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Diffusion of HRM to Europe and the Role of US MNCs: Introduction to the Special Issue

There has been considerable debate both among scholars and policy makers concerning the extent to which national systems of industrial relations (IR) and human resource management (HRM) systems are converging. In Europe this debate has concerned both convergence within Europe and convergence between European systems and those of non-European states, most notably the USA.

The convergence thesis rests essentially on the notion of competitive isomorphism: that is as firms are increasingly faced with similar competitive environments globally, they will adopt similar (optimally efficient) management practices. For example, a significant part of the European convergence debate concerns whether, in Europe, collective employee relations, mediated by representative institutions are being replaced by HRM management systems designed to establish a direct and individualised relationship between organization and employee. Some commentators have attributed this trend to the influence of a model of HRM derived from practices in the USA and increasingly adopted in Europe.

Multinational companies (MNCs) have become of particular importance to this thesis. First, they are often seen as an important channel for the transmission of management practices from one country to another, in particular from the USA to Europe. Second, the transferability of management practices from one national context to another is a matter of considerable practical importance for managers in MNCs. Third, the economic importance of large MNCs and their border spanning nature means that their activities have particular salience to legislators and regulators.

This special issue addresses these concerns in three ways. First reviews of the development of HRM in the USA and in Germany and evidence on convergence of HRM practices in Europe help us consider both what may be being transmitted from the USA and the evidence for its transmission. Second three papers, provide different kinds of evidence on the convergence or barriers to convergence of HRM practices between Europe and the USA and the role of MNCs in that transmission. Finally, the special issue concludes with three reviews of in all six books each of which are relevant to the concerns of this special issue.

As *Schuler and Jackson* indicate, an important aspect of HRM in the USA lies in the practitioner consensus that caused it to emerge as a term in the mid-1970s and by the

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mid-1980s to have displaced the term "personnel management" almost completely. For those who might regard this as mere "window-dressing", Schuler and Jackson argue that from a US practitioner perspective it connoted a significant change: the increasing recognition on the part of organizations of the importance of human resources and therefore the need to manage these resources systematically not least in terms of linking pay to performance. Schuler and Jackson further note that as HRM became established in the USA it evolved within a shareholder rather than a stakeholder approach to the organization. That is the effects of an organization's HR practices on the community are rarely taken into account except when there are legal issues involved.

Initially HR departments in the USA were assigned the responsibility for acquiring and motivating the firm's human resources within specified legal and cost constraints. However, within the general area of HRM Schuler and Jackson observe the emergence of two major practitioner phenomena - strategic HRM and international HRM. Of these it is the former that is by far and away the most prominent in their discussion of the evolution of the US model of HRM and we will therefore confine our remarks to this one trend.

For practitioners in the US, strategic HRM refers to the linkage between HRM as a system of activities and business effectiveness. This linkage involves the alignment of HRM policies and practices with the firm's strategic objectives. Strategic HRM necessitates "a deep understanding of business issues" which involves taking account of the entire context of the firm such as industry dynamics and institutional pressures. It also involves the selection of coherent HRM policies and practices which are appropriate for a firm's specific context. One consequence of this move to forging strategically aligned HRM systems, argue Schuler and Jackson, has been a tendency for HR practitioners to focus on acquiring membership of the top executive decision making team. At the same time close cooperation with line managers is also generally regarded as critical.

Given that strategically aligned HRM systems are established, it is assumed improved organizational effectiveness should follow. Schuler and Jackson observe that whereas traditionally "effectiveness" of an organization's HR practices relied heavily on technical criteria established by the profession itself, recently in the USA there has been interest among practitioners in developing business-relevant metrics that provide estimates of the economic value-added of HR activities. It is their view that this "narrow approach" to assessing HR effectiveness will continue to evolve.

Schuler and Jackson note that strategic HRM began to emerge as a topic for academic research approximately twenty-five years ago. It is their view that that there is a "significant gulf" between research and practice in strategic HRM. One strand of research has emphasised predicting firm financial performance as a consequence of aligned "high performance" HRM systems. Another strand of research, the contingency perspective, has challenged this "one-best-way" approach, proposing that HR practices that are effective in one strategic context might be unsuitable in other contexts.

In summary, in terms of HRM within the USA Schuler and Jackson identify five features. The first of these is the shareholder perspective of US HRM. This is a consequence of a high degree of firm or managerial autonomy which - moving beyond their paper - also means that firms in the USA have the latitude to develop flexible working arrangements. The second is the emphasis on HRM being seen to

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contribute to business effectiveness in "bottom-line" terms. The implication is that HR departments are increasingly subject to evaluations of their effectiveness. Third, in terms of actual practices, US HRM invariably embraces pay-for-performance at the individual level. The fourth feature is the ambition of HRM practitioners to belong to the top management team in order to be involved in the development of corporate strategy, an important condition for being able to deliver coherent systems of HRM. Finally, there is the recognition of the importance of engaging line managers in HRM issues.

The question that *Mayrhofer and Brewster* address is whether HRM in Europe is distinct from this US model and whether HRM in Europe can be said to be converging towards the US model or towards a European model. In support of convergence towards a US model they present a market-led convergence thesis which argues that because the USA is the world's most powerful market its method of deploying human resources will be the preferred "best practice" model for other countries. In support of convergence towards a European model they present a thesis grounded in institutional theory which emphasizes the ongoing economic and political integration of European Union countries as well as the greater role of unions in European countries compared with the USA and the greater degree of state involvement in Europe. In short firm autonomy in Europe is more curtailed than in the USA.

However, in addition to these two convergence theses, Mayrhofer and Brewster also discuss the possibility that HRM in Europe is either diverging at the country-level, or static. The foundation of this divergence or stasis thesis is the cultural and institutional differences at the national level that arguably have resulted in Europe having different variants of capitalism or business systems (Hall/Soskice 2001; Whitley 1999). That is, while the term HRM has in varying degrees been imported into Europe from the USA, it does not connote the types of changes in terms of practitioner role and status that Schuler and Jackson argue has been the case for the USA.

These alternative theses are tested by Mayrhofer and Brewster using data from Europe's most established research network for HRM research, Cranet. In their analysis Mayhrofer and Brewster distinguish between two types of convergence, directional and final convergence. Directional convergence occurs where the development tendency in two or more cases is directionally similar, while final convergence refers to a common end point.

Mayrhofer and Brewster's initial analysis focuses on variations within Europe. This analysis embraces two of the five key features identified by Schuler and Jackson as characterizing US HRM, formal representation of the HR function at the top level together with the point at which the HR function is involved in the development of corporate strategy, and the degree of firm autonomy as exemplified by the use of flexible working arrangements. Mayrhofer and Brewster find considerable within-Europe differences for these two features. Their analysis also reveals considerable variation in levels of investment on training and development and on the use of internal recruitment channels.

Mayrhofer and Brewster's analysis then turns to the issue of longitudinal change at the European level part of which takes in another key feature of the US model as identified by Schuler and Jackson, the increasing degree to which HR departments are subject to evaluation. Their analysis is unable to detect any obvious trends whatsoever. Indeed for the period 1989-2000 it would be reasonable to claim that HRM has been remarka-

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bly stable at the European level. Their longitudinal analysis then moves from the European level to the country level. This final analysis contains a number of the key features of the US model as identified by Schuler and Jackson including pay-for-performance, firm latitude in the sense of the use of flexible work arrangements and the degree to which line managers are involved in HRM issues. Particularly for the first but also to some extent for the second of these, there is some tentative evidence for directional convergence towards the US model in most countries, but certainly not for final convergence. For the third there is no sign of any convergence at all. However, if anything, as Mayrhofer and Brewster emphasize, the overall conclusion for Europe could equally be one of increasing heterogeneity.

In summary Mayrhofer and Brewster find no convincing evidence of convergence either towards a European model or the US model. Between-country institutional differences in Europe apparently remain potent, thereby producing country-level stasis, in the sense that "things appear to change slowly in HRM". Indeed one might even be tempted to query whether HRM in the original US sense of the term is applicable to many European countries: perhaps personnel management is a more apposite term.

Giardini, Kabst and Müller-Camen, provide a counter-point to the Schuler and Jackson paper in their discussion of the translation of US style HRM into the German context. While they point to the enthusiastic (and sometimes uncritical) uptake of US HRM concepts and theories by German academics, the adoption of these ideas and related practices has been significantly constrained by the German socio-economic context. In particular, they highlight the German systems of sectoral collective bargaining, co-determination and initial vocational training as important institutions which condition and constrain HRM practices.

However, Giardini, Kabst and Müller-Camen do not reach the simplistic conclusion that the German context is hostile to the adoption of US style HRM. Rather, in reviewing discrete areas of HR practice, they conclude that in some regards German institutions already embody some of the underlying principles of US style HRM. For example, whilst in US approaches to HRM, there is often great emphasis on building human capital (within firms) through training and development, in Germany this emphasis on human capital is embodied at the sector level though the national initial vocational training system and within firms by the emphasis on training and development in the role of works councils. Similarly, they argue, attention to human resource issues at a strategic level is ensured in Germany, not through the presence at board level of an HR director, but rather through the presence on the supervisory board of employee representatives and the role of works councils in consultation on matters pertaining to HR strategy. These mechanisms, they argue, help ensure both strategic integration of HR and more effective implementation since consultation ensures greater acceptance by employees of new initiatives.

Turning to the role of foreign MNCs in Germany, they note that blatant disregard for collective bargaining and co-determination institutions is rare and there is even some evidence of overshooting in the adoption of local practices. However, US and UK MNCs often make use of loopholes or simply take advantage of the flexibility of the co-determination model; a theme that is developed in some detail by Singe and Croucher in their paper.

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The next three studies each consider convergence from a different perspective. As we see in Schuler and Jackson's paper, performance management via individualised rewards has become a major plank of the US approach to strategic HRM. *Rehu, Lusk and Wolff* address key national contexts, which may affect the transferability of firms' rewards policies. They draw on new institutional economics to consider the way in which differences between the configuration of economic institutions in the USA and Germany affect the preferences of German and American employees for different rewards. They argue that where the context of national economic institutions provides for a particular benefit independent of employer, then that benefit will be less desired as a reward. For example, health benefits will be less desirable for German employees than US employees because of the significant German state health benefit provision. They studied German and US employees of a German MNC and found there to be significant differences in the reward preferences of employees, consistent with the differences in economic institutions between the two countries.

Poutsma,. Ligthart, and Schouteten use a cross-European survey to examine differences first, in the take up of employee share schemes between the UK liberal market economy (Hall/Soskice 2001) and other 'co-ordinated-market' countries and, second, between enterprises which are subsidiaries of US MNCs and local firms. Consistent with the institutional differences between those countries (shareholder versus stakeholder capitalism), take up of share schemes was most common in the UK and least common in Germany. However, US parentage was associated with greater take-up regardless of host country. Local institutions do matter, but MNCs can and do override their influence.

In their review and synthesis of literature on the role of MNCs in German industrial relations, *Singe and Croucher* remind us that MNCs are not passive recipients of local institutions, but are often significant actors in the their evolution. Oliver (1991) has noted that firms may engage in strategic resistance to local institutions. Others, for example Garud, Jain, and Kumaraswamy (2002) have shown how firms may play an active role as institutional entrepreneurs in changing or establishing institutions within their field. In their useful review of research on the role of US MNCs in Germany, Singe and Croucher show how US MNCs have influenced the shift from sectoral to company centred industrial relations and have played an active role in the disarticulation of German industrial relations institutions.

Finally, our book reviews section includes three different reviews of six books that are all related to the topics of this special issue. First, Paul Gooderham reviews *"Challenges for European Management in a Global Context: Experiences from Britain and Germany"*, edited by Geppert, Matten and Williams. He notes that this book provides an umbrella for extensive research on challenges that MNCs in Europe have to cope with. The two main challenges outlined by Bartlett and Ghoshal (1989), structural and control-related, are highlighted and the book is reviewed on the basis of this framework. Second, Siri Terjesen presents a review of three textbooks that all deal with cross-national and comparative human resource management: *International Human Resource Management* (edited by Harzing and Ruysseveldt), *International Human Resource Management: Managing People in a Multinational Context* (edited by Dowling and Welch), and *Human Resource Management in Europe: Evidence of Convergence?* (edited by Brewster, Mayrhofer and Morley). Terjesen's point of departure is the convergence versus divergence debate on national systems of

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industrial relations and HRM. All the three books are highly relevant in this context and are reviewed on the basis of their contributions to this debate and to comparative HRM in general. Third, Per Darmer reviews two Scandinavian HRM textbooks, one Swedish and one Norwegian, both of which are seminal texts in their respective countries. He raises the question whether a clearly identifiable Scandinavian version of HRM is reflected in the two textbooks. The review contains both a comparative and a critical perspective.

This special issue documents not only the substantial differences in HRM between the USA and Europe on the one hand, but also the continuing differences between European countries. Obvious convergences remain problematic to detect. On the other hand US MNCs clearly do carry with them particular practices that they successfully introduce to the countries within which they operate. What remains unclear is whether they represent a Trojan horse for the establishment of US HRM in Europe, or whether the HRM practices they introduce will be of only marginal significance to the HRM regimes of the countries in which they operate. The evidence presented in this special issue perhaps suggests the latter. Although Singe and Croucher (this issue) show they may have some significant role in changing institutions over the long term. However, while much research to date has concentrated on convergence via the transfer of HR innovations across national boundaries, developments in innovation diffusion theory point to the importance of innovation translation rather than simple transfer. In the innovation translation approach (e.g. Czarniawska/Jorges 1996) the diffusion of innovations through networks is understood to involve transformation as well as transfer. Buck and Shahrim have recently used this approach to understand how while US stock option schemes have been adopted in the German context, they have '*acquired some distinctively un-American features'* (Buck/Shahrim 2004: 17). Some of the evidence in this special issue also points us in the direction of translation rather than simple transfer of HR practices. It seems likely that while some principles (such as the importance of human capital) may find increasingly convergent application across national boundaries, their specific articulation will continue to be dependent on the local institutional context.

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