policies and practices of 478 multinational corporations in Europe, Japan and the US. Taken together, these two studies help to understand (1) what multinational corporations do to attract, retain and motivate people and (2) how this affects their performance.

\* Professor of Management, University of Otago.

## **How different are the HR practices of multinational companies from those of domestic firms?**

There are a number of reasons why the HRM policies and practices of multinational enterprises (MNEs) are likely to be different from those found in domestic firms (Acuff, 1984; Enderwick, 1985; Purcell et al., 1987; Dowling, Schuler and Welch, 1993). For one, the difference in geographical spread means that MNEs must normally engage in a number of HR activities that are not needed in domestic firms - such as providing relocation and orientation assistance to expatriates, administering international job rotation programmes, and dealing with international union activity.

Second, as Dowling (1988) points out, the personnel policies and practices of MNEs are likely to be more complex and diverse. For instance, complex salary and income taxation issues are likely to arise in MNEs because their pay policies and practices have to be administered to many different groups of subsidiaries and employees, located in different countries. Managing this diversity may generate a number of co-ordination and communication problems that do not arise in domestic firms. In recognition of these difficulties, most large international companies retain the services of a major accounting firm to ensure there is no tax incentive or disincentive associated with a particular international assignment.

Finally, there are more stakeholders that influence the HRM policies and practices of international firms than those of domestic firms. The major stakeholders in private organisations are the shareholders and the employees. But one could also think of unions, consumer organisations and other pressure groups. These pressure groups also exist in domestic firms, but they often put more pressure on foreign than on local companies. This probably means that international companies need to be more risk averse and concerned with the social and political environment than domestic firms.

### **The 1991 Survey**

According to some commentators, the key differences between international companies and domestic ones lie not so much in what sort of policies and practices they use to attract and retain people but rather how they implement these practices. As Purcell et al. (1987) say, it is not the concrete activities themselves, which give rise to differences. After all, some of the most important tasks in international HRM involve staffing, assessment and compensation, training and development, and industrial relations/employee participation, which are also considered to be the main activities in domestic HRM. It is rather the way in which these activities are performed that give rise to major differences.

To test this argument, we contacted the 150 largest organisations located in Belgium. After interviewing the personnel director and head of the management development function in each of these companies, we asked them to complete and return a structured questionnaire designed to identify the specific policies and practices of their company in

the areas of manpower planning, recruitment, selection, rewards and compensation, employee appraisal, training and development, communication and industrial relations. A total of 117 managers returned fully completed questionnaires, including 71 from multinational enterprises. Of these 71 companies, 28 were US-owned, five were British-owned, four were Japanese-owned, and 15 had a French, Dutch or German parent organisation. The second group of companies consisted of 46 domestic firms located in the French and Flemish regions of Belgium. About half of the domestic companies were operating in the service sector (especially insurance and banking). In contrast, most of the multinationals had their core business activities in the manufacturing sector. The products made ranged from pharmaceuticals to office equipment, electronics and electrical appliances.

The key results of the survey are shown in Table 1. It can be seen that there were many significant differences between the domestic and multinational companies. For example, 63 percent of the personnel managers in the multinational companies said they had an internal promotion policy, compared to only 21 percent of the respondents in the domestic firms. Similarly, the results suggest that personnel managers in multinationals were more likely to use sophisticated management techniques such as formal manpower planning, job evaluation, quality circles, performance related pay schemes, relocation assistance programmes, and employee shareholder schemes. However, there were also many similarities between multinational and domestic firms. For example, no significant differences were found in the extent to which they used flexitime, career planning, management development, assessment centres, job rotation, written performance appraisal, job attitude surveys, and participative work systems.

To some extent these findings reflect the high concentration of US-owned companies in the sample. For instance, it appears that the subsidiaries of US-owned companies were significantly more likely than their Belgian (and other European) counterparts to use a variety of methods to gain employee loyalty and commitment - such as quality circles and employee shareholder schemes. This finding is consistent with other studies, including a survey of 143 domestic and foreign-owned enterprises in Britain, which also indicated that American (and Japanese) firms devoted more resources to communication and work design methods to gain employee loyalty (Purcell et al., 1987).

Table 1  
HRM Practices in Domestic and Multinational Companies

<i>HRM Practices</i>	<i>Occurrence in % of Firms</i>	
	<i>Domestic (N = 46)</i>	<i>Multinational (N = 71)</i>
Personality assessment in the selection process	34	62
Internal recruitment and promotion policy	21	63
Formal introduction of new employees	71	47
Personnel manager involved in strategic planning	41	72
Formal manpower planning	34	72
Performance appraisal interviews	44	83
Performance related pay	15	58
Special rewards for high performance	1	23
Formal job evaluation	11	63
Employee relocation assistance	26	47
Quality circles	16	28
Formal grievance procedures	61	77
Decentralised decision making	16	37
Communication of corporate goals and priorities to all workers	28	60
Employee share holding	37	70

## The influence of business sector and strategy on HRM practices

The 1991 study supported the view that multinational companies are more likely than their domestic counterparts to use advanced HRM techniques and practices. However, we suspected that in many cases the differences in HRM might have been associated with the specific sector, or the competitive strategy being pursued by the organisation. Therefore, to test for this possibility, the questionnaire data were entered into a multivariate analysis, which examined how much of the total variation in HR practices could be explained by the firm's nationality, industry sector, management philosophy and/or competitive strategy. The results showed that:

1. Companies that were pursuing a strategy of high product innovation were particularly likely to have quality circles, career guidance programmes, specialised career paths, and some type of creativity assessment for new hires. In contrast, companies that were primarily competing on the basis of cost leadership put relatively more emphasis on formal manpower planning (to determine future manpower requirements), and preferred to handle employee relations on an ad-hoc basis rather than through formal procedures.
2. Service companies were more likely than manufacturing firms to share information among employees, link pay to performance and delegate authority to the lowest possible level. In contrast, manufacturing firms were more likely to offer job security, flexible working arrangements, financial support to those who wish to take external training courses.
3. A wider variety of HRM practices were used when top managers saw employees primarily as "a source of talent that must be developed", rather than primarily as "a cost factor that must be reduced". Not surprisingly, top managers who saw employees as a source of talent were more likely to do the following things:
  - Delegate responsibility to the lowest possible level,
  - Offer flexible working arrangements to employees
  - Openly share information about the goals and results of the company
  - Use quality circles to seek out the ideas of their workers

None of these practices occurred when employees were viewed as a cost factor.

Thus, it is clear that the choice of HR practices is influenced by a variety of factors, including the firm's industry sector, strategy and management philosophy. However, the total variance explained by these three factors was quite low (about 32 percent), compared with the variance explained by the nationality of the parent. This strongly suggests that the differences between domestic and international firms shown in Table 1 stemmed largely from differences in nationality.

## The 1995 Study

The conclusion of the 1991 study is consistent with the work of Purcell et al. (1987), who also found that sector and competitive strategy were not as important as the parent's nationality in determining how employees were being attracted, selected, and rewarded. However, after presenting the results to a number of national subsidiaries and multinational companies, we decided to test this conclusion on a much wider sample of organisations. In fact, it was suggested that the results of the 1991 study may have had as much to do with the specific culture and labour market conditions of the country in which the companies were located (in this case: Belgium), as with the nationality, industry sector or competitive strategy of the organisation. Therefore, after talking to numerous personnel managers in a variety of companies and countries, a second study was undertaken which compared and contrasted the HR practices and policies of the various subsidiaries and business units of 478 international corporations based in Europe, the US and Japan.

Most of these 478 corporations were European companies - such as Nestlé, Unilever, Philips and ABB. The others were US-owned or had their corporate headquarters in Asia, Japan, Africa (mostly South African). Sixty-seven percent of the companies made high tech products such as electronics and pharmaceuticals. The others were making food or textiles, or were in the service sectors. The size of the organisations varied from 200 employees in Europe to well over 50,000 people world-wide.

## What are the most common HRM strategies and approaches adopted by international organisations?

To answer this question, the senior personnel managers and officers in each firm were asked to complete a structured questionnaire containing 67 statements about the management policies and practices of the firm. A factor analysis of the responses reduced these 67 statements to two sets of factors: (1) the types of policies and practices employed by the company to attract and retain a group of qualified and motivated people and (2) the types of criteria used to recruit, reward and promote employees. The first set consisted of eleven factors (or dimensions), including the extent to which the company was able to offer:

1. Employment security
2. Opportunities for training and skill development
3. Internal recruitment and promotion from within
4. Career development and guidance
5. Opportunities for skill development and specialisation
6. Autonomy and decentralisation of decision-making
7. Opportunities for teamwork and participation
8. Equal benefits and access to prerequisites for all the employees

9. Extra rewards and recognition for superior performance
10. Openness of information about corporate goals, outcomes and intentions
11. Proactive personnel planning and strategic HRM

The second set of factors consisted of ten criteria for recruiting, rewarding and promoting people. This included the overall degree of emphasis placed on:

1. Creativity
2. Seniority
3. Hierarchical level and status in the organisation
4. Conformity with organisational norms and values
5. Professionalism and experience
6. Individual performance and achievements
7. Loyalty and commitment to the organisation
8. International experience
9. Task efficiency or productivity
10. Employee needs and expectations

Figure 1 shows the average scores (or profiles) of two international airline companies on these two sets of factors. To facilitate interpretation, the scores were converted into percentiles and compared to the overall scores for the entire sample.

It can be seen that Company A scores well below the overall sample mean on several HR dimensions, including the amount of career development, autonomy, and teamwork offered to employees. Very low scores appear also for openness and the extent to which employees are rewarded and recognised for high performance. In contrast, above-average scores appear for the extent to which the company provides job security and promotion from within.

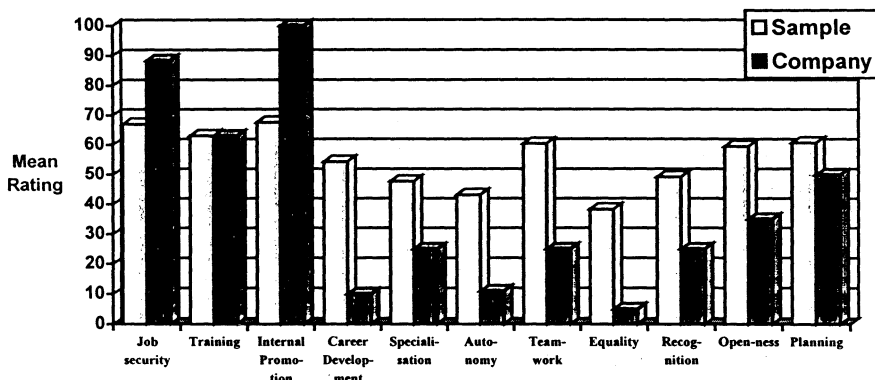
Company B clearly has a different profile. In this firm, very high scores appear for many of the 11 HR dimensions, including the degree of autonomy, recognition, teamwork, openness and career development that is offered to employees. Like Firm A, this airline company prefers to recruit from within, as is indicated by the high score on the dimension called "Internal Promotion". However, unlike its competitor, Company B does not offer job security to its employees.

The criteria for recruitment, rewards and promotion that were considered important in these two companies were also very different. As shown in Figure 2, Company A scores above the overall sample mean for the emphasis placed on status and seniority. But very low scores appear for achievement, commitment and international experience. In contrast, in Company B it appears that promotions and rewards are based more on performance, commitment, and international experience than on status and seniority.

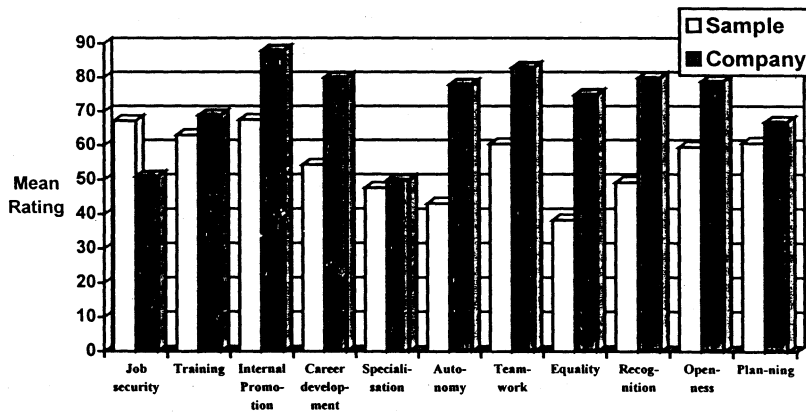
Figure 1

The HRM policies and practices of two airline companies

Company A

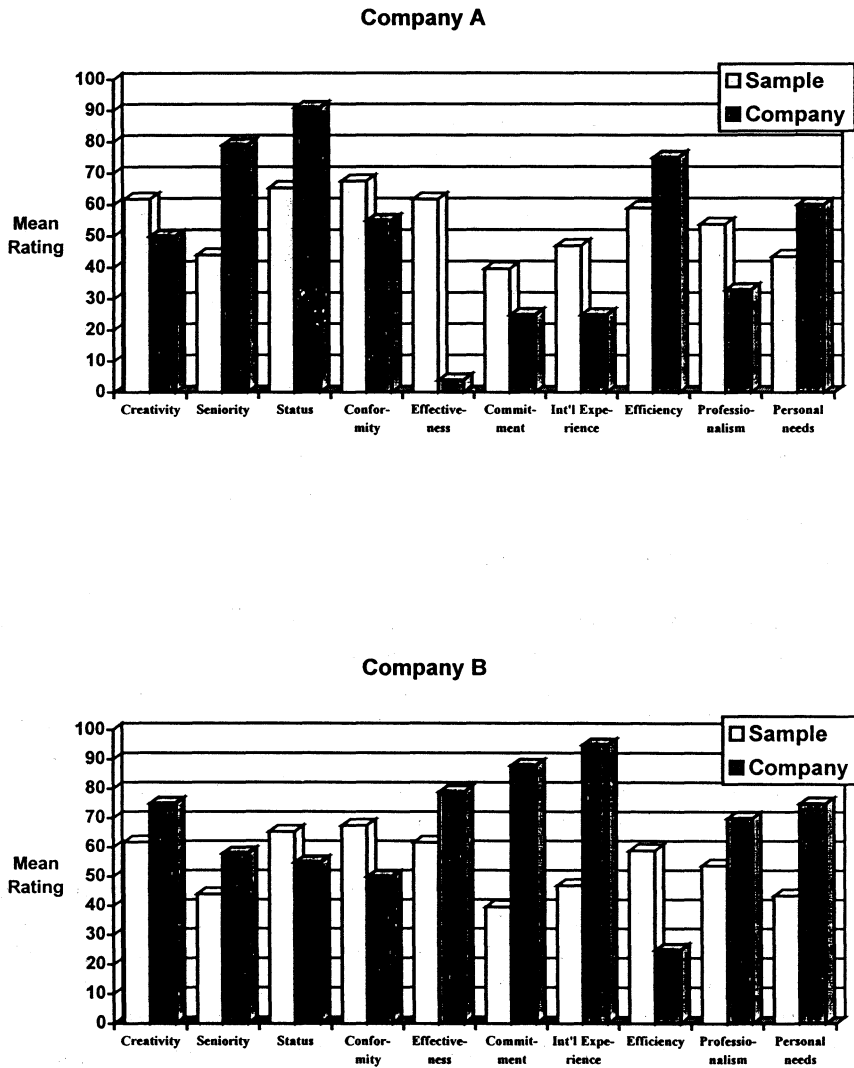


Company B





**Figure 2**  
**The HRM profiles of two international organisations**  
**criteria for recruitment, rewards and promotion**



The differences between these two airline companies bear out the notion that every organisation has a unique approach to HRM, thereby making direct comparisons (or benchmarking) impossible, even if the companies are in the same industry sector. Yet, follow-up interviews with the personnel managers of these two firms clearly suggested that despite the various differences in HRM between (and within) their firms, there exist a number of similarities that differentiate the HR policies and approaches of these two companies from those used by companies in another sector. To identify these similarities, the data were entered into a statistical procedure called cluster analysis, which contrasted and compared the HR profiles of the companies in each sector.

Overall, the analysis yielded four main clusters of companies that had similar scores on the 21 HR policy dimensions identified in the previous section.

**Cluster A:** The companies in this cluster scored below the overall sample mean for employment security, training and development, career development, teamwork, openness and HR planning. They also scored very low on the importance of creativity, commitment and personal needs in the process of recruitment, reward and promotion. However, they scored above the overall mean for specialisation and the degree of emphasis placed on seniority and task efficiency.

In the interviews with the personnel managers of these companies, the main goal of the HR function was described as 'trying to reduce the personnel costs to the lowest possible level'. This profile and comment was most common in the retail industry and in the broadcasting, travel and entertainment sectors.

**Cluster B:** The companies in this cluster were almost the opposite of those in the first cluster. They scored above the overall sample mean for many of the HR policies and practices, including the extent to which they recognise employees' contributions, openly share information and help employees develop their personal growth and capabilities. They also scored high on employment security, training opportunities, career development, and rewarding people for performance. The criteria for recruitment and promotion emphasise creativity, personal achievements, and international experience.

In the interviews, the personnel managers of these firms frequently emphasised the important role of their function in creating a climate of employee relations which develops feelings of mutuality, trust and co-operation throughout the organisation. They also stressed the importance of training and promotion from within to promote employee commitment and loyalty in the organisation. This view was especially common in a number of very large corporations (such as Nestlé, Procter and Gamble and Johnson and Johnson) and in banks and insurance firms.

**Cluster C:** The companies in this cluster combined some of the characteristics found in the first and second cluster. Like the companies in Cluster A, they scored below the overall sample mean for employment security and promotion opportunities. But like the "Cluster

B" companies, they scored above the overall mean for the extent to which they recognise and reward high performance. In this type of firm, the level of professionalism, past performance and international experience are considered more important than seniority, hierarchical level and conformity with organisational norms and values.

Qualitatively, the goals of HRM in this cluster were often described as "buying talent" and "rewarding people on the basis of their contributions to organisational targets". As a result, the role of the HR function was rather limited to obtaining and rewarding the human talents required by the organisation. This cluster included many "knowledge-intensive" firms such as consulting firms, publishing houses, investment banks and advertising agencies.

**Cluster D:** The companies in this fourth group approached the overall sample mean on all the HR dimensions, except training and development. They also scored quite high on the level of teamwork and the degree of reward and recognition for high performance.

In the interviews, the HR strategy of these companies was often described as "having the right person in the right place at the right time". The role of the HR function therefore was primarily to maximise the productivity and utilisation of the existing human resources by using a number of planning techniques such as career planning, annual work schedules and generally making the best use of the skills and capacities of all those employed in the organisation. This profile was especially common in traditional manufacturing companies such as those in the textiles and automobile sector.

Overall, these findings suggest there are four major groups (or types) of companies in terms of the strategies and techniques used to manage human resources. In reality, however, these four groups are not totally different. For instance, the low emphasis on training and development in Clusters A and D does not imply there was no training and development activity in these two groups of companies. There is no doubt that the adoption of different HR policies usually is a question of balance of priorities rather than absolute differences in HR orientation. This was particularly the case for very large or highly decentralised companies, such as Nestlé and Asea Brown Boveri. It was less so for the smaller and more centralised companies, where the type of HR approach adopted by the organisations appeared to be more "pure".

### **How different are European companies from their American and Japanese counterparts?**

To answer this question, we compared the HRM profiles of the European companies in the sample to those of the US-owned and Japanese companies. The differences were striking. For instance, the Japanese firms were much more likely to offer training, job security and promotion opportunities than the European and US-owned companies. The Japanese firms also scored higher than the others on "equality", which suggests that they are more

egalitarian in their use of company benefits than most Western (especially European) firms. However, Japanese firms scored comparatively low on openness and recognition and they promote and reward people much more on the basis of their seniority, efficiency and conformity with organisational values than on the basis of creativity or professionalism.

The results also showed that the US-owned firms were strong on openness, equality and recognition and provided higher than average opportunities for career development and training. However, US-owned companies scored well below the sample mean on job security and did not put much emphasis on conformity and international experience in their reward and promotion systems. The most important criteria for recruitment and rewards in the US-owned companies were personal achievement, commitment and creativity. The least important criteria were seniority and efficiency.

Finally, the results suggested that European multinationals spend significantly less on employee training than their Japanese and American counterparts. They also scored low on equality, job security and recognition. However, international experience was considered much more important for recruitment and promotion in European companies than in American or Japanese companies. European firms appeared also more concerned with employees' personal needs and expectations than their Japanese and US-owned counterparts.

All this reinforces our earlier conclusion that the nationality of the parent plays an important role in shaping the firm's overall approach to human resource management. This does not mean, however, that the same approach is adopted in all the subsidiaries. On the contrary: our data clearly demonstrated that within the overall approach adopted by the parent company, fundamental differences often exist between the various HR policies and practices adopted at the national subsidiary level. For example, when we compared the different HR profiles of the various national subsidiaries of a major European food manufacturing company, it could be seen that the level of job security offered by the firm's national subsidiaries varied significantly from one country to another. In fact, job security was much lower in the French and British subsidiaries than in the West German plants. In contrast, the German subsidiaries scored lower on HR planning, openness, equality and recognition than the sister companies in Britain and France. Overall, the highest scores for training appeared in France - where the law requires a minimum expenditure on employee development and training.

There were also significant differences between the three countries in terms of the criteria used for selection, rewards and promotion. The French subsidiaries put much more emphasis on seniority than the British and German ones. In contrast, the British subsidiaries strongly emphasised commitment and achievement, whilst the German subsidiaries emphasised efficiency and international experience. Commitment was considered least important in the German subsidiaries. Creativity was scored lowest in the France and the UK.

There are a number of generic reasons for these differences. First, as noted above, national employment laws and labour market conditions often call for specific HR practices at the subsidiary level. Second, it is well known that HR methods and techniques that are effective or common practice in one society cannot always be transferred and implemented in another society (Hofstede, 1980; Laurent, 1983). For example, Sparrow and Hiltrop (1994) note that when large Japanese firms recruit employees, they tend to prefer friends and relatives of people already working for the organisation. This is seen as a source of strength because it enhances the recruits' commitment, trustworthiness, loyalty, and compatibility with co-workers. However, many Europeans see Japanese hiring practices as nepotism and assume that they are more "ethical" in matters of hiring. Third, because international business involves the interaction and movement of people across national boundaries, an appreciation of cultural differences and when these differences are important is essential. This probably explains why certain North American management practices and techniques such as MBO, empowerment and performance-related pay have not always worked in European organisations.

### **The effects of business sector**

Finally, the results of the 1991 study suggested that there may be systematic differences in HRM between industry sectors. To further explore these differences, we compared the HR profiles of the manufacturing firms with those of the companies in the financial and non-financial services. The results reinforced those of the 1991 survey. For instance, manufacturing companies were much more likely to offer job security, career development, internal promotion and training opportunities than companies in the service sectors. Significant differences also appeared for the emphasis placed on status, efficiency, performance and conformity with organisational values. This does not mean, however, that the other criteria were not important in these 478 companies. It merely suggests that companies in the manufacturing and service sectors have different criteria for promoting and rewarding people.

### **Conclusions**

To summarise, the findings presented in this article lend some support to the view that:

1. Multinationals often outperform their domestic counterparts in nearly all aspects of human resource management, including the degree of attention given to employee relations, the ability to attract and retain high potentials, and the use of innovative and progressive human resource practices.
2. The nationality of the parent company plays an important role in shaping a firm's overall approach to human resource management in multinational enterprises. This is consistent with the idea that multinational enterprises often play an important role in

"exporting", or trying to transfer, HRM policies and practices from one country to another, especially from their home country to various host countries in which they operate (Dowling et al., 1994).

3. An organisation's specific business sector and competitive strategy are not as important as the parent's nationality in determining how employees are being attracted, selected, and rewarded.
4. However, within the overall approach adopted by the parent company, fundamental differences often exist between the various HR policies and practices adopted at the national subsidiary level. Some people have argued that the growth of MNEs has weakened the ability of local governments, unions and managers to respond and adapt their employment practices to the specific culture and requirements of the business in the country in which they operate. As Bamber and Lansbury (1998) point out: "the growth of MNEs has eroded the significance of national boundaries and weakened the ability of local governments and unions in a single country to insulate themselves from external influences". However, our findings indicate that there remains a significant amount of scope for diversity at the national level. This is not surprising. As Blanpain (1998) notes: "the entities of a multinational enterprise located in various countries are subject to the laws of these countries . . . (and have to) manage their business within the framework of law, regulations and prevailing labour relations and employment practices, in each of the countries in which they operate". Thus, the impact of MNEs policy on local HRM practices is not always as strong as has sometimes been feared.
5. There are at least four major groups (or types) of companies in terms of the strategies and techniques used to manage human resources.
6. Although there are some similarities in HRM practices used by individual companies within each sector and multinational enterprise, differences between national companies within sectors and multinational enterprises can be very profound. This confirms the notion that every organisation has a unique approach to HRM.

Overall, these conclusions are consistent with those of earlier research in this field (e.g., Purcell et al., 1987). Even so, it is apparent that there is a need for much more empirical research at the enterprise or workplace level. As Bamber and Lansbury (1998) point out: "much of the previous research in this field has focused on the macro level and the role of national institutions. Yet the implementation of strategies at the level of the enterprise is increasingly important". The vast differences between the HRM profiles of the two airline companies presented in Figure 1, illustrate this point. In light of the rapid internationalisation of organisations and the specific problems created that are associated with the implementation of international mergers, acquisitions and alliances, understanding the causes and effects of such differences is essential for the effective conduct and study of international HRM.

## References

- Acuff, T. (1984), *International and Domestic Human Resources Functions: Innovations in International Compensation*, New York: Organisation Resources Counselors.
- Bamber, G.J. and Lansbury, R.D. (1998), *International and Comparative Employment Relations*, Sydney: Allen & Unwin.
- Blanpain, R. (1998), "Comparativism in labour law and industrial relations" in R. Blanpain et al. (eds). *Comparative Labour Law and Industrial Relations* 6th ed., Deventer: Kluwer.
- Dowling, P.J. (1988), "International and Domestic Personnel/Human Resource Management: Similarities and Differences" In Schuler, R.S., Youngblood, S.A., and Huber, V.L. (ed.) *Readings in Personnel and Human Resources Management* (3rd ed.), St. Paul, Minn.: West Publishing Co.
- Dowling, P.J., Schuler, R.S. and Welch, D.E. (1993), *International Dimensions of Human Resource Management*, Belmont: Wadsworth.
- Enderwick, P. (1985), *Multinational Business and Labour*, London: Croom Helm.
- Hofstede, G. (1980), *Culture's consequences: International differences in work-related values*, Beverly-Hills: Sage. Reprinted 1984.
- Laurent, A. (1983), The cultural diversity of Western conceptions of management, *International Studies of Management and Organisation*, (1)2: 75-96.
- Margerison, P., Edwards, P.K., Martin, R., Purcell, J. and Sissons, K. (1988), *Beyond the Workplace: Managing Industrial Relations in the Multi-establishment Enterprise*, Oxford: Basil Blackwell.
- Purcell, J., Marginson P., Edwards P. & Sissons K. (1987), The Industrial Relations Practices of Multi-Plant Foreign Owned Firms, *Industrial Relations Journal*, (18): 130-137.
- Schollhammer, H. (1975), Current research in international and comparative management issues, *Management International Review*, (15)2-3: 29-40.
- Sparrow, P. and Hiltrop, J. (1994), *European Human Resource Management in Transition*, London: Prentice Hall.