

INTERNATIONAL  
HUMAN  
RESOURCE STUDIES:  
A FRAMEWORK FOR  
FUTURE RESEARCH

Working Paper 92-23

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This paper has not undergone formal review or approval of the faculty of the ILR School. It is intended to make the results of Center research, conferences, and projects available to others interested in human resource management in preliminary form to encourage discussion and suggestions.

Draft 4/28/92:

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PART I: INTRODUCTION

The purpose of this paper is to develop a theoretical framework for research in a broadened and redefined field of international human resource studies. Interest in international aspects of human resource management (HRM) and policy has increased markedly in recent years. This should not be surprising, given the growing importance of international economic activity in general, and, in particular, the increased mobility of technology, capital, and human resources across national boundaries. We are concerned that current research falling under this label is both too narrowly conceived and ignores important work from allied areas and disciplines. We also believe that the theoretical appeal and practical value of this work would be strengthened by includng contributions from a broader array of scholars, policy makers, and practitioners who share interests in employment and industrial relations issues.

Limitations of Contemporary International HRM Research

To date, the majority of international HRM has focused on providing insights and advice to firms on how to select and manage expatriate managers in international job assignments

(Zeira and Banai 1984; Mendenhall, Dunbar, and Oddou 1987; Dowling and Schuler 1990; Tung 1988; Napier 1991; Von Glinow 1991). A second, parallel body of work addresses the challenges to firms of developing managers with international exposure, experience, and understanding (Mendenhall and Oddou 1985; Doz and Prahalad 1986; Galbraith and Kazanjian 1986; Evans, Doz, and Laurent 1989; Black and Mendenhall 1990). While these issues are of practical importance to personnel managers, this work suffers from the same conceptual and normative limitations of much of the traditional domestic personnel research that recent human resource scholars have been attempting to overcome: it focuses too narrowly on functional activities and lacks a deep theoretical structure. Thus the work is largely an extension of the field of personnel and human resource management designed to speak to the needs of multinational or transnational firms. Much of the literature also continues to be written from an American rather than an international perspective (Boyacigiller and Adler 1991).

A third, more theoretically-driven body of work challenges the concept of convergence on an American model of HRM, but tends to focus on cultural explanations to the exclusion of the political, economic, institutional, and strategic contexts in which multinational firms operate (Hofstede 1980; Hofstede et. al. 1990; Adler 1982, 1983, 1986; Laurent 1986; Ronen 1986; Adler and Ghadar 1990). As in the case of the literature described above, this work is also oriented towards providing advice to

improve the performance of individual firms and managers.

In brief, the current literature in international HRM defines the field too narrowly. As a result, it ignores many of the most challenging questions and theoretical implications for modern employment relations that flow from the expansion of international economic, political, technical, and organizational interdependence. Moreover, it is heavily dominated by a discussion of concepts and issues with little or no backing in systematic empirical research.

As we outline below, it is around a broader set of questions that a field of international human resource studies should be built. This broader set of questions requires an interdisciplinary framework. Understanding, for example, how employment relationships are affected by the internationalization of capital, labor, technology, and product markets requires scholars to consider research from the fields of political economy, the economics of human resources and internal labor markets, industrial relations, and international human resource management. Similarly, explaining variations in human resource practices and employment relations within and across industries and nations requires researchers to combine both micro (firm and below) and macro (regional, national, and international) levels of analysis.

Furthermore, if we are to be true to the perspective of industrial relations as well as the broader concerns of social science, we need to go beyond the boundaries and normative frame

of reference of managers of multinational firms and the tasks they face in structuring employment relationships for their international (expatriate and foreign) managers and professionals. A broader field of human resource studies should consider the lessons and outcomes for all types of employers and employees (not just multinational firms and their managers), as well as for labor organizations and public policy makers. This new definition of the field should allow researchers to take advantage of the learning opportunities offered by the diverse natural experiments in human resource practices and innovations that are occurring around the world.

#### Key Questions for International Human Resource Studies

Given the above critiques, what then might serve as a broader and deeper set of questions for constructing this new field? Consistent with our earlier efforts to add a more strategic orientation to HRM and IR research (Dyer 1984; Kochan, Katz, and McKersie 1986), we rely heavily on a framework that seeks to understand the factors in a firm's external environment and/or its governance structure that influence the choice and consequences of human resource strategies for the different stakeholders involved. We then propose examining how these strategies affect critical economic and social outcomes of interest to the firm, its employees, and the larger society and economy.

Extending this perspective to the international arena, however, provides an opportunity to explore more fully the basic

question of whether, or how, human resources contribute to the competitive advantage of individual firms and national economies.<sup>1</sup> Moreover, by embedding the choices of individual firms in their national settings we believe a deeper understanding will be achieved regarding the extent to which human resource strategies that have proven useful for producing competitive advantage are diffused across an economy. Finally, we believe that one of the unique contributions of an international perspective is the opportunity to learn from practices developed in different national and cultural settings and assess their transferability to other national settings.

Specifically, we suggest that the following questions might provide a starting point for analysis in this field of study:

(1) What factors influence whether human resources serve as a source of competitive advantage to individual firms and the national economies in which they are located?

(2) How do different countries and firms go about efforts to gain competitive advantage from their human resources? What mix of HR strategies and policies are critical to such efforts? How and at what levels do different parties to the employment relationship (government, employers, workers and their representatives) individually and jointly influence human resource strategies and policies?

(3) What are the effects on the key outcomes of interest to the different stakeholders in employment relationships? While the competitive advantage and much of the strategic HRM literature has focused on the performance of individual firms, we believe the outcomes examined need to capture the

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<sup>1</sup>We use the term competitive advantage here to refer to both competitive and comparative advantage as previously defined in the business strategy (Porter 1980, 1985; 1990) and the international economics literature (Spence and Hazard 1988; Krugman 1986). In this way we can continue to move across levels of analysis from the firm to the nation state.

interests of employees and other stakeholders as well. Indeed, stated most broadly, we see the critical research and policy question as being: What are the effects of alternative human resource strategies on the twin objectives of economic performance (competitiveness) and social welfare?

(4) How widely are practices that achieve competitive advantage diffused within a country and what factors influence the rate and process of diffusion?

(5) To what extent are practices that perform well in one setting transferable across national boundaries to perform equally well elsewhere?

We believe these questions can and should be studied at various levels of analysis ranging from the nation state (where political economy literatures tend to focus) to the level of the firm (where the labor economics and human resource management literatures focus). At whatever level of analysis is chosen, however, we argue that it is important to examine the interrelationship among human resource policies and practices. In this sense we adopt the approach of industrial relations (Dunlop 1958; Kochan, Katz, and McKersie 1986) and internal labor market theorists (Doeringer and Piore 1971; Osterman 1984). But consistent with other aspects of industrial relations or internal labor markets, the economic or market forces that influence institutional, firm, and individual behavior need to serve as a starting point for analyzing these questions. Thus, classical and neoclassical economic models and their modern derivatives often serve as the starting point for answering these questions.

## PART II: HUMAN RESOURCES AND COMPETITIVE ADVANTAGE

### Human Resources as a Source of Competitive Advantage

Classical and neoclassical economics provide a parsimonious model for answering the question of how human resources serve as a source of competitive advantage to an individual firm or a nation. The most elementary model assumes that firms exist to maximize shareholder value and compete only on the basis of price. As a factor of production, labor is a cost to be minimized. An abundant supply of cheap labor provides firms and nations with a natural basis for using human resources for competitive advantage. Relative labor costs determine the international division of labor: firms locate production within and across countries wherever the costs of workers with the requisite skills are lowest. Following Smith and Marx, modern development economists have viewed economic growth as depending on the extension of the market through continual increases in the division of labor; skill specialization enhances the ability of employees to increase productivity, and economies of scale lead to cost reductions. Although the incorporation of human capital theory into labor economics in the 1960s changed the conception of labor -- from strictly a cost to a quasi-fixed capital asset (Oi 1962; Becker 1964) -- the neoclassical approach to human resources largely continues to treat labor as a cost to be minimized, with the recognition that cost varies according to the skill and productivity of workers.

More recently, however, scholars across a number of fields have argued that in addition to price competition, firms compete on the basis of quality, product differentiation, technological innovation and speed to market. Moreover, there is growing recognition among both scholars and public policy groups that for enterprises in advanced industrialized societies to achieve the twin objectives of being competitive at high standards of living for employees requires them to fully develop and utilize the skills, motivation, and analytical problem solving potential of their human resources. That is, human resources need to serve as a source of strategic or competitive advantage. Over the last decade, the argument has developed along parallel lines in three sets of literature: flexible specialization (Brusco 1982; Piore and Sabel 1984; Pyke et al. 1990; Best 1990), strategic human resource management (Tichy, Fombrun, and Devanna 1982; Beer et al. 1985; Dyer 1988), and strategic industrial relations (Kochan, Katz, McKersie 1986).

The argument generally runs along the following lines: the inability to compete on the basis of low factor costs leads firms in advanced industrial societies to compete on the basis of high product quality, differentiation, innovation, and advances in technology. To do so, however, requires that firms develop particular types of high productivity human resource systems -- often referred to in the U.S. literature as high or mutual commitment systems -- which include policies to attract, motivate, and gain the commitment of highly skilled and flexible

workers (Walton 1985; Kochan and Dyer 1991).

Although this argument has gained some empirical support (MacDuffie and Krafcik 1992; Levine and D'Andrea Tyson 1990; Blinder et. al. 1990) and increasing acceptance in both the research and policy making communities, as yet we have not fully explored the extent to which human resources do in fact serve as a source of competitive advantage for individual firms and/or nations. This, therefore, serves as the first building block or question for this field to address on both a clear theoretical level and with empirical evidence.

Disagreement in the literature also exists over the extent to which differentiated markets and new (more flexible) technologies are more or less determinative of human resource policies, although there is increasing agreement that new flexible technologies are more permissive than determinative. In the former view, product markets and technology drive firms to adapt their labor and human resource practices in particular ways that achieve high productivity outcomes (Piore and Sabel 1984; Kern and Schumann 1984). An alternative but equally deterministic view links new technologies to the deskilling of workers (Noble 1984; Shaiken et al. 1986).

Other models are less deterministic. There are a variety of ways of achieving technological flexibility (Suarez, Cusamano, and Fine 1991). Because new technologies are more permissive than dedicated machinery, employer strategies play a more significant role than they did in the past. Those that take a

strategic human resource management approach, for example, argue that the choice of a competitive business strategy will determine the human resource policies of the firm or its business unit (Dyer 1988; Schuler 1992). That is, firms can choose along a continuum of whether to compete primarily on the basis of price or quality, and this choice will determine whether the firm requires high skills or low wages as its primary human resource attributes.

Other researchers in political economy and industrial relations expand the range of variation, arguing that firms may choose along a continuum of high and low volume as well as price and quality -- a two-by-two matrix of alternative production strategies that imply alternative human resource strategies as well (Sorge and Streeck 1988). A growing body of empirical research does suggest that the relationship between technology and human resource policies is indeterminate (Kelley 1986; Zuboff 1988; Hyman and Streeck 1988; Keefe 1991; Thomas 1991) and depends largely on the choices made by employers and employees.

If there is debate over the relationship between technology and human resource policies, there is also debate over what determines employer choices. Most neo-classical economic and game-theoretic models focus on the role of product markets and the strategies of competitors in shaping employer strategies. The business strategy literature likewise emphasizes the importance of product markets and competitors (Porter 1980, 1985), as does the strategic human resource management

perspective (Dyer 1988).

Traditional industrial relations theory (Commons 1919), by contrast, argued that organized labor would constrain employer choices and managerial discretion: as product markets expanded institutions such as national unions and government standards would "take wages out of competition" and thereby limit the ability of wage competition to drive down labor standards. Similarly, some branches of political economy argue that regional, sectoral, and national institutions and politics influence or constrain firm level strategic choices; thus, they put priority on the role of the state and institutions of interest intermediation as key determinants of the human resource policies open to the firm and therefore the competitive strategies that are viable in a given environment (Goldthorpe 1984; Cawson 1985; Streeck and Schmitter 1985). Those countries with more corporatist arrangements are seen as able to build cooperation and communication between employers and labor at both firm and extra-firm levels of policy-making -- thereby facilitating the coordination of policy implementation (Sharpf 1984).

Still others give more weight to the role of capital markets and financial institutions (Zysman 1983). Some of this work develops a stakeholder conception of the firm in which the governance structure and nature of the firm itself are endogenous rather than fixed by market forces. Aoki (1988), for example, argues that Japanese firms should be conceptualized as

coalitions between shareholders and employees rather than as instruments that exist solely to maximize shareholder wealth. Wever and Allen (1992) make a similar argument with respect to Germany.

This emerging body of research therefore suggests that nations such as Japan and Germany with financial institutions and investors who share long term time horizons with corporate decision-makers are expected to have human resource systems or internal labor markets that likewise emphasize long term employment relationships, high levels of investments in human capital, compensation systems that reward long tenure and internal promotions, and a more cooperative corporate culture. These firms, in turn, are expected to respond to exogenous demand shocks or make structural adjustments in ways that better accommodate employee and employer interests than has been the case with the forms of corporate restructuring experienced in the U.S. in the 1980s (Dore 1986; Reich 1988; Abraham and Houseman 1992; Locke 1992) -- where capital markets and the governance structures of firms require firms to give greater emphasis to maximizing shareholder wealth and to pursuing more short-term profits. To the extent that mutual commitment human resource policies require firms to make longterm investments in human resources, nations with patient capital markets, financial institutions, and governance structures may therefore be better positioned to gain competitive advantage from their human resources.

We see this as a very promising and pivotal hypothesis. Thus, while still in the very early stages of development, comparative analysis of the relationships among the sources of capital, the structure and time horizons of financial institutions, the governance structure of the corporation, and human resource practices would appear to be an intriguing and potentially rich area of research.

In summary, while there is general agreement now as to the potential strategic value of human resources for achieving competitive advantage at the firm and national level, there is a lack of agreement concerning the relative importance of human resources versus other factors such as technology, the role and determinants of employer choice, the relative importance of particular human resource policies, the relationship between firm and state level policies, and the role played by financial markets and institutions that shape the governance structures of firms. All this suggests, however, that researchers should be careful not to assume that an invisible hand of the market shapes the nature and goals of corporations or the strategies they choose to pursue these goals. If this is true, then the extent to which human resources serve as a source of competitive advantage may reflect the goals nations set and the way they define the firm and its governance structure.

#### How Competitive Advantage is Created Through Human Resources

A second key question for research in this field concerns

understanding how firms and/or nations go about the task of gaining competitive advantage through human resources. Human capital theory provides the standard economics answer to this question by focusing on the supply side of the labor market. Since workers are paid their marginal product and their productivity is a function of their general education and skills plus the specific skills required by a particular firm, it is the stock of general and specific training that influences the quality of the labor force and its relative productivity. Human capital theory further specifies the relative responsibilities of individual firms and the general society for providing training. Individual firms will provide firm-specific training that develops skills unique to its production system or organizational environment for three reasons. They do this because no other entity will supply this training, because it does not make workers more competitive in the external labor market, and because, therefore, it can be appropriated by the firm over time -- assuming the worker remains with the firm. Consistent with theories of market failure (Arrow 1974), however, general training will be under-provided if left to individual firms since it is portable and therefore not likely to be fully appropriable by the firm. Comparative research on the U.S. and other countries generally supports this proposition (Kochan and Osterman 1991).

While human capital theory only generally links investments in human resources to skill, productivity, and wages, it provides

little guidance for purposes of strategic human resource management. Moreover, although intended to be universally applicable, its assumptions grow out of the context of American labor markets and mass-production industries at a particular historical period. The dichotomy between general and specific skills, for example, has been much more salient in U.S. mass production industries than, for example, in Japanese style human resource systems. Similarly, the theory conceives of training as a narrow skill formation process, rather than more broadly, as a learning process that evolves out of the structure of jobs and career ladders (Koike and Inoki 1990) and includes the social and psychological experience of workers in an organizational environment (Cole 1989). Finally, human capital theory has nothing to say about what, if any, human resource policies should accompany the training in order for it to be effective or about how production must be organized in order to take advantage of training. In other words, it does not link the argument for investment in human resources to business strategy, a theory of the firm, or an understanding of the relationship between the firm and its external environment.

Recently a stream of economic analysis described as the "new economics of personnel" has sought to go beyond human capital theory by linking productivity to the strategic use of incentive policies (Mitchell and Zaidi 1990; Ehrenberg 1990). This work builds on the rapidly expanding literature on the economics of industrial organization (Coase 1937; Alchian and Demsetz 1972;

Williamson 1975; Puterman 1986; Stiglitz 1991; Simon 1991) that takes as its basic theoretical task the explanation of why firms -- and by extension -- employment contracts of different durations and structures -- exist at all in market economies. These models are extended to the study of human resource policy by the derived proposition that firms will internalize labor contracts to coordinate, monitor, and motivate employees (rather than simply depend on the market to structure the employment contract) whenever the collective efforts of "teams" of employees can be more productive than the efforts of individuals working separately in the external labor market. Where coordination (organizations) can be more efficient, the task then turns to the appropriate human resource policies (or the incentive structures of the contract) to achieve these efficiencies. Agency theory (Berle and Means 1933; Jensen and Meckling 1976), for example, seeks to remedy conflicts of interest between the organization and the individual by constructing market-like incentive contracts such as employee stock ownership plans (ESOPs) and contingent pay schemes.

Researchers have also extended these models to explain the relationship between efficiency wages and other personnel policies such as employment security, closeness of monitoring and supervision, and employee discipline. By attempting to examine the interrelationships among different personnel policies rather than treat each as an isolated or independent choice, this work takes an important step forward. Yet in some ways these

perspectives are merely catching up with a literatures on internal labor markets (Kerr 1954; Doeringer and Piore 1971; Osterman 1984, 1988) that have long argued that personnel policies must be seen as linked together in a coherent fashion to the competitive strategies and governance structures of the firm. We will now turn to an examination of the propositions that these latter literatures suggest for how firms gain strategic advantage from their human resource policies.

Internal labor market and industrial relations researchers contribute to the study of human resource management in at least two important ways. First, as noted above, they view the choice of the full range of personnel policies and practices as interrelated and mutually reinforcing for them to achieve their maximum desired effects on organizational performance. Second, they see these choices as not uniquely determined by efficiency considerations. Rather firm choices with respect to personnel as well as other policies are embedded in a social, political, and institutional context and therefore influenced by the ideologies or beliefs, interests, power relations, and historical experiences of those who participate in setting these policies. This perspective, we will argue, is essential for any theory of the competitive advantage of human resource policies; but it takes on even greater importance when seeking to explain how human resource practices and their effects on performance vary in different international and cultural settings.

Osterman (1984, 1987, 1988), for example, goes considerably

beyond economic perspectives of internal labor markets which emphasize efficiency (eg., Williamson 1985) as well as sociological perspectives that focus on promotion rules and career development (Baron 1984; Arthur, Hall, and Lawrence 1989). Rather, employers create different types of employment subsystems for different labor markets and each subsystem is characterized by an interrelated set of policies governing training, job design, promotion, employment security, and compensation policies. Kochan, Katz, and McKersie's (1986) industrial relations model additionally suggests that three tiers of organizational policies are interrelated: workplace practices (involving labor management relations, work organization, and employee participation); personnel level policies (of compensation, training, and employment security); and corporate strategy issues involving the choice of a competitive strategy, the level of involvement of labor representatives and/or human resource professionals in strategic decisions and governance processes, and the basic values or beliefs that influence those who participate in these broad firm decisions and long run strategies.

Empirical research supports this perspective. For example, union representation on boards of directors in U.S. corporations or under German Codetermination, in and of itself, does not substantially affect productivity levels (Svejnar 1982). Similarly, Levine and D'Andrea Tyson (1990) compare the arrangements for, and impacts of, employee participation in

producer cooperatives in Mondragon, Spain and other parts of Europe as well as large Swedish, Japanese, and U.S. firms with "high commitment" work relations. They find that the relationship between participation and productivity is shaped by four factors: "gain sharing, long-term employment relations, measures to build group cohesiveness, and guaranteed individual rights for employees" (1990:184).

MacDuffie and Krafcik (1992) reach comparable results based on the comparative evidence of 70 automotive assembly plants in 17 countries. For firms to be "world class competitors," they must adopt a combined human resource/flexible technology production strategy. The human resource practices associated with high performance include: multiskilling, extensive off- and on-the-job training, work teams, job rotation, worker participation in problem-solving and production decisions, and mutual commitment incentive structures (employment security; compensation that is partially contingent on corporate, plant, and/or individual performance; and low status barriers between management and workers).

As noted above, political economists and industrial relations scholars contribute to a fuller understanding of human resource policies by noting that the discretion over the choice of an internal labor market system or human resource strategy may be only partly left to decision-making at the firm level. Employers and unions may influence public policy which in turn shapes market conditions for all firms. Research over the last

decade, for example, has demonstrated the role of employers associations in shaping state industrial and labor policy (Vogel 1978; Harris 1982; Gospel and Littler 1983; Windmuller and Gladstone 1984; Sisson 1987; Tolliday and Zeitlin 1991; Jacoby 1985; 1991). Similarly, as indicated above, research on corporatist interest representation identifies the importance of variation in labor union strategies beyond the firm level for shaping employment conditions on a regional, sectoral, or national level. State policies, industry associations, and/or the power of unions all can shape and constrain firm discretion and set standards that reverse the causal arrow -- in this case the constraints of labor standards limit the types of competitive strategies that are viable. Thus, human resource polices drive competitive strategies and over time influence managerial values and attitudes.

Some international research supports this view. In a comparative study of the German and U.S. auto industries, for example, Streeck (1987) found that in contrast to the U.S. experience, the powerful IG Metall union constrained German employers' ability to compete on the basis of wage and employment cuts, thereby providing an incentive for employers to compete on product quality and to internally reorganize production to achieve higher levels of productivity. In a comparable study, Turner (1990) reaches a similar conclusion. Similarly, based on interviews conducted outside of the metalworking sector, Wever (1992) reports that works councils are not only widely accepted

but viewed as positive institutions by German managers. Thus, state-mandated institutions of worker representation not only influence managerial behavior but also, over time, apparently induce shifts in attitudes as well.

Some political economists and industrial relations scholars further argue that the extent to which cooperation and coordination of policy occurs between firms, unions, and the state determines the competitive advantage of firms and nations in confronting the international economy. Unions may play a positive role in economic stabilization (Flanagan, Soskice, and Ulman 1983). The argument is that coordinated and negotiated interest representation, or corporatism, allows firms and nations to respond better to exogenous shocks and market uncertainties and achieve lower unemployment levels. Governments are freer to use expansionary monetary and fiscal policy when centralized collective bargaining can be relied on to guarantee wage restraint (Sharpf 1984). Newell and Symons (1985) review the wage-employment relationship in five countries -- Sweden, Germany, Britain, Japan, and the United States -- in decreasing order of corporatism; they find that more corporatist economies respond better to exogenous shocks. Moreover, correlating unemployment levels with corporatist and non-corporatist episodes within each country, they show that external shocks result in far more unemployment when countries are pursuing noncorporatist policies -- twice as much in Germany, three times as much in Japan, and six times as much in the United Kingdom. Others find

that countries with highly centralized (Sweden and Austria) and highly decentralized (the United States, Japan, and Switzerland) bargaining arrangements have lower unemployment rates -- but note that whereas centralized bargaining also produces wage compression, decentralized arrangements produce high wage dispersion and low wage levels on average (Calmfors and Driffill 1988; Freeman 1988). The internationalization of the economy in the last two decades, however, has put intense pressure on corporatist arrangements, decreasing the ability of unions to take wages out of competition, and it is unclear whether such arrangements will continue to play the role they have played in the past (Boyer 1988).

In summary, a number of points of agreement emerge out of these literatures on the question of how firms and/or nations develop human resources for competitive advantage. First, all of these literatures accept and build on human capital theory by noting that a well educated and trained labor force is the key supply side characteristic needed if firms are to compete on any basis other than minimizing factor (labor) costs and prices. Second, researchers generally agree that labor force skills and quality must be matched with a series of other human resource policies that reinforce and utilize these skills in the production process. Thus, the interdependence of human resource policies and technology or production strategies and the complementary nature of technology and production strategies is recognized. Third, the interrelated nature of human resource

policies is gaining acceptance among both the new economics and the traditional personnel/human resource management literatures. Training, compensation, employment staffing and security, work organization, trust and employee relations are more widely recognized as an interdependent bundle of practices rather than as a menu of isolated functional activities from which firms can make independent choices. Fourth, there is growing recognition that these policies are closely linked to competitive strategies of the firm, although, as we will note below, the causal nature of these relationships remains in some dispute among the different approaches to the field. Fifth, the organizational economists, industrial relations, and political economists all share an interest in the governance structure of the firm and recognize, for different reasons, that the nature of organizational governance will influence the nature of the employment contract and human resource policies.

Yet despite these areas of convergence and consensus among the different schools of thought, there remains considerable theoretical debate over issues such as whether human resource policies are driven by factors beyond efficiency; how important is it to have formal voice or representation for workers in strategy making and organizational governance or whether human resource professionals can and do serve this role as agents for employee interests; how important is it to take into account the social and institutional embeddedness of organizational decision-making; and what the future role of national level institutions

governing the employment relation will be. These areas of debate will become more important as we explore the next issue that we see as critical to this field of inquiry -- namely, how human resource strategies affect worker standards of living and other equity interests of society.

#### Human Resource Strategies and Employee Interests

The field of human resource studies must not only be concerned with how human resource management polices affect the economic performance of individual enterprises or national economies. It must also examine the other half of the twin objectives noted at the outset of this paper, namely the effects of different employment policies and practices on employee interests and social welfare.

Neoclassical economics answers this distributional question quite clearly. Social welfare is maximized when employees' wages equal their marginal products regardless of competitive strategies or governance arrangements. Those policies that increase productivity and firm performance will as a natural byproduct improve real incomes and the standards of living in society. Spending on personnel policies over and beyond the marginal products of a firm's labor force results in rents that produce inefficient resource allocations and economic inequality.

Industrial relations theorists have historically challenged this perspective by arguing that productivity improvements are a necessary but not sufficient condition to insure the equitable

distribution of productivity gains with employees and in society. This may be most visible when countries are in the early stages of industrialization. Currently, for example, in newly industrializing countries such as Korea, governments have followed a development strategy of "growth first, share later" (Kim 1990), and thus worker incomes have lagged considerably behind the rates of productivity and economic growth experienced in that country between 1960 and 1985. Labor movements have historically arisen to respond to such a lack of equitable gain-sharing. Thus, industrial relations scholars view unregulated labor market competition as a threat to worker standards because of the unequal balance of power that often characterizes employment relationships. The role of unions, labor standards legislation, and institutions such as collective bargaining, works councils, codetermination, or other forums for employee voice has been to create protected or "internal labor markets" and to "take wages out of competition," -- that is, to limit management's ability to compete on the basis of low labor costs. By driving up wages and improving other labor standards, unions have pushed employers to search for offsetting productivity gains and/or other improved competitive strategies that would allow them to survive as high wage employers. Unions have also sought to further stabilize employment conditions and reduce management resistance to improvements by standardizing conditions across the product and labor markets in which the firm competed and thereby completing the process of "taking wages out of competition."

According to this perspective then, to the extent that unions succeed in expanding their scope of influence over regional, sectoral, and national markets, they represent a force for greater social and economic equality in the society as a whole. Unions, for example, have a net positive effect on wage compression (Freeman and Medoff 1984), a factor also associated with increased cooperation and productivity in the literature on incentive contracts reviewed above. Unions may improve equality in a number of ways: by extending collective bargaining to larger numbers of workers, by negotiating in key firms or sectors and pushing the government to extend wage bargains to non-union workplaces, or by influencing social and labor legislation applicable to all employers and workers.

Political economists in the corporatist tradition further argue that trade unions that are centralized and adopt inclusive political strategies are likely to have a greater positive impact on social and economic equality (eg., Goldthorpe 1984). Thus, researchers generally find higher levels of wage compression in more centralized or corporatist economies (Calmfors and Driffill 1988; Freeman 1988). Where labor movements are more fragmented as in the United States, they are less likely to be able to offset the labor market segmentation arising from business cycles and differences in product markets, technology, ownership structures (Piore 1975; Gordon, Edwards, and Reich 1975, 1982). A significant body of empirical research supports the theories of labor market segmentation as applied to the U.S. (Dickens and

Lang 1985; Bulow and Summers 1986; Dickens and Katz 1987; Krueger and Summers 1988).

Despite higher levels of unionization and corporatism, however, labor markets in Western Europe and Japan have also been characterized by dualism (Berger and Piore 1980), with "insiders" enjoying substantial employment security and "outsiders" enduring long-term unemployment (Blanchard and Summers 1986). Japanese labor markets have been characterized as providing lifetime security for a core of workers in large corporations while a periphery of workers in temporary jobs or in smaller independent enterprises absorb demand fluctuations (Dore 1986). Aoki (1988) notes that this is one expected outcome of the governance structure of Japanese firms.

More recently, labor market analysts have suggested that the restructuring of internal labor markets in the U.S. and Western Europe is resegmenting the work force along such core/periphery dimensions within firms (Osterman 1988; Pfeffer and Baron 1988). The increased use of less secure, non-regular forms of labor contracts (part-time, temporary, contingent) has been observed cross-nationally (Appelbaum 1989; Casey et. al. 1989; Standing 1991). Moreover, in most instances cross-nationally, women, minorities, immigrants, and older workers bear a disproportionate share of the costs of cyclical and structural adjustment (Henwood and Wyatt 1987; Christopherson 1988; Standing 1991).

If the effect of unionization is to improve social and economic equality, then the relative decline in unions cross-

nationally in the last decade as well as the shift to more decentralized bargaining structures (Edwards et. al. 1986; Gourevitch 1989; Visser 1991; Blanchflower and Freeman 1990) increases the likelihood of greater wage inequality in advanced industrial nations. While union structure and density only partially determine wages, it is noteworthy that cross-national studies of changes in the structure of wages find increasing within group inequality in some countries (U.S., U.K.) but not others (France, Japan) (Katz and Revenga 1989; Katz and Loveman 1991). Clearly, this is an area in which further empirical research is needed.

To summarize our argument in this section, the clearest proposition to flow from combining the competitive strategy and industrial relations perspective is that competitive strategies that emphasize high quality, differentiation, and innovation are necessary conditions for producing human resource policies and practices that result in high standards of living for employees. The industrial relations scholars would further argue that employee voice or strong human resource management participation in these policies is necessary for maintaining high standards and translating these competitive strategies into profitable outcomes that are equitably shared between employees and shareholders. Political economists add that the level of society-wide equality depends upon union organization and the more or less inclusive strategies which unions undertake.

Moreover, there remains an empirical question separating the

human resource management researchers and those in the industrial relations tradition -- namely whether the commitment of top managers and the integration of human resource executives within the top decision-making structure of firms serves as a vehicle for employee voice as effectively as other independent and legally sanctioned mechanisms such as collective bargaining, codetermination, consultation, and works councils.

Another proposition challenges the strategic human resource management literature to go beyond the boundaries of the individual firm to assess how the broader society and employee population is affected by the combination of firm specific and state directed (required and encouraged) human resource policies. Leaving all policies to the firm is expected to produce inequality in labor market outcomes and economic welfare since those on the "inside" of corporate standards will receive significant welfare advantages compared to those who remain in peripheral jobs and labor market statuses. This again argues for supplementing micro or firm specific models of human resource policy with a broader model that considers the effects of different institutional and social policy arrangements on the labor force in its entirety. The key question here becomes how wide is the coverage of human resource policies and practices that achieve both high levels of competitiveness and high standards of living. We now turn to a more direct examination of this question.

### Diffusion of Human Resource Strategies

Concern over the diffusion of human resource strategies that enable firms and societies to gain strategic advantage are not only, as suggested above, important for their effects on the broader society. To the extent that the strategic choices of firms are interdependent, absent some broader collective coordination or requirement to comply, a market failure will occur that produces an underinvestment in these policies (Arrow 1974). Neoclassical theory would respond that if practices improve productivity and economic efficiency for an individual firm, the practice will spread naturally via market forces. But in the case of investments in highly portable training and human resources, the market is unlikely to be sufficient because no individual firm can capture the full return on its investment (Kochan and Osterman 1990). Case studies suggest that those firms that have tried on their own to invest more heavily in longterm human resource strategies have been unable to sustain them (Kochan, MacDuffie, Osterman 1988).

Others recognize that there are systemic social and political barriers to diffusion of new human resource strategies both within corporations and across society. Industrial relations and internal labor market researchers who conceptualize strategic decision-making and organizational governance as a political process involving contests among competing interests for scarce resources recognize that deep seated values, ideologies, and considerations of power and control all influence

the extent to which firms are willing to commit to a human resource strategy that increases costs with the promise of future competitive advantage.

The role of institutions outside or beyond the level of the firm become central to debates over the diffusion of human resource strategies and practices. Industrial relations and political economists would generally agree with the proposition introduced above that the more centralized the structure of bargaining, the more economic policy making is conducted through corporatist structures, and the broader the scope of union coverage, the more widely diffused will be human resource strategies and practices that are capable of achieving the twin goals of competitiveness and high standards of living. The common characteristics of these institutional arrangements is that they take some of the range of choice or discretion over both competitive strategies and labor standards away from individual firms.

The specific strategies, policies, or institutional arrangements used to diffuse human resource practices, and their relative effectiveness, varies across countries and continues to be subject of considerable debate. Recent research has, for example, documented the decline of the formal, highly centralized European style corporatist structures that were popular in the 1950s through the 1970s (Boyer 1988; Swenson 1989; Martin 1991). State directed corporatism without strong inputs from labor as found in Japan (Sharai 1983) and Korea (Im 1990) has also been

criticized for emphasizing competitiveness over living standards (i.e., the growth first, share later strategy). Australia has recently been described as a nation that is moving from a highly centralized and rigid system of national industrial relations to one that is following a labor initiated and labor led strategy of economic restructuring designed to promote greater efficiency and competitiveness through reforms in work organization, skill enhancement, and compensation at the individual firm level. In Canada, various tripartite labor market and training institutions have been put in place and a number of key labor unions are now urging firms and policy makers to adopt a high skills strategy in an effort to avoid what they fear would otherwise be an Americanization of industrial relations and human resource standards as a result of the recent Canada-U.S. Free Trade Agreement. Whether the Canadian labor movement can translate its emerging views on this issue into firm level strategies capable of sustaining high labor standards and competitive industries and firms in its increasingly open economy is both an open question and a golden opportunity for future research. Finally, countries such as the U.S. and Britain provide an opportunity to observe the rate of diffusion in more unregulated environments -- environments in which unions have particularly lost political power in the 1980s, where few, if any, significant macro or cross firm institutional structures for promoting diffusion exist, and where economic policy makers have yet to accept the argument that state policy has an important role to play in diffusing standards

and practices if a nation is to gain competitive advantage from its human resources. Thus, this is perhaps an area where theory is still rather weak but where opportunities for cross-national comparative research are readily available.

Even if some corporations succeed in achieving high quality, high commitment human resource systems, two other questions remain open for debate over diffusion. First, if diffusion depends on the extent of demand for high quality differentiated goods, can all firms compete in these markets, or will unregulated international competition drive down prices and erode the ability of firms and nations to support costly human resource systems on a wide scale? In the U.S., for example, even the most successful firms with high commitment systems have had to cut back on human resource costs and employment security pledges. Second, do high commitment production systems depend upon the simultaneous existence of secondary firms that absorb demand fluctuations or produce low cost inputs? If so, then the location of these enterprises will depend heavily on national policies governing the flow of capital, labor, and products across national boundaries. All these are questions that need further investigation in the broader domain of international human resource studies we are advocating here.

#### Transferring Human Resource Practices Across National Borders

Since the 1960s and the landmark international industrial relations project by Kerr et al (1960) scholars have debated the

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#### Transferring Human Resource Practices Across National Borders

Since the 1960s and the landmark international industrial relations project by Kerr et al (1960) scholars have debated the

question of whether or not human resource management and industrial relations systems were converging toward a single, common model driven largely by the pressures of industrialization. The convergence hypothesis has fallen out of favor in recent years with studies that have demonstrated the diversity of practices among and within national systems (Dore 1973; Maurice, Sellier, Silvestre 1986). Yet in the 1980s considerable interest has been rekindled in the more narrow question of the extent to which practices that work effectively in one country and culture can be exported to others. This issue is central, for example, to most of the international human resource management research dealing with questions of degree of centralized policies versus decentralized, local control and discretion and the type of training, management development, and local staffing firms need to use in managing international subsidiaries and global operations.

Neoclassical theory would answer this question quite simply: if a practice has demonstrated ability to improve productivity it will spread as fast as the information about it crosses national boundaries. Others disagree, especially those who view employment relationships as embedded deep within the culture and social structure of a society. At the extreme, organizational culture theorists (Schein 1985) would argue that no two organizations let alone societies will replicate the effects of a given practice in equivalent fashion -- the cultures are too impenetrable. Yet clearly, the transfer of knowledge and

technology does occur across national boundaries.

A position that builds on the recognition of on-going international borrowing draws on institutional industrial relations and internal labor market traditions: single practices cannot be transplanted with equivalent effects unless the broader institutional and/or organizational practices in which they are embedded are likewise carried over and adapted to the new setting.

Based on her historical examination of Japanese organizations, Westney (1987) adds a further proposition: practices can be imported from other cultures but do not result in straight imitation. Instead, the process of introducing new practices itself results in institutional innovations that over time create a new practice out of the one being borrowed from abroad. Thus the process of borrowing from other countries is not one that produces convergence through imitation but one that produces innovation from institutional adaptation. As in the case of the issues involving diffusion, this is an area where theory and careful empirical analysis has yet to catch up to speculation, prescriptive writing and practical experimentation by firms faced with the pragmatic challenges of managing global operations. We expect this set of issues to play a prominent role in future research in this field.

### PART III: IMPLICATIONS FOR POLICY AND RESEARCH

### Implications for Policy and Practice

A central argument of this paper is that by expanding and deepening the range of questions and theoretical literatures brought to bear on international human resource studies, new and richer insights could be offered for a broader range of options for practitioners and policy makers than has been generated by prior approaches to this subject. For employers (especially human resource management professionals) the central insight that we see flowing from this broader, more integrated perspective is that their ability to promote and sustain high standard human resource policies and practices depends not only on their own power and status within their individual firm but also on the power and status of other human resource and labor professionals and institutions (such as unions and government regulations) in their society. In another paper (Kochan and Dyer 1991), we argue that this recognition challenges human resource professionals to modify the strategy for change they have emphasized in the 1980s from one dominated by the need to form partnerships with line managers and senior corporate executives to a broader coalitional model that includes the external groups, interests, and institutional agents.

For labor representatives we see this broadened focus as opening up their strategic options for influencing human resource choices. This is an especially important challenge for union leaders given the internationalization of capital, technology, and product markets. If labor has any hope for reversing its

declining power and membership in advanced industrialized economies it must find ways to go beyond traditional national-based strategies for taking wages out of competition. It will need to find ways to participate at many levels of the economy, from participation in formulating competitive strategies at the firm level to regional and national coalition building with other social movements.

For government policy makers the message is equally clear. No longer can labor and human resource policies be effectively separated from macro economic policies regulating interest rates, financial markets, trade, and public and private investment. All of these are tightly interrelated and affect the extent to which human resources can be developed and fully utilized to achieve the twin objectives of competitiveness and high living standards.

Finally, for international agencies such as the ILO, this perspective provides a new way of thinking about how to approach its technical assistance to individual countries and its assessment of the extent to which country practices are in compliance with ILO principles and conventions in a world where national boundaries have lost some of their significance. Specifically, this perspective suggests that the ILO would benefit from a closer examination of firm specific human resource policies but in doing so needs to keep in mind the interrelationships between individual firm and broader state and labor institutions and policies.

### Implications for Future Research

Clearly the dominant implication for research that flows from this paper is that it is time to rekindle interest in comparative human resource research but to do so in a fashion that overcomes the narrow prescriptive approaches that dominate much of the international human resource management research and the industrial relations research that seldom goes beyond the stage of describing broad features of national systems or institutional patterns. By building on the insights of economics, political economy, internal labor markets, industrial relations, and strategic human resource management, we believe a new more theoretically rich and empirically informative body of research can be developed and sustained in the years ahead.

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